

Research on Influence of Adjustment of Personal Income Tax Collection Ratio in Australia

Pengyu Zhou

*School of Business, The University of Sydney, Sydney, Australia
Pzho0644@uni.sydney.edu.au*

Abstract: This article investigated the impact of adjusting Australia's personal income tax rate on national economic stability, income distribution, and public service funding. This study evaluated the impact of modifying the personal income tax system, with a focus on its effects on taxpayer behavior, tax structure, and social stability. By analyzing economic changes and income and expenditure data, determine how adjusting income tax rates affects different economic groups in society. The research results indicate that increasing the tax burden on high-income groups can enhance social equity, but may lead to a decrease in consumer spending and investment in certain industries. On the contrary, reducing the overall personal income tax rate can stimulate economic activity, but may pose fiscal challenges to the funding of basic public services. This study emphasizes the need for a balanced approach that considers economic growth, fiscal responsibility, and fairness in tax distribution. Suggestions were made for future tax policy adjustments, emphasizing the importance of a progressive tax system that adapts to economic fluctuations and population changes.

Keywords: Personal income tax, Australia, Policy adjustments, Economic fluctuations, Public services

1. Introduction

The personal income tax system is the cornerstone of Australia's fiscal policy and the main source of government revenue. The collection rate of personal income tax will significantly affect the country's economic trajectory, wealth distribution, and the provision of public services [1]. In recent years, there has been increasing debate about whether it is necessary to reform the personal income tax system to cope with the constantly changing economic situation, demographic changes, and society's expectations for tax fairness [2]. Therefore, this article aims to explore the impact of the Australian government's adjustment of personal income tax rates in 2024, with a focus on the broader economic and social consequences of such adjustments. Especially, how changes in the proportion of income collected from personal income tax affect key factors such as economic growth, income inequality, public service funding, and individual taxpayer behavior. The main purpose is to comprehensively understand the trade-offs involved in adjusting the personal income tax rate and collection rate. This includes investigating how changes in tax policies affect macroeconomic patterns through factors such as consumption, investment, and employment, as well as microeconomic outcomes such as household income distribution and economic mobility. By analyzing historical data, policy changes, and economic modeling, provide policy insights for

adjusting personal income tax for future tax reform in Australia. Adjusting the personal income tax rate is not only a fiscal policy issue, but also a social equity issue. As income inequality remains an urgent issue both globally and domestically, understanding the impact of tax system adjustments on different income groups is crucial to ensuring a fair and sustainable tax system. So, this article will discuss the current role of taxation in promoting fairness, stability, and growth in the Australian economy. In the following section, this article will outline the methods used to analyze the impact of personal income tax adjustments, review relevant literature, and introduce key findings on how these adjustments shape the economy and lives of Australian citizens.

2. Australian personal income tax policy

Australia is composed of six states and two territories, and the collection mode of personal income tax varies in each region. Small adjustments can be made to the collection ratio between states and territories based on the standard indicators provided by the federal government. The current taxation policy is progressive, with higher income groups paying higher tax rates. Therefore, the main purpose of personal income tax policy is to use the funds obtained from taxation to construct public facilities, reduce income inequality, and support social welfare programs [1]. Personal income tax, as the most common type of tax in a complex tax system, has many unique characteristics. Firstly, the tax benefits enjoyed by residents and non-residents of Australia under personal income tax are not the same. According to Pope, J. [2], the tax exemption threshold for residents has been doubled, and now the threshold for Australian residents has been raised to AUD 18,200. This change means that local residents only need to pay taxes exceeding this amount and can also enjoy discounts and exemptions on personal income tax. Besides, the Australian government has also revised the personal income tax rates and their corresponding income levels starting from July 1, 2024 [3]. Not only has the threshold for taxation been raised, but the tax rate has also significantly decreased, and the actual disposable income of Australian residents will also increase. On the contrary, non-residents are unable to enjoy tax incentives while also having to pay more taxes. Secondly, Australian residents are also required to pay medical insurance taxes. It is an additional fee levied by the government on individuals (currently at a tax rate of 2% of income), and the tax revenue is mainly used to fund public health services [4]. However, low-income groups of local residents may be exempt or eligible for exemptions. If high-income groups choose to avoid paying the medical insurance tax reduction to reduce additional expenses, they will face additional medical insurance tax surcharges. Although it is a mandatory tax required by the government, it also ensures the basic health and public healthcare of Australian residents. Since the outbreak of Covid-19, the overall inflation rate in Australia has significantly increased.

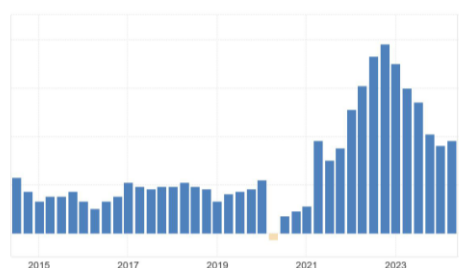


Figure 1: AU inflation rate [5]

The high inflation rate pushes taxpayers into higher tax brackets without increasing their actual income, and more and more people have objections to this and even hope that the government can shift towards a "unified tax" model.

3. Stakeholders and proceeds of personal income tax policies

To determine the beneficiaries of a policy, priority should be given to who can benefit more and the groups involved. The two groups directly affected by the policy are taxpayers and the government. The former belongs to the "consumer" group in the market, and their income will be reduced due to policies. The latter not only earns profits from this, but also provides corresponding services to taxpayers. So, taxpayers in the tax system will be divided into two groups based on their income levels. High income earners hope to maintain lower tax rates, while low - and middle-income earners seek a progressive structure with sufficient deductions and credits [6]. As the direct beneficiary, the government needs to maximize revenue to fund public services, while not imposing excessive burdens on taxpayers or suppressing economic growth. These public services may seem to be provided free of charge by the government, but in essence, they use tax funds provided by taxpayers to serve them, which is a kind of "wool on sheep" behavior. However, the tax funds collected by the Australian federal government sometimes cannot support the completion of public services. In this situation, the government needs to find ways to fill this loophole, resulting in financial losses and deficits. In addition, this policy will also involve the interests of businesses and employers. For example, raising personal tax rates may indirectly affect individual income tax, potentially reducing consumer spending or impacting labor market behavior. There are also some policy makers and relevant social groups who calculate and allocate tax rates and policies sufficient for welfare support. Because the Australian income tax had already reached AUD 67 billion in 2015, accounting for about one-fifth of the total tax revenue [7]. Faced with such a large number, there will be multiple groups associated and interested in it. It is obviously not rigorous enough to only consider the correlation between the interests of individuals and the government, and the benefits and impacts of taxation should be analyzed based on different groups. The reduction of personal income tax by the country this time will result in significant benefits for residents, and their disposable income will increase. Australia's high-income level and population base ensure minimal impact on the government's finances, allowing for normal operations.

4. Benefits and consequences of personal income tax policies

Any economic policy is a double-edged sword. Not only can it bring positive benefits, but poor control can also lead to backlash [8]. For high-income groups, a progressive tax system means they pay more taxes proportionally, but at the same time have more opportunities to adopt tax reduction strategies. And for low - and middle-income earners, beneficiaries of progressive tax rates and tax funded social welfare programs. So, while high-income individuals face greater tax pressure, they can also enjoy more tax incentives [9]. However, as income increases, taxpayers will also feel the limitations of high real income tax rates. The original intention of taxation is to reduce the wealth gap in a country through tiered tax rates, and to prevent social conflicts that may arise from excessive class income disparities [10]. So, the progressive income tax system emerged. However, some people still believe that the current system is not progressive enough for high-income earners. In addition, personal income tax can also affect the economic liquidity of the market. High income groups may hinder the normal operation of the market by affecting their motivation to increase income due to excessively high tax rates. The benefits that personal income tax policies can most intuitively bring are reflected in the field of public services. The government will use the revenue collected to fund basic public services such as healthcare, education, and social welfare, benefiting the entire society [11]. The roads and social security we enjoy, such as national defense, are built on taxation. Therefore, achieving a balance between fairness and efficiency in personal taxation is crucial. Policy makers need to consider how to formulate tax policies to support welfare goals while maintaining incentives for economic participation and investment. Even the trade-off between

current welfare benefits and long-term fiscal sustainability needs to be handled with caution. This includes addressing any unforeseen consequences, such as tax avoidance or evasion violations by high-income earners or businesses. Lowering the tax rate will lead to widening wealth inequality and corporate monopolies, and trigger social conflicts and contradictions, which is not conducive to government control over the country. Therefore, there are risks associated with excessively high or low tax rates. How to weigh the pros and cons and grasp the balance point of taxation is something that a good government must learn.

5. Effectiveness, side effects, and improvement suggestions of personal income tax policies

5.1. Effectiveness

The personal income tax policy has a high level of effectiveness in promoting fair income distribution and increasing government fiscal revenue. By implementing a progressive tax rate system to levy a higher proportion of taxes on high-income individuals, we can help narrow the wealth gap, achieve income redistribution, and effectively maintain social stability [12]. Income tax is also an important source of government finance, providing necessary financial support for public services. Education, healthcare, and infrastructure construction all rely on tax funding. In addition, personal income tax policies can also guide consumption and savings behavior. Appropriate personal income tax policies can incentivize savings and investment through tax deductions or exemptions, optimizing resource allocation.

5.2. Potential side effects of personal income tax

As income increases with inflation, people may face higher taxes even if their purchasing power does not actually increase. Although personal income tax has played a positive role in promoting fairness, there may also be side effects or adverse effects. One of the most prevalent economic issues is inflation, which can also impact personal income taxes. Because as income increases with inflation, people may face higher taxes even if their purchasing power does not actually increase. Some high-income groups may exploit legal loopholes, leading to unequal tax burdens [13]. High marginal individual tax rates can also inhibit labor force participation or savings, resulting in negative impacts on national economic development. However, reducing personal income tax does not necessarily mean that it has a positive impact on the economy. The reduction of personal income tax means an increase in actual income, which can effectively improve residents' enthusiasm for work and working hours. At the same time, it will also increase the competitive pressure in the workplace, and working overtime in order to obtain more compensation is not conducive to the long-term development of the company. The employment pressure in the market will also increase, and residents will choose to take on multiple part-time jobs at the same time, leading to a reduction in job opportunities and an increase in the number of unemployed people [14]. Because the expenses of the unemployed population are mainly borne by the government, this change will greatly increase the financial pressure on the government, leading to the emergence of fiscal deficits.

5.3. Improvement suggestion

Both excessively high and low personal income tax rates can impact the economy [15]. So linking tax brackets to inflation is more in line with changes in the economic market. The personal income tax rate remains at a medium to high level while providing more targeted deductions and credits. Ensure that low - and middle-income groups receive sufficient support without excessively affecting their income. It supports the stability of the economy, labor market, national finance, and

society. Considering that since the 1980s, low-income groups have gradually become the main group of taxpayers, and the fairness of tax rates is also gradually disappearing [16]. The government needs to reasonably evaluate personal tax deduction standards and cancel or restrict deductions that mainly benefit high-income earners. Appropriately modifying the personal income tax system to address or shift towards a relatively unified tax structure can balance income demand with fairness.

In conclusion, personal income tax policies can improve their effectiveness in terms of fairness and efficiency while reducing side effects. In the short term, reducing the proportion of personal income tax is still more beneficial than harmful, and can better support the sustainable development of the social economy. However, the drawbacks of progressive tax rates are very obvious, and lowering tax rates carries significant long-term risks. How to improve and perfect the tax system is the key.

6. Conclusion

Overall, adjusting the proportion of personal income tax levied in Australia has profound impacts on the economy, public services, and social equity. Raising the personal income tax collection rate, especially through progressive tax rates, can enhance social equity by redistributing wealth and addressing income inequality. However, this adjustment may also lead to potential challenges, such as reduced consumer spending, decreased investment, and potential inhibitory factors for high-income earners to participate in economic activities. On the other hand, reducing tax rates can stimulate economic growth and increase household disposable income, but it may also lead to fiscal pressure, thereby weakening funding support for key public services such as healthcare, education, and infrastructure. So, it is very important to maintain a balanced and dynamic approach to tax reform, which takes into account economic conditions, population changes, and social needs. It is evident that personal income tax policies should be adaptable, flexible, and responsive to the constantly changing economic landscape to ensure long-term fiscal sustainability while promoting economic growth and reducing inequality. In conclusion, the adjustment of the personal income tax rate in Australia requires careful consideration of its broader economic and social impacts. Policy makers must seek a tax system that not only generates sufficient income, but also promotes fairness and justice in the allocation of economic resources. Future reforms should prioritize a progressive tax system structure to support a stable economy, promote social welfare, and align with the constantly changing needs of the Australian people.

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