

The McKell Institute

Discussion Paper

A COVID-19 Tax Rebate for Frontline Workers

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Summary

COVID-19 has served as a major disruptor to Australia's economy. In response, millions of Australians have either entered unemployment, lost significant hours at work, or remained tethered to their employer only through the JobKeeper payment.

The crisis has been an unwelcome and tragic imposition on Australians' health, Australia's way of life, and the Australian economy. At the same time, it has highlighted the importance of those workers who have often been undervalued in Australian society. Workers in retail, health services, public transport and cleaning, in particular, are finding themselves at the frontline of this economic crisis, performing essential tasks that keep Australia running even during various stages of 'lockdown'.

While many Australian workers have found financial support in the form of the JobKeeper and JobSeeker payments, many frontline workers upon which all Australians have relied on during this crisis have continued working without any government assistance. Often, these workers fall into lower income categories, with many earning under the Australian median annual wage of \$48,360 a year before tax.

This paper makes the case that future tranches of fiscal stimulus should target this cohort of Australian workers – not only as a way of paying gratitude to their service during an unprecedented crisis, but as a productive form of economic stimulus. The proposals put forward in this are aimed at stimulating aggregate demand early in the new financial year, just as many key areas of the Australian economy are escaping 'hibernation'.

This report outlines two options for achieving this aim.

The first is a direct tax rebate for all lower-income frontline workers of up to \$1500, paired with a \$1500 economic stimulus payment to all designated frontline workers earning under the tax free threshold of \$18,200 per year. This proposal would cost **\$3.48b**, providing **approximately \$3.6b to \$8.7b** in economic activity in the medium term, depending on how open the Australian economy is at the time of stimulus.

The second proposal is a targeted raising of the tax free threshold to \$25,000 per year, as was recommended in the 2010 Henry Tax Review, directing the increase for FY2019/20 to designated frontline workers. The proposal would deliver \$1292 in tax relief for all those earning over \$25,000 per year and previously earned above the tax free limit of \$18,200. For eligible workers earning under the threshold, a direct cash payment of \$1292 would be offered. This proposal would cost **\$3.34b**, delivering an estimated **\$3.47b to \$8.35b** of economic activity depending on the degree of openness of the economy.

While there are clear fiscal considerations for the proposals tabled in this report, it is expected that there will be an overall benefit to both the workers who will receive the benefit and the Australian economy, which is in need of a boost to consumer spending as it begins to emerge from the economic hibernation imposed by COVID-19. It is also highly probable that the Federal Government will commit to future tranches of economic stimulus. It should also be noted that, at the time of writing, a similar proposal is being pushed by the NSW Government, which plans to provide \$1000 payment to around 200,000 NSW 'frontline workers' at a total cost of approximately \$200m.ⁱ

Identifying Frontline Workers

This report identifies frontline workers as those still working during COVID-19, and performing jobs in the retail, health, education and training, public transport and cleaning sectors. This definition could be expanded or constrained by Government, with obvious costing implications.

Front-line Workers making under \$1,499 per week during COVID-19

<i>Industry</i>	<i>Workers still employed</i>
<i>Retail Trade</i>	706,903
<i>Building Cleaning and Other Services</i>	231,593
<i>Education and Training</i>	533,442
<i>Health Care and Social Assistance</i>	939,866
<i>Transport and Postal</i>	173,800
<i>Total</i>	2,585,604

Source: Author's calculations using 2016 Census of Population and Housing data and ABS Catalogue 6291.0.55.003 February 2020 employment data

The industries included were retail trade workers which included staff at supermarkets, grocery stores and department stores; building cleaning and other services which included building cleaners; education and training which included pre-school and school teachers; health care and social assistance which included health care, child care and aged care workers and transport and postal workers which included public transport and postal delivery staff. Some of the workers in this category may have also been in receipt of JobKeeper payments. This exercise does not exclude those workers from the model, given the data constraints relating to JobKeeper at the point of writing.

Frontline workers are a logical vehicle for future stimulus

For millions of Australian workers, COVID-19 has served as a direct and very real risk to their personal health. While Australia has performed exceedingly well in terms of containing the virus, this outcome was not guaranteed. In March, many were estimating that up to one-third of Australians would at some point catch the virus. Predictions of thousands of deaths were presented to Government, and indeed such predictions have sadly come to fruition in other countries, predominately advanced and comparable economies to Australia, including the US, UK, Italy and Spain.

In this context, the efforts of all frontline workers deserve recognition. This includes not just health workers, whose efforts have so successfully safeguarded Australians' health and wellbeing, but also retail workers, public transport workers, cleaners, and carers who have provided essential services to all Australians during this crisis.

Offering support to frontline workers would have a sound stimulus impact

Any stimulus payment, however, needs to not only be fair, but also have real positive economic benefits for all Australians. It is for this reason that the first round of fiscal stimulus offered by the Federal Government should prioritise those frontline workers who are yet to receive any financial support from the Government.

Option 1: A Tax Rebate for Frontline Workers & Stimulus Payment for Workers Earning Under the Tax Free Threshold

All designated frontline workers earning over \$18,200 but under \$77,999 per year receive tax rebate for FY2019/20

Under this proposal, eligible workers earning under \$64,999 (under \$1249 per week) will receive a tax rebate of \$1500, and those above that bracket, but still below \$77,999, will receive a tapered rebate that reduces from the full \$1500 at \$64,999 progressively to zero at \$79,999.

The number of workers earning between the tax-free threshold of \$18,200 and \$64,999 is approximately 1.86 million workers, costing approximately \$2.78b.

It is assumed that all eligible workers with taxable incomes of \$27,234 (which results in \$1500 tax per year) or below will receive the full \$1500 rebate, but combining a tax return with a direct stimulus payment. For example, a worker earning \$23,000 in FY2019/20 will pay \$272 in income tax. This paper assumes they will receive a \$1500 payment, with their full tax repaid, plus a further \$1228 in direct stimulus support. This paper incorporates this assumption into its modelling.

Assuming the tapered tax applies to all workers earning between \$64,999 and \$77,999, the average rebate will be around \$124.99.ⁱⁱ Approximately 292,000 frontline workers are in this income bracket, the cost of this tapered rebate will amount to \$36.6m.

The total cost of this proposal is approximately \$2.8b before considering an additional stimulus payment to those earning under the tax free threshold. The benefit to the economy can be calculated using multiplier effects. Identifying the precise multiplier impact presents modelling challenges, given the unprecedented nature of the COVID-19 induced economic downturn, which has closed entire sectors of the economy, muting certain flow on effects that might be expected from a boost in discretionary spending resulting in fiscal stimulus targeting low-middle income earners.

This paper assumes a conservativeⁱⁱⁱ and optimistic multiplier effect based on prior research.^{iv}

A direct stimulus payment to frontline workers earning below the tax free threshold

While offering frontline workers the support payment through the tax system is appropriate, many frontline workers will earn under the tax free threshold of \$18,200 per year.

Of the 2.6 million Australian workers current employed and designated as ‘frontline’ workers in this report, approximately 437,000 earn under the tax free threshold. While these workers still typically contribute PAYG tax, they will be entitled to a full refund of tax paid for the year 2019/20 in their tax return.

This cohort of workers, however, are still performing key frontline services, often while juggling other responsibilities including parenting, studying and caring. To accommodate for this cohort of frontline workers who would not be eligible for a reduction in tax for the 2019/20 year, this report suggests a targeted and direct stimulus payment of \$1500 in Q1 of FY2020/21.

To calculate the cost of this proposal, we will assume each of the approximately 437,000 frontline workers receive a direct \$1,500 stimulus payment which amounts to a \$656m cost to the budget.

Total cost of Option 1: \$3.48b

Total estimated benefit to the economy: \$3.6b to \$8.7b

Option 2: Lifting the Tax Free Threshold for Frontline Workers & Stimulus Payment for Workers Earning Under the Tax Free Threshold

A key recommendation of the 2010 Henry Tax Review was the increase of the tax free threshold, the income level from which tax begins to be applied, from what was then \$9,000 to \$25,000. In the review, Henry wrote:

“A much higher personal tax-free threshold, around \$25,000, should replace the current complex array of thresholds and offsets.”^v

Lifting the tax free threshold to \$25,000 reduces the government’s revenue by \$1292 for each persons earning above \$25,000 per annum. This report proposes that such a proposal could be applied selectively to frontline workers identified in this report, of whom there are approximately 2.1 million. The total cost to the budget would be around \$2.78b.

Workers earning under the tax free threshold should receive stimulus payment

The current tax free threshold is \$18,200. Again, the challenge of this proposal is that many frontline workers continue to earn below the tax free threshold, or only earn between the current tax free threshold of \$18,200 and the newly proposed \$25,000 tax free threshold.

For these workers, a direct stimulus payment comparable to Option 1 should be considered, costed at the same value as the \$1292 reduction in taxation for all frontline workers earning over \$25,000. There are approximately 437,000 of these workers meaning the cost to the government would amount to around half a billion dollars, \$0.56b.

Adding both these segments of workers together, the total cost to the government will be approximately \$3.34b, a slightly cheaper alternative to Option 1.

The nature of tapering for Option 2

Option 2 has been calculated assuming all workers currently earning over \$18,200 per year but below \$25,000 per year would receive a direct \$1292 stimulus payment.

A worker who currently earns \$25,001 will also be \$1292 better off, being eligible for all tax paid on the income earned between \$18,201 and \$25,000 to be returned.

For an eligible worker who earns under \$18,200 in FY2019/20, a direct stimulus payment of \$1292 would be delivered.

All designated frontline workers, irrespective of their income level, would be eligible for the raising of the \$25,000 threshold, reducing some of the complexity of administering the scheme and incorporating tapering at higher income levels.

Total cost of Option 2: \$3.34b

Total estimated benefit to the Economy: \$3.47b to \$8.35b

Why Orienting Stimulus Through Lower-Income Households is Effective

This paper has advanced a form of stimulus aimed at achieving two objectives: first, providing income support for those frontline workers on whom the Australian health system and economy have relied during COVID-19, and second, increasing aggregate demand as the Australian economy re-opens as COVID-19 restrictions recede.

Fiscal stimuli often focus on lower income households due to the tendency of lower income households to demonstrate a higher propensity to consume. This economic justification is one reason that, in the Morrison Government's first COVID-19 stimulus announced in March 2019, direct cash payments to age care recipients and those on other forms of income support were targeted.

As Berger-Thomson et al (2009) wrote for the Reserve Bank of Australia,

“Households with low incomes have a higher MPC, consistent with the idea that these households are more likely to face liquidity constraints”.^{vi}

At times, stimulus can have a smaller impact due to financial stresses on households, such as debt or job insecurity. However, the cohort of workers identified to receive stimulus through either Option 1 or Option 2 are less likely to demonstrate these financial constraints given the demand for their labour during COVID-19. Simply, the frontline workers earning under \$65,000 identified in this report are ideal candidates through which future tranches of economic stimulus could flow.

The timing of this proposal is also important. It is expected that, if implemented, both Option 1 and Option 2 would deliver tax rebates to frontline workers early in the new financial year, when it is forecast that many of the restrictions imposed by COVID-19 are lifted.

Effectively, this proposal will see economic stimulus injected into the economy at an appropriate time, through recipients with a high propensity to consume, resulting in an increase in aggregate demand in Q1 of FY2020/21 for a total fiscal impact of between \$3.3 and \$3.5 billion.

Methodology

The number of workers who earn under \$1,499 per week and are thus eligible for the proposals in this report have been calculated using the 2016 census table builder to narrow down workers who are within the appropriate earning bracket. Given some categories of workers needed further specification, we utilised more specific employment sub-group data from ABS Catalogue 6291.0.55.003 to find the number of cleaners, delivery and public transport workers. This data did not have the income distribution readily available, so we used a uniform distribution to assume the workers were spread evenly across the low-income distribution levels.

We then used March 2020 ABS Catalogue 5676.0.55.003 data which predicted how many businesses in each industry were still operating to calculate the number of workers in each category still employed during COVID-19. Given the front-line nature of the work, most of these industries were at nearly full capacity.

The tapered rebate was calculated by distributing \$1,500 across the income bracket of \$64,999 and \$77,999 before assigning the value of the rebate evenly across each increase in dollar. This formula was used to calculate how much rebate each individual earning above \$64,999 but under \$77,999 would obtain. Those earning below \$64,999 were calculated to receive a direct stimulus payment. Direct stimulus payments are calculated through a direct multiplication of the number of recipients and the size of the payment.

The multiplier effect was calculated using a conservative estimate of 1.03 and a more optimistic estimate of 2.5, both numbers were obtained through drawing upon previous research.^{vii} Estimating the multiplier effect varies largely on the economic circumstances and the climate of consumer preferences. It should be noted that multiplier effects are often more evident when distributing stimulus support through consumers with a higher propensity to consume, which are typically lower-middle income workers.

References

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