

Changes in Disposable Income due to Taxation and Income Support Arrangements and the Equivalent Increases in Wage Income

The tables in this Annexure record the increases in weekly disposable income due to changes in income taxation and income support arrangements between January 2003 and January 2004. These changes are compared with the wage increases that would have been required to deliver the same increase in disposable incomes. The difference between these two measures reflects the effective marginal tax rate that would have been applied to the hypothetical wage increase.¹

These data are presented for a range of household types over a range of household incomes.

Table 1: Impact of Income Tax and Income Support Changes on Low Paid Households
Single Income, Two-Parent Family, in Rented Accommodation with Two Young Children

Household earned income	Increase in disposable income due solely to income tax and income support changes	Effective marginal tax rate	Equivalent increase in household earned income
\$ per week	\$ per week	%	\$ per week
250	8.49	17.0%	10.23
300	8.49	17.0%	10.23
350	8.49	17.0%	10.23
400	10.74	17.0%	12.95
450	13.17	34.0%	19.96
500	11.93	34.0%	18.07
550	10.85	30.0%	15.50
600	17.61	50.0%	35.22
650	16.31	61.5%	42.36
700	16.31	61.5%	42.36

Table 1 shows, for example, that when one spouse earns all the household wage income, the increase in disposable income when earnings are \$450 per week has been \$13.17 per week. The effective marginal tax rate of 34% reflects the 30% income tax rate and the 4% shade out of the low income tax

¹ The equivalent increase in wage income is computed by dividing the increase in disposable income by 1 minus the effective marginal tax rate applying at current income levels. This method assumes that the effective marginal tax rate applying at the current level income would not change as a result of the hypothetical increase in taxable income. (While this is generally a highly accurate measure, it can give rise to a small number of anomalies when the effective marginal tax rate is unusually high or low. This can occur for example when the Medicare Levy shades in or where there is a small range of overlap in income tests applying to income support arrangements).

offset. At this effective marginal tax rate, this increase in disposable income equates to a rise in (pre-tax) wage income of \$19.96 per week.

Table 2: Impact of Income Tax and Income Support Changes on Low Paid Households
Two-Income (equally distributed), Two-Parent Family, in Rented Accommodation with Two Young Children

Household earned income	Increase in disposable income due solely to income tax and income support changes	Effective marginal tax rate	Equivalent increase in household earned income
\$ per week	\$ per week	%	\$ per week
250	7.28	32.0%	10.71
300	10.54	32.0%	15.50
350	10.54	32.0%	15.50
400	10.54	32.0%	15.50
450	8.51	17.0%	10.25
500	8.51	17.0%	10.25
550	8.51	17.0%	10.25
600	15.27	37.0%	24.24
650	13.97	48.5%	27.13
700	13.97	48.5%	27.13

Table 2 covers households in which both parents earn equal amounts of wage income, for example, at a household pre tax income of \$600, both spouses would be earning a wage of \$300 per week (for example each working two-thirds of each week at minimum wage rates). The increase in household disposable income for such a family of \$15.27 equates to an increase in wage income of \$24.24 per week.²

² This reflects a household effective marginal tax rate of 37%. Each spouse would receive 50 cents of a one-dollar increase in household wage income and each spouse would pay extra tax of 18.5 cents on the extra 50 cents earned. This reflects the 17% tax rate and the 20% shade-in of the Medicare levy.

**Table 3: Impact of Income Tax and Income Support Changes
on Low Paid Households**
*Two-Income (in a ratio of 2:1), Two-Parent Family, in Rented
Accommodation with Two Young Children*

Household earned income	Increase in disposable income due solely to income tax and income support changes	Effective marginal tax rate	Equivalent increase in household earned income
\$ per week	\$ per week	%	\$ per week
250	8.91	21.3%	11.33
300	8.91	21.3%	11.33
350	8.91	27.0%	12.20
400	9.12	27.0%	12.48
450	10.54	27.0%	14.44
500	10.54	27.0%	14.44
550	10.54	27.0%	14.44
600	16.98	47.0%	32.04
650	20.22	69.8%	67.02
700	18.65	59.8%	46.44

Table 3 shows, for example, that in a family where one parent earns twice as much wage income as the other, a family on a combined wage of \$600 (one spouse earning \$400 and the other \$200) experienced an increase in disposable income of \$16.98 per week. This is equivalent to an increase in wage income of \$32.04 per week.³

³ The effective marginal tax rate of 47% faced by this family reflects the payment of 17% in income tax on an extra 66.67 cents earned by the primary earner (a “loss” of around 11.33 cents); 17% income tax paid by the secondary earner on an extra 33.33 cents (about 5.67 cents); the loss of 10 cents of Family Tax Benefit B (at 30 cents in the dollar on the extra 33.33 cents of secondary earner’s income) and the 20% shade-in rate for the Medicare levy.

**Table 4: Impact of Income Tax and Income Support Changes
on Low Paid Households
Single Parent Family Living in Rented Accommodation with a Young
Child**

Household earned income	Increase in disposable income due solely to income tax and income support changes	Effective marginal tax rate	Equivalent increase in household earned income
\$ per week	\$ per week	%	\$ per week
250	18.35	57.7%	43.37
300	19.51	65.5%	56.55
350	19.51	65.5%	56.55
400	19.51	65.5%	56.55
450	19.51	65.5%	56.55
500	20.71	77.5%	92.03
550	19.01	66.4%	56.59
600	19.23	58.9%	46.79
650	14.42	61.5%	37.45
700	14.42	61.5%	37.45

Table 4 shows, for example, that for a single parent family with one child and earning \$300 per week in wage income, the \$19.51 increase in disposable income equates to a wage increase of \$56.55 a week. This is due to the high effective marginal tax rate of 65.5%.⁴

⁴ The effective marginal tax rate of 65.5% reflects the loss of 40 cents in the dollar of Parenting Payment resulting in an increase in taxable income of 60 cents. Having already “lost” 40 cents, on the remaining 60 cents, tax is paid at 30% and the Pensioner Tax Offset shades out at 12.5%. Tax paid is therefore 60% of 42.5 cents or 25.5 cents and the effective marginal tax rate is 65.5%.

**Table 5: Impact of Income Tax and Income Support Changes
on Low Paid Households
Single Person**

Household Earned Income	Increase in Disposable Income due solely to Income Tax and Income Support Changes	Effective marginal tax rate	Equivalent increase in household earned income
\$ per week	\$ per week	%	\$ per week
250	1.63	17.0%	1.96
300	3.64	37.0%	5.77
350	1.63	18.5%	2.00
400	3.88	18.5%	4.77
450	6.31	35.5%	9.78
500	5.07	35.5%	7.86
550	3.99	31.5%	5.82
600	3.99	31.5%	5.82
650	3.99	31.5%	5.82
700	3.99	31.5%	5.82

Table 5 illustrates that a single person currently earning \$450 per week received an increase in weekly disposable income of \$6.31 as a result of the 1 July 2003 income tax changes. The effective marginal tax rate faced at this level of taxable income (35.5%) reflects the 30% income tax bracket, the shade-out rate of the low-income offset (4%) and the Medicare levy of 1.5%. At this effective marginal tax rate, the increase in disposable income is equivalent to a wage increase of \$9.78 per week.