



Tax bunching of very high earners. Evidence from Australia's Division 293 retirement contributions tax

Andrew Carter and Robert Breunig (2024)
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Key findings

- Division 293 tax adds an additional 15 cents of tax to concessional superannuation contributions for every dollar an individual earns over \$250,000.
- The tax induces bunching. Individuals are much more likely to earn a little less than \$250,000 than a little more than \$250,000.
- The bunching is driven by those with trust or business income.
- When the threshold changed from \$300,000 to \$250,000 in 2017-2018 many people who bunched at the old threshold moved to the new threshold.
- Division 293, like other features of the Australian tax system, induces a strong tax planning response.

What we knew

- Johnson, Breunig, Olivo-Villabrille, and Zaresani (2024) document the large amount of bunching induced by tax rate thresholds in the personal income tax system. They show that bunching appears related to tax planning and is strongest for those with trust or business income.
- Breunig, Deutscher, and Hamilton (2022) document bunching at round number amounts in tax refunds. This is strongly tied to the use of particular tax agents.
- Less is known about the bunching induced by other features of the Australian tax system.

What we do

- We use the Australian Taxation Office Longitudinal Information File (ALife)
- We analyse repeated cross-sections of the full resident population who have Division 293 income between \$200,000 and \$400,000 from 2011-12 (the year before the policy started) to 2018-19.

What we know now

- Division 293 tax induces strong bunching—see Figures 1 and 2.
- The bunching is present for those with trust income (Figure 1) or business (self-employment) income (Figure 2) but not for wage and salary earners.
- Those with self-employment income or trust income are increasingly likely to appear in the bunching region in consecutive years (Figure 3), consistent with tax planning and learning.
- 2018 is particularly interesting as those with more flexible income (trusts or self-employment income) are much more able to move from the old \$300,000 threshold to the new \$250,000 threshold.
- Women with trust income are the most likely to bunch and to persistently bunch (see Table 9 in the main paper).



Figure 1: Division 293 bunching, \$250,000 threshold, \$200 bin size, trust income

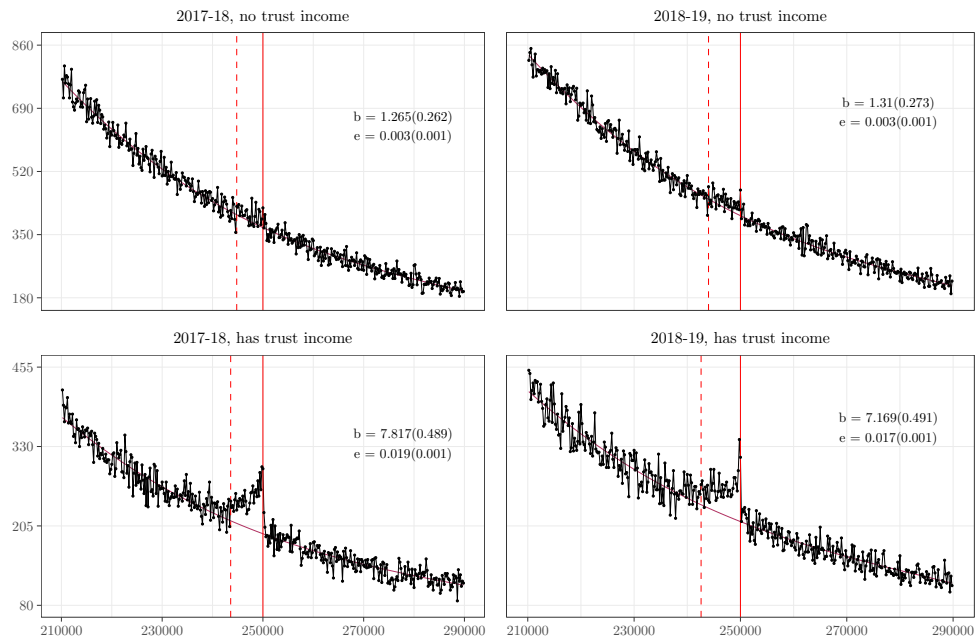


Figure 2: Division 293 bunching, \$250,000 threshold, \$200 bin size, self-employed

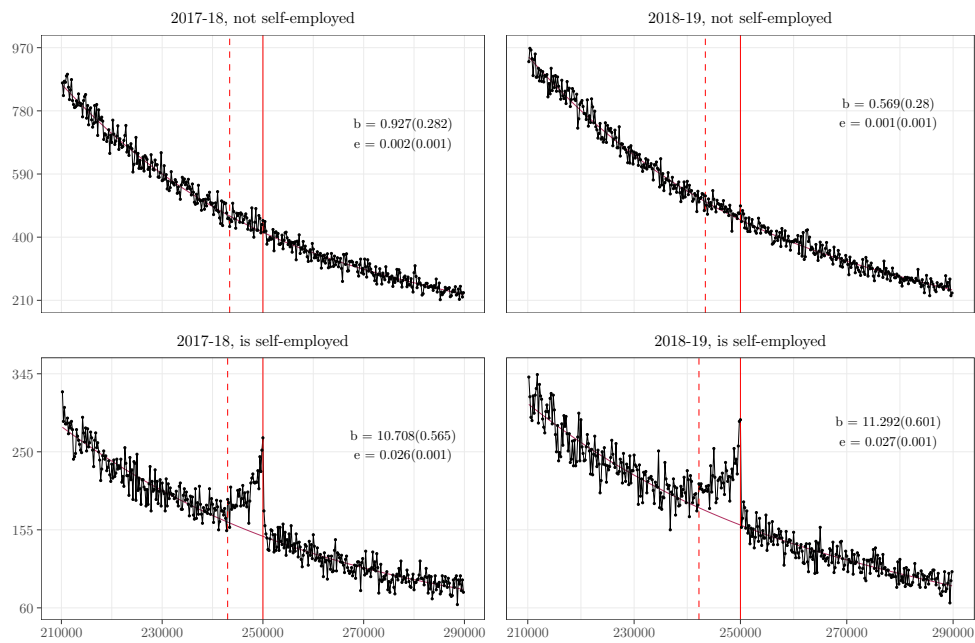
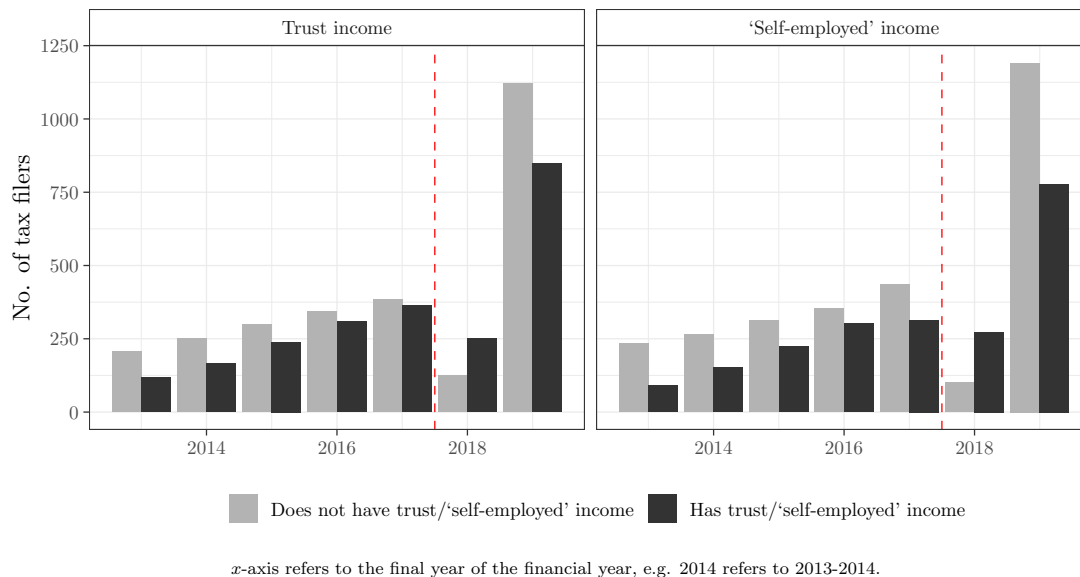




Figure 3: Tax filers located in the bunching region in both the current and prior year



What conclusions should we draw from these results?

- As with other features of the Australian personal income tax system, Division 293 tax induces a strong tax planning response.
- Tax planning is strongly driven by those using trusts and those who have business income.
- Tax planning appears to occur at the family level.

More information

- Get the full working paper or the published journal version
- We would welcome the opportunity to present our research to your team and to discuss potential joint research projects on related or similar topics
- Contact us at robert.breunig@anu.edu.au

References

Breunig, R., N. Deutscher, and S. Hamilton (2022). Hundreds and thousands: bunching at positive, salient tax balances and the cost of reducing tax liabilities. Tax and Transfer Policy Institute Working Paper number 12/2022. Available at: <https://taxpolicy.crawford.anu.edu.au/publication/ttqi-working-papers/20589/hundreds-and-thousands-bunching-positive-salient-tax-balances>.

Johnson, S., R. Breunig, M. Olivo-Villabrille, and A. Zaresani (2024). Individuals' responsiveness to marginal tax rates: Evidence from bunching in the Australian personal income tax. *Labour Economics* 87, 102461.