tax justice network Australia

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Submission to Senate Standing Committee on Economics for the Inquiry into the *Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018*

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The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission to the Senate Economics Legislation Committee inquiry into the *Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018*. We oppose a reduction in the rate of tax paid by high income Australians on the basis it will reduce government revenue at a time when the government already lacks adequate revenue to perform its basic functions and it will drive up inequality. The Commonwealth Government is already struggling to provide adequate funding for aged care, education, responding to family violence, combating rampant wage theft, tackling human trafficking, curbing cybercrime (including online child sexual abuse) and curbing fraud in both the public and private sectors[1] to name just a handful of areas where greater government revenue is needed.

The analysis of NATSEM shows that the changes in the Bill will give away the greatest amount of government revenue to those on higher incomes in the long term. For example, a couple both earning twice the average full-time salary can expect an extra $13,000 in income by the 2024-2025 financial year.[2]

The Australian pointed out that by the 2024-2025 financial year the tax cuts in the Bill will deliver $11,815 to a person on an income of $200,000, compared to $3,740 for a person on $80,000 and just $1,400 for a person on $30,000.[3]

Thus in Schedule 1 the TJN-Aus opposes the tax offset for those on incomes above $90,000 per year. Similarly TJN-Aus opposes the reduction in the rate of personal income tax proposed in the Bill for those with salaries greater than $90,000 per year. TJN-Aus notes that in 2015 only 21% of Australians had taxable incomes above $87,000.[4]

Assistance to hard working low-income Australians would be better delivered through an increase in the minimum wage and greater protection from employer wage theft, than through personal income tax cuts.

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[1] https://aic.gov.au/publications/sr/sr001
[2] STINMOD+ and NATSEM, 'How does the budget affect us?', 2018, 3, http://www.ausbudget.org/assets/NATSEM-BUDGET-ANALYSIS-2018.pdf
[3] Adam Creighton, 'Budget 2018: Biggest income tax cut since Howard's day', *The Australian,* 9 May 2018, https://www.theaustralian.com.au/federal-budget/tax/budget-2018-biggest-income-tax-cut-since-howards-day/news-story/710a0dbd37e19283ce52841fe5301c21
[4] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 10.

Impact of Government Revenue Loss

There is no Commonwealth law enforcement agency that is adequately resourced to deal with the volume of harms and criminal activity taking place to the knowledge of TJN-Aus members. At the same time more funding is needed for a range of services from health, education, disability services, family violence services, housing, legal aid, alcohol and other drugs services, just to name a few. Thus, it is reckless for the government to be looking to give away more revenue to high income earners when government is failing in so many of its basic functions to maintain a decent society.

The Parliamentary Budget Office expects that from 2017 to 2027, spending on the NDIS, hospitals, Medicare, aged care and schools will rise by a total of 1.2% of GDP per year ($21 billion in today's terms). This takes no account of major gaps in social programs that have been neglected for years, such as the level of the Newstart Allowance (which key business groups acknowledge is too low to support people in being able to properly seek employment), affordable housing and dental care.[5]

Any reduction in personal income tax for higher income Australians would come off the back of $15 billion that has been take out of social security and community services spending, including freezes in family payments, a tougher penalty system for people locked out of paid employment, longer wit periods for payments for people with no private income, a freeze in Medicare rebates and the $1.5 billion per annum (in 2017) cut from essential services. Government policy has also sought to make budget savings by forcing people off higher pension-rate social security payments to the inadequately low Newstart Allowance.[6]

Just as eight annual tax cuts during the 2000s led ultimately to the harsh 'debt and deficit' 2014 budget cuts, tax cuts now will build in structural revenue problems leading to harsh budget cuts when there is an economic downturn again. That is irresponsible budgeting if the aim is the well-being of the whole Australian community.

Research by The Australia Institute found the Howard and Rudd Governments had worsened income inequality with tax reductions targeted to favour the wealthiest Australians. Australia's highest income earners got one of the largest tax cuts in the developed world in the 2000s, surpassing the unfunded tax cuts of the US Bush Administration. In 2000 upper-middle income earners were taxed at an effective tax rate of 38.3%, which dropped to 31.7% in 2010.[7] Of the $169 billion in tax cuts given out over seven years, $71 billion went to the highest 10% of income earners. The top 10% of income earners got more than the bottom 80%.[8]

Inadequate government revenue ultimately means there will be cost of living increases on families through having to pay more for essential services funded by government. In the last six years there has been a 57% rise in child care costs, a 40% rise in out of pocket medical costs and a 33% rise in the average cost of pre-school and primary education.[9]

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[5] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 1 and Parliamentary Budget Office, 'Medium term budget projections', Report No 2/2017.

[6] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 1.

[7] George Megalogenis, 'How our rich were given some of the world's biggest tax cuts', *The Australian,* 21 September 2011.

[8] Matt Grudnoff, 'Tax cuts that broke the budget', The Australia Institute, Policy Brief No. 51, May 2013, p. 1.

[9] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 2, 6-7.

Adults on the lowest 20% of incomes (below $20,000 per annum, with an average income of $8,000) pay no income tax (most rely on social security), so will see no benefit from a reduction in personal income tax rates. The next 20% (up to incomes of $37,000 per annum, with an average income of $28,000, mainly low paid and part-time workers) pay an average of $30 per week in tax and would gain nothing from the removal of the current 37% rate bracket in the tax system, and will lose out from cuts to government funded services and benefits.[10]

Failure to provide adequate law enforcement impacts on the well-being of the community and on individuals being subjected to human rights abuses and other harms, but can further impact on government revenue. For example, the failure to adequately regulate and carry out law enforcement on VET sector providers saw VET FEE-HELP payments from government to VET providers increasing from $325 million in 2012 to $2.9 billion in 2015.[11] By the government's own admission an alarming proportion of the funding has been wasted, paid by the government directly to con men and criminals. The government is now having to spend further revenue in legal actions to recover some of the funds.

The government has provided an optimist prediction of wage growth, which is not shared by other analysts. If wage growth is lower than forecast, then the government revenue from personal income tax will be lower than forecast, making the tax cuts even less affordable. Deloitte predicted that wage growth would only be 2.1% in 2017 rising to 2.4% by 2020.[12]

Tax Give Away will drive up inequality

A cut in the personal income tax rate for wealthier Australians will increase inequality in Australia by reducing the level of progressiveness in our tax system, which is one of the most progressive in the world. Piketty points out "there is a set of forces of divergence associated with the process of accumulation and concentration of wealth when growth is weak and the return on capital is high."[13] His data shows substantial growth in income inequality in the OECD countries he examined and in the US this "spectacular increase in inequality largely reflects an unprecedented explosion of very elevated incomes from labour, a veritable separation of the top managers of large firms from the rest of the population."[14] The work by Andrew Leigh suggests that Australia faces a similar problem with real wages for the bottom tenth having risen 15%, while wages for the top tenth have risen 59% in the period 1975 to 2010. Cumulatively, the increase in inequality over the past three decades represents a $365 billion shift from the bottom 99% to the top 1%. His work found the richest 50 people in Australia have more wealth then the bottom two million.[15]

Piketty points to increasing wealth inequality, which he argues is the result of the rate of return on capital remaining significantly above the growth rate for an extended period of time.[16] He points out the consequence is:[17]

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[10] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 2, 9.
[11] Australian Government, 'Redesigning VET FEE-HELP. Discussion Paper', 2016, p. 15.
[12] ACOSS, '7 reasons why ACOSS does not support tax cuts in the Federal Budget', Pre-Budget briefing, May 2018, 3.
[13] Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 23.
[14] Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 24.
[15] Andrew Leigh, 'Gap between haves and have nots must be narrowed', *The Australian,* 21 April 2014.
[16] Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 25.
[17] Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 26.

> *…. the concentration of capital will attain extremely high levels – levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies.*

Emerging evidence links economic inequality with decreased psychological wellbeing and poor health. Wilkinson and Picket's *The Spirit Level* linked directly the major health and social problems to levels of income inequality through an analysis of OECD countries. People living in unequal societies were several times more likely to be in jail, be mentally ill, be obese, be murdered and have higher infant mortality. Whilst there have been critiques of both their methodology and statistical analysis, their observations do point to inequality being a factor that impacts on many social indicators of well-being for a society.

Income inequality also impacts on people's opportunity to move beyond or out of their social sphere meaning the question of luck as to which sort of family you were born into becomes a large determinant of where you end up.[18]

IMF staff report there is a tentative consensus in the literature that "inequality can undermine progress in health and education, cause investment-reducing political and economic instability, and undercut the social consensus required to adjust in the face of shocks, and thus that it tends to reduce the pace and durability of growth."[19]

The IMF staff report that lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution.[20]

IMF staff have pointed out that measures that address inequality through redistribution do not necessarily have a negative impact on economic growth:[21]

> *Equality-enhancing interventions could actually help growth: think of taxes on activities with negative externalities paid mostly by the rich (perhaps excessive risk-taking in the financial sector) or cash transfers aimed at encouraging better attendance at primary schools in developing countries, as examples. The macroeconomic effects of redistributive policies will reflect a balance between the components of the fiscal package, and it is an empirical question whether redistribution in practice is pro- or anti-growth.*

They declared that inequality is harmful for growth, that "lower inequality seems to be associated with longer growth spells"[22], affirming the 2011 Berg and Ostry finding that "multi-decade and multi-country evidence demonstrates that greater equality can help sustain growth...apart from ethical, political, or broader social considerations."[23]

They found that redistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth.

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[18] A. Leigh, *Battlers and Billionaires: the Story of Inequality in Australia*, Redback, Collingwood, 2013, p.91.
[19] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.
[20] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.
[21] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.
[22] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 21
[23] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 21

They conclude the combined direct and indirect effects of redistribution – including the growth effects of the resulting lower inequality – are on average pro-growth. [24]

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[24] Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth,* IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.

Background on the Tax Justice Network Australia

The Tax Justice Network Australia (TJN-Aus) is the Australian branch of the Tax Justice Network (TJN) and the Global Alliance for Tax Justice. TJN is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. TJN works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. TJN's objective is to encourage reform at the global and national levels.

The Tax Justice Network aims to:

(a) promote sustainable finance for development;
(b) promote international co-operation on tax regulation and tax related crimes;
(c) oppose tax havens;
(d) promote progressive and equitable taxation;
(e) promote corporate responsibility and accountability; and
(f) promote tax compliance and a culture of responsibility.

In Australia the current members of TJN-Aus are:

- ActionAid Australia
- Aid/Watch
- Anglican Overseas Aid
- Australian Council for International Development (ACFID)
- Australian Council of Social Service (ACOSS)
- Australian Council of Trade Unions (ACTU)
- Australian Education Union
- Australian Manufacturing Workers Union
- Australian Nursing & Midwifery Federation
- Australian Services Union
- Australian Workers Union, Victorian Branch
- Baptist World Aid
- Caritas Australia
- Community and Public Service Union
- Electrical Trades Union, Victorian Branch
- Evatt Foundation
- Friends of the Earth
- GetUp!
- Greenpeace Australia Pacific
- International Transport Workers Federation
- Jubilee Australia
- Maritime Union of Australia
- National Tertiary Education Union
- New South Wales Nurses and Midwives' Association
- Oaktree Foundation
- Oxfam Australia
- Save the Children Australia
- Save Our Schools
- SEARCH Foundation
- SJ around the Bay
- Social Policy Connections
- TEAR Australia
- The Australia Institute
- Union Aid Abroad – APHEDA
- UnitedVoice

- Uniting Church in Australia, Synod of Victoria and Tasmania
- UnitingWorld
- Victorian Trades Hall Council
- World Vision Australia