

The fallacy of the Federal Election 'tax cut' contest: time to level the personal tax playing field

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Key insights

- Election promises of cuts to income tax rarely stack up to their claims and fail to offer meaningful tax reform.
- Promised reduction in tax are usually quickly reversed by 'bracket creep' – often before the change is even implemented.
- Because tax thresholds are not indexed for inflation, the government is continually raising taxes in a way that is not transparent and, worse still, is regressive – it affects those on lower earned incomes the most.
- Despite extensive claims about tax reform over successive governments, today's typical earner is only \$20 per week better off in real terms, and average tax rates have barely changed from a decade earlier.
- The proposed reductions in personal tax rates will be both marginal in terms of the benefit to working families and have a negligible effect on women's labour supply.
- The election pledges should not be seen as structural tax reform proposition and highlight the need for real tax reform in the form of indexation of tax thresholds.

The frustration of the personal tax reform debate in Australia

As we near the end of the 2025 Federal Election campaign, the hiatus in policy commitments gives us pause to reflect on the quality – or more accurately the lack of quality – in the personal tax reform debate.

The soft launch of the Labor Government's election campaign started at least as early as the March 2025 Federal budget, with Treasurer Jim Chalmers announcing reductions in the 16 per cent personal tax rate to 15 per cent from 1 July 2026, and to 14 per cent from 1 July 2027.

These reforms—staged over three years at a cumulative cost of \$17bn and a sweetener for the upcoming election—were styled as "*new tax cuts for every Australian taxpayer*".

The Coalition's tax reform election commitment centred on a \$1,200 Cost-of-Living Tax Offset as a one-off measure. This proposed offset borrowed its design from the Low- and Middle-Income Tax Offset (the LMITO, or "Lamington") brought in under Stage 1 of the 2018 Personal Income Tax Plan and extended into Stage 2 as a means of support through the COVID-19 pandemic.

And then straight out of left field in the last weeks of the election campaign, and with no forewarning, Peter Dutton threw his Hail Mary pass – a vague and speculative commitment that, if elected, the Liberal Party would look at indexation of personal tax thresholds.

But the great frustration with this debate, as has been the case in following the personal taxation reform agenda for the past decade, is the degree to which the 'tax-cutting' claims of successive governments stand up to scrutiny when one looks beyond the headlines to the real tax burdens that Australia's taxpayers have endured.

In fact, what are styled with great fanfare as tax cuts are, in reality, just giving back to people what the tax system is taking away as a result of what economists refer to as 'bracket creep'.

What is 'bracket creep'?

Personal tax thresholds in Australia are fixed in nominal terms, and don't automatically adjust to keep pace with inflation.

This means that taxpayers whose wages rise by no more than inflation may still see themselves pushed to higher tax brackets.

This phenomenon of 'bracket creep' has long been relied on by successive governments as a source of revenue, even when they do nothing to rates and thresholds.

And that's what lifts the average tax burden when no action is taken by the government to adjust thresholds.

Bracket creep is regressive

Bracket creep is **regressive** in the context of Australia's current tax system - that is to say, it slugs people on lower incomes harder.

And it's obvious when you think about it.

Bracket creep pushes non-taxpayers to pay 16c more in the dollar and pushes low-income earners at the top of the 16 per cent rate to pay 14c more.

But higher income earners at the top of the 30 per cent and 37 per cent rates would pay 7c or 8c more respectively due to bracket creep – half the impact compared to those on lower incomes.

So, taxpayers on lower incomes face at least twice the penalty on any earned dollar that crosses over to the higher tax bracket because of bracket creep, when compared to those on higher incomes.

Those already in the highest bracket don't move up at all, although their average tax rate does still creep up in real terms.

This means that the 'hidden' tax increases from bracket creep are largest when inflation is higher, which is when low-income households are often also hit hardest by cost-of-living increases.

Now, imagine if the Federal Treasurer were to stand at the Dispatch Box at every budget and announce that the government has decided to raise personal taxes for all Australian taxpayers?

Or that tax rates for those on lowest incomes will rise by more proportionately compared to those on higher incomes? Not popular.

But that's effectively what happens under the current system when no changes are announced to personal tax rates or thresholds – and all because of non-indexation.

What does indexation of personal tax thresholds mean?

A structural reform proposal would be to neutralise the personal tax system against inflation by indexing thresholds either to prices, or to the lower of price and wage inflation.

Under indexation, you would still pay more in taxes as your income grows, but you won't move to a higher tax bracket or pay a higher share of your income in taxes if your income were to rise at the same pace as inflation.

Indexation of the tax system lends itself to a greater transparency and accountability on the part of governments on all sides of politics.

A tax cut would be a tax cut, and tax increases wouldn't be disguised under the cloud of 'fiscal drag' but would instead be clear and transparent.

The United Kingdom is an interesting comparator to the Australian tax system and serves to showcase a fundamentally different perspective on the impact of tax reform - and the nature or otherwise of a tax cut - when indexation is the default system.

Indexation of the UK personal tax system

The following summarises the basics of the United Kingdom personal taxation system.

- There are three income tax rates that apply in the UK for people earning above a tax-free threshold (or personal allowance), ranging from 20 per cent, 40 per cent and 45 per cent.
- The personal tax allowance is **indexed** to CPI under Section 57 of the UK Parliament's 2007 Income Tax Act. The same is true for higher rate tax thresholds, and the earnings limits for National Insurance contributions (the UK equivalent to Australia's Medicare).
- Legislation was introduced in the UK as part of the 2021 Finance Bill to *freeze* the personal allowance and higher thresholds at 2021-22 rates for four tax years from 2022-23 through to 2025-26, with the 'legislative default' that they would rise in line with CPI thereafter.

One of the most interesting elements of the UK's legislation to freeze tax thresholds is the presentation of costs and impacts, and the required justification to the UK's tax paying population.

- The policy objectives for the UK legislation were to ensure sustainability of the public finances and fund public services.¹
- Freezing tax thresholds was expected to raise £19.1 billion over four years.
- **Around 32.5 million individuals were expected to be worse off in the first year** of implementation of the legislation.

- An estimated 319,000 individuals below the personal allowance would be brought into the tax system (ie. would start having to pay tax).
- An estimated 186,000 individuals will be brought into the higher rate of tax.

So, in the United Kingdom, any circumstance in which personal tax thresholds are not indexed in line with CPI is considered unambiguously to represent a **tax increase**.

Without indexation, successive Australian governments have baked in personal tax increases as the default situation for taxpayers.

This affords the government discretion either to announce ‘cuts’ to personal taxation through changes in tax rates or thresholds, or to do nothing and see tax revenues rise.

One argument put forward against indexation is that it ‘costs’ the government in ‘lost’ revenue.

But **without indexation, rising costs are invisibly borne by taxpayers**. By not indexing personal tax thresholds to prices, we have a tax system that in steady state effectively guarantees the government an above-inflation pay rise every year.

At the same time, taxpayers are hit with higher average tax bills because of bracket creep, even though their incomes may have risen by no more than inflation.

What personal tax reforms have we seen over the past decade?

Personal Income Tax plan, 2018-19 to 2024-25

The Personal Income Tax plan (PITP) introduced in 2018 by the Morrison Government undertook to reform Australia’s personal income tax regime in three stages (see Table 3 for details).

- Under Stage 1 of the PITP from 2018-19, the government introduced two main elements. The first was a Low- and Middle-Income Tax Offset (LMITO) worth up to \$1,080 for taxpayers earning up to \$126,000. The second was to increase the income threshold for those paying 37 per cent tax from \$87,000 to \$90,000.
- Under PITP Stage 2 from 2020-21, the income threshold for the 32.5 per cent marginal rate was increased from \$37,000 to \$45,000, the 37 per cent marginal rate was lifted from \$90,000

to \$120,000, and the maximum Low Income Tax Offset was lifted from \$445 to \$700.

- The LMITO was originally to be withdrawn at the commencement of Stage 2 but was extended for two years due to COVID with the maximum rate increasing to \$1,500 in 2021-22.
- For Stage 3 of the PITP, the original Morrison plan was to remove the \$120,000 to \$180,000 tax bracket, increase the 45 per cent tax threshold to \$200,000, and reduce the 32.5 per cent marginal tax rate to 30 per cent for those earning between \$45,000 and \$200,000.

The Stage 3 proposal certainly raised eyebrows, not least because it most benefited those at the higher end of the income distribution at a time when price inflation was biting hard.

The Labor government under Prime Minister Anthony Albanese modified the original Stage 3 plan in a number of respects: (i) by reducing the 32.5 per cent tax rate to 30 per cent over a more restricted range of earnings between \$45,000 and \$135,000; (ii) keeping the 37 and 45 per cent tax rates; (iii) moderating the increase in the top tax threshold to \$190,000, and; (iv) reducing the entry tax rate from 19 per cent to 16 per cent.

Federal Budget 2025-26

As noted earlier, Treasurer Jim Chalmers announced two cuts to the 16 per cent tax rate in the March 2025 budget, down to 15 per cent from 1 July 2026, and to 14 per cent from 1 July 2027.

The budget papers presented the following justification for these changes:

“The new tax cuts will provide more cost-of-living relief and return bracket creep. They will also boost labour supply, particularly for women.” (Budget 2025-26 Paper 2, 2025)

In casting your eye over the series of personal tax reforms in Australia over the past decade, you’d be forgiven for thinking that a lot has happened. With such a hive of activity, you might feel encouraged that people’s net tax position has improved over the period.

So, what does this accumulated history of tax reform actually look like to the typical taxpayer?

What does a decade of personal tax reform in Australia look like in real terms?

It's worth stepping back from the cut-and-thrust of the 2025 Federal election tax reform debate, and take a longer term look at how the succession of personal tax reforms has affected taxpayers at different levels of income over the past decade.

In doing so, the criteria by which one judges the real effects of tax reform need to be questioned.

*"Combined with the first round of tax cuts, the new tax cuts will see a person on average wages of around \$79,000 receive a total tax cut of \$2,190 in 2027–28 compared to 2023–24 tax settings."*²

Taken from [Budget 2025-26 | New tax cuts. \(p.2\)](#)

This is how the most recent set of Budget papers communicated the impact of tax changes to the public and is frequently offered up as evidence on which party has the best record on tax cuts. And policy commentators – your author included – tend to fall into line with this representation.

But this is a false representation of tax cuts as a real phenomenon – both figuratively and literally.

If you earned \$70,000 three years ago, and you still earn \$70,000 now, then you would be worse off because the purchasing power of that same salary will have been eroded. For example, if price inflation ran at 2.5 per cent, then your earnings would be worth \$5,400 less in real terms.

And if this were the case, you'd hope to be paying a lower share of earnings in taxes – you'd certainly not expect to be paying more.

Any honest debate on whether - and to what extent – personal taxes have risen or fallen over the past year, or the tenure of a government, should compare *average* tax rates for different levels of *real* earnings.

This should include typical or median earnings, but extend to different parts of the earnings distribution, at different points in time.

And this is what this BCEC Election briefing note seeks to do.

Table 1 Impacts of personal tax changes 2018-19 to 2027-28 on *real* annual net incomes

Taxable income (June 2025 dollars)	Net annual income (June 2025 dollars)											
	PITP Stage 1				PITP Stage 2 (Amended)			PITP Stage 3 Original	PITP Stage 3 Amended	2025-26 Federal Budget changes		
	Pre 2018-19	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2024-25	2025-26	2026-27	2027-28
\$30,000	28,699	28,797	28,726	29,069	28,947	28,566	28,489	28,227	28,567	28,534	28,473	28,455
\$40,000	36,270	36,473	36,396	36,690	36,601	36,188	36,020	35,785	36,425	36,287	36,350	36,452
\$45,000	40,110	40,300	40,173	40,727	40,656	39,957	39,720	39,484	40,274	40,137	40,100	40,105
\$50,000	43,310	43,874	43,747	44,802	44,730	43,621	43,205	42,891	43,715	43,460	43,423	43,428
\$60,000	49,712	50,746	50,551	51,797	51,980	50,022	49,607	49,544	50,368	50,114	50,076	50,083
\$79,000	61,872	62,917	62,741	63,987	64,247	62,263	61,888	62,339	63,163	62,932	62,924	62,954
\$90,000	69,064	70,121	69,945	71,191	71,451	69,468	69,093	69,819	70,643	70,412	70,404	70,433
\$100,000	75,615	76,673	76,497	77,742	78,002	76,019	75,644	76,619	77,443	77,213	77,205	77,235
\$120,000	87,999	88,682	88,381	90,355	90,560	89,117	88,742	90,218	91,042	90,811	90,803	90,833
\$150,000	106,299	106,153	105,922	108,725	108,680	107,976	107,388	110,618	110,629	110,162	109,879	109,685
\$200,000	136,800	136,653	136,423	139,226	138,921	138,364	137,209	144,618	140,709	139,862	139,136	138,582
\$250,000	164,530	164,029	163,533	166,336	165,738	164,864	163,709	171,869	167,209	166,362	165,636	165,081

Taxable income (June 2025 dollars)	Net annual income (June 2025 dollars)											
	PITP Stage 1				PITP Stage 2 (Amended)			PITP Stage 3 (Original)	PITP Stage 3 (Amended)	2025-26 Federal Budget changes		
	Pre 2018-19	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2024-25	2025-26	2026-27	2027-28
	CUMULATIVE change in <i>real</i> disposable income											
\$30,000	-	99	27	370	248	-133	-210	-472	-132	-165	-226	-243
\$40,000	-	203	126	420	331	-82	-250	-486	155	17	80	182
\$45,000	-	189	62	617	546	-153	-391	-626	164	27	-11	-5
\$50,000	-	564	436	1,492	1,420	311	-105	-419	405	150	113	118
\$60,000	-	1,034	839	2,085	2,268	310	-105	-168	657	402	364	371
\$79,000	-	1,046	869	2,115	2,375	392	16	467	1,291	1,060	1,052	1,082
\$90,000	-	1,058	881	2,127	2,387	404	29	755	1,579	1,348	1,340	1,369
\$100,000	-	1,058	882	2,128	2,387	404	29	1,004	1,828	1,598	1,590	1,620
\$120,000	-	683	382	2,357	2,561	1,119	744	2,219	3,043	2,813	2,804	2,834
\$150,000	-	-146	-377	2,426	2,381	1,677	1,089	4,319	4,330	3,863	3,580	3,386
\$200,000	-	-146	-377	2,426	2,122	1,564	409	7,819	3,909	3,062	2,336	1,782
\$250,000	-	-501	-997	1,806	1,208	334	-821	7,339	2,679	1,832	1,106	551

Notes: Annual gross taxable earnings are expressed in June 2025 dollars. The lower of CPI and WPI is used for indexation, with forward estimates of price and wage inflation from the 2025-26 Federal budget papers used to rebase future incomes to June 2025 prices.

Source: Bankwest Curtin Economics Centre | Author's calculations using ABS CPI data and Commonwealth Treasury 2025-26 budget papers

The first panel of **Table 1** shows the *real* value of net incomes at given levels of real taxable income in June 2025 dollars. Calculations are included for tax systems in each year up to the end of the 2025 Federal budget reforms in 2027-28.

The second panel of **Table 1** aggregates each year's changes into a cumulative total change, expressed in June 2025 dollars. This allows for an assessment of the *combined* impact of personal tax changes from 2018-19 onwards and shows how the succession of personal tax reforms stack up relative to a benchmark in which the 2017-18 tax system had been indexed in line with prices.

The findings presented in **Table 1** provide a pretty stark commentary on the degree to which the tax-cutting narrative pursued by successive political parties in Australia can be substantiated.

Today's typical earner will be only \$20 per week better off after a decade of tax reform

Let's compare over time the net incomes for someone whose equivalent gross taxable earnings have remained the same in real terms at \$79,000 in June 2025 dollars – roughly the current median taxable income in Australia.

- In 2017-18, this individual was taking home \$61,872 in today's dollars.
- By 2023-24, at the end of Stage 2 of the Personal Income Tax Plan, their net income (for the same equivalent taxable gross earnings) had risen to \$61,888 in today's prices – that represents a vanishingly small difference of only \$16 per year.
- By 2024-25, the same individual was \$1,291 better off in real terms following the amended Stage 3 tax changes from the Albanese government – this is largely due to the reduced 16 per cent and 30 per cent tax rates.
- And if we fast forward to 2027-28 and the end of the March 2025 Federal budget reforms, today's median earner would be \$1,082 per year better off than under an indexed version of the 2017-18 tax system.

So, a decade of personal tax reform will have improved the weekly net income of today's median earner by only \$20 per week, the equivalent of around 3 cups of coffee per week.

This is because the purported 'tax cuts' introduced by successive governments have been almost entirely offset by bracket creep, leaving the typical household little better off in real terms.

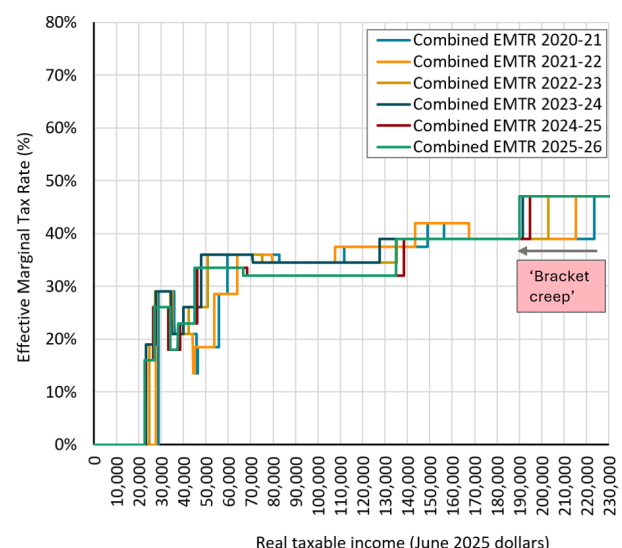
A case study of bracket creep in action

For a practical – and vivid – demonstration of bracket creep in Australia, let's look at the succession of personal tax systems during Stage 2 of the Morrison government's Personal Income Tax Plan (with details in Table 3).

The income threshold at which the 47 per cent tax rate became payable remained at \$180,000 in *nominal* terms throughout Stages 1 and 2 of the Personal Income Tax Plan, from 2018-19 all the way through to 2023-24.

But the *real* value of this \$180,000 threshold has changed substantially. For someone paying 47 per cent in 2020-21, the value of the threshold was the equivalent of \$223,500 in today's dollars. But by 2023-24, the equivalent value of the same threshold in today's dollars dropped to \$191,500 because of price inflation (**Figure 1**).

Figure 1: Marginal effective tax rates by real (June 2025) taxable income: 2020-21 to 2025-26 personal taxation systems



Notes: Annual taxable incomes are expressed in June 2025 dollars using CPI for indexation.

Source: Bankwest Curtin Economics Centre | Author's calculations using ABS CPI data and Treasury 2025-26 budget papers.

In other words, bracket creep has the effect of bringing more people into higher tax brackets at progressively lower real incomes.

Without indexation of tax thresholds, any worker whose earnings just keep pace with inflation will pay a greater share of those earnings in taxes.

A more consistent approach when seeking to compare the effects of taxes on net incomes over time is by evaluating the average tax rate for a given level of real gross taxable income.

Average Tax Rate (ATR)

The *average tax rate* is the total of net taxes paid as a share of gross taxable income.

This approach has the benefit of controlling for the price inflation effects, allowing for like-for-like comparisons of average tax burdens at incomes with the same purchasing power over time.

The first panel of **Table 2** presents the average tax rates at equivalent levels of real taxable income (expressed in June 2025 dollars) for each tax year from 2017-18 up to the end of the 2025 Federal budget reforms in 2027-28.

The second panel in **Table 2** looks at the percentage point difference in average tax rates compared to the 2017-18 fiscal year. This effectively shows how average tax rates compare to a benchmark in which the 2017-18 tax system had been indexed in line with prices.

A few key features emerge from this study:

- The effects of the Low- and Middle-Income Tax Offset (LMITO) in 2018-19 shows clearly, with average tax rates dropping by 1.3 percentage points for someone earning the equivalent of today's median earnings of \$79,000. Higher income earners didn't benefit from the LMITO and saw average tax burdens rise slightly due to bracket creep at the 47 per cent threshold.
- The Stage 2 PITP reforms reduced average tax burdens for taxpayers at all earnings levels, albeit less significantly for lower income earners. However, the Stage 2 effects were mitigated to a large extent when the LMITO was withdrawn from 2022-23.

Table 2 Average tax rates by real taxable incomes: personal tax changes from 2018-19 to 2027-28

Taxable income (June 2025 dollars)	Net annual income (June 2025 dollars)											
	PITP Stage 1				PITP Stage 2 (Amended)		PITP Stage 3 (Original)		PITP Stage 3 (Amended)		2025-26 Federal Budget changes	
	Pre 2018-19	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2024-25	2025-26	2026-27	2027-28
Average tax rates												
	%	%	%	%	%	%	%	%	%	%	%	%
\$30,000	4.3	4.0	4.2	2.7	3.5	4.8	5.0	5.9	4.8	4.9	5.1	5.1
\$40,000	9.3	8.8	9.0	7.2	8.5	9.5	10.0	10.5	8.9	9.3	9.1	8.9
\$45,000	10.9	10.4	10.7	8.2	9.7	11.2	11.7	12.3	10.5	10.8	10.9	10.9
\$50,000	13.4	12.3	12.5	9.0	10.5	12.8	13.6	14.2	12.6	13.1	13.2	13.1
\$60,000	17.1	15.4	15.7	11.9	13.4	16.6	17.3	17.4	16.1	16.5	16.5	16.5
\$79,000	21.7	20.4	20.6	16.5	18.7	21.2	21.7	21.1	20.0	20.3	20.3	20.3
\$90,000	23.3	22.1	22.3	18.1	20.6	22.8	23.2	22.4	21.5	21.8	21.8	21.7
\$100,000	24.4	23.3	23.5	19.3	22.0	24.0	24.4	23.4	22.6	22.8	22.8	22.8
\$120,000	26.7	26.1	26.3	21.4	24.5	25.7	26.0	24.8	24.1	24.3	24.3	24.3
\$150,000	29.1	29.2	29.4	23.9	27.5	28.0	28.4	26.3	26.2	26.6	26.7	26.9
\$200,000	31.6	31.7	31.8	26.3	30.5	30.8	31.4	27.7	29.6	30.1	30.4	30.7
\$250,000	34.2	34.4	34.6	29.0	33.7	34.1	34.5	31.3	33.1	33.5	33.7	34.0

Taxable income (June 2025 dollars)	Net annual income (June 2025 dollars)											
	PITP Stage 1				PITP Stage 2 (Amended)		PITP Stage 3 (Original)		PITP Stage 3 (Amended)		2025-26 Federal Budget changes	
	Pre 2018-19	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2024-25	2025-26	2026-27	2027-28
Percentage point (ppt) difference in average tax rates, relative to indexation												
	ppt	ppt	ppt	ppt	ppt	ppt	ppt	ppt	ppt	ppt	ppt	ppt
\$30,000	-	-0.3	-0.1	-1.6	-0.8	+0.4	+0.7	+1.6	+0.4	+0.5	+0.8	+0.8
\$40,000	-	-0.5	-0.3	-2.2	-0.8	+0.2	+0.6	+1.2	-0.4	-0.0	-0.2	-0.5
\$45,000	-	-0.4	-0.1	-2.6	-1.2	+0.3	+0.9	+1.4	-0.4	-0.1	+0.0	+0.0
\$50,000	-	-1.1	-0.9	-4.4	-2.8	-0.6	+0.2	+0.8	-0.8	-0.3	-0.2	-0.2
\$60,000	-	-1.7	-1.4	-5.3	-3.8	-0.5	+0.2	+0.3	-1.1	-0.7	-0.6	-0.6
\$79,000	-	-1.3	-1.1	-5.2	-3.0	-0.5	-0.0	-0.6	-1.6	-1.3	-1.3	-1.4
\$90,000	-	-1.2	-1.0	-5.1	-2.7	-0.4	-0.0	-0.8	-1.8	-1.5	-1.5	-1.5
\$100,000	-	-1.1	-0.9	-5.1	-2.4	-0.4	-0.0	-1.0	-1.8	-1.6	-1.6	-1.6
\$120,000	-	-0.6	-0.3	-5.2	-2.1	-0.9	-0.6	-1.8	-2.5	-2.3	-2.3	-2.4
\$150,000	-	+0.1	+0.3	-5.3	-1.6	-1.1	-0.7	-2.9	-2.9	-2.6	-2.4	-2.3
\$200,000	-	+0.1	+0.2	-5.3	-1.1	-0.8	-0.2	-3.9	-2.0	-1.5	-1.2	-0.9
\$250,000	-	+0.2	+0.4	-5.2	-0.5	-0.1	+0.3	-2.9	-1.1	-0.7	-0.4	-0.2

Notes: Annual gross taxable earnings are expressed in June 2025 dollars. The lower of CPI and WPI is used for indexation, with forward estimates of price and wage inflation from the 2025-26 Federal budget papers used to rebase future incomes to June 2025 prices.

Source: Bankwest Curtin Economics Centre | Author's calculations using ABS CPI data and Commonwealth Treasury 2025-26 budget papers.

- The original Stage 3 tax changes proposed by the Morrison government were heavily regressive in nature, with average tax rates 1.4 percentage points **higher** for people earning the equivalent of \$45,000 in today's dollars compared to an indexed 2017-18 system, but 3.9 percentage points **lower** for someone earning the equivalent of \$200,000.
- The modified Stage 3 reforms introduced by the Albanese government removed much of the regressivity from the original plan, but still overcompensates middle and higher income earners compared to those on lower earnings.
- The personal tax changes announced in the March 2025 budget are almost entirely offset by bracket creep and do nothing to change the average tax burden.

The justification from the Albanese Government for this year's round of tax reforms was to provide cost-of-living relief and return bracket creep.

But you can't have it both ways.

Returning bracket creep is not a tax cut, but instead it is a compensation or offset to what would otherwise be an increase in the tax burden.

The proposed reductions in personal tax rates will be both marginal in terms of the benefit to working families, and frustrating - not to say cynical - in their purported motivation.

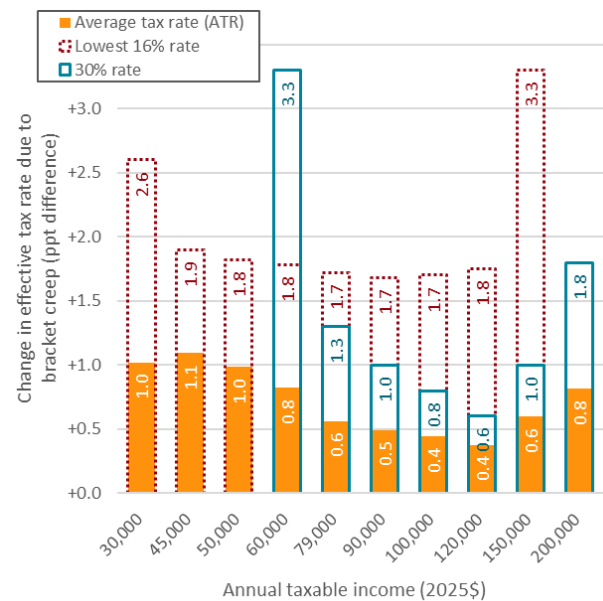
Neither will they boost labour supply significantly, since the average tax rates that women will face over the next three years are more or less identical to the average taxes they pay today.

Until tax thresholds are indexed - either to the lower of price or wage inflation - governments of all persuasions will continue to deceive voters with false boasts of cutting taxes.

By how much does bracket creep affect the effective tax rate?

To quantify the effective impact of bracket creep on the share of taxes paid, we consider a scenario in which the 2025-26 personal tax system remains in place for two years, but prices and wages are both allowed to grow at a hypothetical 2.5 per cent per annum.

Figure 2: Equivalent changes to effective tax rates from 2 years of bracket creep: 2025-26 to 2027-28



Notes: Calculations convey the cumulative change in average tax rates for different levels of real taxable income (in June 2025 dollars) due to bracket creep, and the effective equivalent change in the current 16 per cent and 30 per cent personal tax rates. Bracket creep is calculated for a hypothetical 2.5 per cent CPI over two years.

Source: Bankwest Curtin Economics Centre | Author's calculations.

For a typical earner on \$79,000 in today's dollars, bracket creep is the equivalent of putting 0.8ppt onto the 16 per cent rate every year - or more than a cent and a half (1.7ppt) every second year (**Figure 2**).

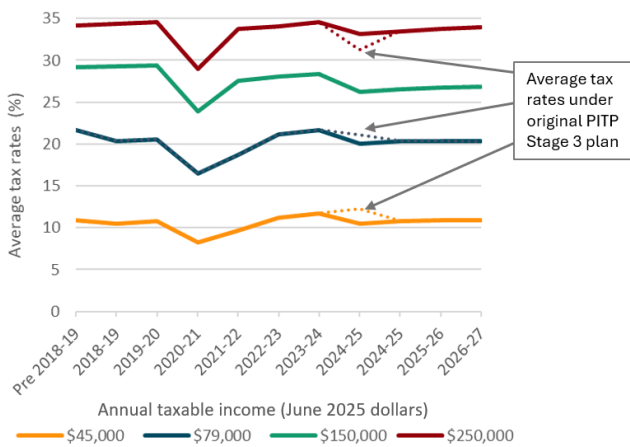
Equivalently, bracket creep would have the same effect as putting 0.65ppt on the 30 per cent rate every year, 1.3 cents every second year.

The regressive dimension of bracket creep is shown clearly in **Figure 2**. The two-year effect of bracket creep adds 1 ppt onto the current 13.1 per cent average tax burden for people earning \$50,000, but only 0.4 percentage points onto the 22.8 per cent average tax rate for those earning double that figure, or \$100,000.

For people whose salaries are just keeping pace with price inflation, and for whom the real value of their gross taxable income has remained unchanged from one year to the next, the effect of bracket creep is to erode their purchasing power and reduce the real value of their net income.

To illustrate this point, the growth in average tax rates from 2020-21 to 2023-24 is entirely a result of bracket creep (**Figure 3**).

Figure 3: Average tax rates by real taxable incomes under personal tax systems from 2018-19 to 2027-28



Notes: Annual taxable incomes are expressed in June 2025 dollars. The lower of CPI and WPI is used for indexation, with forward estimates of price and wage inflation from the 2025-26 Federal budget papers used to rebase future incomes to June 2025 prices. The dotted lines show what average tax rates would have been if the original Stage 3 tax changes had been implemented.

Source: Bankwest Curtin Economics Centre | Author's calculations using ABS CPI data and Treasury 2025-26 budget papers.

Non-indexation of personal tax thresholds is an 'automatic stabiliser'? Really?

One of the more egregious justifications for Australia maintaining the non-indexation of tax thresholds is that this creates an *automatic stabiliser*.

The basic definition of an automatic stabiliser is an instrument that 'automatically' respond to economic fluctuations without the need for explicit government action.

Such instruments deliver countercyclical adjustments to government taxation or spending to help dampen the economic cycle of upswings and downswings – taking resources away from the economy during periods of growth, and putting resources into the economy during slowdowns.

This sounds very technical and scientific – and is often cited by key government departments or public sector organisations as a rationale for sticking with non-indexed tax thresholds.

But imagine instead an arrangement whereby personal tax rates were structured to increase automatically during times of economic growth?

It's highly unlikely that such an arrangement would survive scrutiny or be accepted as appropriate by the taxpaying population.

Non-indexation should more accurately be described as a hidden tax, rather than automatic stabiliser, relying on fiscal illusion to obscure the fact that bracket creep increases the tax burden.

Summary

The government's justification for the latest round of tax changes varies depending on where you look in the budget papers. The reforms are styled as 'tax cuts' to counter cost-of-living pressures in some places. But in other places, the tax cuts are promoted by the government as a response to bracket creep.

This feels a bit like having your cake and eating it.

The tax changes will provide some welcome relief, but should they really be treated as tax cuts? Or is the government just returning to families some of the increased tax burden that they have endured as a result of price inflation?

If personal taxation thresholds were indexed, then we wouldn't be having this issue. Indexation would neutralise the tax system and protect average tax burdens from rising with inflation.

An honest debate on personal tax reform

There has been a decade of hyperbole, back-patting and self-congratulation from both the current Labor and previous Coalition governments on the supposed 'tax cuts' that have been delivered to Australian families.

But suppose instead that an incumbent Federal government had implemented an indexation of personal tax and Medicare thresholds a decade ago but had otherwise announced no further changes to tax rates, bands or thresholds.

Using an indexed system as a baseline, what has a decade of personal tax reforms really achieved?

Well, for taxpayers on median incomes of \$79,000, the cumulative benefit relative to an indexed 2017-18 tax system comes to a grand total of \$20 per week – 3 cups of coffee.

And if you're earning below \$60,000, you are no better off in real terms than you would have been with a neutral indexed tax system. That's because

the so-called ‘tax cuts’ have been entirely offset by bracket creep.

If anything, the cumulative impact of a decade of reforms have still disproportionately benefited higher income earners, through lower average tax burdens compared to straightforward indexation.

This note is not intended to discount the benefits delivered to taxpayers through temporary measures such as the extended LMITO, or Peter Dutton’s resurrection of the idea in his one-off \$1,200 Cost-of-Living Tax Offset proposal.

Although beneficial, both are either emergency or transitional measures, inherently temporary in nature, brought in to resolve an issue or provide targeted, temporary additional tax relief.

Neither address the fundamental, inherent deficiencies of a non-indexed personal tax

system, and neither should feature as part of a structural tax reform proposition.

This note is about how the non-indexation of tax thresholds lays bare the fallacy of ‘tax cuts’.

For people whose salaries are just keeping pace with price inflation, and for whom the real value of their gross taxable income has remained unchanged from one year to the next, the relentless nature of bracket creep has eroded their purchasing power and reduced the real value of their net disposable income.

Anything other than indexation of tax thresholds, either to CPI or preferably the lower of CPI and wages growth, will continue to hinder any true debate on tax cutting in the mire of fiscal drag and the smoke and mirrors of bracket creep.

Notes

- ¹. See [Income Tax Personal Allowance and the basic rate limit from 6 April 2022 to 5 April 2026 - GOV.UK](#)
- ². See <https://budget.gov.au/content/factsheets/download/factsheet-new-tax-cuts.pdf>

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Table 3 Personal tax changes 2018-19 to 2027-28 and impacts on *real* annual net incomes

	Net annual income (June 2025 dollars)											
	Pre 2018-	PITP Stage 1			PITP Stage 2 (Amended)			PITP Stage 3 Original	PITP Stage 3 Amended	2025-26 Federal Budget changes		
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2024-25	2025-26	2026-27	2027-28
Taxable income (June 2025 dollars)			\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
\$30,000	28,699	28,797	28,726	29,069	28,947	28,566	28,489	28,227	28,567	28,534	28,473	28,455
\$40,000	36,270	36,473	36,396	36,690	36,601	36,188	36,020	35,785	36,425	36,287	36,350	36,452
\$45,000	40,110	40,300	40,173	40,727	40,656	39,957	39,720	39,484	40,274	40,137	40,100	40,105
\$50,000	43,310	43,874	43,747	44,802	44,730	43,621	43,205	42,891	43,715	43,460	43,423	43,428
\$60,000	49,712	50,746	50,551	51,797	51,980	50,022	49,607	49,544	50,368	50,114	50,076	50,083
\$79,000	61,872	62,917	62,741	63,987	64,247	62,263	61,888	62,339	63,163	62,932	62,924	62,954
\$90,000	69,064	70,121	69,945	71,191	71,451	69,468	69,093	69,819	70,643	70,412	70,404	70,433
\$100,000	75,615	76,673	76,497	77,742	78,002	76,019	75,644	76,619	77,443	77,213	77,205	77,235
\$120,000	87,999	88,682	88,381	90,355	90,560	89,117	88,742	90,218	91,042	90,811	90,803	90,833
\$150,000	106,299	106,153	105,922	108,725	108,680	107,976	107,388	110,618	110,629	110,162	109,879	109,685
\$200,000	136,800	136,653	136,423	139,226	138,921	138,364	137,209	144,618	140,709	139,862	139,136	138,582
\$250,000	164,530	164,029	163,533	166,336	165,738	164,864	163,709	171,869	167,209	166,362	165,636	165,081
PITP Stage 1												
<i>Personal income tax</i>												
0 to \$18,200		Zero	Zero									
\$18,201 to \$37,000		19.0%	19.0%									
<i>\$37,001 to \$90,000</i>		32.5%	32.5%									
\$90,001 to \$180,000		37.0%	37.0%									
More than \$180,000		45.0%	45.0%									
<i>LMITO maximum</i>		<i>\$1,080</i>	\$1,080									
LITO maximum		\$445	\$445									
PITP Stage 2 (Amended)												
<i>Personal income tax</i>												
0 to \$18,200				Zero	Zero	Zero	Zero					
<i>\$18,201 to \$45,000</i>				19.0%	19.0%	19.0%	19.0%					
<i>\$45,001 to \$120,000</i>				32.5%	32.5%	32.5%	32.5%					
<i>\$120,001 to \$180,000</i>				37.0%	37.0%	37.0%	37.0%					
More than \$180,000				45.0%	45.0%	45.0%	45.0%					
<i>LMITO maximum</i>				\$1,080	<i>\$1,500</i>	-	-					
<i>LITO maximum</i>				<i>\$700</i>	\$700	\$700	\$700					
PITP Stage 3 (Original)												
<i>Personal income tax</i>												
0 to \$18,200								Zero				
\$18,201 to \$45,000								19.0%				
\$45,001 to \$120,000								<i>30.0%</i>				
<i>\$120,001 to \$200,000</i>								30.0%				
<i>More than \$200,000</i>								45.0%				
LMITO maximum								-				
LITO maximum								\$700				
PITP Stage 3 (Amended)												
<i>Personal income tax</i>												
0 to \$18,200									Zero			
\$18,201 to \$45,000									<i>16.0%</i>			
<i>\$45,001 to \$135,000</i>									<i>30.0%</i>			
<i>\$135,001 to \$190,000</i>									37.0%			
<i>More than \$190,000</i>									45.0%			
LMITO maximum									-			
LITO maximum									\$700			
2025-26 reforms												
<i>Personal income tax</i>												
0 to \$18,200										Zero	Zero	Zero
<i>\$18,201 to \$45,000</i>										16.0%	<i>15.0%</i>	<i>14.0%</i>
\$45,001 to \$135,000										30.0%	30.0%	30.0%
\$135,001 to \$190,000										37.0%	37.0%	37.0%
More than \$190,000										45.0%	45.0%	45.0%
LMITO maximum										-	-	-
LITO maximum										\$700	\$700	\$700

Notes: Annual gross taxable earnings are expressed in June 2025 dollars. The lower of CPI and WPI is used for indexation, with forward estimates of price and wage inflation from the 2025-26 Federal budget papers used to rebase future incomes to June 2025 prices. Calculations of net annual incomes includes personal income taxes, the Medicare Levy (excluding surcharges), the Low-Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO), but excludes JobSeeker payments and other pensions, allowances and family payments.

Source: Bankwest Curtin Economics Centre | Author's calculations using ABS CPI data and Commonwealth Treasury 2025-26 budget papers.