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Stop the Creep: Restoring fairness to Australia's tax system

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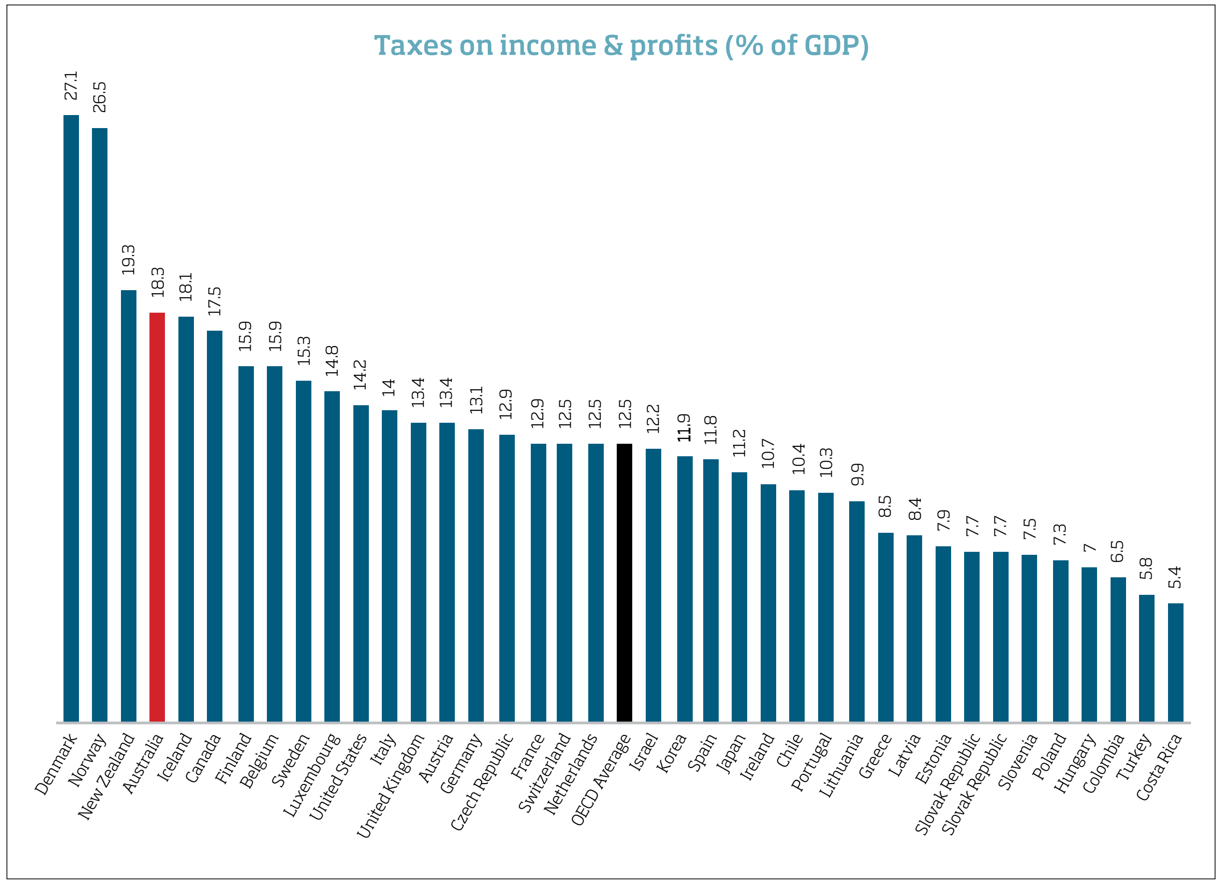
Foreword

Australia places a disproportionately high tax burden on workers. Across the developed world, governments derive 23.6% of their revenue from personal income tax. Australian governments take almost double that amount, with an astonishing 40.4% of all government revenue collected through income tax in 2023.[1] The proportion of Commonwealth Government revenue derived from income tax is even higher, at around 52%.

Australia takes more from taxes on income and profit as a proportion of GDP than 36 other OECD nations. This puts us in the top four of the developed world for taxing work, employment and aspiration.



Source: OECD. | Chart: MRC.

If nothing changes, our disproportionate reliance on income tax will get worse. While wages are forecast to grow by 3.7% annually over the next decade, personal income tax receipts will grow faster at 4.6% annually. This disparity means workers are set to pay increasingly more tax on average, eroding their real wages and take-home pay.

This is largely because of bracket creep: an automatic tax increase that occurs when income tax thresholds remain fixed while wages rise with inflation. This pushes workers into higher tax brackets and increases average tax rates, even when real incomes have not grown.

1 https://www.oecd.org/en/publications/2024/11/revenue-statistics-2024_6e88b46e.html

Bracket creep disproportionately affects younger and middle-income Australians, pushing their average tax rates higher while they carry the growing costs of spending on an ageing population. Governments are rewarded for their failure to address bracket creep every year, as it guarantees increases in tax revenue to cover unsustainable spending programs.

This paper proposes a straightforward solution that is long overdue: indexing income tax brackets to inflation (CPI). Rather than continuing the cycle of periodic tax cuts to undo hidden tax increases, indexation would eliminate bracket creep and ensure that workers are not penalised by inflation in the first place. This would be the most significant structural tax reform since the introduction of the GST and it is something that most developed nations do as a matter of course.

Following the 2025 federal election, the Albanese Government holds a large majority in the House of Representatives and a path to pass legislation through the Senate with either the Coalition or the Greens, bypassing the Crossbench. This presents a rare opportunity for meaningful reform. Indexation is politically feasible, economically sound, and broadly consistent with recent tax changes, including the amended Stage 3 tax cuts that took effect in 2024–25. For the first time in over two decades, the position of Australia's tax brackets are relatively well-aligned with average full-time earnings and enjoy bipartisan support. Without action, this balance will quickly erode.

The longer reform is delayed, the more difficult it becomes to maintain fairness and reward for effort in the tax system. An average full-time worker will reach the 37 per cent tax bracket within six years in 2031-32, returning to the same position they faced in 2017–18 before the recent round of tax reforms. The average tax rate faced by a full-time worker will climb back to pre-reform levels within five years.

This report recommends indexing personal income tax brackets to CPI beginning in 2025–26. The indexation of the tax-free threshold would be delayed until 2028–29 until the recently legislated cut in the 16 per cent rate to 14 per cent is fully implemented. Menzies Research Centre analysis finds this would reduce the underlying cash balance by between $19.8 billion and $33.8 billion over the forward estimates – well below the $107 billion cost of the amended Stage 3 tax cuts. This should not be seen as a cost in the same way as new spending, but rather understood clearly as foregone revenue from stopping automatic tax increases. The real cost to taxpayers lies in continuing with a system that delivers automatic tax hikes without transparency or an explicit decision.

Indexation would improve workforce participation, encourage skill development, and better link productivity growth to income growth. It would also force greater discipline on government spending by removing the windfall revenue governments quietly receive through bracket creep. Future governments would need to justify new commitments with explicit tax or savings measures, not rely on tax increases by stealth.

This reform is fair, affordable and long overdue. It would restore public confidence in the integrity of the tax system and bring Australia into line with the majority of OECD countries that already index their tax brackets. The case is clear, and the opportunity is now.

David Hughes
Executive Director

Overview: Why we need to act now

The 2025 election result gives the Albanese Government a unique opportunity to pursue meaningful economic reform and act decisively to strengthen Australia's long-term economic position. This paper argues that indexing income tax brackets to inflation from 2025–26 would represent the most significant structural tax reform since the introduction of the GST.

Having avoided a hung Parliament that would have stymied reform, the Government find themselves in the unexpected position of holding a significant majority. More importantly, they face a Senate where they can legislate with the support of only the Coalition or the Greens.

Anthony Albanese and Jim Chalmers face a choice. Do they continue to choose the safe option of small-target policies and incremental change, or do they put forward real economic reforms akin to the Hawke-Keating era they apparently seek to emulate?

The latter approach is not without risk. The Government could instead promise that real reform will actually come in the third term they assume is already won, but this would beg the question — what is the point of the Albanese Government if nothing changes when you hold an 18-seat majority?

The Government has an opportunity to cut the Greens out once and for all and find areas of economic reform where it can agree with the Coalition — exactly as occurred under Hawke and Keating.

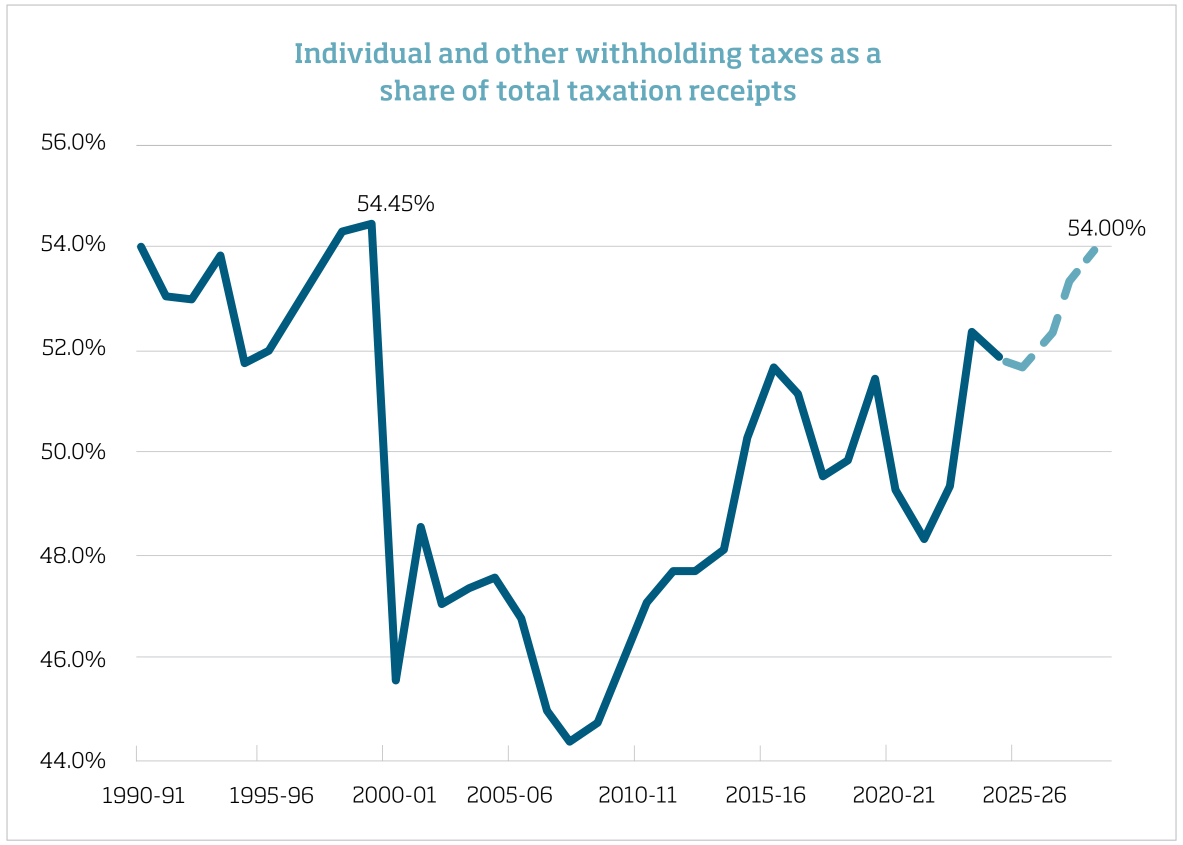
This paper does not seek to establish the case for reform; the need is obvious. Government spending is growing at a rate faster than economic growth, the Commonwealth is overly reliant on personal income tax revenue and labour productivity has collapsed in recent years after a decade of stagnant growth.

Australia must prepare to confront the challenges ahead, including potential economic decoupling, tariff and trade wars and the direct move of autocracies towards establishing 'war economies'. To do this, it has never been more important for Australia to find ways to improve productivity and become a stronger economy. We cannot keep kicking the can down the road.

Bipartisan reform will require courage and leadership from both sides. The Coalition will need to see through the political opportunism Labor displayed when blocking most legislation in Opposition, and instead take the opportunity to support reform that is in Australia's interests — in the same way the Coalition supported floating the Dollar, tariff reductions, financial deregulation and asset sales by the Hawke-Keating Government.

It is clear however, that this Government is not the Hawke-Keating Government, so the Coalition should be forthcoming and push for economic reform proposals of its own to drag the Government to the table. A priority should be personal income tax reform to eliminate bracket creep.

Bracket creep is an automatic annual tax by stealth. It occurs when income tax thresholds remain fixed while wages rise with inflation. Over time, this pushes workers into higher tax brackets and increases average tax rates, even when their real purchasing power has not improved. Treasury forecasts show that, without reform, income tax will make up 54 per cent of all Commonwealth tax receipts by 2028-29 – a level not seen since the introduction of the GST.



Source: Parliamentary Budget Office data. | Chart: MRC.

The recent history of personal income tax cuts in Australia has been a never-ending battle to chase bracket creep. Our tax system has been locked in a political cycle where the average tax rate paid by Australian workers increases every year until a (usually Coalition) Government steps in with tax cuts designed to reduce average tax rates to a more acceptable level. This cycle greatly inhibits the scope for governments to enact substantial tax reform.

Locking in tax brackets with indexation from 2025-26 would end the cycle of tax cuts required to chase bracket creep. This would be a significant economic reform. Australia would join the majority of OECD countries (24 of 38), including the US, Canada, France and Germany, that automatically adjust tax brackets to offset bracket creep or where doing so is not automatic but is the norm each year.

Indexing tax brackets to eliminate bracket creep is politically feasible and should be bipartisan. Bracket creep is unfair, especially for lower and middle income workers, younger Australians, and women. It is anti-aspirational and creates a disincentive to work and undertake education and training. By guaranteeing tax increases every year, governments have less incentive to reign in wasteful spending and commit to new spending in a transparent way.

Some commentators will continue to ignore political reality and instead call for their holy grail 'tax-mix switch' — increasing the GST and lowering personal income tax rates. This reform was most recently considered by the Turnbull Government less than a decade ago and bitterly opposed by Labor. It remains off the table.

Others oppose indexation because they believe the current brackets are not ideal, and indexation would lock them in and prevent future tax reform. This is true to a degree, but we have to deal with the world as it is, not as we would like it to be. Indexing tax brackets would not prevent future tax cuts or reforms such as abolishing tax brackets. The difference is that any future tax cuts would be **real** tax cuts, on top of indexation.

The fact is, for the first time, we have a set of reasonable tax brackets that are bipartisan, taking effect in an election year. This unique timing differs from all recent elections, which took place when tax brackets were in a much worse relative position or in the process of being altered following years of bracket creep. In contrast, the current tax brackets, as a proportion of average full-time earnings, are in line with the most reasonable positions they've been in over the past 25 years.

Without reform, the relative position of Australia's income tax brackets will worsen. An average full-time worker will reach the second highest (37 cent) tax bracket in just six years in 2031-32, reaching the same position they faced in 2017-18 before the combined impact of the Stage 1-3 tax cuts. Bracket creep will return the average tax rate paid by a full-time worker to 2017-18 levels in just five years and completely erode the impact of the Albanese Government's amended Stage 3 tax cuts in seven years. The recently legislated reduction of the 16 cent tax rate to 14 cents has only delayed these outcomes by one year.


FINANCIAL REVIEW

Average Aussie worker to 'creep' into 37pc tax bracket by 2031

17 March 2025

The former head of the Productivity Commission, Michael Brennan, says Treasurer Jim Chalmers should consider lifting income tax thresholds annually to lower the burden on workers as new forecasts show the average Australian worker is on track to enter the 37 per cent tax bracket by 2031.

Raising the tax brackets in line with annual inflation or wages growth would effectively deliver workers a nominal tax cut on July 1 every year, regardless of which major party held office, rather than sporadically every few years when it was deemed affordable.

By allowing Australians to keep more of what they earn, indexation would remove a disincentive to work, especially for lower and middle income earners, young people starting their careers and women. This would encourage aspiration, improve workforce participation and increase the incentive to invest in skills and education and training. In the longer term, indexation would support productivity growth by strengthening the link between productivity gains and income increases, and encouraging a more efficient allocation of labour.

Indexation would also improve fiscal transparency and act as an ongoing constraint on government spending growth. Bracket creep means the Budget's forecasts and projections are a fantasy. They account for most major transfer payments being indexed to inflation, but do not account for the fact that future governments will have no choice but to eventually cut taxes to return bracket creep to workers. This means that the Budget, which as it is doesn't show a return to surplus for a decade, is actually in much worse shape than it appears. Essentially, this allows governments to hide the true state of the books by committing to future spending and forecast that it will be paid for by income tax revenue that will never be raised.

Without the automatic windfall provided by what is effectively an annual tax increase by stealth, governments would not be able to use bracket creep as a lazy, de facto fiscal repair mechanism. This would ensure a much needed increase in the level of scrutiny on future spending commitments. Future governments would need to actually explain how to sustainably fund commitments such as the NDIS and higher defence spending. They would need to finance new spending more transparently — by seeking a mandate to enact some combination of higher taxes or reduced spending elsewhere.

Indexing income tax brackets makes sense. It is a reform with obvious benefits that is long overdue. Consider the counterfactual — if indexation was in place, a Government seeking to move to the system we have would need to legislate to increase taxes on Australian workers every year, with no particular purpose in mind other than to boost the Budget bottom line. Taxes would be designed to increase fastest when the cost of living is most impacted by inflation. This would be as well received as a government seeking to end indexation of welfare payments and the aged pension. The onus should be on governments to explain why indexation should not happen.

Indexation could take many forms. In order to begin this important policy debate, this paper explores several options to index some or all tax brackets to CPI, either immediately or using a phased-in approach.

Our preferred option would see the indexation of the tax-free threshold delayed until 2028-29, after the recently legislated reduction in the 16 cent tax rate to 14 cents takes effect. This would leave the vast majority of lower income net taxpayers better off than an alternative policy where the 16 cent tax rate is not reduced, but the tax-free threshold was indexed from 2025-26. All other tax brackets would be indexed to CPI, ideally beginning in 2025-26 — however a phased-in approach which achieved full CPI indexation over several years would be a worthy reform for any government to pursue.

MRC analysis finds that indexing tax brackets as outlined above would reduce the underlying cash balance over the forward estimates by between $19.8 billion and $33.8 billion. This is a considerably lower cost than the Albanese Government's amended Stage 3 tax cuts, which Treasury estimated would cost $107 billion over the forward estimates period 2024-25 to 2027-28. It is worth noting that during the 2025 federal election, the Coalition put forward savings, excluding the reversal of the reduction in the 16 cent tax rate, of a sufficient quantum to offset the cost of the reform options put forward in this paper.

While these figures represent a 'cost' to the Budget in foregone revenue, it is not increased spending and should not be thought of as a cost to taxpayers. The status quo is the real cost to taxpayers — without indexation, workers face an automatic tax increase every year. Indexation is simply about ensuring taxpayers do not go backwards, in the same way that major government transfer payments are indexed so that recipients don't have the payments they receive reduced by inflation.

The cost of poor fiscal discipline by governments — supported by the knowledge that bracket creep will provide billions in windfall revenue every year — is unquantifiable, but there is no doubt that indexation would require future governments to more carefully consider and justify their spending commitments.

The opportunity to convince the Government to adopt new productivity enhancing policies during this term may be fleeting. Achieving this reform will require the case to be made and pressure placed on the Government. Had the Stage 3 tax cuts not been legislated, it is doubtful that the Albanese Government would have put forward equally substantial tax changes. The Stage 3 tax cuts forced Labor's hand, resulting in the Government co-opting amended tax cuts as their own. The reduction in the 16 cent tax rate announced in this year's Budget was the first time Labor has proposed standalone income tax reductions heading into an election since 2007 (then from Opposition).

Indexation is fair, affordable and long overdue. The case is clear. The Government has the power to act – and the Opposition should lead the push for change if it does not. Without reform, Australians will continue to face automatically rising tax burdens each year, and governments will remain shielded from the scrutiny that should accompany every new spending commitment.

The opportunity for reform

Economists, politicians and commentators have spent much of the quarter century since the introduction of the GST lamenting the absence of new economic reforms. The transformative changes of the Hawke-Keating Government, alongside the introduction of the GST, are often upheld as models of successful reform.

This paper does not seek to relitigate the case for reform – the need is self-evident. Government spending is growing faster than economic growth, the Government is excessively reliant on personal income tax revenue, and labour productivity has collapsed in recent years after a decade of stagnation.

Despite this, recent governments have struggled to deliver significant reforms. There are many reasons for this, including external events and an inability to successfully build consensus for reform. This is true for governments at a state and federal level, regardless of their political alignment. Years were consumed by the Covid pandemic, and the subsequent record net migration has masked underlying economic weakness. Although population growth propped up nominal economic growth, real income per person declined. Prior to the pandemic, the political impetus for economic reform was dulled by the tailwinds of the mining boom.

Which economic reforms are needed can be debated, but it is clear that the status quo cannot remain for the second term of an Albanese Government. The Government spent its first term implying that it would pursue a more ambitious agenda should it be reelected, but has given mixed messages on economic reform since the election. Following the election, Jim Chalmers first told the ABC on 4 May that Labor's second term would prioritise productivity, before appearing to walk that back, telling the *Australian Financial Review* on 9 May that addressing productivity would actually require a third term.[2] The Prime Minister has since announced that the Government will hold a roundtable to discuss economic growth and productivity in August, including consideration of tax changes.

Anthony Albanese and Jim Chalmers now face a choice. The Government has an opportunity to cut out the Greens and reach across the aisle, as Hawke and Keating once did, to find areas of economic reform where it can agree with the Coalition. While some areas will remain politically irreconcilable (i.e. industrial relations), at least partial bipartisan agreement should be possible in areas such as tax, domestic gas supply, competition policy and NDIS sustainability. These are all areas where the Greens will never support realistic solutions.

Labor has previously seen deals with the Greens as the easiest pathway to passing legislation, with both sides paying a price for this in the last Parliament. Many of Labor's policy priorities were delayed for years by the Greens' intransigence. During the election, Labor (rightly) attacked the Greens as an unserious protest party, winning three of their four lower house seats off the back of Coalition preferences. Despite Anthony Albanese's decision to preference the Greens, it seems clear that both he and the Government would prefer not to work with them and understand the costs of doing so. They should not repeat that mistake.

2 Election 2025: Jim Chalmers says he'll need more than two terms to fix the economy

Bipartisan reform will require courage and leadership from both sides. The Coalition will need to look past Labor's previous political opportunism: opposing savings it had previously supported[3], opposing changes to make the NDIS sustainable before implementing their own in Government (with Coalition support), and opposing income tax cuts before amending the tax cuts in Government and claiming them as their own. This does not mean supporting reform for reform's sake — the Coalition should only support reform if it's in the nation's best interest.

The window to convince the Government to adopt new productivity-enhancing reforms during this term may be fleeting. Business groups and economists should seize the opportunity to push for actionable economic reforms at the upcoming reform roundtable. This effort should prioritise policies with bipartisan potential. Indexing income tax brackets to inflation is one such reform: simple, fair and pro-productivity. This reform would support aspiration and reward for effort, and additionally act as a much needed constraint on future government spending by requiring future governments to justify new commitments with explicit tax or savings measures, instead of relying on tax increases by stealth.

Personal income tax reform

The never-ending battle to chase bracket creep inhibits the scope for governments to enact substantial tax reform. Generally, the most a government can hope to achieve with tax cuts is to reduce average tax rates back to where they were at the start of the cycle following the previous round of bracket creep-addressing tax cuts, while tinkering with the relative position of tax brackets. Occasionally, governments will enact more ambitious reforms — such as when the Morrison Government abolished the 37 cent bracket, since reversed by the Albanese Government.

Governments have been losing the battle against rising personal income taxes since the end of the Howard Government. Personal income tax receipts have been increasing as a proportion of total tax receipts since that time. Despite this trend being slowed by the Stage 1-3 tax cuts (history in Appendix 1), Treasury forecasts show that, without reform, income tax will make up 54 per cent of all tax receipts by 2028-29 — effectively eliminating the impact of income tax reform following the introduction of the GST (Figure 1).

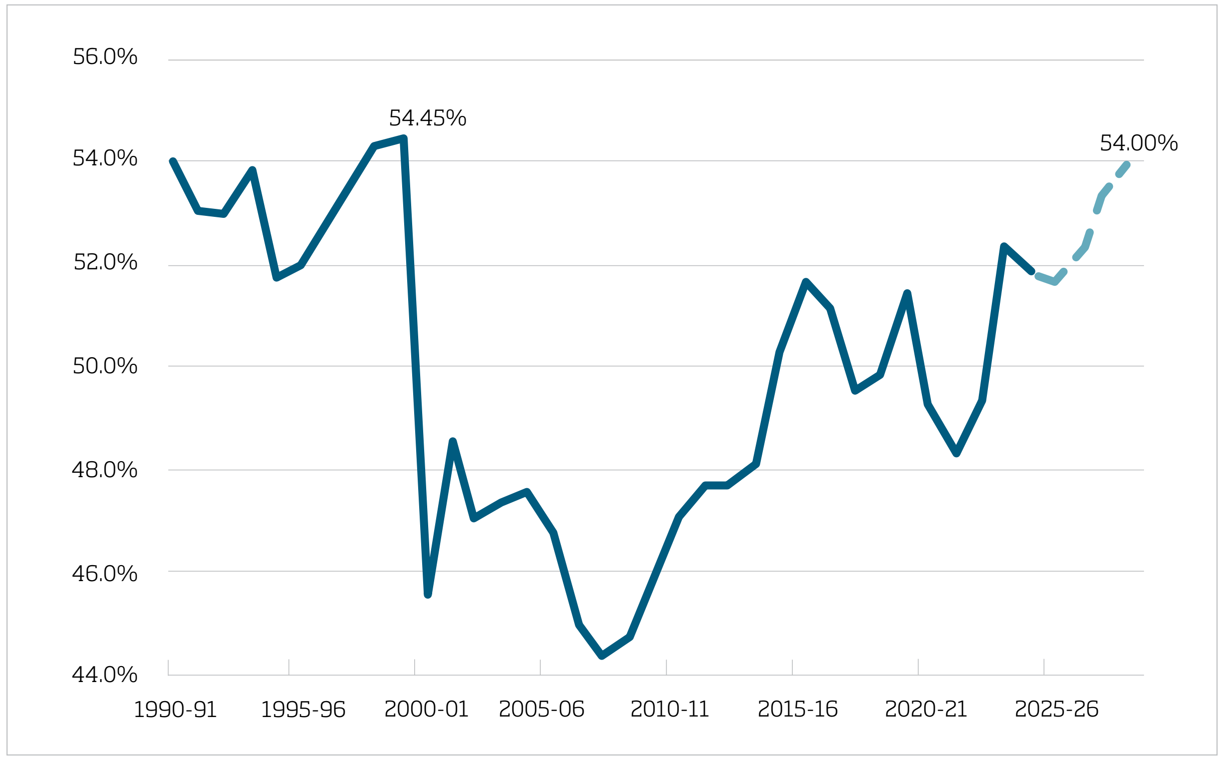
There are two potential personal income tax cut reforms that are often discussed by economists and commentators — the 'tax-mix switch' of increasing the GST while simultaneously reforming and significantly lowering personal income tax, and indexing income tax brackets in order to eliminate bracket creep.

The former has many advocates amongst economists but is politically infeasible, especially in the current economic environment. The challenges of Commonwealth-state financial relations and the cost of compensation for lower income earners add further layers of complexity. A discussion on this reform was most recently opened under the Turnbull Government and was bitterly opposed by Labor, who will never put forward a similar policy.

Given the political challenges of implementing a successful tax-mix switch and the Treasurer's strong signal that he is unlikely to consider such a reform, the focus of this paper is the indexation of personal income tax brackets. It is worth noting that the benefits of any income tax cuts implemented as a result of a tax-mix switch would be steadily eroded without indexation, as has occurred since the GST was introduced.

3 https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r5707

Figure 1 – Individual and other withholding taxes as a share of total taxation receipts

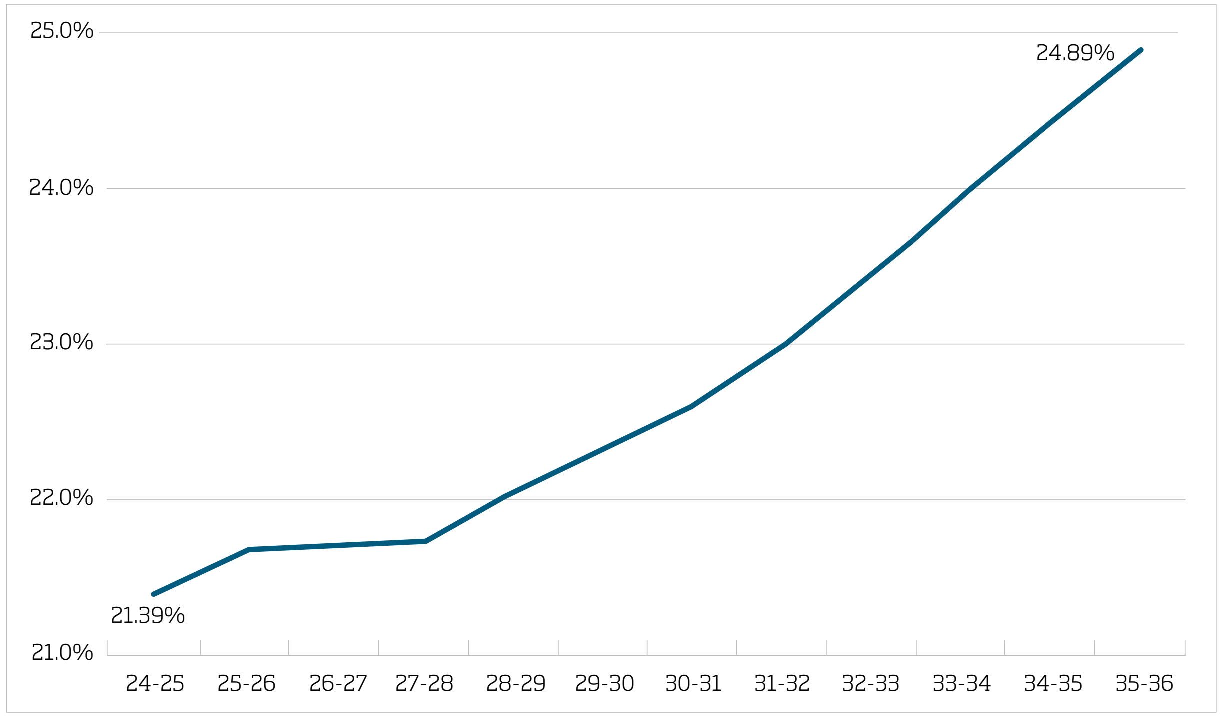


Source: Parliamentary Budget Office data. | Chart: MRC.

Why it's time to index income tax brackets

As outlined above, bracket creep is an automatic annual tax by stealth that Australian taxpayers face because income tax brackets are fixed in nominal dollar terms. This means that as incomes rise – due to inflation, real wage growth, promotions or career progression – workers pay higher average tax rates as they are pushed further into existing brackets, or up into a higher bracket. Without further changes to tax rates or brackets, the average tax rate (excluding the Medicare Levy) paid by a full-time worker will approach 25%, a level not seen since the introduction of the GST and implementation of the *A New Tax System* tax cuts (Figure 2).

Figure 2 – Average tax rate paid by the average full-time worker[1] with no further changes to tax brackets or rates*



[1] Using ABS full-time average weekly total earnings, increasing annually in line with Wage Price Index forecasts in the 25-26 Commonwealth Budget.

** Excludes Medicare Levy*

Note: The slower increase in the average tax rate in 26-27 and 27-28 is because the 16c tax rate is legislated to decrease to 15c and 14c respectively in those years.

Source: MRC analysis, ABS, Treasury.

Under this system, the Government gains more revenue and workers face a higher real tax burden, even if their real purchasing power hasn't increased and no explicit government decision has been taken. This effect is amplified during periods of high inflation, such as that recently experienced in Australia. A similar problem applies to state taxes such as stamp duty on property and insurance (outside the scope of this paper, but explored in Appendix 2).

A simple way to (mostly) eliminate bracket creep is to index income tax thresholds so they increase annually in line with inflation.[4] Some economists oppose indexation because they believe the current brackets are not ideal, and indexation would lock them in and prevent future tax reform. This is true to a degree, but we have to deal with the world as it is, not as we would like it to be.

The fact is that, for the first time, we now have a set of reasonable tax brackets, supported by Labor and not opposed by the Coalition, taking effect just after an election. This is highly unusual in recent history, given that no Labor Government this century has proposed significant standalone income tax changes.[5] Had the Coalition's Stage 3 tax cuts not been legislated, it is doubtful that the Albanese Government would have put forward equally substantial tax changes. The Stage 3 tax cuts forced Labor's hand, resulting in the Government co-opting the amended tax cuts as their own. The Government followed this by announcing minor tax reductions in the 2025-26 Budget — lowering the 16 cent tax rate to 14 cents over three years — the first time Labor has proposed income tax reductions heading into an election since 2007 (then from Opposition).

This unique timing differs from all previous elections, which took place when tax brackets were in a much worse relative position following years of bracket creep. In contrast, the current tax brackets, as a proportion of average full-time earnings, are broadly in line with the most reasonable positions they've been in over the past 25 years (comparisons at Appendix 3).

Locking in tax brackets with indexation from 2025-26 would be a significant economic reform — arguably the biggest since the introduction of the GST — and would end the cycle of tax cuts required to chase bracket creep. Indexing tax brackets would not prevent future tax cuts or reforms such as abolishing tax brackets. The difference is that any future tax cuts would be **real** tax cuts, on top of indexation.

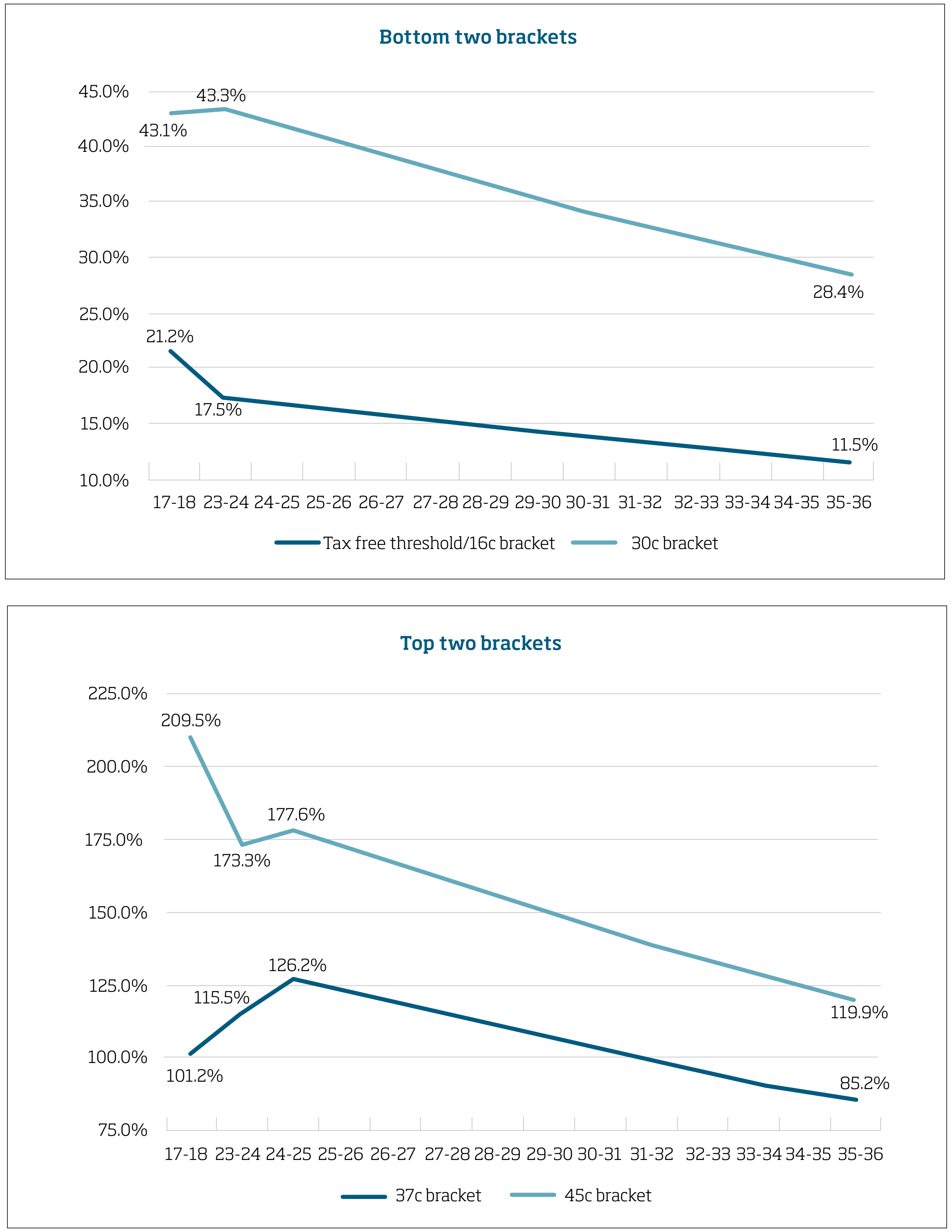
Australia would join the majority (60%) of OECD countries that automatically adjust tax brackets to offset bracket creep or where doing so is not automatic but is the norm each year (detail in Appendix 4). Indexation would also be in line with the indexation of payments such as Age and Disability Pensions, Family Tax Benefits and Parenting Payments, Jobseeker, Rent Assistance, Parental Leave Pay and Youth Allowance.

Without indexation, tax brackets will fall significantly as a proportion of average full-time earnings (Figure 3). An average full-time worker will reach the second highest (37 cent) tax bracket in just six years in 2031-32, reaching the same position they faced in 2017-18 before the combined impact of the Stage 1-3 tax cuts. The impact of the Albanese Government's amended Stage 3 tax cuts on the second highest tax bracket will be completely reversed by 2027-28, while the increase in the top bracket will be eroded this financial year. By the end of the medium term, the second highest and top tax brackets will be equal to just 85 per cent and 120 per cent of average full-time earnings respectively.

Bracket creep will mean the average tax rate paid by a full-time worker will increase to 2017-18 levels (pre-Stage 1 tax cuts) in five years and will completely erode the impact of the amended Stage 3 tax cuts in seven years (Figure 4). The reduction of the 16 cent tax rate to 14 cents, announced in this year's Budget, has only delayed these outcomes by one year (Figure 5).

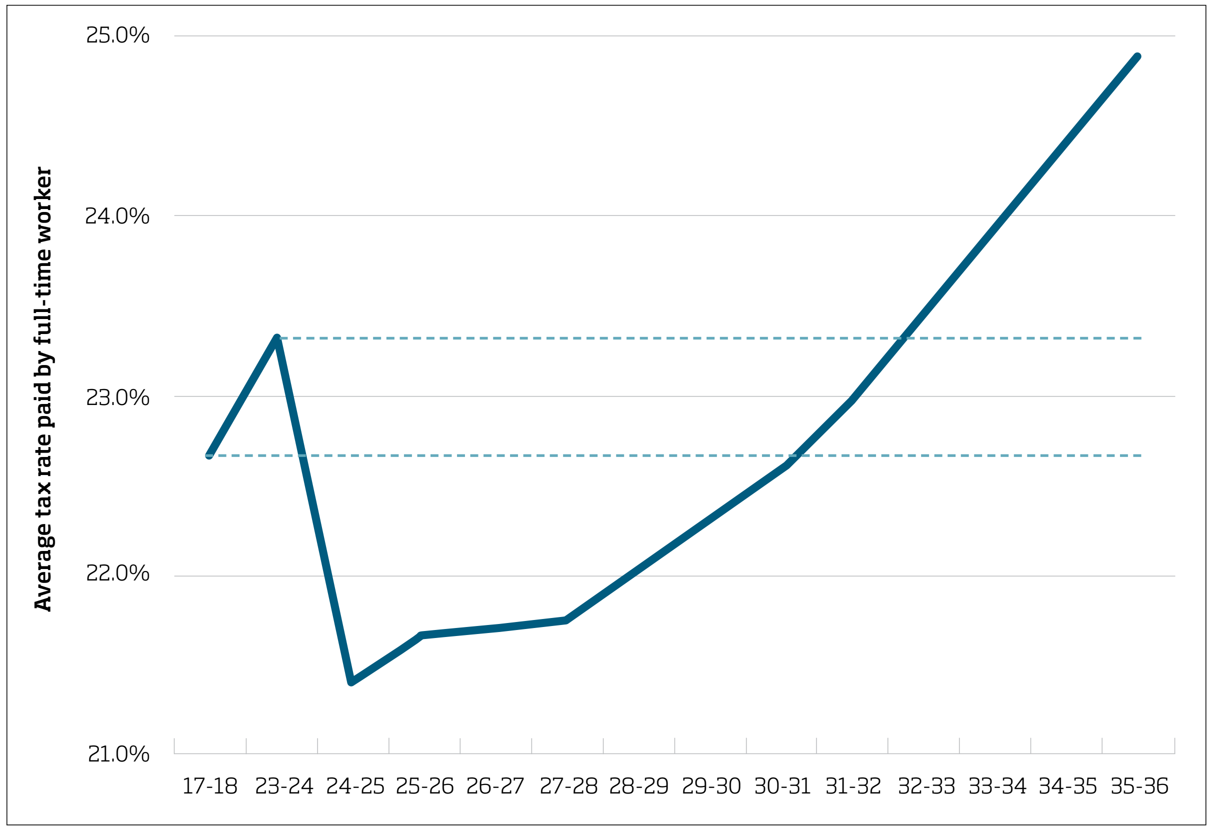
4 Indexing to inflation would not completely eliminate bracket creep, because wages usually increase faster than inflation. However, it would largely counter bracket creep and ensure that workers only face higher average taxes if their earnings increase in real terms.
5 The income tax changes proposed by the Gillard Government were linked to the Carbon Tax.

Figure 3 – Tax brackets as a proportion of average full-time total earnings will be eroded by bracket creep if no further changes are made to tax rates or brackets



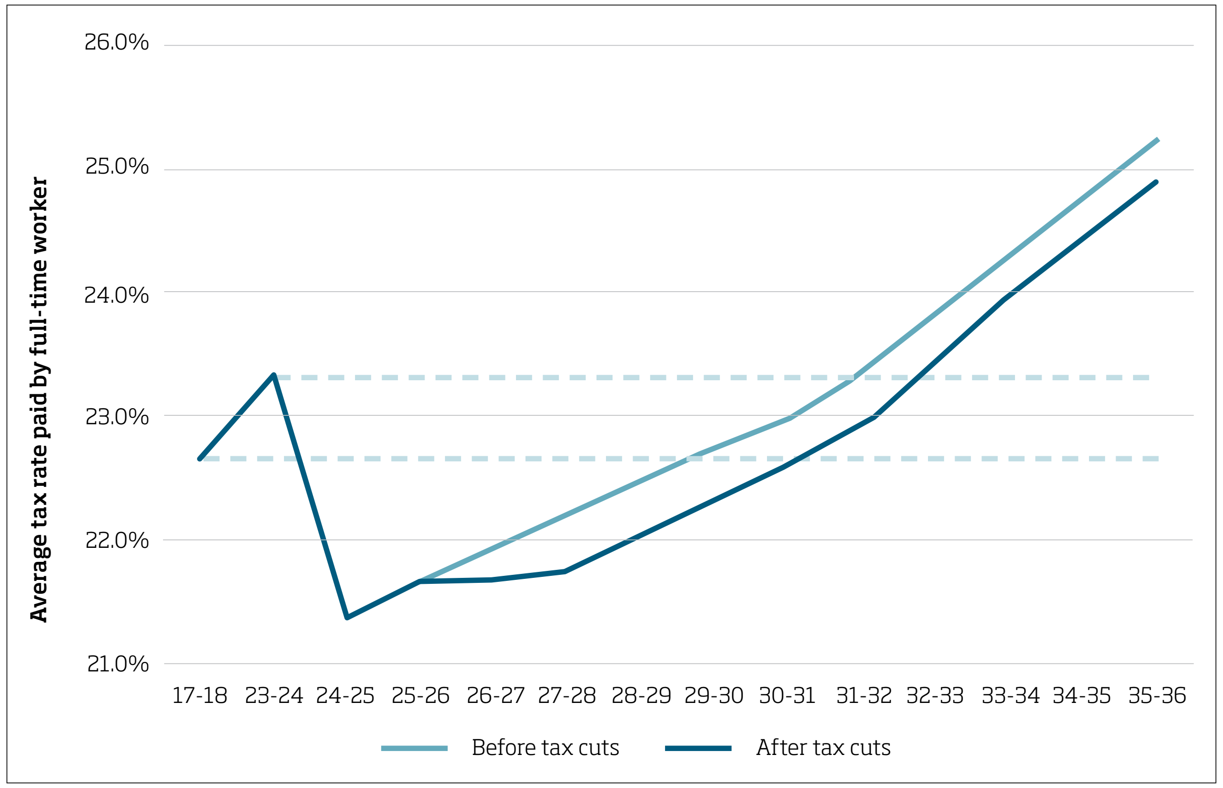
Source: MRC analysis.

Figure 4 – Bracket creep will completely erode the impact of recent tax cuts in 5-7 years



Source: MRC analysis.

Figure 5 – Impact of 25-26 Budget tax cuts on average full-time worker



Source: MRC analysis.

The benefits of income tax indexation

Indexing personal income tax brackets would benefit Australia economically in two significant ways:

1. Support productivity through improving the incentive to work, by increasing the real rewards of working, additional effort, education and training, and investment.
2. Impose a much-needed constraint on Government spending by stopping automatic annual tax increases, requiring future governments to finance new spending more transparently.

Firstly, bracket indexation would support economic growth and productivity by removing a disincentive to work. Without indexation, ongoing stealth tax increases mean workers receive less of the real benefits of working more or receiving higher wages (including through promotions or earning a raise). This inevitably decouples productivity gains from income gains. With indexation, workers would be more likely to participate in the labour force and work additional hours because they can be confident that they will receive the real rewards for their effort. Modelling by the Albanese Government included in the 2025-26 Budget supports this. Treasury found that the combined effect of recent one-off tax cuts (amended Stage 3 plus the 2025-26 Budget tax cuts), which had a similar effect to temporarily returning bracket creep, would increase total hours worked by around 1.3 million hours per week compared to 2023-24 tax settings, equivalent to more than 30,000 full-time jobs.[6] Permanent indexation would lock in these gains.

Indexing brackets would be a progressive tax reform, with the largest relative benefits accruing to lower income earners. This is because bracket creep hits workers hardest the closer their income is to the lower end of each tax bracket, with the strongest effect on those earning closer to the $45,000 threshold. Indexation would therefore be likely to have a more pronounced effect on the labour supply decisions of workers who are more sensitive to marginal decisions regarding financial returns from work, such as part-time or gig workers, those with multiple jobs, secondary earners and those reentering the workforce. These workers will often be younger people and women. In fact, Parliamentary Budget Office analysis shows that women are more likely to earn in the income range most impacted by bracket creep.[7] Treasury's 2025-26 Budget analysis found that of the 1.3 million increased work hours per week expected due to income tax reductions, 900,000 hours would come from women.

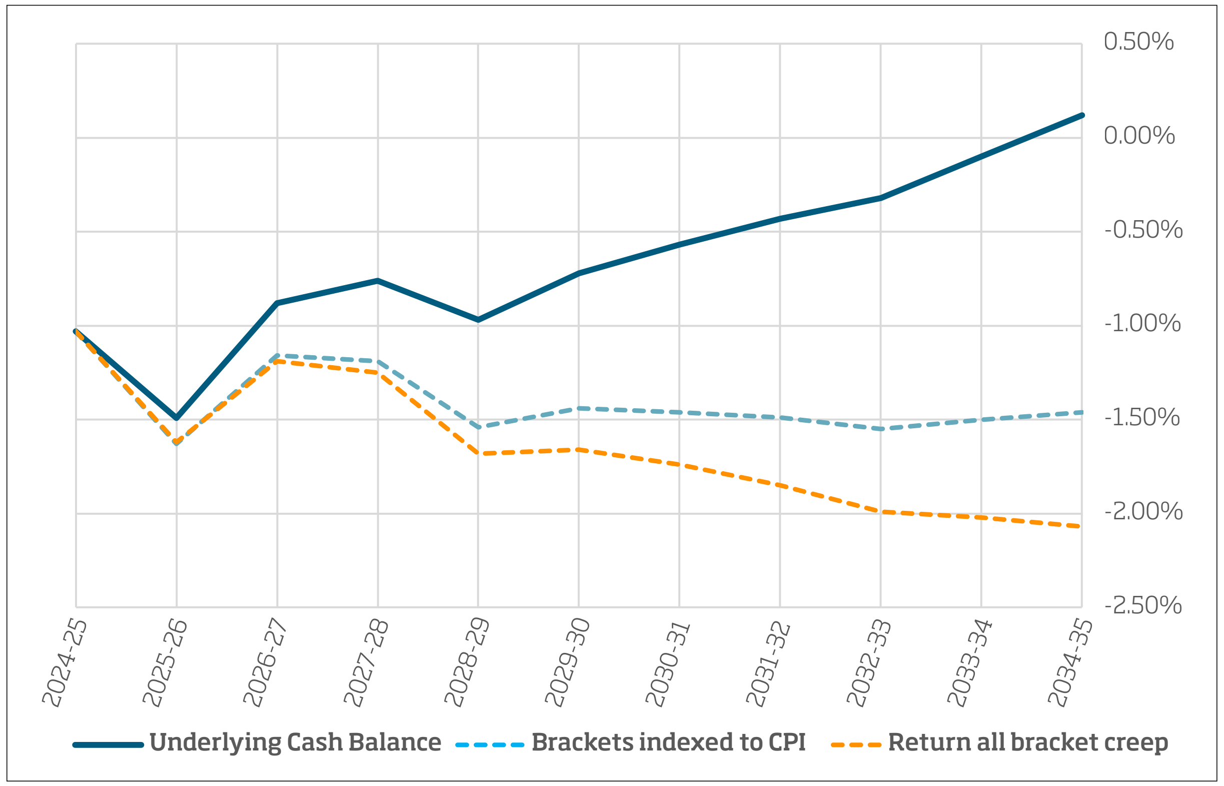
Bracket indexation would further support longer-term productivity growth by increasing the incentive to invest in human capital. Workers will be more likely to invest in skills development and education and training if they know that the real rewards for this investment will not be regularly eroded by bracket creep. This is likely to be especially relevant for mid-career workers considering additional or postgraduate study, or other upskilling.

Further, indexation would lead to wider long-term benefits by supporting a more dynamic economy, more efficient allocation of labour and even more stable industrial relations. By allowing workers to keep more of their money to spend and invest, indexation would grow consumer demand, which in turn would boost private investment that supports economic dynamism and growth. Over the longer term, this should also sharpen wage signals and economic incentives and support a more efficient allocation of labour, which is essential to lifting productivity. This could also promote more predictable and stable industrial relations, by ensuring that productivity gains flow more predictably into disposable incomes and reducing wage pressures (because workers keep more of what they earn automatically).

6 [Cost of living | Budget 2025-26]
7 [Bracket creep and its fiscal impact]

Secondly, by stopping covert automatic tax increases, bracket indexation would improve fiscal transparency and act as an ongoing constraint on government spending growth. The lack of indexation means that Budget projections are a fantasy because they do not account for the fact that future governments will have no choice but to cut taxes to return bracket creep to workers. Parliamentary Budget Office analysis of 2024-25 Budget data shows that the return to surplus is reliant on projections of bracket creep never being returned (Figure 6). In contrast, almost all major payments — such as pensions and welfare — are indexed to inflation, which is included in Budget projections. This means that the Budget, which doesn't show a return to surplus for a decade, is actually in much worse shape than it appears.

Figure 6 – Underlying cash balance forecast after returning bracket creep (% of GDP)



Source: PBO (2024-25 Budget figures) | Chart: MRC

Without the automatic windfall provided by what is effectively an annual tax increase by stealth, governments would not be able to use bracket creep as a lazy de facto fiscal repair mechanism. Future governments would need to finance new spending more transparently — by seeking a mandate to enact some combination of higher taxes or reduced spending elsewhere. This is exactly what occurred in the UK, where the former Conservative Government had to explain to voters its decisions in 2021 and 2022 to freeze income tax indexation (first until 2026, then extended until 2028) as a way to repair the Budget following the Covid pandemic. The new Labour Government has committed to recommence indexation in 2028-29, in order to *"protect working people"*.[8] A similar one-year pause occurred in France in 2012-13.

Indexation would ensure more scrutiny on future spending commitments, which is much needed given Government expenditure is now the highest it has been in 40 years, outside the Covid pandemic. This would require governments to begin to address the hard questions, such as how to make the NDIS sustainable, how younger Australian workers will fund an ageing population, or how to fund higher defence spending in an era of increasing geopolitical competition.

8 [Fiscal drag: An explainer - House of Commons Library]

Income tax reform options and costings

There are multiple ways that income tax brackets could be indexed to account for bracket creep. Tax brackets could be indexed to inflation or wages growth; all or some brackets could be indexed; indexation could begin immediately or be phased in over time. The impact on the underlying cash balance will vary significantly depending on how and when indexation is implemented.

Almost all OECD countries that index tax brackets adjust them according to inflation. Adjusting tax brackets according to inflation means workers do not face higher taxes if their nominal income rises only with inflation, maintaining their real purchasing power. While this reverses a significant proportion of the impact of bracket creep, it does not eliminate bracket creep entirely because taxpayers will still face higher average tax rates if their incomes rise faster than inflation. Indexing tax brackets to wages growth would eliminate bracket creep, however this would result in a much larger reduction in tax revenue.

In line with the approach of most OECD countries, we limit our analysis to examining options to index Australian tax brackets to CPI, adjusting brackets according to CPI in the previous year (Table 1). This would remove a substantial proportion of bracket creep in Australia. Because average tax rates would still increase over time as a result of real wages growth, future governments would need to enact additional tax cuts, allowing scope for further reforms such as lowering marginal tax rates (within brackets), adjusting the relative position of tax brackets or abolishing tax brackets.

We next examine whether to index some or all tax brackets to CPI. Only indexing some brackets would reduce the impact on the Budget, however this would introduce additional complexity and unfairness. Not indexing the tax-free threshold would be unfair to lower income earners; not indexing the top tax bracket would be politically convenient in the short run (by limiting benefits given to higher income earners), but would mean the second highest bracket would converge towards the top bracket by the end of the medium term[9], leaving a future government in the politically unenviable position of eventually needing to implement significant tax cuts for higher income earners.

Table 1 – Tax brackets would be indexed by CPI in the previous year

Year	2024-25	2025-26	2026-27	2027-28	2028-29	Medium term until 2035-36
Budget forecast CPI	2.5%	3%	2.5%	2.5%	2.5%	2.5%
Tax bracket indexed by	-	2.5%	3%	2.5%	2.5%	2.5%

9 The second highest tax bracket would reach $178,000, just below the current top bracket of $190,000.

Our analysis finds that indexing all tax brackets to CPI from 2025-26 would reduce the underlying cash balance by $43.5 billion over the forward estimates. This cost would be reduced to:

- $38.9 billion if the top bracket was not indexed;
- $32.9 billion if the tax-free threshold was not indexed;
- $28.3 billion if both were not indexed.

The reduced Budget impact of these options does not seem worth the unfairness and future problems they would cause. We therefore proceed on the basis of indexing all tax brackets, while instead considering alternative options to reduce the cost of indexation by phasing in the reform.

We examined several options to phase in indexation, while still achieving the long-term reform objective of indexing all tax brackets to CPI by the end of the forward estimates in 2028-29:

- Indexing all thresholds from 2025-26, but phasing in indexation at a lower rate until it reaches CPI at the end of the forward estimates.
- Delaying the indexation of the tax-free threshold until the 16 cent tax rate is reduced to 14 cents, while immediately indexing other brackets to CPI from 2025-26.
- Delaying the indexation of the tax-free threshold until the 16 cent tax rate is reduced to 14 cents, while phasing in indexation for other brackets until it reaches CPI for all brackets at the end of the forward estimates.

The resulting tax brackets in each year over the decade to 2035-36 are outlined in Appendix 5.

Table 2 – Indexation options and underlying cash balance impact over the forward estimates

Option		2025-26	2026-27	2027-28	2028-29	Budget impact – forward estimates
Full indexation	Tax-free threshold	CPI	CPI	CPI	CPI	-$43.5bn
	Second bracket (30c)	CPI	CPI	CPI	CPI	
	Third bracket (37c)	CPI	CPI	CPI	CPI	
	Top bracket (45c)	CPI	CPI	CPI	CPI	
Phased indexation	Tax-free threshold	1%	1.5%	2%	CPI	-$24.8bn
	Second bracket (30c)	1%	1.5%	2%	CPI	
	Third bracket (37c)	1%	1.5%	2%	CPI	
	Top bracket (45c)	1%	1.5%	2%	CPI	
Full indexation, delay tax-free threshold	Tax-free threshold	-	-	-	CPI	-$33.8bn
	Second bracket (30c)	CPI	CPI	CPI	CPI	
	Third bracket (37c)	CPI	CPI	CPI	CPI	
	Top bracket (45c)	CPI	CPI	CPI	CPI	
Phased indexation, delay tax-free threshold	Tax-free threshold	-	-	-	CPI	-$19.8bn
	Second bracket (30c)	1%	1.5%	2%	CPI	
	Third bracket (37c)	1%	1.5%	2%	CPI	
	Top bracket (45c)	1%	1.5%	2%	CPI	

Source: MRC analysis using PBO Small Model of Australian Representative Taxpayers

Phasing in indexation from 2025-26 at a lower rate than CPI could achieve full (CPI-linked) indexation by the end of the forward estimates at a considerably lower cost, while avoiding the pitfalls of only indexing some tax brackets. The downside of phasing in indexation is the cost to individual taxpayers, who would face an additional three years of some bracket creep, which would increase the tax they pay in the medium term if there are no additional changes to tax rates or brackets. We examined an option where tax brackets are indexed by 1% in 2025-26, increasing by 0.5% each year until reaching the forecast CPI of 2.5% in 2028-29. This option would reduce the underlying cash balance by $24.8 billion over the forward estimates, which is $18.7 billion or 43 per cent less than full indexation from 2025-26. This option is also less costly than any of the options to only index some tax brackets that were ruled out above.

The tax cuts legislated following the 2025-26 Budget (lowering the 16 cent tax rate to 14 cents) provide a unique opportunity to consider another alternative to achieve indexation at a lower cost – delaying the indexation of the tax-free threshold while indexing all other brackets (either immediately or phased-in). This is because these tax cuts will deliver a larger benefit than indexation would have, over the three years to 2027-28, for a significant proportion of net taxpayers[10] who are currently in the $18,000-$45,000 bracket

10 Due to the low income tax offset, individuals will not pay income tax if they have taxable income below $22,866 in 2026-27 and $23,200 in 2027-28.

and paying the 16 cent marginal tax rate. These taxpayers will still be better off if indexation of the tax-free threshold to CPI is delayed until 2028-29. Under this scenario, taxpayers earning over $31,000 will be better off over the forward estimates compared to full indexation and taxpayers earning over $25,500 will be better off compared to phased-in indexation. As shown in Table 2, delaying indexation of the tax-free threshold reduces the cost of reform over the forward estimates by $9.7 billion compared to full indexation, or by $5 billion compared to phased-in indexation.

Preferred options for income tax indexation

Based on the analysis above, we believe the Government should delay the indexation of the tax-free threshold until 2028-29, while indexing all other tax brackets to CPI. The impact of this reform on the underlying cash balance over the forward estimates would be reduced by around 41 per cent if indexation is phased-in as outlined above (from $33.8 billion to $19.8 billion). Immediate indexation to CPI would be preferable and provide a larger benefit to taxpayers. However, eliminating bracket creep through achieving full CPI indexation by the end of the forward estimates would still be a significant and lasting economic reform.

The impact of these two options on tax brackets, including as a proportion of average full-time total earnings, are shown in the tables and figures below. Bracket creep is significantly reduced under both options, however taxpayers will face more bracket creep if indexation is phased-in – as shown by the level of tax brackets as a proportion of full-time earnings. The impact of the phased-in option compared to full indexation is proportionally worse for higher tax brackets, growing to 5.4% of average earnings ($8,448) for the top bracket by 2035-36.

Table 3 – Tax brackets under full indexation

24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,200	$18,200	$18,200	$18,655	$19,121	$19,599	$20,089	$20,592	$21,106	$21,634	$22,175
$45,000	$46,125	$47,509	$48,696	$49,914	$51,162	$52,441	$53,752	$55,096	$56,473	$57,885	$59,332
$135,000	$138,375	$142,526	$146,089	$149,742	$153,485	$157,322	$161,255	$165,287	$169,419	$173,654	$177,996
$190,000	$194,750	$200,593	$205,607	$210,747	$216,016	$221,417	$226,952	$232,626	$238,441	$244,402	$250,513

Table 4 – Tax brackets under phased-in indexation

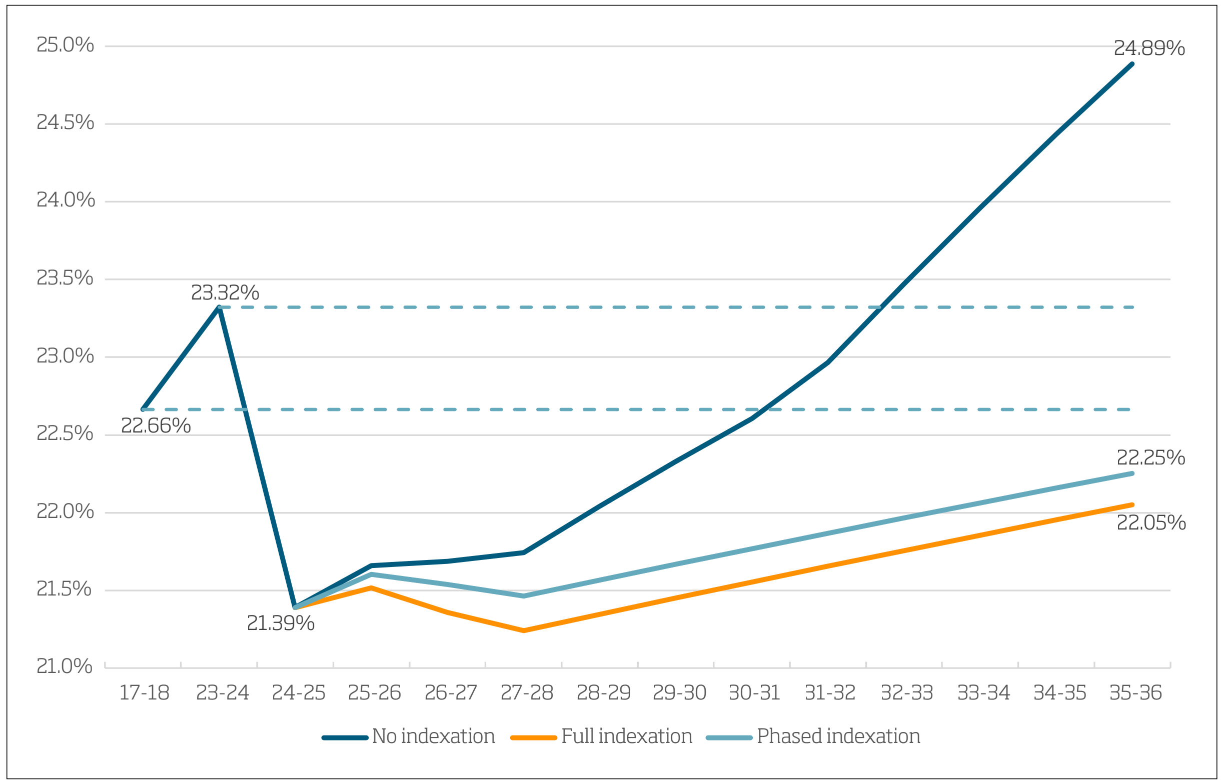
24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,200	$18,200	$18,200	$18,655	$19,121	$19,599	$20,089	$20,592	$21,106	$21,634	$22,175
$45,000	$45,450	$46,132	$47,054	$48,231	$49,437	$50,672	$51,939	$53,238	$54,569	$55,933	$57,331
$135,000	$136,350	$138,395	$141,163	$144,692	$148,310	$152,017	$155,818	$159,713	$163,706	$167,799	$171,994
$190,000	$191,900	$194,779	$198,674	$203,641	$208,732	$213,950	$219,299	$224,781	$230,401	$236,161	$242,065

Figure 7 – Tax brackets as a proportion of average full-time total earnings

Source: Treasury, ABS and MRC analysis.

Under either option, the average tax rate paid by a full-time worker would only be 0.66-0.86% higher compared to 2024-25 by the end of the medium term. This would ensure the average tax rate for these workers remains below both 2023-24 levels (pre-amended Stage 3 tax cuts) and 2017-18 levels (pre-Stage 1 tax cuts). Without indexation, bracket creep will return the average tax rate paid by a full-time worker to 2017-18 levels in five years and completely erode the impact of the Albanese Government's amended Stage 3 tax cuts in seven years (Figure 8).

Figure 8 – Average tax rate paid by a full-time worker



Source: MRC analysis.

Indexing tax brackets is progressive, with the largest proportional benefits accruing to lower income earners generally and towards the lower income within each bracket. Workers earning closer to $45,000 within the second tax bracket receive the greatest benefit measured as a percentage reduction in total tax paid. Table 5 shows the cumulative impact for individuals over the forward estimates within given taxable income bands (for medium term figures see Appendix 6). Because the upper limit of each band aligns with the 2024-25 tax brackets, the cumulative benefit shown is that gained by indexing the lower end of each bracket and is the same for all workers within the income band shown. Workers earning an income between these bands will receive varying tax reductions. For example, under full indexation in 25-26, a worker earning between $135,001 and $138,375 will receive a tax cut of between $157 and $394 compared to 24-25, reducing their tax paid by between 0.5% and 1.2%.

Table 5 – Benefit to individuals from full indexation (LHS) and phased-in indexation (RHS) within given income brackets

Year	Taxable income*	Cumulative benefit since 24-25	Reduction in tax paid (max)^	Reduction in tax paid (min)^	Taxable income*	Cumulative benefit since 24-25	Reduction in tax paid (max)^	Reduction in tax paid (min)^
25-26	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$46,125-$135,000	$157	3.4%	0.5%	$45,450-$135,000	$63	1.4%	0.2%
	$138,375-$190,000	$394	1.2%	0.8%	$136,350-$190,000	$158	0.5%	0.3%
	$194,750+	$774	1.4%	~0%[1]	$191,900+	$310	0.6%	~0%
26-27	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$47,509-$135,000	$376	7.5%	1.2%	$46,132-$135,000	$170	3.7%	0.5%
	$142,526-$190,000	$903	2.7%	1.7%	$138,395-$190,000	$407	1.3%	0.8%
	$200,593+	$1,751	3.1%	~0%	$194,779+	$790	1.5%	~0%
27-28	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$48,696-$135,000	$591	11.0%	1.9%	$47,054-$135,000	$329	6.7%	1.1%
	$146,089-$190,000	$1,368	3.9%	2.6%	$141,163-$190,000	$760	2.3%	1.5%
	$205,607+	$2,616	4.5%	~0%	$198,674+	$1,454	2.6%	~0%
28-29	$18,655-$45,000	$64	100%[2]	1.5%	$18,655-$45,000	$64	100%	1.5%
	$49,914-$135,000	$850	14.8%	2.7%	$48,231-$135,000	$581	11.0%	1.9%
	$149,742-$190,000	$1,882	5.1%	3.6%	$144,692-$190,000	$1,259	3.6%	2.4%
	$210,747+	$3,542	5.8%	~0%	$203,641+	$2,350	4.1%	~0%

** Income bands have been chosen to demonstrate the maximum fixed impact within current tax brackets. Taxpayers earning an income between these brackets will receive varying tax reductions. For example, under full indexation in 25-26, a worker earning between $135,001 and $138,375 will receive a tax cut of between $157 and $394, reducing their tax paid by between 0.5% and 1.2%.*

^ Indexation has a progressive impact within each bracket. The lower a taxpayer's income within a bracket, the larger the potential percentage reduction in their total tax paid.

[1] The reduction in tax for high income earners will approach (but never equal) 0%, the higher their income.

[2] Workers earning close to the tax-free threshold pay little tax, so this may be reduced by 100%. Note this does not account for the low income tax offset. Due to the offset, individuals will not pay income tax if their taxable income is below $22,575 in 24-25 and 25-26, $22,866 in 26-27 and $23,200 in 27-28.

Budget impact

The four options examined in this paper would reduce the underlying cash balance by between $19.8 billion and $43.5 billion over the forward estimates (Table 6). The preferred options, which delay the indexation of the tax-free threshold, would reduce the underlying cash balance by either $19.8 billion or $33.8 billion.

The cost of the preferred reform options is modest in comparison to recent tax changes. The lower cost phased indexation option ($19.8 billion) is comparable to the cost of the reduction in the 16 cent tax rate to 14 cents announced in the 2025-26 Budget ($17.1 billion). The cost of either option is considerably lower than the Albanese Government's amended Stage 3 tax cuts, which Treasury estimated would cost $107 billion over the forward estimates period 2024-25 to 2027-28 (the cost would be even higher over the current forward estimates).[11] Indexing tax brackets would be a much more significant economic reform than either of these recent tax system changes.

Table 6 – Budget impact of tax bracket indication options over the forward estimates

Option	Underlying Cash Balance
Full indexation	-$43.5bn
Phased indexation	-$24.8bn
Full indexation, delay tax-free threshold	-$33.8bn
Phased indexation, delay tax-free threshold	-$19.8bn

It is also worth noting that during the 2025 federal election, the Coalition put forward savings, excluding the reversal of the reduction in the 16 cent tax rate, of a sufficient quantum to offset the cost of either preferred indexation reform option. This included policies such as taxing vapes, increasing student visa charges and reversing Labor policies to subsidise home batteries and electric vehicles. Those policies alone were estimated to improve the underlying cash balance by over $12 billion over the forward estimates period.

When considering the impact on the Budget, it is important to note that this is not increased spending. This reform is about putting an end to the automatic tax increases that Australian workers face every year, in the same way major government transfer payments are indexed so that recipients don't have the payments they receive reduced in real terms every year. Consider the counterfactual – if indexation was in place, a government seeking to move to the system we have would need to legislate to increase taxes on all workers every year, with no particular purpose in mind other than to boost the Budget bottom line. This would be as well received as a government seeking to end indexation of welfare payments and the aged pension.

The Budget's forecasts and projections are a fantasy. As mentioned, they do not account for the fact that future governments will have no choice but to cut taxes to return bracket creep to workers. Nevertheless, governments continue to present Budget updates each year as though they are a realistic representation of the nation's finances, while committing to future spending to be paid for by income tax revenue that will never be raised.

Indexing tax brackets would end this fantasy and force governments to present realistic Budgets that don't include automatic tax increases. Future governments seeking to make structural spending commitments would then need to do a better job explaining how they will be paid for. If they think tax increases are needed, this would need to be explained to voters and legislated transparently, as occurred in the UK following the Covid pandemic. There is no doubt that this would serve to constrain unnecessary spending.

11 [Amending tax cuts to deliver broader cost-of-living relief]

Conclusion

Indexing personal income tax brackets would be a significant and lasting economic reform that offers substantial benefits for Australia. Addressing bracket creep would be a major step towards a fairer, more sensible and more transparent tax system and bring Australia into line with the majority of OECD countries. This reform would cease the automatic, stealth tax increases faced by Australian workers, particularly benefitting lower and middle-income earners, younger Australians, and women. This would enhance productivity by strengthening incentives to work, pursue education, and invest in skills, while also fostering a more efficient allocation of labour.

Crucially, indexation would also substantially improve fiscal transparency and impose much-needed discipline on government spending. By removing the automatic revenue windfall from bracket creep, future governments would be compelled to transparently justify new spending commitments, rather than relying on undeclared tax increases as a lazy fiscal repair mechanism.

While there are various ways to approach implementing indexation, our preferred options involve delaying the indexation of the tax-free threshold until 2028-29, while indexing all other tax brackets from 2025-26, either immediately to CPI or through a phased approach. These options balance fiscal responsibility with the need to achieve income tax reform that alleviates the burden on taxpayers.

The impact on the Budget is modest compared to recent tax changes, and the Coalition's pre-election savings proposals demonstrate that offsetting the cost is achievable. Ultimately, implementing indexation is not about increasing spending but rather about ensuring that taxpayers' incomes do not go backwards due to inflation, mirroring the indexation of major government transfer payments.

The current political landscape, with the Albanese Government holding a significant majority and the Stage 3 tax cuts having been recently implemented, presents a unique and fleeting opportunity for bipartisan economic reform. If the Government does not take this opportunity, the Coalition should seize this moment to advocate for tax bracket indexation as a way to support productivity, aspiration, and a more accountable government.

Appendix 1 – History of Stage 1-3 tax cuts

The Stage 1-3 tax cuts were a series of tax changes legislated as part of the previous Coalition Government's 2018 *Personal Income Tax Plan*. The tax cuts were due to take effect over seven years.

Stage 1 provided a temporary tax offset targeted towards lower and middle income earners. Stage 2 increased multiple tax brackets and the Low Income Tax Offset (LITO), both to "lock in" the effect of the Stage 1 tax offset and reduce bracket creep. Stage 3 culminated in the abolition of the 37 cent tax bracket, effectively eliminating bracket creep for most taxpayers.

The Morrison Government made changes to the tax cuts in both 2019 and following the Covid pandemic. The Albanese Government made significant changes to Stage 3 in 2024 (Stages 1-2 had already come into effect).

Stage 1 (2018-19 to 2021-22)

Low and Middle Income Tax Offset (LMITO) for taxpayers with a taxable income between $37,000 and $126,000. LMITO ended on 30 June 2022.

Taxable Income	LMITO amount (2018-19 to 2020-21)	LMITO amount (2021-22 only)
Up to $37,000	$255	$675 (increased by $420)
$37,001 - $48,000	Increases by 7.5 cents per dollar to maximum of $1,080	$675 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,500
$48,001 - $90,000	$1,080	$1,500
$90,001 - $126,000	Phases down by 3 cents per dollar to $0	Phases down by 3 cents per dollar to $420
Above $126,000	$0	$0 ($420 at $126,000 taxable income)

Stage 2 (from 2020-21)

Permanent changes in tax brackets and the LITO. Originally scheduled for 2022-23, but brought forward during Covid recovery to begin from 2020-21 (creating overlap with LMITO, boosting refunds for some taxpayers).

Tax bracket/offset	Before Stage 2	After Stage 2 (from 2020-21)
19% bracket	$18,201 – $37,000	$18,201 – $45,000
32.5% bracket	$37,001 – $90,000	$45,001 – $120,000
37% bracket	$90,001 – $180,000	$120,001 – $180,000
45% bracket	$180,001+	unchanged
LITO	Up to $445	Up to $700
LMITO	Up to $1,080 from 2018-19	Continued until 2021-22, increased to $1,500 in 2021-22 only

Stage 3 (from 2024-25)

Morrison Government:

- Abolition of the 37% tax bracket with intent of flattening the tax structure and effectively abolishing bracket creep for most taxpayers.
- Expand the top of the 32.5% bracket to a taxable income of $200,000 by increasing the top tax bracket.
- Reduction of the 32.5% tax rate to 30%.

Tax bracket/offset	Before Stage 3	After Stage 3 (from 2024-25)
19% bracket	$18,201 – $45,000	*Unchanged*
32.5% bracket	$45,001 – $120,000	**Lowered to 30%** $45,001 – $200,000
37% bracket	$120,001 – $180,000	*Abolished*
45% bracket	$180,001+	$200,001+

Albanese Government changes:

- Amend Stage 3 to increase taxes on higher income earners and reduce taxes on lower and middle income earners, compared to the original Stage 3.
- Lower the 19% tax rate to 16%
- Reinstate the 37% tax bracket, beginning at a higher taxable income than before the original Stage 3 ($135,000 compared to $120,000).
- Lower the threshold for the 45% tax bracket from $200,000 to $190,000.

Tax bracket/offset	Original Stage 3	After Stage 3 (from 2024-25)
19% bracket	$18,201 - $45,000	Lowered to 16% *Income range unchanged*
30% bracket	$45,001 – $200,000	$45,001 – $135,000
37% bracket	*Abolished*	*Reintroduced* $135,001 - $190,000
45% bracket	$200,001+	$190,001+

Appendix 2 – A note on state taxes on property and insurance

The arguments for indexing personal income tax brackets to eliminate bracket creep and improve fiscal transparency apply equally to various state taxes, most notably stamp duties on property and insurance. State governments also benefit from an unlegislated "tax by stealth" through rising property prices and insurance premiums. The problem with property stamp duty is the same as with income taxes due to the progressive nature of stamp duty thresholds, and is amplified due to the comparatively rapid pace of property price increases in many parts of Australia. Stamp duty on insurance is (as explained below) different because it is charged as a flat percentage of premiums, however governments have nonetheless received significant windfall revenue from this tax in recent years because premium increases have far exceeded CPI. This lack of indexation (or, in the case of insurance taxes, a proxy for it) both obscures the true cost of stamp duty and exacerbates the economically harmful effects of these taxes.

Stamp duty on property

Stamp duty on property is a significant barrier to homeownership and mobility, a problem that is worsened by the fact that progressive stamp duty thresholds are unindexed in most states and territories. As property prices increase, these progressive thresholds mean that properties effectively experience a form of bracket creep, pushing transactions into higher tax brackets. This makes it harder for first-home buyers to enter the market and discourages existing homeowners from moving to more suitable properties, such as downsizing when their needs change. This tax on mobility can lead to inefficient housing utilisation and contributes to housing affordability challenges.

New South Wales (NSW) is the only Australian state that annually indexes its property stamp duty thresholds to CPI. Indexation in NSW was announced in 2018, with then-Treasurer Dominic Perrottet noting that no significant changes had been made to stamp duty thresholds since 1986, during which time the median house price had increased tenfold.[12] Stamp duty thresholds have been indexed annually in NSW since 1 July 2021.

At a minimum, all other states should follow the example of NSW and index stamp duty thresholds to CPI. Ideally, stamp duty thresholds should be indexed to reflect increases in property values, as these have typically outpaced CPI (often significantly), leading to disproportionate tax burdens as property prices rise. Indexing thresholds would ensure that the tax burden does not automatically increase simply due to inflation or property value appreciation, which would directly improve the affordability of housing.

Stamp duty on insurance

Stamp duty on insurance is charged as a flat percentage on premiums in all states and territories except the ACT, which has abolished stamp duty on insurance. By increasing the price of insurance (by 9-11% depending on the jurisdiction), stamp duty discourages individuals and businesses from adequately insuring against risks. In the absence of adequate insurance, the financial burden of these risks can either fall directly on taxpayers through disaster relief and social welfare programs, or leave individuals and communities vulnerable, leading to greater long-term economic and social costs.

12 Stamp duty change makes buying a home fairer | NSW Government

Insurance stamp duty presents a different challenge due to its flat-rate nature. However, recent significant increases in insurance premiums (much higher than CPI) have provided state governments with substantial windfall revenue at the expense of insurance policyholders. To address this, a potential solution could involve a form of proxy-indexation by capping the growth of insurance stamp duty revenue at CPI. If insurance prices increase beyond this cap, the state government would then adjust the stamp duty percentage rate downwards to ensure that revenue growth remains aligned with CPI. This would prevent governments from benefiting from unlegislated tax increases while providing relief to policyholders facing higher premiums. This would promote broader insurance coverage, benefiting both policyholders and the broader community by reducing financial exposure to various risks.

Appendix 3 – Historical tax brackets

Year	Bracket	Total earnings	% of earnings
2000-01	$6,000	$44,517	13.5%
	$20,000	$44,517	44.9%
	$50,000	$44,517	112.3%
	$60,000	$44,517	134.8%
2008-09	$6,000	$64,620	9.3%
	$34,000	$64,620	52.6%
	$80,000	$64,620	123.8%
	$180,000	$64,620	278.5%
2010-11	$6,000	$70,668	8.5%
	$37,000	$70,668	52.4%
	$80,000	$70,668	113.2%
	$180,000	$70,668	254.7%
2017-18	$18,200	$85,935	21.2%
	$37,000	$85,935	43.1%
	$87,000	$85,935	101.2%
	$180,000	$85,935	209.5%
2023-24	$18,200	$103,875	17.5%
	$45,000	$103,875	43.3%
	$120,000	$103,875	115.5%
	$180,000	$103,875	173.3%
2024-25	$18,200	$106,991	17.0%
	$45,000	$106,991	42.1%
	$135,000	$106,991	126.2%
	$190,000	$106,991	177.6%
2025-26 Forecast	$18,200	$110,469	16.5%
	$45,000	$110,469	40.7%
	$135,000	$110,469	122.2%
	$190,000	$110,469	172.0%

Appendix 4 – Income tax indexation in the OECD

- OECD data shows that almost half of OECD countries have some form of automatic indexation of tax brackets (47% – 18 out of 38 countries)
  - These include the US, Canada, Sweden, Denmark, Switzerland, Austria, Belgium, the Netherlands and Israel.
  - The vast majority of these adjustments are linked to inflation.
- MRC research found a further five OECD countries where adjustments to tax brackets to account for bracket creep are not automatic but are nonetheless the norm - including Ireland, Finland, France, Germany and Norway. This means 61% of OECD countries have automatic or regular indexation of tax brackets (23 out of 38 countries)
  - **Ireland:** The current Government committed to annually index brackets every year from 2022 linked to growth in earnings and have done so.
  - **Finland:** The OECD notes brackets in Finland are "updated every year with few exceptions". Income tax brackets are adjusted by whichever grows more – prices or wages.
  - **France:** Adjustments to tax brackets are the norm, however they were briefly paused in 2012-13 as a fiscal consolidation measure.
  - **Germany:** Since 2013, tax brackets have been regularly adjusted in line with inflation. The Bundesbank found in 2022 that this has more or less offset overall bracket creep over this period.
  - **Norway:** Typically adjusts annually to account for inflation and changes in wages.
- In addition, **the UK** historically indexed tax brackets (not automatically), however brackets were frozen by the former Government for six years from 22-23 until 27-28 as a post-Covid fiscal measure. The current Government has committed to return to indexation from 2028-29.

Appendix 5 – All reform options, tax brackets over the medium term

Full indexation

24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,655	$19,215	$19,695	$20,187	$20,692	$21,209	$21,740	$22,283	$22,840	$23,411	$23,996
$45,000	$46,125	$47,509	$48,696	$49,914	$51,162	$52,441	$53,752	$55,096	$56,473	$57,885	$59,332
$135,000	$138,375	$142,526	$146,089	$149,742	$153,485	$157,322	$161,255	$165,287	$169,419	$173,654	$177,996
$190,000	$194,750	$200,593	$205,607	$210,747	$216,016	$221,417	$226,952	$232,626	$238,441	$244,402	$250,513

Phased-in indexation

24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,382	$18,658	$19,031	$19,507	$19,994	$20,494	$21,007	$21,532	$22,070	$22,622	$23,187
$45,000	$45,450	$46,132	$47,054	$48,231	$49,437	$50,672	$51,939	$53,238	$54,569	$55,933	$57,331
$135,000	$136,350	$138,395	$141,163	$144,692	$148,310	$152,017	$155,818	$159,713	$163,706	$167,799	$171,994
$190,000	$191,900	$194,779	$198,674	$203,641	$208,732	$213,950	$219,299	$224,781	$230,401	$236,161	$242,065

Full indexation, delay indexation of tax-free threshold

24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,200	$18,200	$18,200	$18,655	$19,121	$19,599	$20,089	$20,592	$21,106	$21,634	$22,175
$45,000	$46,125	$47,509	$48,696	$49,914	$51,162	$52,441	$53,752	$55,096	$56,473	$57,885	$59,332
$135,000	$138,375	$142,526	$146,089	$149,742	$153,485	$157,322	$161,255	$165,287	$169,419	$173,654	$177,996
$190,000	$194,750	$200,593	$205,607	$210,747	$216,016	$221,417	$226,952	$232,626	$238,441	$244,402	$250,513

Phased-in indexation, delay indexation of tax-free threshold

24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36
$18,200	$18,200	$18,200	$18,200	$18,655	$19,121	$19,599	$20,089	$20,592	$21,106	$21,634	$22,175
$45,000	$45,450	$46,132	$47,054	$48,231	$49,437	$50,672	$51,939	$53,238	$54,569	$55,933	$57,331
$135,000	$136,350	$138,395	$141,163	$144,692	$148,310	$152,017	$155,818	$159,713	$163,706	$167,799	$171,994
$190,000	$191,900	$194,779	$198,674	$203,641	$208,732	$213,950	$219,299	$224,781	$230,401	$236,161	$242,065

Appendix 6 – Individual benefits over the medium term

Because the upper limit of each band aligns with the 2024-25 tax brackets, the cumulative benefit shown is that gained by indexing the lower end of each bracket and is the same for all workers within the income band shown. Workers earning an income between these bands will receive varying tax reductions. For example, under full indexation in 25-26, a worker earning between $135,001 and $138,375 will receive a tax cut of between $157 and $394 compared to 24-25, reducing their tax paid by between 0.5% and 1.2%.

This does not account for the impact of the low income tax offset. Due to the offset, individuals will not pay income tax if they have taxable income below $22,575 in 2024–25 and 2025–26, $22,866 in 2026–27 and $23,200 in 2027–28.

	Full indexation				Phased-in indexation			
Year	Earning	Cumulative benefit since 24-25	Reduction in tax paid (max)^	Reduction in tax paid (min)^	Earning	Cumulative benefit since 24-25	Reduction in tax paid (max)^	Reduction in tax paid (min)^
25-26	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$46,125-$135,000	$157	3.4%	0.5%	$45,450-$135,000	$63	1.4%	0.2%
	$138,375-$190,000	$394	1.2%	0.8%	$136,350-$190,000	$158	0.5%	0.3%
	$194,750+	$774	1.4%	~0%	$191,900+	$310	0.6%	~0%
26-27	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$47,509-$135,000	$376	7.5%	1.2%	$46,132-$135,000	$170	3.7%	0.5%
	$142,526-$190,000	$903	2.7%	1.7%	$138,395-$190,000	$407	1.3%	0.8%
	$200,593+	$1,751	3.1%	~0%	$194,779+	$790	1.5%	~0%
27-28	$18,200-$45,000	$0	-	-	$18,200-$45,000	$0	-	-
	$48,696-$135,000	$591	11.0%	1.9%	$47,054-$135,000	$329	6.7%	1.1%
	$146,089-$190,000	$1,368	3.9%	2.6%	$141,163-$190,000	$760	2.3%	1.5%
	$205,607+	$2,616	4.5%	~0%	$198,674+	$1,454	2.6%	~0%
28-29	$18,655-$45,000	$64	100%	1.5%	$18,655-$45,000	$64	100%	1.5%
	$49,914-$135,000	$850	14.8%	2.7%	$48,231-$135,000	$581	11.0%	1.9%
	$149,742-$190,000	$1,882	5.1%	3.6%	$144,692-$190,000	$1,259	3.6%	2.4%
	$210,747+	$3,542	5.8%	~0%	$203,641+	$2,350	4.1%	~0%
29-30	$19,121-$45,000	$129	100%	3.0%	$19,121-$45,000	$129	100%	3.0%
	$51,162-$135,000	$1,115	18.2%	3.6%	$49,437-$135,000	$839	14.9%	2.7%
	$153,485-$190,000	$2,409	6.3%	4.7%	$148,310-$190,000	$1,771	4.9%	3.4%
	$216,016+	$4,490	7.1%	~0%	$208,732+	$3,269	5.4%	~0%
30-31	$19,599-$45,000	$196	100%	4.6%	$19,599-$45,000	$196	100%	4.6%
	$52,441-$135,000	$1,386	21.3%	4.4%	$50,672-$135,000	$1,104	18.4%	3.5%
	$157,322-$190,000	$2,949	7.5%	5.7%	$152,017-$190,000	$2,295	6.1%	4.4%
	$221,417+	$5,462	8.3%	~0%	$213,950+	$4,211	6.7%	~0%
31-32	$20,089-$45,000	$265	100%	6.2%	$20,089-$45,000	$265	100%	6.2%
	$53,752-$135,000	$1,665	24.1%	5.3%	$51,939-$135,000	$1,375	21.6%	4.4%
	$161,255-$190,000	$3,503	8.5%	6.8%	$155,818-$190,000	$2,832	7.3%	5.5%
	$226,952+	$6,459	9.5%	~0%	$219,299+	$5,176	8.0%	~0%
32-33	$20,592-$45,000	$335	100%	7.8%	$20,592-$45,000	$335	100%	7.8%
	$55,096-$135,000	$1,950	26.7%	6.2%	$53,238-$135,000	$1,653	24.5%	5.3%
	$165,287-$190,000	$4,070	9.6%	7.9%	$159,713-$190,000	$3,383	8.4%	6.6%
	$232,626+	$7,480	10.6%	~0%	$224,781+	$6,165	9.2%	~0%
33-34	$21,106-$45,000	$407	100%	9.5%	$21,106-$45,000	$407	100%	9.5%
	$56,473-$135,000	$2,243	29.0%	7.2%	$54,569-$135,000	$1,938	27.1%	6.2%
	$169,419-$190,000	$4,652	10.6%	9.0%	$163,706-$190,000	$3,947	9.4%	7.6%
	$238,441+	$8,527	11.6%	~0%	$230,401+	$7,179	10.3%	~0%
34-35	$21,634-$45,000	$481	100%	11.2%	$21,634-$45,000	$481	100%	11.2%
	$57,885-$135,000	$2,542	31.2%	8.1%	$55,933-$135,000	$2,230	29.5%	7.1%
	$173,654-$190,000	$5,248	11.5%	10.2%	$167,799-$190,000	$4,526	10.4%	8.8%
	$244,402+	$9,600	12.6%	~0%	$236,161+	$8,219	11.4%	~0%
35-36	$22,175-$45,000	$556	100%	13.0%	$22,175-$45,000	$556	100%	13.0%
	$59,332-$135,000	$2,850	33.2%	9.1%	$57,331-$135,000	$2,529	31.7%	8.1%
	$177,996-$190,000	$5,859	12.4%	11.3%	$171,994-$190,000	$5,119	11.4%	9.9%
	$250,513+	$10,700	13.6%	~0%	$242,065+	$9,284	12.4%	~0%

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