

Taxation Reform in Australia:  
Some Alternatives and Indicative Costings

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## **Acknowledgements**

The authors would like to thank John Freebairn, Neil Warren, Peter McDonald, Rebecca Kippen, Chris Evans, Peter Saunders, John Asker, Lucy Turnbull and Alex Turnbull for comments and suggestions. Of course, the opinions expressed in this paper do not necessarily reflect those of who provided advice. Any errors in this paper are entirely those of the authors.

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## **Taxation Reform in Australia: Some Alternatives and Indicative Costings**

### **1.0 INTRODUCTION**

Prior to the recent budget, calls for taxation reform had come from varied sources including: the business lobby, welfare groups, researchers and within the Liberal Party itself. For example, The Australian Chamber of Commerce and Industry (2004), CPA Australia (2004, 2005), The Australian Industry Group (2005), the Centre for Independent Studies (Saunders, 2004; Saunders and Maley, 2004) and researchers from The Australian National University (McDonald and Kippen, 2005) all released discussion papers detailing suggestions for reform.

Calls for reform of the tax system are often met with claims that we cannot afford it. “Where’s the money coming from?” is the cry of the defenders of the status quo. In an endeavour to see what reform is likely to cost and what is affordable we have examined nearly 300 different sets of changes to the tax system, varying rates and thresholds. The purpose of this paper is to provide some indicative costings for changes to the tax schedule once the full tax cuts as proposed in the 2005/06 budget are in operation in 2006/07. Simulations of changes to rates and thresholds are conducted to ascertain taxation reforms that are fiscally achievable.

We have also modelled the likely impact of these changes on different income groups, recognising that an important political dimension to tax reform is that it be seen to deliver benefits to a broad range of taxpayers and not simply those on the highest incomes.

We have worked on the basis that reforms should ideally be revenue neutral, that is to say that their cost to the revenue be sufficiently small that it can be made up from likely increases in compliance and labour market responses, or from removing tax concessions (broadening the base).

The key finding from this study is that fundamental reform to the Australian taxation system is financially feasible. We can *afford* to lower our tax rates, simplify our tax system and reduce the heavy burden of compliance and red tape on Australians.

## 2.0 BACKGROUND

The 2005 budget introduced changes to personal income taxation. The 17% bracket was reduced to 15% and the thresholds for the 42% and 47% brackets were increased (Table 1). The Budget also reduced the rate at which most means tested benefits were withdrawn (the taper rate). These changes through a combination of the reduction in rates, increase in thresholds and reduction in taper rates went some way to reduce the incidence of high Effective Marginal Tax rates<sup>1</sup>.

**TABLE 1 Current and Proposed Taxation Schedules.**

<b>2004/05 Threshold</b>	<b>MTR (%)</b>	<b>2005/06 Threshold</b>	<b>2006/07 Threshold</b>	<b>MTR (%)</b>
6,001	17	6,001	6,001	15
21,601	30	21,601	21,601	30
58,001	42	63,001	70,001	42
70,001	47	95,001	125,001	47

However, few disagree that further ongoing “serious reform” is required. This is necessary to improve the interface between the taxation system and the welfare system, to improve the international competitiveness of Australia’s tax system and to reduce complexity and compliance costs by lowering rates and broadening the tax base.

Indeed, the 2005 Budget was something of a mixed blessing for tax reformers. By increasing the thresholds for the top two tax rates it reduced the number of Australians paying the higher rates and thereby reduced the financial cost of reducing those rates. That made cutting the top rates *more financially feasible*. But because a cut to the top rates would benefit a smaller percentage of Australians, it made such cuts *less*

<sup>1</sup> An Effective Marginal Tax Rate or EMTR is the sum of tax paid and benefits withdrawn as income increases. As the income levels at which benefits are paid are relatively low, high EMTRs are made up largely of withdrawal of benefits, as opposed to taxation.

*politically feasible* unless they are accompanied by cuts to the lower income tax brackets which are, by reason of the 2005 Budget, now *more expensive financially!*

Obviously the larger and broader the tax cuts, the more reductions to tax concessions can be made. Tax concessions (termed tax expenditures by the Treasury) represent a very considerable diminution of the tax base and relatively few changes to these concessions could recover sums in excess of \$5 billion per annum as we discuss below. We have identified a cost of \$10 billion as the **outer limit** of affordable tax cuts.

It should be noted that the changes do not address any reductions in expenditure and therefore represent only one half of the Government's income statement. We do not doubt that there are considerable savings which could be made to government expenditures. After all, few enterprises, private or public, will fail to become over-expensed over a long period of high revenues.

However, the demographic changes confronting Australia mean that age related social welfare and health care will increase. Prudence, not complacency, therefore suggests revenue neutrality is a good starting point for the tax reformer when considering the long-term affordability of changes to the tax schedule.

These demographic changes far from representing an argument against tax reform, constitute a powerful reason in its favour. At present we have rates that are too high on a tax base that is too narrow: attenuated as it has been by the growth of deductions. A broader tax base and a lower tax rate is desirable for many obvious reasons: more equitable, less complex and more efficient. But an additional reason is that if, in the future, circumstances require an increase in taxation, then a broader tax base permits the necessary increase in rates to be so much smaller. Tax reform of the kind canvassed in this paper therefore is a necessary part of our preparation for dealing with demographic change and the budgetary demands it will impose.

### **3.0 REASONS FOR REFORM**

Central to the debate on taxation reform in Australia is whether personal income taxation is too high in Australia relative to other countries, particularly for income earners in the top two tax brackets (Davidson, 2004; Davidson, 2004a; Burn, 2004; Norton, 2004). Prior to the 2005/06 budget many groups had proposed ways of reducing the top two marginal tax rates in the medium term.

There are many reasons to reduce the top two marginal tax rates. Among the more commonly cited reasons are (1) to increase work incentives, (2) reduce complexity in the income tax system, (3) reduce avoidance and arbitrages, (4) reduce the distortions to the choices of different savings and investment options and thereby increase the contribution of aggregative saving and investment to higher productivity and (5) to promote skilled migration (and similarly encourage Australia's brightest highly skilled employees to remain in the country). It is worth noting that the OECD proposes that efficiency in personal income taxation can be obtained through (1) broadening of the tax base, (2) flattening tax schedules and (3) aligning rate structures across different taxation systems (eg. Personal / Company tax) to reduce arbitrage opportunities (van der Noord and Heady, 2001).

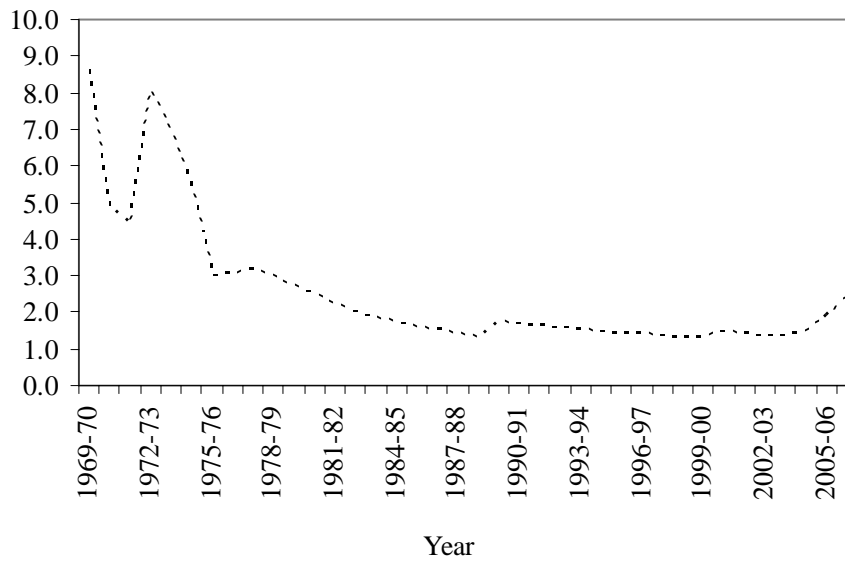
#### **3.1 WORK INCENTIVES AND SKILLED MIGRATION**

A key problem induced by high marginal tax rates is that they reduce work incentives. As the Government's share of income increases, the less incentive there is to earn it. Although debate in the economic literature continues on this point, recent research by Sinclair Davidson for the Centre for Independent Studies shows that much of the evidence supports this proposition (Davidson, 2005). By the same token, high marginal rates encourage tax avoidance much of which results in capital being deployed in a manner which is fiscally effective but economically inefficient.

The high marginal rate of tax in the top bracket and the relatively low level at which it is first imposed combine to create these effects (CPA Australia, 2005). As Australia's tax system is not indexed to keep up with rises in inflation, many Australians find themselves in the top two tax brackets. As shown in Figure 1, in 1959-60, the top tax

brackets taxable income was around 15 times average earnings. Over the period 1960-1970, the comparable figure was 9 times average earnings. In 2002-03, the taxable income at which the top tax bracket cut in was only 1.3 times average earnings. Following the 2005 Budget, by 2006-2007 this will have risen to 2.4 times average earnings.

**FIGURE 1 Income Threshold of Top Marginal Tax Rate as a Multiple of Average Male Weekly Earnings, 1969-70 to 2006-07 (Est).**



SOURCE: Barber, 2004

This may have implications for skilled migration in Australia. Many contend that that the high marginal tax rate encourages “brain drain at the top end of the market” (Taylor, 2005:14). This creates ongoing problems for encouraging skilled workers to return to Australia once they have left. Similarly, a high marginal tax rate influences the ability for Australia to compete in the international labour market by being able to attract the most skilled migrants (Business Coalition for Tax Reform, 2005; Burn, 2004).



### 3.2 ARBITRAGES AND SUBSTITUTION

However, the effect of high marginal tax rates extends beyond the ability to attract and maintain highly skilled migrants. For example, the Business Coalition for Tax Reform (2005) has argued:

“the disadvantages for Australia are not limited to the access to workers themselves. The personal tax system adversely affects Australia’s international competitiveness as a location for R&D, regional management centres or other specialised units of multinational enterprises where specialised labour is the key ingredient. Australia therefore misses out on the broader benefits of having these facilities located in Australia” (p. 10).

Malcolm Turnbull notes that his own experience as Chairman of Goldman Sachs Australia confirmed this conclusion. Combined with high marginal tax rates, or rates that are too high becoming effective too low in the income distribution causes many distortions in the tax system. The Australian recently editorialised “.. our top tax threshold .. is far too low as a multiple of earnings. This in turn, distorts economic behaviour, sending honest taxpayers scurrying towards sheltering havens – such as negative gearing, a capital gains tax regime that was halved in 2000, or the 30% company rate – and skewing national investment away from wealth-creating pursuits, towards housing. The result- a property bubble” (The Australian, 19/3/05: p.18). ACCI (2004) too points out “In Australia, tax avoidance is to some extent encouraged by the gap between personal tax rates and the corporate tax rate. By creating an incentive to turn personal income into business income it in turn becomes necessary to create complex legislation to ensure government revenue security. The anti-avoidance legislation and enforcement wastes both government and private sector resources, which could be put toward better use” (ACCI, 2004:23).

Moreover, combined with the vast array of taxation concessions in the personal income tax system, this provides further incentives to split income. As argued by Smith (2003):

“A common criticism of many tax expenditures is their regressive effects. Tax expenditures often take the form of deductions, exemptions or deferral of tax liability. Superannuation tax concessions are mainly of this form. The benefit of such concessions to the tax payer is greater

for higher income taxpayers facing higher marginal rates. Some individuals or entities have greater flexibility than others about the timing or character of their receipts and can use trusts, income splitting or other devices to unfairly increase their benefit from such concessions” (Smith, 2003).

An obvious way in which horizontal equity is affronted is by the different personal and corporate tax rates in that an individual earning \$150,000 as a PAYE taxpayer pays significantly more tax than a businessperson whose firm is incorporated and pays tax at 30%. It is argued that the lower corporate tax rate is only a deferral of personal income tax: at some point a dividend will be declared and the full personal rate paid. But that is a specious argument; the time value of money means that tax deferred is tax saved.

Furthermore, the treatment of capital gains and negative gearing offer a further reason for flattening the tax schedules. The arguments for taxing capital gains at the same rate as income are compelling ones, especially if the gains are indexed to inflation. The concessionary taxation of capital gains encourages people to invest in a manner which turns income into capital and, as in the case of negative gearing, allows them to deduct income losses at, say, 48.5% and then realise gains and pay tax at effectively half that rate. Many commentators including the Reserve Bank Governor, Ian McFarlane, have claimed this divergence in the taxation of income and capital coupled with negative gearing has contributed to the asset bubble in residential real estate.

However, Australia's tax system has to be competitive. Almost all of our competitors for skilled labour and capital tax capital gains either not at all or at concessional rates. The United States has recently reduced its capital gains tax to 15%. Faced with such competition can we seriously afford to increase the taxation of capital gains?

Negative gearing is a slightly different issue. Australia's rules on negative gearing are very generous compared to many other countries. Indeed the normal deductibility principles do not apply to negatively geared real estate such that the taxpayer is not obliged to demonstrate that the negatively geared property will generate positive cash flow at some point in the distant future. On the other hand, given the dependence of

our economy on the building sector, the consequences of a change to negative gearing could be very severe.

Both these issues are made less troubling if the top MTR is substantially reduced. The lower the rate, the easier it is to tax capital gains at income rates without causing any material detriment. If, for example, the top MTR was reduced to 30%, capital gains could be taxed at income rates. After indexation is taken into account, only very substantial gains made over a very short period of time would be taxed at a higher rate than they are today where the unindexed rate, at the top end, is an effective 24.25%. A similar comment can be made on negative gearing; the lower the MTR the less attractive are any and all tax effective schemes. The narrower the gap between the taxes on income and on capital, the less attractive are structures calculated to convert income into capital gains.

But is it necessary to have a top personal tax rate of 30% to provide an exact alliance with the company tax rate? Some would say it is not, because of compliance and other costs. McDonald and Kippen (2005), for example, argue that a gap of 5% between the MTR and the company tax rate is sufficient, due to the transaction costs associated with establishing and maintaining corporate structures.

### **3.3 THE INTERNATIONAL EXPERIENCE**

Finally, the international experience of substantial reductions in tax is that such reductions have often been succeeded by an increase in revenue collection. There is a long running argument in the economic literature as to whether there is a direct causal relationship between cutting taxes, improved economic activity and, as a consequence, increased tax revenues.

As in most debates of this kind, economists are lined up arguing for completely opposition conclusions. Those who believe in the substitution effect will contend that if taxes are raised, workers will work less hard (because their after tax income is lower) and substitute more leisure for work. Those who believe in the income effect contend that if taxes are raised, workers will actually work harder in order to realise the same after tax income they had enjoyed before the tax hikes.

Of course, the relationship between tax and government revenues is not a simple equation of how hard or long people work. Taxes also affect compliance; there is less reason to cheat or avoid tax if rates are lower. Taxes affect investment decisions; if one is seeking to build a business with a view to a capital gain, one will be inclined to make those investments (and create the jobs they entail) in a market where capital gains taxes are low. Sinclair Davidson [2005] has canvassed these arguments at length in a recent paper published by the CIS “Are there any good arguments against cutting income taxes?” He concludes that Australia’s current tax rates are on the wrong side of the Laffer curve; in other words that they are at a level which is above the rate at which government revenues would be maximised.

Reagan’s tax cuts controversially slashed high marginal rates. Yet the bottom 50% of taxpayers’ share of tax collection was 8.3% less in 1984 than it had been in 1981 before the cuts. Similarly the top 5% of taxpayers paid 35.3% of tax in 1981, but in 1984 paid 38.9% (Teather, 2004). Mitchell’s (2001) study for the Heritage Foundation found that for every major period of personal income reduction in the US (during the 1920s, 1960s and 1980s), “the economy prospers, tax revenues grow, and lower income citizens bear a lower share of the tax burden” (p. 4). A similar experience was observed in the UK when Thatcher cut the top rate of tax from 83% to 40% where it remains today. In 1979 the top 10% of earners paid 35% of total revenues. In 1990, they were paying 42% (Teather, 2004).

In these examples, the key question is: did the tax cuts promote increased economic activity or was the outcome due to other factors? It is difficult to provide empirical support for either proposition because of the complexities involved, although it is obvious that a tax cut cannot be detrimental to economic activity; the only controversy is the extent to which it is a stimulant.

It should be noted that support for the stimulant effect of tax cuts is not limited to politicians and economics of a conservative hue. It was President John F Kennedy who said in 1963 “It is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now.”

We may be witnessing a similar phenomenon in the United States today where the Congressional Budget Office reports fiscal revenues are running well above estimates and substantially reducing the United States's fiscal deficit. This surge in income tax receipts follows the Bush tax cuts in 2003. The Wall Street Journal (2003) argues "...the 2003 reductions in the tax rates on dividends and capital gains seem to be resulting in much higher tax revenues on...dividends and capital gains."

#### **4.0 DATA, METHOD AND LIMITATIONS**

As the new taxation schedule does not commence fully until July 2006, a simulation model is required to project the effect of changes in the budget schedules. The base data for this study are taken from the NATSEM STINMOD microsimulation model. STINMOD is used to project the tax payer population by income range from the 2004/05 base. Using the output data from STINMOD, we feed assumptions (as detailed below) into our macrosimulation model to simulate likely revenue effects<sup>2</sup>.

For each projected year, the population of taxpayers and their taxable incomes are increased in line with recent trends. At this point it is then possible to calculate the tax paid by taxpayers. The key assumptions underlying this model are: inflation is assumed to continue at 2.5%, population growth (of the tax payer population) is fixed at 1.6%, and taxable incomes are assumed to continue rising at about 3.5% per annum.

The simulation model provides output on (1) revenue available for collection, (2) the distribution of taxation paid by the tax paying population and the cost of changes to the schedules. An important assumption is that we are measuring revenue available for collection. This does not include offsets [e.g. Medicare surcharge offset, where a taxpayer who buys private hospital insurance is relieved of an additional 1%] or the Medicare Levy [1.5% plus a surcharge of 1% which can be offset as mentioned above]. The simulation model does enables modelling of the Low Income Earner

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<sup>2</sup> Our macrosimulation model follows the earlier model developed by McDonald and Kippen (2005) and Kippen (2005). Our model builds upon earlier models by incorporating simulations of the low income earner tax offset.

Offset which at the moment is \$235 phased out from \$21,600 reducing by 4 cents for every additional dollar earned; thus totally phased out by \$27,500 in income.

Several key limitations of the model are important to note at the outset. Firstly, the estimated costings are likely to be overestimated. One disadvantage of these data is that the income data are provided in broad aggregated groupings. To provide more accurate projections, the Karup King interpolation technique is used to split and smooth the tax payer population data into \$1000 increments<sup>3</sup>. This leads to an over estimate of the cost of the suggested reforms at the top end of the MTR schedule. Secondly, the costs are likely over estimated due to the static nature of the macrosimulation model. Although wages, inflation and population are assumed to shift as detailed above, the model does not take into account potential behavioural effects on labour supply, compliance and productivity from having a more competitive tax system. To reiterate, although we recognise that changes to the tax structure will have important behavioural feedbacks, our static model is unable to include these dynamic effects. Our projection measures change in revenue, all other things being equal<sup>4</sup>. More sophisticated dynamic microsimulation models would be required to model the size and direction of these behavioural feedback effects.

The consequence for these projections is that they represent a lower bound to the revenue likely to be raised by the proposed alternatives. That is, these are sensible, but conservative, revenue projections.

## **5.0 AN OVERVIEW OF CHANGES AND COSTINGS**

Table 2 provides an overview of the changes to the tax system modelled in this paper. The first set of simulations (Models 1-33) vary the four MTRs in 2006/07. The second set (Models 34-100) vary the tax free threshold and income thresholds for all MTRs. The third set of simulations model variations to the top two MTRs, while the final set

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<sup>3</sup> The Karup King technique uses a non monotonic oscillatory formula to split and smooth data for censored outcomes. A full discussion, including mathematical detail, is available in Judson and Popoff (2004).

<sup>4</sup> Of course, accounting for assumptions about growth of the tax payer population, wage growth and inflation.

of simulations include a selection of two and three rate tax structures. These final set of simulations fix the thresholds of the MTRs, while changing the rates only.

For each model, simulations are presented on the real cost in 2006/07 of the reform relative to the proposed 2006/07 schedule. Furthermore, data are provided on the percentage tax cut by income group, percentage of tax paid by income group and difference in the percentage of tax paid by income group. For selected tax schedules, Average Tax Rates (ATR) across the income range are also presented.

**TABLE 2 Changes to the Rates and Thresholds Considered.**

<b>Simulation Set</b>	<b>Model Number</b>
<b>I. Vary the Rates</b>	
1. Vary 15% MTR	1-5
2. Vary 30% MTR	6-15
3. Vary 42% MTR	16-28
4. Vary 47% MTR	29-33
<b>II. Vary the Thresholds</b>	
5. Vary Tax Free Threshold	34-53
6. Vary 30% Threshold	54-69
7. Vary 42% Threshold	70-84
8. Vary 47% Threshold	85-100
<b>III. Vary the Top Two Rates</b>	
9. Vary Top 2 MTR	101-124
<b>IV. Flatter Tax Structure</b>	
10. Fix 15/30/40 System	125-131
11. Fix 15/30/35 System	132-144
12. Fix 15/25/30 System	145-171
13. Fix 15/26/30 System	172-198
14. Fix 15/27/30 System	199-225
15. Fix 15/28/30 System	226-252
16. Fix 15/29/30 System	253-279

### **5.1 VARYING RATES (LEAVING THE THRESHOLDS UNCHANGED)**

Table 3A displays the estimated revenue foregone (cost) and tax cuts incurred by income range. Models 1-5 reduce the 15% MTR to 10%. In 2006/07, this results in foregone revenue of between 1.26 and 6 billion dollars. As expected, cuts to the 15% MTR accrue the highest proportional advantage to low income earners. For example, a 10% MTR lends a 24% tax cut to the bottom 60% of income earners, whereas the corresponding cut for the top 20% of income earners is just over 6%. Data in Table

3B support this trend, showing that the proportion of tax paid falls for the bottom 60% of tax payers, but increases for the top 20% of tax payers.

The bulk of the tax payer population exceed the minimum income threshold for the 30% MTR. For example 2002-03 taxation data show that only about 25% of the tax payer population earns below \$21,000, the proposed 2006/07 threshold for the 30% MTR (ATO, 2005). It is not surprising then that changes to the 30% MTR are considerably more expensive: ranging from just under \$2 billion for a 29% MTR to almost \$20 billion for a 20% MTR. The bulk of this tax cut (in percentage terms) is incurred by the 2<sup>nd</sup> top income group (the 60<sup>th</sup>-80<sup>th</sup> percentile of income earners). The top 20% and bottom 60% of income earners receive similar cuts, and pay a slightly larger portion of the entire tax base under these schedules (see Table 3B).

In contrast, reductions in the 42% and 47% rate are considerably cheaper. For example, it is possible to reduce the top MTR to 42% for under \$500 million. Not surprisingly, the bulk of tax cuts to the top two MTR is given to the top 20% of tax payers, with the bottom 60% yielding no tax cut. Indeed, as shown in Table 3B, only the top 20% of tax payers pay proportionally less under these schedules. Having said that, the top 20% of tax payers still pay over 60% of the entire tax take, compared with about 14% paid by the bottom 60%.

**TABLE 3A Estimated Cost and Tax Cut by Income Group, Varying the Rates 2006-07.**

**TABLE 3B Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Rates 2006-07.**

## **5.2 VARYING THE THRESHOLDS**

Tables 4A and 4B display the cost and change in proportion of tax paid by varying the income thresholds for the MTRs in 2006/07. The cost of increasing the tax free threshold is clear for these estimates. Increasing the tax free threshold by just \$1,000, results in a loss of about \$1.5 billion in revenue. Substantial increases in the tax free threshold become prohibitively expensive, with a \$10,000 tax free threshold costing about \$6 billion and a \$15,000 tax free threshold costing about \$12 billion. In



contrast, a reduction in the tax free threshold by \$1,000 increases the tax base by about \$1.5 billion.

Several authors have proposed removing the tax free threshold and using the gained revenue to fund cuts to MTRs with an enhanced Low Income Earner Tax off set to refund low income earners (CPA, 2004).

On the other hand, an advocate of *increasing* the tax free threshold, Prof. Peter Saunders from the Centre of Independent Studies argues that abolishing the tax free threshold would aggravate the EMTR problem for many low income earners. In a recent article, he argues “Scrapping tax-free thresholds would make things even worse than they are now, for low-income households would pay tax on every dollar and would then have to be compensated with more welfare transfers ... but this (providing rebates for low income earners) would increase the means testing that lies at the heart of the problem. As soon as they improve their earnings, the rebates would be withdrawn and their take-home pay would be little better than before” (Saunders, 2005).

Indeed, some of our preliminary modelling indicates that refunding the full tax free threshold to low income earners through the existing Low Income Earner tax offset is particularly difficult. This arises as the initial offset must be at least \$900 ( $0.15 \times 6000$ ), and with a linear reduction of 4 or 6 cents in the dollar over an income threshold, problems of high EMTRs surface once more. Of course, using tax rebates and offsets to refund low income earners complicates the tax system, particularly given that the marginal tapers add to the many tapers in the welfare system itself: the source of high EMTRs.

Results in Table 4A show that increases in the tax free threshold led to the greatest percentage tax cut among the bottom 60% of income earners. For example, increasing the tax free threshold to \$15,000 would result in a 69% tax cut to the bottom 60% of income earners, and a 4.5% tax cut to the top 20% of income earners.

Changes to the income thresholds for the 30 percent MTR are also relatively expensive. A \$10,000 increase in the 30% threshold (increasing it from \$21,600 to

\$31,600) costs over \$9 billion. In comparison, a \$10,000 increase in the 42% threshold costs just over \$2.5 billion, and a \$10,000 increase in the 47% threshold can be achieved with under \$200 million. The results in Table 4B are not unexpected. Increasing the tax free threshold means the lowest 60% of income earners account for a significantly lower proportion of the tax base; whereas increases in the 30% rate lead to proportionally lower tax liabilities for the bottom 80% of income earners. Variations in the income thresholds for the 42% and 47% rates only slightly shift the proportion of tax paid by the top 20% of income earners; in most cases the shift in the proportion of the tax paid is less than 1%.

**TABLE 4A Estimated Cost and Tax Cut by Income Group, Varying the Thresholds 2006-07.**

**TABLE 4B Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Thresholds 2006-07.**

### **5.3 VARYING THE TOP TWO RATES**

Tables 5A and 5B present the simulated results for changing the top two MTRs. The changes modelled here result in no change to the current amount of tax paid by the bottom 60% of income earners, and in general the tax paid by the bottom 60% increases as a proportion of the tax base by around 1% given the cuts to the top 20% of income earners.

As is evident from Table 5A, all reasonable variations in the top two MTR are affordable within a budget of \$10 billion. Indeed, of the 24 schedules shown in Table 5A, over half are affordable within a budget of about \$5 billion or less. Of particular note, a 15/30/39 schedule would cost about \$2.5 billion in 2006/07. Such a model would considerably flatten the tax structure and reduce arbitrage opportunities, a point that will be returned to later.

**TABLE 5A Estimated Cost and Tax Cut by Income Group, Varying the Rates 2006-07.**

**TABLE 5B Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Rates 2006-07.**

## **5.4 A FLATTER TAX STRUCTURE**

The final 154 tax models examine the cost and redistributive effects of moving toward a flatter tax structure. In summary, flattening the structure to 15/30/40 or 15/30/35 is easily achievable with a cost of \$5 billion or less. A 15/25/30 system, however is considerably more expensive, given the cost of any change (whether it be to the threshold or rate) to the 30% MTR. For example, a 15/25/40 structure costs about \$11 billion in 2006/07. Having said that, when compared to any combination of the 15/30 schedules, the 15/25 schedules provide a significant tax cut across the income distribution, even if it is most heavily distributed to higher income earners. For example, under a 15/25/40 model, the bottom 20% of income earners receive a tax cut of about 7%, whereas the top 20% of income earners get a 12% tax cut. As shown in Table 6A, as the second MTR moves from 25% towards 29% the affordability of this package increases considerably, but tax cuts are still maintained across the income distribution. Nonetheless, as a proportion of the entire personal income tax take, only the tax paid by the top 20% of income earners is reduced (Table 6B).

**TABLE 6A Estimated Cost and Tax Cut by Income Group, Varying the Rates 2006-07.**

**TABLE 6B Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Rates 2006-07.**

## **5.5 SUMMARY: POTENTIAL REFORMS TO FLATTEN RATES.**

Table 7 provides indicative costings for reductions in the top two marginal tax rates for the year 2006/07. The first three models provide tax cuts to tax payers in the top two marginal tax rates only, at a cost of between 1.86 and 9.03 billion dollars. An important question is what top MTR is required to significantly reduce the arbitrage between income and capital gains and income splitting. McDonald and Kippen (2005) suggest that it is not necessary to align the top personal income tax rate with the company tax rate due to transaction costs. They suggest that 35% top MTR is sufficient. Others argue 40% top MTR is sufficient (Warren, 2005).

It is of course preferable to couple tax cuts to the top two MTR with tax cuts to other tax payers. Models 252, 279 and 274 combine a reduction in the top MTR with a one or two percentage point cut to the 30% rate. As a much larger proportion of the population meets the minimum income threshold for the 30% rate, this reform is relatively expensive. For example a 15/30/40 structure costs about \$1.86 billion in 2006/07 compared with \$3.81 billion for a 15/29/40 structure and \$5.76 billion for a 15/28/40 structure. Nonetheless, these reforms are possible given the budget outlined previously.

**TABLE 7 – Summary: Cost of Selected Reforms in 2006/07, relative to the 2006/07 Schedule.**

<b>Model</b>	<b>Cost (Real 2005\$)</b>
[124] 15/30	9.03 billion
[144] 15/30/35	5.45 billion
[131] 15/30/40	1.86 billion
[252] 15/28/40	5.76 billion
[279] 15/29/40	3.81 billion
[274] 15/29/35	7.39 billion

Table 8 displays the tax cuts provided to tax payers in the top 20%, next 20% and bottom 60% of the taxpayer population. Clearly, taxpayers in the top tax rate yield the greatest tax cut: ranging from 15% for a 15/30 model to just under 3% for a 15/30/40 model. As expected, the bottom 60% of income earners do not receive a tax cut under models 124, 144, or 131. Models 252, 279 and 274 give tax cuts across the full income distribution. Reducing the 30% MTR to 28% yields a 2.8% tax cut to the bottom 60% of tax payers, compared with a 1.4% tax cut with a 29% MTR.

**TABLE 8 Tax Cut (%) by Taxable Income Group, 2006/07.**

<b>Model</b>	<b>Taxable Income</b>		
	<b>Top 20%</b>	<b>Next 20%</b>	<b>Bottom 60%</b>
[124] 15/30	15.613	0.014	0.000
[144] 15/30/35	8.868	0.008	0.000
[131] 15/30/40	2.867	0.002	0.000
[252] 15/28/40	6.278	5.680	2.804
[279] 15/29/40	4.544	2.763	1.383
[274] 15/29/35	10.749	2.769	1.383

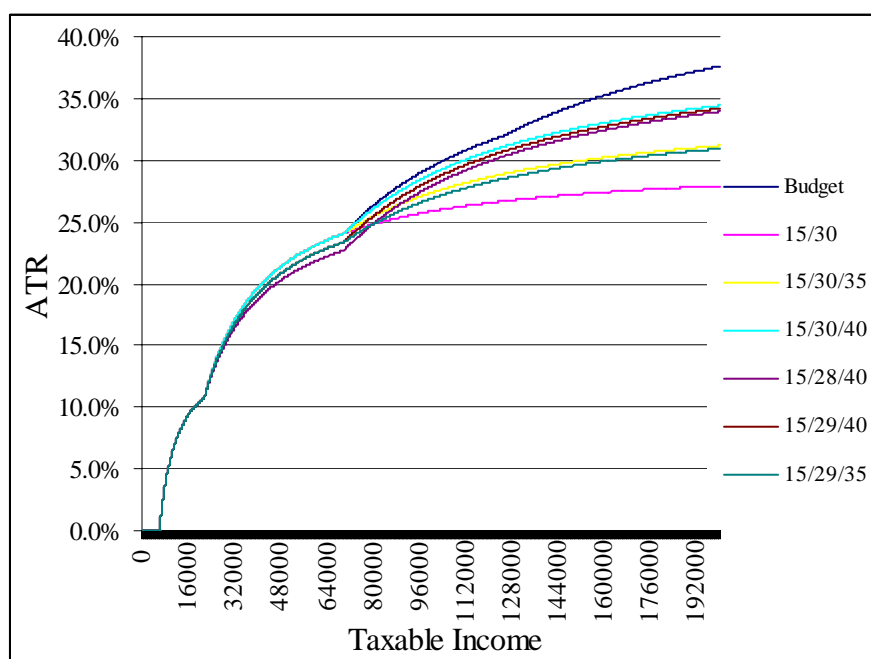
Despite the considerable flattening of the tax schedules through these reforms, it is notable that the proportion of tax paid by the top 5% of income earners changes by only a small proportion. For example, Table 9 shows that under a 15/29/40 schedule the tax paid by the top 5% accounts for 23.76% of the total tax base. Under the 15/30/42/47 schedule proposed in the 2005/06 budget, the comparable figure is about 24.29%. This shows that although the tax schedule is flattened considerably, the progressivity of the tax system is still maintained.

**TABLE 9 Percentage of Tax Paid by Income Group, Selected Models.**

Model	Taxable Income			
	Top 5%	Top 20%	Next 20%	Bottom 60%
Budget	24.29	61.92	24.14	13.93
[124] 15/30	21.35	58.45	26.34	15.21
[144] 15/30/35	22.51	59.90	25.42	14.76
[131] 15/30/40	23.58	61.26	24.57	14.18
[252] 15/28/40	23.95	61.55	24.13	14.32
[279] 15/29/40	23.76	61.40	24.35	14.25
[274] 15/29/35	22.67	60.03	25.22	14.75

These distributive effects are summarised in Figure 2 which shows the average tax rates at each point in the income distribution. Finally, Table 10 summarises the cost of each tax proposal considered in this project in multiples of \$2 billion.

**FIGURE 2 Average Tax Rates (ATR) by Taxable Income, 2006/07.**



**TABLE 10 Tax Model Classified by Cost, 2006/07.**

## **6.0 FUNDING A REFORM PACKAGE**

As shown in Table 10, over half of the 274 tax schedules are affordable within a budget of \$10 billion. We have assumed that, \$10 billion is probably the outer limit of what is affordable in the sense that it can be funded by a combination of base broadening (eliminating concessions), labour market responses and improved productivity and compliance.

### **6.1 BASE BROADENING MEASURES**

Prof. John Freebairn from the University of Melbourne has been at the forefront of research into means of funding taxation reform. His most recent paper presented at the Australian newspaper and Melbourne Institute's 'Sustaining Prosperity' conference in 2005 provided a raft of suggestions on funding taxation reform<sup>5</sup> (Freebairn, 2005). For example, Freebairn suggests scrapping the halving of the capital gains tax rate for assets held for more than 12 months, which costs about \$2.5 billion in foregone revenue. Moreover, Freebairn also suggests changes to various small business capital gains concessions which represent a leakage from the tax base.

Key among Freebairn's other suggestions are the removal of work related deductions<sup>6</sup>. Using 2001-02 taxation statistics, he suggests \$3 to \$3.5 billion could be added to government revenue through removing work related deductions all together. Freebairn shows that the largest work related deductions include work related car expenses (\$3.7 billion), travel expenses (\$0.75 billion), clothing and uniform expenses (\$1.079 billion) and self education expenses (\$0.68 billion). CPA Australia too have proposed removing work related expenses. As one of the peak accounting bodies in Australia, they see the ability to claim work related expenses as (1) complicating the

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<sup>5</sup> Freebairn's (2005) paper proposes base broadening through changes to work related expenses, fringe benefits concessions, capital gains tax concessions, treatment of lump sums, income averaging and taxation expenditures relating to primary producers and remote area concessions.

tax system and (2) favouring high income earners the greatest. CPA estimates that removal of work related expenses would generate \$4.7 billion in additional revenue, the majority of this coming from high income earners<sup>7</sup> This is significantly higher than the \$3 – 3.5 billion estimated by Freebairn.

In addition to broadening the tax base, these suggestions have the advantage of simplifying the process of submitting tax returns considerably. For example, Buddelmeyer, Dawkins et. al. (2004) from the Melbourne Institute show that those on taxable incomes in excess of \$60,000 per annum, although representing only 11% of all taxpayers in Australia, accounted for 22% of total work related expenses in 2001-02 (p. 11). Furthermore, these authors go on to say “Removal of deductions for work related expenses would improve vertical equity, and arguably it also would improve horizontal equity and efficiency. In particular, removal of these concessions would simplify the individual income tax system and in the process reduce some of the \$862 million a year claimed as deductions for costs of managing tax affairs” (p. 11). Recently, the Australian Taxation Office has cited the need to improve the enforcement of claims for work related deductions.

Indeed, concerns have recently been expressed over the growth in claims for work related expenses. Neil Warren from ATax at the University of New South Wales has found that between 1991-92 and 2000-01, claims for work related car expenses grew by an average annualized rate of 11.1%. Moreover, the number of claimants also grew, by about 6.3% per annum over the same time period. As a compromise to removing work related deductions completely, Dr. Tran-Nam, also from UNSW, has suggested that a small fixed amount of workplace reductions should be made available to all tax payers (Tran-Nam, 2004).

Freebairn also suggests changing the treatment of vehicles as a fringe benefit. Drawing upon data from the Treasury expenditure statement, he suggests that the

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<sup>6</sup> Of course, a more thorough investigation is required on claims for work related expenses. For example, what would be the disincentive effect created by removing claims for self education expenses?

<sup>7</sup> “Generally, the higher the income of the taxpayer, the higher the average work related expense deduction claimed. In 2000–01, taxable personal taxpayers earning taxable income of \$60,001 or more accounted for only 11% of the total number of claimants (both taxable and non-taxable), but their work related expenses accounted for 22% (\$1.9 billion) of all work related expense deductions claimed “ ATO Tax Statistics 2001

under valuation of vehicles for private use reduced the tax base by about \$1.1 billion in 2003-04.

Finally, among his other suggestions, Freebairn suggests changes to the taxation treatment of lump sums. Lump sum payments on termination (excluding superannuation) are given concessional tax treatment relative to wages and salaries, which he estimates to cost the revenue about \$1.1 billion in 2003-04 alone.

Freebairn's full list of suggestions is quite extensive, and readers are directed to his excellent article for further information (Freebairn, 2005). The key point made by Freebairn's research is that many leakages to the tax base can be 'plugged' to fund tax reform. Indeed, Freebairn suggests that by accounting for all leakages, a \$10 billion budget is available to fund taxation reform.

Another way to raise revenue to fund taxation reform is through closer scrutiny of tax concessions and expenditures made through the taxation system itself. For the year 2001-02, the Treasury costed 218 individual tax expenditures, at a cost of \$29.2 billion per annum. This represents a rise from 178 tax expenditures in 1996/97 (cited in Smith, 2003:4). In contrast to the heavy means tested payments through direct expenditure, more recent expenditure paid through the tax system are not means tested, benefiting those on the highest incomes. As tax expenditures necessarily reduce the tax base, the increased expenditures through the taxation system (as opposed to direct payments) are in conflict with recent taxation reforms aimed at broadening the tax base.

An additional problem, as discussed by the National Commission of Audit (NCA) is that indirect payments through the taxation system (concessions etc), are not subject to the same level of parliamentary scrutiny: not subject to the same review process, or costed and monitored in the same way as direct expenditures. As summarised by Smith (2003) "While parliamentary estimates committees are charged with reviewing direct expenditures, this process does not include the systematic review of tax expenditures, nor does it integrate such review with the scrutiny of budgetary appropriations. Typically, only the largest and most controversial tax expenditures



which fall on both expenses and revenues tend to be examined by these committees” (p.32).

A more thorough review of a range of expenditures through the taxation system may therefore provide greater revenue to fund tax reform, without having a detrimental effect on those most in need of government support.

## 6.2 BEHAVIOURAL RESPONSES REDUCING THE COST OF REFORM

An additional point, elaborated upon earlier is that changes to the structure of tax rates themselves may result in important labour supply effects, as well as improvements in compliance and reduction in arbitrage opportunities. Table 11 presents a simulation of the changes to revenue if additional persons were encouraged into the labour market at an income below \$40,000<sup>8</sup>. We simulate the effect on government revenue as multiples of 10,000 workers are added to the labour force. For example, if under a 15/28/42/47 schedule, an additional 50,000 workers were encouraged to participate in the labour force, the cost of this schedule would reduce by about \$118 million.

**TABLE 11 Labour Supply Scenarios, Wage Earners < \$40,000.**

	15/28/42/47		15/29/42/47	
	Cost (\$ Bill)	Difference	Cost (\$ Bill)	Difference
No Response	3.8958		1.9479	
Extra 10,000	3.8722	0.0236	1.9239	0.0239
Extra 20,000	3.8486	0.0472	1.9000	0.0479
Extra 30,000	3.8250	0.0708	1.8760	0.0719
Extra 40,000	3.8014	0.0944	1.8521	0.0958
Extra 50,000	3.7778	0.1180	1.8281	0.1198

Table 12 illustrates the same point at the top end of the income distribution. With no behavioural effect, a 15/30/40 model would cost about \$1.86 billion. Imposing the assumption that 10,000 high income earners (>\$100,000) would be encouraged to either migrate or return to Australia, the cost of this reform falls to \$1.47 billion.

<sup>8</sup> These results are based upon the assumptions discussed earlier. Furthermore, it is important to recognize that we do not measure elasticities for labour supply effects. Results in Tables 11,12 and 13 simulate how revenue would change given a change in the size and distribution of the labour market. We do not incorporate additional revenue obtained through increased wages by virtue of working longer hours. For an overview of labour supply elasticity’s, see Robson, 2005.

**TABLE 12 Labour Supply Scenarios, Wage Earners > \$100,000.**

	15/30/40		15/30/35	
	Cost (\$ Bill)	Difference	Cost (\$ Bill)	Difference
No Response	1.8633		5.4468	
Extra 10,000	1.4697	0.3936	5.0818	0.3650
Extra 20,000	1.0761	0.7872	4.7169	0.7300
Extra 30,000	0.6825	1.1808	4.3519	1.0949
Extra 40,000	0.2889	1.5745	3.9869	1.4599
Extra 50,000	-0.1047	1.9681	3.6220	1.8249

Finally, Table 13 displays a synergistic effect with cuts to the full income distribution. A 15/28/40 model is projected to cost about \$5.8 billion with no labour supply response. Given a synergistic response, where by 20,000 workers earning \$40,000 or less are encouraged into the labour market **AND** 20,000 high income earners are encouraged back to Australia, the cost falls by over \$800 million.

**TABLE 13 Labour Supply Scenarios, Synergy Effect.**

	15/28/40	
	Cost (\$ Bill)	Difference
No Response	5.7591	
Extra 10,000 X 2	5.3514	0.4078
Extra 20,000 X 2	4.9436	0.8155
Extra 30,000 X 2	4.5358	1.2233
Extra 40,000 X 2	4.0280	1.7311
Extra 50,000 X 2	3.7203	2.0389

We do not contend that changes to MTRs alone will lead to these responses. The key point is that tax cuts combined with other policy responses (particularly reductions in high EMTRs) would encourage more people to enter the labour market. The combination of encouraging highly skilled (high income earners) workers and those affronted with high EMTRs into the labour market results in increased taxation revenue. This partially offsets some of the cost incurred through reform.

## 7.0 ADDITIONAL ISSUES TO CONSIDER

Although this study has shown that substantial reform to the taxation schedules is affordable (within the \$10 billion budget proposed at the outset of this paper and by Freebairn), there are other issues that require considerable attention to improve the competitiveness of the Australian taxation system. Of particular note is the problem of Effective Marginal Tax Rates and Indexation of taxation thresholds.

## 7.1 EFFECTIVE MARGINAL TAX RATES (EMTR)

The Effective Marginal Tax Rate (EMTR) issue has come to the fore in the personal income tax debate in Australia. When we speak of high Effective Marginal Tax Rates we create the impression that this phenomenon, which undoubtedly acts as a disincentive for people to go to work and get off welfare, is a function of the tax system. However, the EMTR measures the amount of income that is lost to taxes and government benefits from a \$1 rise in income. EMTRs are therefore a function of Marginal Tax Rates (MTR) and changes in the tapering and income thresholds for government benefits. The truth is that in almost all cases the contribution of the tax on additional income earned is by far the smaller part of the so-called EMTR the bulk of which is the result of the welfare benefit being withdrawn by reason of income rising above the means test.

For example, ACOSS recently identified an unemployed adult on New Start Allowance would face an EMTR of 75% as they start to earn income and lose their welfare payment. Given that the relevant tax rate is only 15% (and that over \$6000) it is obvious that the bulk of the EMTR is a function of the withdrawal of benefits. This insight is important, because it underlines the difficulties confronting Government in dealing with this problem. It doesn't matter whether a benefit is called a transfer payment or a tax credit. **Any benefit which is means tested creates the same disincentives.**

High EMTRs confront those on middle incomes, as well as those on low income earners, many of whom are in receipt of government income transfers. For example, the Business Coalition for Tax Reform (2005) shows that the withdrawal of the base rate of Family Tax Benefit (Part A) leads to EMTRs of around 51% for many middle income earning families. For some low income earners, the Medicare levy phase-in at a 20% rate is also a contributor to higher EMTRs.

Apart from the influence on Australian families take home income, high EMTRs act as a strong barrier to enter the workforce, or to work additional hours (Warren, 2004:114). At the most elementary level, this barrier to increasing labour market

participation affects the Australian economy through increased welfare payments and loss of taxation revenue. Moreover, high EMTRs are of concern to employers as they artificially lead to increased wage demands. I.e., workers will demand a higher wage, to improve their economic wellbeing in the labour market relative to the income support system (Warren, 2004:116). Warren uses the example of a low income earner with an EMTR of 60%. To increase their disposable income by 4%, they would require a 10% increase in wage income. As the EMTR increases, the wage income required increases also. With an EMTR of 80%, a wage increase of 20% would be required (Warren, 2004:116).

We will not eliminate high EMTRs simply by raising the tax free threshold above the welfare minimum as recommended by Peter Saunders in his excellent work for the CIS<sup>9</sup>. The only way to completely eliminate high EMTRs would be either to remove the welfare payment completely or remove the means test. The other approach, of course, is to impose a more stringent work obligation so that the optionality (receive benefit vs work) is removed or at least heavily qualified. The Government's recent welfare to work reforms are moving, albeit cautiously, in that direction.

Neither removing the welfare payment nor scrapping the means test is feasible (obviously) and as we have recently seen the imposition of work obligations on welfare recipients is being undertaken cautiously. So the avenues open to Government are essentially limited to reducing the taper rate at which a benefit is lost as income increases. Over the last four years, Family Tax Benefit A, for example, has seen its taper rate reduce from 50 cents (i.e., 50 cents of benefit lost for every dollar over the means test limit) to 20 cents. However the consequence of reducing the taper rate is to broaden the range of people who are in receipt of the benefit (a taper rate of 0 cents is equivalent to having no means test).

Another measure which Governments can employ is to reduce "stacking" which is to structure benefits so that their means tests cut in at different levels, however even with different means test thresholds and lower taper rates, it is inevitable that those in receipt of multiple benefits will lose part of their benefits simultaneously.

Reducing taper rates costs the Commonwealth money; because the benefit is then paid to a wider range of recipients. In addition, as Professor Dawkins recently observed, reduction in taper rates may lead some income support recipients, such as those on Newstart Allowance, to work part-time rather than full time, representing a loss to the productive capacity of the labour market, i.e., under-employment.

An added difficulty in better blending the tax and social security systems arises because the income base is the individual whereas the base for most social security benefits means testing is family income.

The short point therefore is this: high EMTRs are an inevitable consequence of means tested welfare payments. There is, therefore, no silver bullet. But apart from continuing to tweak the interaction between tax and benefits to ensure the loss of benefits tapers smoothly, we need seriously to examine the state of government expenditure in Australia today and question the efficiency of churning tax payers money: taken from taxpayers in tax and then returned to them as expenditure in the form of benefits, tax concessions etc.

## **7.2 BRACKET CREEP**

A related issue is the problem of bracket creep. Bracket creep occurs in two forms: (1) Creep between brackets: As real wages rise, many taxpayers 'creep' into a higher tax bracket, and (2) Creep within brackets: As wages rise within brackets, the average tax rate increases. Bracket creep is important in the context of EMTRs, as over time many families become subject to higher EMTRs as they drift into higher tax rates.

The Institute of Chartered Accountants of Australia has proposed indexing the thresholds or tax brackets to shifts in inflation, with special provisions for periods of high inflationary pressure. For example, capping the indexation of tax thresholds to a maximum of 5%. Similarly, CPA Australia has proposed that indexing the thresholds alone should be combined with a flattening of the personal tax rate scale. CPA

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<sup>9</sup> Saunders proposed that in addition to increasing the tax free threshold, changes are required to family payments such as Family Tax Benefits to reduce high EMTRs.

Australia have argued that this combined approach would “.. provide taxpayers with greater incentives to work, save and invest” (CPA Australia in Economics Reference Committee, 2002:30). ACCI (2004) have proposed indexing thresholds once a year to inflation or general wages growth. Peter Saunders too, from the Centre for Independent Studies has argued that tax thresholds should be indexed to rises in average wages (Saunders and Maley, 2004).

In the past Australia has attempted indexation. Between 1976-77 and 1977-78, the tax scale was fully indexed. However, due to high inflation, this form of indexation proved very costly. In the following years, half-indexation was used for 1980-81 and 1981-82, but abolished thereafter. The reasons for abolishing indexing at this time were due in part to the effect of inflationary pressure and a political motivation also. An election was due and the government wanted to provide tax cuts.

If Australia did chose to index their income thresholds and tax free threshold, we would not be alone. Canada, for example, from 2000 indexed its marginal tax rates with little detrimental effect on revenue (Economics Reference Committee, 2004:29). The UK also indexes their tax schedule to the CPI (Warren, 2004:105). An additional advantage of indexation is that it makes tax planning, for both the government and individual, much more certain.

Research by the Melbourne Institute sought to cost the impact of bracket creep from the introduction of *A New Tax System (ANTS)*. They estimate that if there had been systematic CPI indexation of the thresholds in 2000/2001, then by 2005/2006 the government would have lost about \$3.8 billion in revenue. An additional issue brought about by bracket creep is the increase the average taxation rate. For example, the Melbourne Institute study points out that:

“The average income tax rate for all Australians, computed as income tax net of rebates expressed as a percentage of gross income, is 15.9 per cent in 2005/06 assuming the current system will not be changed further and 15.1 per cent under a policy of CPI indexing of the thresholds, compared to 14.5 percent at the time when ANTS was introduced in 2000/01” (Buddelmeyer, Dawkins, Freebairn and Kalb, 2004:3).

This example points to the effect of differential indexation on taxation thresholds.

Although CPI indexation will solve the problem of bracket creep, only AWE indexation will solve problems of bracket creep and the related issue of increases in average tax rates. By indexing the tax thresholds, the ongoing issue of high EMTRs in pockets of the population could be reduced considerably.

In the event of structuring a taxation system that provides a ‘better fit’ with the social security system, and implementing marginal tax rates and a tax free threshold to maximise work incentives, only indexation can ensure the tax system will continue to deliver over time. For example, McDonald and Kippen (2005) argue “as time progresses, the high effective marginal tax rates return as the indexing of the income thresholds for the receipt of payments and rebates fails to keep pace with increases in earnings and as the real value of the tax-free threshold continues to fall. Then, like the dog chasing its tail, the process of modification starts again” (McDonald and Kippen, 2005:3).

## **8.0 CONCLUDING REMARKS**

In a previous paper presented at the ‘Sustaining Prosperity’ conference, Malcolm Turnbull argued “.There is an appetite in the community for a second round of substantial tax reform. I believe the direction of that reform should be towards lower rates and a broader base. I believe that it is important for all of us to engage in that discussion. There is no need to be defensive. Reform should be debated and modelled” (Turnbull, 2005).

The purpose of this study has been to model the costs of a range of incremental and much larger reforms to the Australian taxation schedule. The key finding from this study is that fundamental reform to the tax system is affordable, within the budget of \$10 billion as proposed by Prof. Freebairn. Some reforms (such as reducing the top MTR to 40%) are *very affordable*.

Although no specific model has been suggested in this paper, we have shown that in conjunction with significant base broadening measures, flattening of the tax structure is affordable within the short term. Changes to the tax rates should be accompanied with a reduction in concessions: broadening the base. The lower the rate, the great the

moral authority the Government should have in seeking taxpayers' compliance. A simpler, more transparent tax system will encourage and enable greater compliance and thereby reduce leakages from the tax base. This, again, can only be a positive factor in terms of protecting the revenue.

However, flattening of the tax structure in itself will not solve many of the continuing problems in the tax system. Notably, the problem of the interface between the tax system and welfare system generating high EMTRs for a section of the population, which has dramatic feed back effects into labour supply. Similarly, given a situation where we find a 'fit' between the welfare and taxation systems, it is important that indexation is in place so that high EMTRs do not become endemic in our taxation and welfare system.



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**TABLE 3A Estimated Cost and Tax Cut by Income Group, Varying the Rates  
2006-07.**

		Real Cost (\$Billions)	Tax Cut (%)		
			Top 20%	Next 20%	Bottom 60%
<b>06/07 Budget</b>		0	0	0	0
<i><u>Vary 15 MTR</u></i>					
14/30/42/47	1	1.2649	0.505	1.307	4.101
13/30/42/47	2	2.5297	1.016	2.650	8.552
12/30/42/47	3	3.7946	1.532	4.028	13.401
11/30/42/47	4	5.0595	2.052	5.443	18.703
10/30/42/47	5	6.3243	2.579	6.898	24.526
<i><u>Vary 30 MTR</u></i>					
15/29/42/47	6	1.9479	1.585	2.761	1.383
15/28/42/47	7	3.8958	3.220	5.678	2.804
15/27/42/47	8	5.8437	4.910	8.766	4.266
15/26/42/47	9	7.7916	6.655	12.040	5.770
15/25/42/47	10	9.7395	8.460	15.516	7.318
15/24/42/47	11	11.6874	10.326	19.216	8.912
15/23/42/47	12	13.6353	12.258	23.160	10.554
15/22/42/47	13	15.5832	14.259	27.375	12.247
15/21/42/47	14	17.5311	16.333	31.888	13.992
15/20/42/47	15	19.4790	18.483	36.732	15.792
<i><u>Vary 42 MTR</u></i>					
15/30/41/47	16	0.6307	0.952	0.001	0.000
15/30/40/47	17	1.2614	1.923	0.002	0.000
15/30/39/47	18	1.8921	2.912	0.003	0.000
15/30/38/47	19	2.5228	3.921	0.005	0.000
15/30/38.5/47	20	2.2075	3.414	0.004	0.000
15/30/37/47	21	3.1535	4.949	0.006	0.000
15/30/36/47	22	3.7843	5.998	0.007	0.000
15/30/35/47	23	4.4150	7.069	0.008	0.000
15/30/34/47	24	5.0457	8.161	0.009	0.000
15/30/33/47	25	5.6764	9.276	0.010	0.000
15/30/32/47	26	6.3071	10.414	0.011	0.000
15/30/31/47	27	6.9378	11.576	0.012	0.000
15/30/47	28	7.5685	12.762	0.014	0.000
<i><u>Vary 47 MTR</u></i>					
15/30/42/46	29	0.0860	0.129	0.000	0.000
15/30/42/45	30	0.1720	0.258	0.000	0.000
15/30/42/44	31	0.2580	0.387	0.000	0.000
15/30/42/43	32	0.3440	0.517	0.000	0.000
15/30/42	33	0.4299	0.647	0.000	0.000

**TABLE 3B- Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Rates 2006-07.**

	Model	% Tax Paid			Diff % Tax Paid		
		Top 20%	Next 20%	Bottom 60%	Top 20%	Next 20%	Bottom 60%
06/07 Budget		61.92	24.14	13.93	0.00	0.00	0.00
<u>Vary 15 MTR</u>							
14/30/42/47	1	62.34	24.11	13.54	0.42	-0.03	-0.39
13/30/42/47	2	62.77	24.08	13.14	0.85	-0.06	-0.79
12/30/42/47	3	63.21	24.05	12.74	1.29	-0.09	-1.20
11/30/42/47	4	63.66	24.02	12.32	1.74	-0.12	-1.62
10/30/42/47	5	64.12	23.99	11.89	2.20	-0.15	-2.05
<u>Vary 30 MTR</u>							
15/29/42/47	6	62.08	23.93	14.00	0.15	-0.22	0.06
15/28/42/47	7	62.24	23.70	14.06	0.31	-0.44	0.13
15/27/42/47	8	62.40	23.47	14.13	0.48	-0.68	0.19
15/26/42/47	9	62.58	23.22	14.20	0.65	-0.92	0.26
15/25/42/47	10	62.76	22.97	14.27	0.83	-1.17	0.34
15/24/42/47	11	62.94	22.71	14.35	1.02	-1.43	0.41
15/23/42/47	12	63.14	22.44	14.43	1.21	-1.71	0.49
15/22/42/47	13	63.34	22.15	14.51	1.42	-1.99	0.57
15/21/42/47	14	63.55	21.85	14.59	1.63	-2.29	0.66
15/20/42/47	15	63.77	21.54	14.68	1.85	-2.60	0.75
<u>Vary 42 MTR</u>							
15/30/41/47	16	61.70	24.28	14.02	-0.22	0.14	0.08
15/30/40/47	17	61.47	24.43	14.10	-0.45	0.28	0.16
15/30/39/47	18	61.25	24.57	14.18	-0.68	0.43	0.25
15/30/38/47	19	61.01	24.72	14.27	-0.91	0.58	0.33
15/30/38.5/47	20	61.13	24.65	14.23	-0.79	0.50	0.29
15/30/37/47	21	60.78	24.87	14.35	-1.14	0.73	0.42
15/30/36/47	22	60.54	25.02	14.44	-1.38	0.88	0.51
15/30/35/47	23	60.30	25.17	14.53	-1.62	1.03	0.59
15/30/34/47	24	60.06	25.32	14.62	-1.86	1.18	0.68
15/30/33/47	25	59.81	25.48	14.71	-2.11	1.34	0.77
15/30/32/47	26	59.56	25.64	14.80	-2.36	1.50	0.86
15/30/31/47	27	59.31	25.80	14.89	-2.61	1.66	0.96
15/30/47	28	59.06	25.96	14.98	-2.87	1.82	1.05
<u>Vary 47 MTR</u>							
15/30/42/46	29	61.89	24.16	13.95	-0.03	0.02	0.01
15/30/42/45	30	61.86	24.18	13.96	-0.06	0.04	0.02
15/30/42/44	31	61.83	24.20	13.97	-0.09	0.06	0.03
15/30/42/43	32	61.80	24.22	13.98	-0.12	0.08	0.04
15/30/42	33	61.77	24.24	13.99	-0.15	0.10	0.06

**TABLE 4A Estimated Cost and Tax Cut by Income Group, Varying the Thresholds 2006-07 (-ves are an increase in revenue).**

		Real Cost	Tax Cut (%)		
		(\$Billions)	Top 20%	Next 20%	Bottom 60%
<b>06/07 Budget</b>		0	0	0	0
<i>Vary Tax Free</i>					
20000	34	17.3739	7.260	21.027	123.874
19000	35	16.3436	6.707	19.236	111.776
18000	36	15.2895	6.159	17.497	100.282
17000	37	14.2195	5.617	15.809	89.592
16000	38	13.1082	5.080	14.168	79.100
15000	39	11.9755	4.549	12.573	69.300
14000	40	10.8036	4.023	11.022	59.848
13000	41	9.5864	3.503	9.513	50.707
12000	42	8.3429	2.987	8.045	42.201
11000	43	7.0383	2.477	6.615	33.872
10000	44	5.7012	1.972	5.223	26.120
9000	45	4.3315	1.472	3.867	18.910
8000	46	2.9111	0.976	2.545	12.055
7000	47	1.4752	0.486	1.257	5.831
5000	48	-1.5010	-0.481	-1.226	-5.376
4000	49	-3.0192	-0.958	-2.422	-10.295
3000	50	-4.5749	-1.430	-3.589	-14.909
2000	51	-6.1437	-1.897	-4.729	-19.128
1000	52	-7.7321	-2.360	-5.842	-23.026
0	53	-9.3433	-2.819	-6.930	-26.648
<i>Vary 30 Threshold</i>					
22600	54	0.9687	0.486	1.257	2.189
23600	55	1.9244	0.976	2.545	4.381
24600	56	2.8543	1.472	3.867	6.475
25600	57	3.7656	1.972	5.223	8.509
26600	58	4.6645	2.477	6.615	10.521
27600	59	5.5381	2.987	8.045	12.396
28600	60	6.4007	3.503	9.513	14.241
29600	61	7.2446	4.023	11.022	15.979
30600	62	8.0698	4.549	12.573	17.599
31600	63	8.8842	5.080	14.168	19.163
32600	64	9.6736	5.617	15.809	20.527
33600	65	10.4482	6.159	17.497	21.777
34600	66	11.2079	6.707	19.236	22.903
35600	67	11.9431	7.260	21.027	23.800
36600	68	12.6661	7.819	22.872	24.584
37600	69	13.3646	8.384	24.775	25.122
<i>Vary 42 Threshold</i>					
71000	70	0.2605	0.386	0.014	0.000
72000	71	0.5164	0.773	0.014	0.000
73000	72	0.7615	1.147	0.014	0.000
74000	73	1.0026	1.517	0.014	0.000
75000	74	1.2377	1.881	0.014	0.000
76000	75	1.4653	2.236	0.014	0.000
77000	76	1.6901	2.589	0.014	0.000
78000	77	1.9069	2.931	0.014	0.000

79000	78	2.1194	3.269	0.014	0.000
80000	79	2.3276	3.602	0.014	0.000
81000	80	2.5282	3.925	0.014	0.000
82000	81	2.7256	4.245	0.014	0.000
83000	82	2.9172	4.558	0.014	0.000
84000	83	3.1033	4.863	0.014	0.000
85000	84	3.2862	5.165	0.014	0.000
<i>Vary 47</i>					
<i>Threshold</i>					
125500	85	0.0109	0.016	0.000	0.000
126000	86	0.0212	0.032	0.000	0.000
127000	87	0.0419	0.063	0.000	0.000
128000	88	0.0613	0.092	0.000	0.000
129000	89	0.0803	0.120	0.000	0.000
130000	90	0.0985	0.148	0.000	0.000
131000	91	0.1157	0.173	0.000	0.000
132000	92	0.1325	0.199	0.000	0.000
133000	93	0.1482	0.222	0.000	0.000
134000	94	0.1633	0.245	0.000	0.000
135000	95	0.1779	0.267	0.000	0.000
136000	96	0.1914	0.287	0.000	0.000
137000	97	0.2047	0.307	0.000	0.000
138000	98	0.2170	0.326	0.000	0.000
139000	99	0.2288	0.343	0.000	0.000
140000	100	0.2401	0.361	0.000	0.000

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**TABLE 4B- Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Thresholds 2006-07.**

	Model	% Tax Paid			Diff % Tax Paid		
		Top 20%	Next 20%	Bottom 60%	Top 20%	Next 20%	Bottom 60%
06/07 Budget		61.92	24.14	13.93	0.00	0.00	0.00
<u>Vary Free Threshold</u>							
20000	34	68.81	23.77	7.42	6.88	-0.37	-6.52
19000	35	68.39	23.86	7.75	6.46	-0.28	-6.18
18000	36	67.96	23.94	8.11	6.03	-0.20	-5.83
17000	37	67.53	24.01	8.46	5.60	-0.13	-5.47
16000	38	67.08	24.07	8.86	5.15	-0.07	-5.08
15000	39	66.62	24.12	9.26	4.70	-0.02	-4.68
14000	40	66.15	24.16	9.69	4.23	0.02	-4.25
13000	41	65.66	24.19	10.15	3.74	0.05	-3.79
12000	42	65.16	24.22	10.62	3.24	0.07	-3.31
11000	43	64.64	24.22	11.13	2.72	0.08	-2.80
10000	44	64.11	24.22	11.66	2.19	0.08	-2.27
9000	45	63.58	24.22	12.21	1.65	0.07	-1.73
8000	46	63.02	24.20	12.78	1.10	0.05	-1.15
7000	47	62.48	24.17	13.35	0.55	0.03	-0.59
5000	48	61.37	24.11	14.52	-0.55	-0.04	0.59
4000	49	60.82	24.07	15.11	-1.10	-0.07	1.18
3000	50	60.27	24.02	15.71	-1.66	-0.12	1.78
2000	51	59.72	23.98	16.30	-2.20	-0.17	2.37
1000	52	59.18	23.93	16.89	-2.74	-0.22	2.96
0	53	58.64	23.87	17.48	-3.28	-0.27	3.55
<u>Vary 30 Threshold</u>							
22600	54	62.18	24.06	13.76	0.26	-0.08	-0.17
23600	55	62.44	23.97	13.59	0.51	-0.17	-0.34
24600	56	62.68	23.87	13.44	0.76	-0.27	-0.49
25600	57	62.92	23.77	13.31	1.00	-0.37	-0.63
26600	58	63.16	23.67	13.18	1.23	-0.48	-0.76
27600	59	63.38	23.55	13.07	1.46	-0.59	-0.87
28600	60	63.60	23.43	12.97	1.68	-0.71	-0.97
29600	61	63.81	23.31	12.88	1.89	-0.83	-1.06
30600	62	64.02	23.18	12.81	2.09	-0.96	-1.13
31600	63	64.22	23.04	12.74	2.29	-1.10	-1.19
32600	64	64.40	22.90	12.70	2.48	-1.24	-1.24
33600	65	64.58	22.75	12.67	2.66	-1.39	-1.27
34600	66	64.76	22.59	12.65	2.83	-1.55	-1.28
35600	67	64.91	22.43	12.66	2.99	-1.71	-1.28
36600	68	65.07	22.26	12.67	3.14	-1.88	-1.26
37600	69	65.21	22.08	12.71	3.28	-2.06	-1.22
<u>Vary 42 Threshold</u>							
71000	70	61.83	24.20	13.97	-0.09	0.06	0.03
72000	71	61.74	24.26	14.00	-0.18	0.11	0.07
73000	72	61.66	24.31	14.03	-0.27	0.17	0.10
74000	73	61.57	24.37	14.06	-0.35	0.22	0.13
75000	74	61.49	24.42	14.10	-0.44	0.28	0.16
76000	75	61.40	24.47	14.13	-0.52	0.33	0.19

77000	76	61.32	24.52	14.16	-0.60	0.38	0.22
78000	77	61.24	24.57	14.18	-0.68	0.43	0.25
79000	78	61.16	24.62	14.21	-0.76	0.48	0.28
80000	79	61.09	24.67	14.24	-0.84	0.53	0.31
81000	80	61.01	24.72	14.27	-0.91	0.58	0.33
82000	81	60.94	24.76	14.30	-0.98	0.62	0.36
83000	82	60.87	24.81	14.32	-1.05	0.67	0.39
84000	83	60.80	24.85	14.35	-1.12	0.71	0.41
85000	84	60.73	24.90	14.37	-1.19	0.75	0.44
<u>Vary 47 Threshold</u>							
125500	85	61.92	24.14	13.94	0.00	0.00	0.00
126000	86	61.92	24.15	13.94	-0.01	0.00	0.00
127000	87	61.91	24.15	13.94	-0.01	0.01	0.01
128000	88	61.90	24.16	13.94	-0.02	0.01	0.01
129000	89	61.90	24.16	13.94	-0.03	0.02	0.01
130000	90	61.89	24.16	13.95	-0.03	0.02	0.01
131000	91	61.88	24.17	13.95	-0.04	0.03	0.01
132000	92	61.88	24.17	13.95	-0.05	0.03	0.02
133000	93	61.87	24.18	13.95	-0.05	0.03	0.02
134000	94	61.87	24.18	13.96	-0.06	0.04	0.02
135000	95	61.86	24.18	13.96	-0.06	0.04	0.02
136000	96	61.86	24.19	13.96	-0.07	0.04	0.02
137000	97	61.85	24.19	13.96	-0.07	0.05	0.03
138000	98	61.85	24.19	13.96	-0.08	0.05	0.03
139000	99	61.84	24.19	13.96	-0.08	0.05	0.03
140000	100	61.84	24.20	13.97	-0.08	0.05	0.03

**TABLE 5A- Estimated Cost and Tax Cut by Income Group, Varying the Top Two Rates 2006-07.**

		Real Cost	Tax Cut (%)		
			Top 20%	Next 20%	Bottom 60%
<b>06/07 Budget</b>		0	0	0	0
15/30/41/46	101	0.7167	1.083	0.001	0.000
15/30/40/45	102	1.4334	2.191	0.002	0.000
15/30/39/44	103	2.1501	3.322	0.003	0.000
15/30/38/43	104	2.8668	4.479	0.005	0.000
15/30/37/42	105	3.5835	5.662	0.006	0.000
15/30/36/41	106	4.3002	6.873	0.007	0.000
15/30/35/40	107	5.0169	8.111	0.008	0.000
15/30/34/39	108	5.7336	9.379	0.009	0.000
15/30/33/38	109	6.4503	10.676	0.010	0.000
15/30/32/37	110	7.1670	12.005	0.011	0.000
15/30/31/36	111	7.8837	13.366	0.012	0.000
15/30/31/35	112	7.9697	13.531	0.012	0.000
15/30/31/34	113	8.0556	13.697	0.012	0.000
15/30/31/33	114	8.1416	13.864	0.012	0.000
15/30/31/32	115	8.2276	14.031	0.012	0.000
15/30/39	116	2.5800	4.013	0.003	0.000
15/30/38	117	3.2967	5.186	0.005	0.000
15/30/37	118	4.0134	6.386	0.006	0.000
15/30/36	119	4.7301	7.613	0.007	0.000
15/30/34	120	6.1635	10.154	0.009	0.000
15/30/33	121	6.8802	11.470	0.010	0.000
15/30/32	122	7.5969	12.817	0.011	0.000
15/30/31	123	8.3136	14.198	0.012	0.000
15/30	124	9.0303	15.613	0.014	0.000

**TABLE 5B- Estimated Difference in Percentage of Tax Paid by Income Group, Varying the Top Two Rates 2006-07.**

	Model	% Tax Paid			Diff % Tax Paid		
		Top 20%	Next 20%	Bottom 60%	Top 20%	Next 20%	Bottom 60%
06/07 Budget		61.92	24.14	13.93	0.00	0.00	0.00
<u>Vary top 2 MTR</u>							
15/30/41/46	101	61.67	24.30	14.03	-0.25	0.16	0.09
15/30/40/45	102	61.41	24.47	14.12	-0.51	0.32	0.19
15/30/39/44	103	61.15	24.63	14.22	-0.77	0.49	0.28
15/30/38/43	104	60.89	24.80	14.31	-1.04	0.66	0.38
15/30/37/42	105	60.62	24.97	14.41	-1.31	0.83	0.48
15/30/36/41	106	60.35	25.14	14.51	-1.58	1.00	0.58
15/30/35/40	107	60.07	25.32	14.61	-1.85	1.17	0.68
15/30/34/39	108	59.79	25.49	14.72	-2.13	1.35	0.78
15/30/33/38	109	59.51	25.67	14.82	-2.42	1.53	0.89
15/30/32/37	110	59.22	25.86	14.93	-2.71	1.71	0.99
15/30/31/36	111	58.93	26.04	15.03	-3.00	1.90	1.10
15/30/31/35	112	58.89	26.06	15.04	-3.03	1.92	1.11
15/30/31/34	113	58.86	26.09	15.06	-3.07	1.94	1.12
15/30/31/33	114	58.82	26.11	15.07	-3.10	1.97	1.14
15/30/31/32	115	58.79	26.13	15.08	-3.14	1.99	1.15
15/30/39	116	60.99	24.73	14.28	-0.93	0.59	0.34
15/30/38	117	60.73	24.90	14.37	-1.20	0.76	0.44
15/30/37	118	60.45	25.07	14.47	-1.47	0.93	0.54
15/30/36	119	60.18	25.25	14.57	-1.74	1.10	0.64
15/30/34	120	59.62	25.60	14.78	-2.30	1.46	0.84
15/30/33	121	59.33	25.78	14.88	-2.59	1.64	0.95
15/30/32	122	59.04	25.97	14.99	-2.88	1.82	1.05
15/30/31	123	58.75	26.15	15.10	-3.17	2.01	1.16
15/30	124	58.45	26.34	15.21	-3.47	2.20	1.27

**TABLE 6A- Estimated Cost and Tax Cut by Income Group, Flatter Tax Structure 2006-07.**

		Real Cost	Tax Cut (%)		
		(\$ Billion)	Top 20%	Next 20%	Bottom 60%
<b>06/07 Budget</b>		0	0	0	0
<u>Fix 15/30/40</u>					
<u>System</u>					
15/30/40/46	125	1.3474	2.056	0.002	0.000
15/30/40/45	126	1.4334	2.191	0.002	0.000
15/30/40/44	127	1.5194	2.325	0.002	0.000
15/30/40/43	128	1.6054	2.460	0.002	0.000
15/30/40/42	129	1.6914	2.595	0.002	0.000
15/30/40/41	130	1.7773	2.731	0.002	0.000
15/30/40	131	1.8633	2.867	0.002	0.000
<u>Fix 15/30/35</u>					
<u>System</u>					
15/30/35/47	132	4.4150	7.069	0.008	0.000
15/30/35/46	133	4.5009	7.216	0.008	0.000
15/30/35/45	134	4.5869	7.365	0.008	0.000
15/30/35/44	135	4.6729	7.513	0.008	0.000
15/30/35/43	136	4.7589	7.662	0.008	0.000
15/30/35/42	137	4.8449	7.811	0.008	0.000
15/30/35/41	138	4.9309	7.961	0.008	0.000
15/30/35/40	139	5.0169	8.111	0.008	0.000
15/30/35/39	140	5.1029	8.262	0.008	0.000
15/30/35/38	141	5.1889	8.413	0.008	0.000
15/30/35/37	142	5.2748	8.564	0.008	0.000
15/30/35/36	143	5.3608	8.716	0.008	0.000
15/30/35	144	5.4468	8.868	0.008	0.000
<u>Fix 15/25/30</u>					
<u>System</u>					
15/25/30/46	145	17.3940	23.833	15.535	7.318
15/25/30/45	146	17.4800	24.031	15.535	7.318
15/25/30/44	147	17.5660	24.229	15.535	7.318
15/25/30/43	148	17.6519	24.428	15.535	7.318
15/25/30/42	149	17.7379	24.628	15.535	7.318
15/25/30/41	150	17.8239	24.828	15.535	7.318
15/25/30/40	151	17.9099	25.028	15.535	7.318
15/25/30/39	152	17.9959	25.230	15.535	7.318
15/25/30/38	153	18.0819	25.432	15.535	7.318
15/25/30/37	154	18.1679	25.635	15.535	7.318
15/25/30/36	155	18.2539	25.838	15.535	7.318
15/25/30/35	156	18.3399	26.042	15.535	7.318
15/25/30/34	157	18.4258	26.247	15.535	7.318
15/25/30/33	158	18.5118	26.452	15.535	7.318
15/25/30/32	159	18.5978	26.658	15.535	7.318
15/25/30/31	160	18.6838	26.865	15.535	7.318
15/25/30	161	18.7698	27.072	15.535	7.318
15/25/31	162	18.0531	25.365	15.533	7.318
15/25/32	163	17.3364	23.703	15.532	7.318
15/25/33	164	16.6197	22.084	15.530	7.318
15/25/34	165	15.9030	20.507	15.528	7.318

15/25/35	166	15.1863	18.971	15.527	7.318
15/25/36	167	14.4696	17.473	15.525	7.318
15/25/37	168	13.7529	16.012	15.524	7.318
15/25/38	169	13.0362	14.587	15.522	7.318
15/25/39	170	12.3195	13.197	15.521	7.318
15/25/40	171	11.6028	11.840	15.519	7.318

15/26/30 System

15/26/30/46	172	15.4461	21.487	12.057	5.770
15/26/30/45	173	15.5321	21.677	12.057	5.770
15/26/30/44	174	15.6181	21.868	12.057	5.770
15/26/30/43	175	15.7040	22.059	12.057	5.770
15/26/30/42	176	15.7900	22.251	12.057	5.770
15/26/30/41	177	15.8760	22.443	12.057	5.770
15/26/30/40	178	15.9620	22.637	12.057	5.770
15/26/30/39	179	16.0480	22.830	12.057	5.770
15/26/30/38	180	16.1340	23.025	12.057	5.770
15/26/30/37	181	16.2200	23.220	12.057	5.770
15/26/30/36	182	16.3060	23.415	12.057	5.770
15/26/30/35	183	16.3920	23.612	12.057	5.770
15/26/30/34	184	16.4779	23.809	12.057	5.770
15/26/30/33	185	16.5639	24.006	12.057	5.770
15/26/30/32	186	16.6499	24.204	12.057	5.770
15/26/30/31	187	16.7359	24.403	12.057	5.770
15/26/30	188	16.8219	24.602	12.057	5.770
15/26/31	189	16.1052	22.960	12.055	5.770
15/26/32	190	15.3885	21.361	12.054	5.770
15/26/33	191	14.6718	19.803	12.052	5.770
15/26/34	192	13.9551	18.284	12.051	5.770
15/26/35	193	13.2384	16.803	12.049	5.770
15/26/36	194	12.5217	15.359	12.048	5.770
15/26/37	195	11.8050	13.950	12.047	5.770
15/26/38	196	11.0883	12.575	12.045	5.770
15/26/39	197	10.3716	11.233	12.044	5.770
15/26/40	198	9.6549	9.922	12.042	5.770

15/27/30 System

15/27/30/46	199	13.4982	19.227	8.782	4.266
15/27/30/45	200	13.5842	19.410	8.782	4.266
15/27/30/44	201	13.6702	19.594	8.782	4.266
15/27/30/43	202	13.7561	19.778	8.782	4.266
15/27/30/42	203	13.8421	19.963	8.782	4.266
15/27/30/41	204	13.9281	20.148	8.782	4.266
15/27/30/40	205	14.0141	20.334	8.782	4.266
15/27/30/39	206	14.1001	20.521	8.782	4.266
15/27/30/38	207	14.1861	20.708	8.782	4.266
15/27/30/37	208	14.2721	20.896	8.782	4.266
15/27/30/36	209	14.3581	21.084	8.782	4.266
15/27/30/35	210	14.4441	21.273	8.782	4.266
15/27/30/34	211	14.5300	21.463	8.782	4.266
15/27/30/33	212	14.6160	21.653	8.782	4.266
15/27/30/32	213	14.7020	21.843	8.782	4.266
15/27/30/31	214	14.7880	22.035	8.782	4.266
15/27/30	215	14.8740	22.227	8.782	4.266
15/27/31	216	14.1573	20.646	8.781	4.266
15/27/32	217	13.4406	19.106	8.779	4.266

15/27/33	218	12.7239	17.605	8.778	4.266
15/27/34	219	12.0072	16.141	8.776	4.266
15/27/35	220	11.2905	14.713	8.775	4.266
15/27/36	221	10.5738	13.320	8.774	4.266
15/27/37	222	9.8571	11.960	8.772	4.266
15/27/38	223	9.1404	10.632	8.771	4.266
15/27/39	224	8.4237	9.336	8.770	4.266
15/27/40	225	7.7070	8.069	8.768	4.266
<u>15/28/30 System</u>					
15/28/30/46	226	11.5503	17.050	5.693	2.804
15/28/30/45	227	11.6363	17.227	5.693	2.804
15/28/30/44	228	11.7223	17.404	5.693	2.804
15/28/30/43	229	11.8083	17.581	5.693	2.804
15/28/30/42	230	11.8942	17.759	5.693	2.804
15/28/30/41	231	11.9802	17.938	5.693	2.804
15/28/30/40	232	12.0662	18.117	5.693	2.804
15/28/30/39	233	12.1522	18.297	5.693	2.804
15/28/30/38	234	12.2382	18.477	5.693	2.804
15/28/30/37	235	12.3242	18.658	5.693	2.804
15/28/30/36	236	12.4102	18.840	5.693	2.804
15/28/30/35	237	12.4962	19.021	5.693	2.804
15/28/30/34	238	12.5821	19.204	5.693	2.804
15/28/30/33	239	12.6681	19.387	5.693	2.804
15/28/30/32	240	12.7541	19.571	5.693	2.804
15/28/30/31	241	12.8401	19.755	5.693	2.804
15/28/30	242	12.9261	19.940	5.693	2.804
15/28/31	243	12.2094	18.417	5.692	2.804
15/28/32	244	11.4927	16.933	5.691	2.804
15/28/33	245	10.7760	15.486	5.689	2.804
15/28/34	246	10.0593	14.074	5.688	2.804
15/28/35	247	9.3426	12.696	5.687	2.804
15/28/36	248	8.6259	11.351	5.686	2.804
15/28/37	249	7.9092	10.038	5.684	2.804
15/28/38	250	7.1925	8.755	5.683	2.804
15/28/39	251	6.4758	7.502	5.682	2.804
15/28/40	252	5.7591	6.278	5.680	2.804
<u>15/29/30 System</u>					
15/29/30/46	253	9.6024	14.951	2.775	1.383
15/29/30/45	254	9.6884	15.121	2.775	1.383
15/29/30/44	255	9.7744	15.292	2.775	1.383
15/29/30/43	256	9.8604	15.463	2.775	1.383
15/29/30/42	257	9.9463	15.635	2.775	1.383
15/29/30/41	258	10.0323	15.807	2.775	1.383
15/29/30/40	259	10.1183	15.980	2.775	1.383
15/29/30/39	260	10.2043	16.153	2.775	1.383
15/29/30/38	261	10.2903	16.327	2.775	1.383
15/29/30/37	262	10.3763	16.502	2.775	1.383
15/29/30/36	263	10.4623	16.676	2.775	1.383
15/29/30/35	264	10.5483	16.852	2.775	1.383
15/29/30/34	265	10.6342	17.028	2.775	1.383
15/29/30/33	266	10.7202	17.204	2.775	1.383
15/29/30/32	267	10.8062	17.381	2.775	1.383
15/29/30/31	268	10.8922	17.559	2.775	1.383
15/29/30	269	10.9782	17.737	2.775	1.383

15/29/31	270	10.2615	16.270	2.774	1.383
15/29/32	271	9.5448	14.839	2.773	1.383
15/29/33	272	8.8281	13.442	2.771	1.383
15/29/34	273	8.1114	12.079	2.770	1.383
15/29/35	274	7.3947	10.749	2.769	1.383
15/29/36	275	6.6780	9.450	2.768	1.383
15/29/37	276	5.9613	8.181	2.767	1.383
15/29/38	277	5.2446	6.941	2.765	1.383
15/29/39	278	4.5279	5.729	2.764	1.383
15/29/40	279	3.8112	4.544	2.763	1.383

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**TABLE 6B- Estimated Difference in Percentage of Tax Paid by Income Group, Flatter Tax Structure 2006-07.**

Model	% Tax Paid			Diff % Tax Paid			
	Top 20%	Next 20%	Bottom 60%	Top 20%	Next 20%	Bottom 60%	
06/07 Budget	61.92	24.14	13.93	0.00	0.00	0.00	
<u>Fix 15/30/40 System</u>							
15/30/40/46	125	61.44	24.45	14.11	-0.48	0.30	0.18
15/30/40/45	126	61.41	24.47	14.12	-0.51	0.32	0.19
15/30/40/44	127	61.38	24.49	14.13	-0.54	0.34	0.20
15/30/40/43	128	61.35	24.51	14.14	-0.57	0.36	0.21
15/30/40/42	129	61.32	24.53	14.16	-0.61	0.38	0.22
15/30/40/41	130	61.29	24.55	14.17	-0.64	0.40	0.23
15/30/40	131	61.26	24.57	14.18	-0.67	0.42	0.24
<u>Fix 15/30/35 System</u>							
15/30/35/47	132	60.30	25.17	14.53	-1.62	1.03	0.59
15/30/35/46	133	60.27	25.19	14.54	-1.65	1.05	0.61
15/30/35/45	134	60.24	25.21	14.55	-1.69	1.07	0.62
15/30/35/44	135	60.20	25.23	14.56	-1.72	1.09	0.63
15/30/35/43	136	60.17	25.25	14.58	-1.75	1.11	0.64
15/30/35/42	137	60.14	25.27	14.59	-1.79	1.13	0.65
15/30/35/41	138	60.10	25.30	14.60	-1.82	1.15	0.67
15/30/35/40	139	60.07	25.32	14.61	-1.85	1.17	0.68
15/30/35/39	140	60.04	25.34	14.63	-1.89	1.20	0.69
15/30/35/38	141	60.00	25.36	14.64	-1.92	1.22	0.70
15/30/35/37	142	59.97	25.38	14.65	-1.95	1.24	0.72
15/30/35/36	143	59.94	25.40	14.66	-1.99	1.26	0.73
15/30/35	144	59.90	25.42	14.67	-2.02	1.28	0.74
<u>Fix 15/25/30 System</u>							
15/25/30/46	145	59.61	24.91	15.48	-2.31	0.77	1.54
15/25/30/45	146	59.57	24.93	15.49	-2.35	0.79	1.56
15/25/30/44	147	59.53	24.96	15.51	-2.39	0.82	1.57
15/25/30/43	148	59.50	24.98	15.52	-2.43	0.84	1.59
15/25/30/42	149	59.46	25.01	15.54	-2.47	0.86	1.60
15/25/30/41	150	59.42	25.03	15.55	-2.50	0.89	1.62
15/25/30/40	151	59.38	25.05	15.57	-2.54	0.91	1.63
15/25/30/39	152	59.34	25.08	15.58	-2.58	0.93	1.65
15/25/30/38	153	59.30	25.10	15.60	-2.62	0.96	1.66
15/25/30/37	154	59.26	25.13	15.61	-2.66	0.98	1.68
15/25/30/36	155	59.22	25.15	15.63	-2.70	1.01	1.69
15/25/30/35	156	59.19	25.17	15.64	-2.74	1.03	1.71
15/25/30/34	157	59.15	25.20	15.66	-2.78	1.06	1.72
15/25/30/33	158	59.11	25.22	15.67	-2.82	1.08	1.74
15/25/30/32	159	59.07	25.25	15.69	-2.86	1.10	1.75
15/25/30/31	160	59.03	25.27	15.70	-2.90	1.13	1.77
15/25/30	161	58.99	25.29	15.72	-2.94	1.15	1.78
15/25/31	162	59.32	25.09	15.59	-2.61	0.95	1.66
15/25/32	163	59.64	24.90	15.47	-2.29	0.75	1.53
15/25/33	164	59.95	24.70	15.35	-1.97	0.56	1.41
15/25/34	165	60.26	24.51	15.23	-1.66	0.37	1.29
15/25/35	166	60.57	24.32	15.11	-1.35	0.18	1.18

15/25/36	167	60.87	24.13	14.99	-1.05	-0.01	1.06
15/25/37	168	61.17	23.95	14.88	-0.75	-0.19	0.95
15/25/38	169	61.46	23.77	14.77	-0.46	-0.37	0.83
15/25/39	170	61.75	23.59	14.66	-0.17	-0.55	0.72
15/25/40	171	62.04	23.42	14.55	0.11	-0.73	0.61
<u>15/26/30 System</u>							
15/26/30/46	172	59.48	25.14	15.37	-2.44	1.00	1.44
15/26/30/45	173	59.45	25.17	15.39	-2.48	1.02	1.45
15/26/30/44	174	59.41	25.19	15.40	-2.52	1.05	1.47
15/26/30/43	175	59.37	25.21	15.42	-2.55	1.07	1.48
15/26/30/42	176	59.33	25.24	15.43	-2.59	1.09	1.50
15/26/30/41	177	59.29	25.26	15.45	-2.63	1.12	1.51
15/26/30/40	178	59.26	25.28	15.46	-2.67	1.14	1.53
15/26/30/39	179	59.22	25.31	15.47	-2.71	1.16	1.54
15/26/30/38	180	59.18	25.33	15.49	-2.74	1.19	1.56
15/26/30/37	181	59.14	25.35	15.50	-2.78	1.21	1.57
15/26/30/36	182	59.10	25.38	15.52	-2.82	1.24	1.58
15/26/30/35	183	59.06	25.40	15.53	-2.86	1.26	1.60
15/26/30/34	184	59.03	25.43	15.55	-2.90	1.28	1.61
15/26/30/33	185	58.99	25.45	15.56	-2.94	1.31	1.63
15/26/30/32	186	58.95	25.47	15.58	-2.97	1.33	1.64
15/26/30/31	187	58.91	25.50	15.59	-3.01	1.36	1.66
15/26/30	188	58.87	25.52	15.61	-3.05	1.38	1.67
15/26/31	189	59.19	25.32	15.48	-2.73	1.18	1.55
15/26/32	190	59.51	25.13	15.36	-2.42	0.99	1.43
15/26/33	191	59.82	24.93	15.25	-2.10	0.79	1.31
15/26/34	192	60.12	24.74	15.13	-1.80	0.60	1.20
15/26/35	193	60.43	24.56	15.02	-1.50	0.42	1.08
15/26/36	194	60.72	24.37	14.90	-1.20	0.23	0.97
15/26/37	195	61.02	24.19	14.79	-0.91	0.05	0.86
15/26/38	196	61.30	24.01	14.68	-0.62	-0.13	0.75
15/26/39	197	61.59	23.84	14.57	-0.34	-0.30	0.64
15/26/40	198	61.87	23.66	14.47	-0.06	-0.48	0.53
<u>15/27/30 System</u>							
15/27/30/46	199	59.36	25.37	15.27	-2.56	1.22	1.34
15/27/30/45	200	59.32	25.39	15.29	-2.60	1.25	1.35
15/27/30/44	201	59.29	25.41	15.30	-2.64	1.27	1.37
15/27/30/43	202	59.25	25.43	15.32	-2.67	1.29	1.38
15/27/30/42	203	59.21	25.46	15.33	-2.71	1.32	1.40
15/27/30/41	204	59.17	25.48	15.34	-2.75	1.34	1.41
15/27/30/40	205	59.14	25.50	15.36	-2.79	1.36	1.42
15/27/30/39	206	59.10	25.53	15.37	-2.82	1.39	1.44
15/27/30/38	207	59.06	25.55	15.39	-2.86	1.41	1.45
15/27/30/37	208	59.02	25.57	15.40	-2.90	1.43	1.47
15/27/30/36	209	58.99	25.60	15.41	-2.94	1.46	1.48
15/27/30/35	210	58.95	25.62	15.43	-2.97	1.48	1.49
15/27/30/34	211	58.91	25.65	15.44	-3.01	1.50	1.51
15/27/30/33	212	58.87	25.67	15.46	-3.05	1.53	1.52
15/27/30/32	213	58.84	25.69	15.47	-3.09	1.55	1.54
15/27/30/31	214	58.80	25.72	15.49	-3.13	1.57	1.55
15/27/30	215	58.76	25.74	15.50	-3.16	1.60	1.57
15/27/31	216	59.07	25.54	15.38	-2.85	1.40	1.45
15/27/32	217	59.38	25.35	15.26	-2.54	1.21	1.33
15/27/33	218	59.69	25.16	15.15	-2.23	1.02	1.22

15/27/34	219	59.99	24.97	15.04	-1.93	0.83	1.10
15/27/35	220	60.29	24.79	14.93	-1.64	0.65	0.99
15/27/36	221	60.58	24.61	14.82	-1.34	0.46	0.88
15/27/37	222	60.87	24.43	14.71	-1.06	0.28	0.77
15/27/38	223	61.15	24.25	14.60	-0.77	0.11	0.67
15/27/39	224	61.43	24.07	14.50	-0.49	-0.07	0.56
15/27/40	225	61.71	23.90	14.39	-0.22	-0.24	0.46
<u>15/28/30 System</u>							
15/28/30/46	226	59.24	25.58	15.18	-2.68	1.44	1.24
15/28/30/45	227	59.21	25.60	15.19	-2.72	1.46	1.26
15/28/30/44	228	59.17	25.62	15.21	-2.75	1.48	1.27
15/28/30/43	229	59.13	25.65	15.22	-2.79	1.51	1.28
15/28/30/42	230	59.10	25.67	15.23	-2.83	1.53	1.30
15/28/30/41	231	59.06	25.69	15.25	-2.86	1.55	1.31
15/28/30/40	232	59.02	25.72	15.26	-2.90	1.57	1.33
15/28/30/39	233	58.99	25.74	15.27	-2.94	1.60	1.34
15/28/30/38	234	58.95	25.76	15.29	-2.97	1.62	1.35
15/28/30/37	235	58.91	25.79	15.30	-3.01	1.64	1.37
15/28/30/36	236	58.88	25.81	15.31	-3.05	1.67	1.38
15/28/30/35	237	58.84	25.83	15.33	-3.08	1.69	1.39
15/28/30/34	238	58.80	25.86	15.34	-3.12	1.71	1.41
15/28/30/33	239	58.76	25.88	15.36	-3.16	1.74	1.42
15/28/30/32	240	58.73	25.90	15.37	-3.20	1.76	1.44
15/28/30/31	241	58.69	25.93	15.38	-3.23	1.78	1.45
15/28/30	242	58.65	25.95	15.40	-3.27	1.81	1.46
15/28/31	243	58.96	25.76	15.28	-2.96	1.61	1.35
15/28/32	244	59.27	25.56	15.17	-2.66	1.42	1.24
15/28/33	245	59.57	25.38	15.06	-2.36	1.23	1.12
15/28/34	246	59.86	25.19	14.95	-2.06	1.05	1.01
15/28/35	247	60.15	25.01	14.84	-1.77	0.87	0.90
15/28/36	248	60.44	24.83	14.73	-1.48	0.69	0.80
15/28/37	249	60.72	24.65	14.63	-1.20	0.51	0.69
15/28/38	250	61.00	24.47	14.52	-0.92	0.33	0.59
15/28/39	251	61.28	24.30	14.42	-0.65	0.16	0.48
15/28/40	252	61.55	24.13	14.32	-0.37	-0.01	0.38
<u>15/29/30 System</u>							
15/29/30/46	253	59.13	25.78	15.09	-2.79	1.64	1.15
15/29/30/45	254	59.09	25.81	15.10	-2.83	1.66	1.17
15/29/30/44	255	59.06	25.83	15.11	-2.87	1.69	1.18
15/29/30/43	256	59.02	25.85	15.13	-2.90	1.71	1.19
15/29/30/42	257	58.99	25.87	15.14	-2.94	1.73	1.20
15/29/30/41	258	58.95	25.90	15.15	-2.97	1.76	1.22
15/29/30/40	259	58.91	25.92	15.17	-3.01	1.78	1.23
15/29/30/39	260	58.88	25.94	15.18	-3.05	1.80	1.24
15/29/30/38	261	58.84	25.97	15.19	-3.08	1.82	1.26
15/29/30/37	262	58.81	25.99	15.21	-3.12	1.85	1.27
15/29/30/36	263	58.77	26.01	15.22	-3.15	1.87	1.29
15/29/30/35	264	58.73	26.03	15.23	-3.19	1.89	1.30
15/29/30/34	265	58.70	26.06	15.25	-3.23	1.92	1.31
15/29/30/33	266	58.66	26.08	15.26	-3.26	1.94	1.33
15/29/30/32	267	58.62	26.10	15.27	-3.30	1.96	1.34
15/29/30/31	268	58.59	26.13	15.29	-3.34	1.98	1.35
15/29/30	269	58.55	26.15	15.30	-3.37	2.01	1.37
15/29/31	270	58.85	25.96	15.19	-3.07	1.82	1.25

15/29/32	271	59.15	25.77	15.08	-2.77	1.63	1.14
15/29/33	272	59.45	25.58	14.97	-2.48	1.44	1.03
15/29/34	273	59.74	25.40	14.86	-2.18	1.26	0.93
15/29/35	274	60.03	25.22	14.75	-1.90	1.08	0.82
15/29/36	275	60.31	25.04	14.65	-1.62	0.90	0.72
15/29/37	276	60.59	24.87	14.55	-1.34	0.72	0.61
15/29/38	277	60.86	24.69	14.45	-1.06	0.55	0.51
15/29/39	278	61.13	24.52	14.35	-0.79	0.38	0.41
15/29/40	279	61.40	24.35	14.25	-0.52	0.21	0.31

**TABLE 10 - Tax Model Classified by Cost, 2006/07.**

<b>Reform Budget</b>	<b>Model Number</b>
Revenue gain	53, 52, 51, 50, 49, 48.
0- 1.99 billion	85, 86, 87, 88, 89, 29, 90, 91, 92, 93, 94, 30, 95, 96, 97, 98, 99, 100, 31, 70, 32, 33, 71, 16, 101, 72, 54, 73, 74, 17, 1, 125, 102, 126, 75, 47, 127, 128, 76, 129, 130, 131, 18, 77, 55, 6.
2- 3.99 billion	78, 103, 20, 79, 19, 80, 2, 116, 81, 56, 104, 46, 82, 83, 21, 84, 117, 105, 57, 22, 3, 279, 7.
4- 5.99 billion	118, 106, 45, 23, 132, 133, 278, 134, 58, 135, 119, 136, 137, 138, 107, 139, 24, 4, 140, 141, 277, 142, 143, 144, 59, 25, 44, 108, 252, 8, 276.
6- 7.99 billion	120, 26, 5, 60, 109, 251, 275, 121, 27, 43, 110, 250, 61, 274, 28, 122, 225, 9, 111, 249, 112.
8- 9.99 billion	113, 62, 273, 114, 115, 123, 42, 224, 248, 272, 63, 124, 223, 247, 271, 41, 253, 198, 64, 254, 10, 255, 222, 256, 257.
10-11.99 billion	258, 246, 259, 260, 270, 261, 197, 262, 65, 263, 264, 221, 265, 266, 245, 40, 267, 268, 269, 196, 66, 220, 244, 226, 171, 227, 11, 228, 195, 229, 230, 67, 39, 231.
12- 13.99 billion	219, 232, 233, 243, 234, 170, 235, 236, 237, 194, 238, 68, 239, 218, 240, 241, 242, 169, 38, 193, 69, 217, 199, 200, 12, 201, 168, 202, 203, 204, 192.
14- 15.99 billion	205, 206, 216, 207, 37, 208, 209, 210, 167, 211, 212, 191, 213, 214, 215, 166, 36, 190, 172, 173, 13, 174, 175, 176, 177, 165, 178.
16- 17.99 billion	179, 189, 180, 181, 182, 35, 183, 184, 185, 164, 186, 187, 188, 163, 34, 145, 146, 14, 147, 148, 149, 150, 151, 152.
18- 19.99 billion	162, 153, 154, 155, 156, 157, 158, 159, 160, 161, 15.