

Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

7 February 2019

Dear Committee,

Thank you for the opportunity to contribute a submission on the *Lower Tax Bill 2018*. This Bill, if passed, would see major changes to Australia's tax system, as well as a large impact on the federal budget's cash balance.

Of greatest concern is the evidence provided by the Parliamentary Budget Office (PBO) in the Explanatory Memorandum of the *Lower Tax Bill 2018*. It shows a significant negative impact on the fiscal balance totalling \$622 billion over the forward estimates. When extrapolated out over the next ten years, total government revenue is projected to be \$2.529 trillion less than it is today. While ten-year estimates are rarely fiscally prudent, they do highlight the biggest issue of this Bill – the considerable loss of government revenue.

Senator Leyonhjelm has not provided in detail what programs would have to be cut in order to compensate for this loss of revenue. These proposals show that, even over the forward estimates, government spending would have to be reduced to the equivalent of cutting the entire welfare budget three times over. The Explanatory Memorandum states that the government should only provide funding to “non-excludable” services, such as defence and air quality regulation. Senator Leyonhjelm must be clearer on exactly where funding would need to be cut.

Personal Income Flat Rate

Moving to some of the specific measures, the Bill would seek to establish a flat personal income tax rate. An idea which goes against the core Australian value of fairness. As the Henry Tax Review noted, “the fairness of personal income tax is fundamental as an expression of societal values and is a prerequisite for people to be committed to the system and prepared to meet their obligations. There are two core elements to a fair system — a progressive tax rate structure and an appropriate definition of income.”

In the 2018 – 2019 Federal Budget, the Government proposed amendments to the personal income tax brackets. The changes proposed in the *Ten-Year Personal Income Tax Plan* will ensure that the overwhelming majority of taxpayers are paying less tax, while maintaining the fairness of a progressive tax system.

Indirect Taxes

On the issue of indirect taxes, the government's tax discussion paper in 2015 identified that “some taxes are introduced not as a means to collect revenue, but as a way to change behaviour. These are called corrective taxes. They are sometimes used instead of, or in addition to, information provision, regulation or fiscal measures, as a way of encouraging behaviour deemed socially desirable.”

It goes without saying that behaviours such as tobacco or excessive alcohol consumption have a harmful effect on society and should be discouraged. In particular, given that smoking consumption rates have reduced over time, revenue collected from the tobacco excise will eventually reduce, and will eventually one day be completely redundant. However, this also has another important fiscal benefit. Healthcare costs also reduce as smoking rates decrease, placing less strain on health spending and hospital capacity. These taxes must remain as part of the tax system in order to achieve our collective goal of a healthier society.

Medicare Levy

The *Lower Tax Bill 2018* proposes to abolish the two per cent Medicare Levy whilst retaining the Medicare Levy Surcharge on high income earners. This proposal does not recognise the realities of the current situation in our health system. In a time where both Medicare and our health system need more investment, abolishing the Medicare Levy would cut over \$10 billion per annum in revenue from our tax base. The levy, in its current form is fair given that, at some point, every Australian will use the services of Medicare.

The 2015 tax discussion paper notes that “the rate of the Medicare levy was recently increased by half a percentage point to 2 per cent from 1 July 2014 to help fund the introduction of the National Disability Insurance Scheme (NDIS). All additional revenue from the increase in the Medicare levy for ten years will go directly toward funding the NDIS.” This increase is fair.

Importantly, low-income individuals and households are looked after and, depending on their income, they may pay a reduced amount of the Medicare levy or no levy at all. As Australians, we should be proud of Medicare and its example to other countries around the world. Its ability to provide basic health services to every Australian, regardless of income or background, is fair whilst cutting the levy that provides it the funding it needs is far from fair.

Passenger Movement Charge

The abolition of the Passenger Movement Charge (PMC) is the only part of the Bill that should be seriously considered. A 2013 International Air Transport Association (IATA) economic briefing highlighted that “the abolition of the AUD \$55 Passenger Movement Charge levied on international departures would decrease the cost of international travel to/from Australia by approximately 3.5%”. Given that the charge is now \$60 per passenger, the benefits would be even greater.

The IATA briefing, entitled *the economic benefits of abolishing the Passenger Movement Charge in Australia*, further noted “a reduced overall cost of travel for passengers will – all else remaining constant – incentivize increased travel. [IATA] estimate that a 3.5% fall in travel cost would drive an increase in passenger traffic of around 2.5% annually”.

In further support of abolishing the PMC is the World Economic Forum’s *Travel and Tourism Competitiveness Report*. The 2017 edition of the report showed Australia in the top 20 countries in all criteria, except one – Price Competitiveness. In this case, Australia ranked 128th out of 136 countries. This poor performance, together with the IATA briefing, shows there is a clear mandate to abolish the PMC.

Concluding Remarks

While I remain an advocate for lower taxes and a more efficient tax system, the *Lower Tax Bill 2018* does not seek to accomplish that in a way that is consistent with the value of fairness. It presents more challenges to government and society as a whole than solutions. In my opinion, the Committee must recommend to the Senate to block the passage of this legislation.

Once again, thank you for the opportunity to contribute a submission on the *Lower Tax Bill 2018*.

Yours Sincerely,

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