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Scholarly Analysis of Lower Tax Bill 2018

Standing Committees on Economics

Australia

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Sub: Analysis Lower Tax Bill 2018

Whiteford (2018) states ‘the share of tax paid by the highest earners needs to be judged in relation to the share of the total income they receive – not simply their proportion of the population’.

This submission will focus on research studies from different sources, concluding with recommendations.

Research Studies

The Grattan Institute research indicates the Coalition’s plan sacrifices necessary revenue to pay lower taxes on high income earners, and that the richest 20 per cent of taxpayers would benefit from the proposed flattening of the scale. It says “the plan itself does not make the tax system much less progressive”.

The Centre for Social Research and Methods at the Australian National University (ANU) has assessed the Coalition’s proposals and compared the government’s and opposition’s plans. The research concludes that the government’s plan would lead to modestly less progressive tax system, as would the Labors’ policy, but the difference would not be large.

Miranda Stewart discusses the advisability of the “cap” on Australia’s tax –to-GDP ratio, as well as the desirability of flattening the income scale. She concludes that “*the government personal tax cuts, if fully implemented, would flatten our income tax rate structure more than ever in the past*”.

Breuning research argues that, while income tax cuts have their attractions, cutting rates without broadening the tax base poses a substantial risk to the budget’s bottom line.

Teck Chit Wong research illustrates that the budget papers offer no analysis of the budget's distributional impact.

Podger research with analysis indicate both the Coalition's and Labors' plans complicate the income tax scale, mainly via the income-tested tax offsets they include in order to limit the cost of next year's tax cuts.

Mathias Cormann, Finance Minister says on 5 May 2018 said "but of course it's important that the tax policy settings are appropriate overall". he further said "higher –income earners overwhelmingly carry the heaviest tax burden in our economy today, and obviously, if we want to ensure that Australians are incentivised and encouraged to work hard—there's got to be appropriate reward for effort as well".

In 2013 Fleur Anderson from the *Australian Financial Review* was suggesting "the middle class and the professions are staging a revolt as they find their growing share of the tax burden too hard to bear, after over a million people were made exempt from the tax system over the past ten years." In the same newspaper, commentators cited the Australian Tax Office's tax statistics for 2010-11 financial year, which showed that the top 5 per cent of income earners paid 34.1 per cent of net income tax and the top 25 per cent paid just over two thirds. Recent research shows the share paid by the top 5 per cent had fallen to 33.0 per cent in 2015-16.

Chris Richardson, Deloitte Access Economics cited the Tax Office, data showing that the top 1 per cent of earners pay 17 per cent of all personal income tax and the highest earning pay 55 per cent. He said "That's not what Me and Mrs Australia think is happening --", he wrote, "mainly because the analysis you've been reading has talked dollars rather than shares of tax paid." Is this the right way to assess whether the tax system is fair?

Tax office figures show that in 2015-16 the highest 1 per cent of income tax payers – 100,000 people earning \$330,000 or more per year, which adds up to about \$272 billion of taxable income, or an average roughly \$720,000 taxpayer – paid 16.9 per cent of net tax but received 9.6 per cent of all taxable income.

The research on *Rethink* discussion paper, "*Australia's compulsory superannuation system- the superannuation guarantee –is sometimes equated to a social security tax. However, as it is paid directly into private superannuation accounts (currently set at 9.5 per cent of an employee's ordinary time earnings) rather than to the government, it does not meet the definition of a tax.*"

ATO Studies

The studies of ATO demonstrates the assumptions used to construct the illustrative estimates are informed by actual data and expert opinion.

The ATO **does not audit or review**, assuming that:

- a certain degree of non-compliance with tax law occurs;
- the degree of non-compliance in these groups is less than those done by the ATO in audit or review due to risk –based approaches to engagement.

The ATO **does audit or review** corporate groups, assuming that:

- adjustments to their tax liabilities are representative of the value of non-compliance with tax law;
- ATO does not detect all instances of non-compliance;

- adjustments to their tax liabilities from completed audits and reviews are correct law, at the time of estimation.

The projected estimates:

- past outcomes of audits, reviews, settlements and objections are accurate representations of future outcomes;
- ATO assurance activities under their justified trust initiative will continue to change their gap estimates.

Adam Creighton Studies

Overwhelmingly bulk of people in Australia who are earners pay no tax at all. High income earners have become a giant piñata that the majority hit for extra money to pay for whatever new social spending programs the political class proposes to stay in office.

Our, constitutional democracy, has become a farce, rather than safeguarding a set of inviolable tax rules applied under the rule of law, has become an elaborate mechanism for extracting resources from a small minority for the much larger majority. A crude summary might be “ pay up or else” .

Only the top fifth of households ranked by their income – those with incomes of more than \$200,000 a year in the financial year – pay anything into the system net of the value security in cash and kind received according to data received from the latest Australian Bureau of Statistics survey of household income.

The distribution of personal income tax – the federal government’s biggest source of revenue , raising about 45% of the total (\$165 billion per year) – is far more progressive than the headline marginal tax rates suggest. Including the 1.4 per cent Medicare levy, Australia’s income tax rates range from 19 per cent for every dollar of income above \$18,200 to 46.5 per cent for every dollar above \$180,000. Most tax payers face a 34.5 per cent marginal rate.

The 1.73 million households on the middle quintile paid an average tax rate of 12.3 per cent on average incomes of \$88,900. But the ABS survey estimates these households received \$31 a week in the Age Pension payments, \$13 in disability payments, \$48 in child –related payments and \$12 in unemployment benefits, alongwith a host of others that whittle their average net tax payments down to \$84.

This sort of analysis excludes the value of government benefits beyond cash: “ free” schools , hospitals, public transport and the like, which the ABS estimated to be \$413 a week for the middle-ranked households. Netting everything off shows even “ average” , let alone lower-income, households get back \$2.70 for every \$1 they paid in tax. Households in the bottom quintile enjoyed benefits worth more than 320 times when they paid in tax compared with about 10 times for those in the second –lowest quintile

Notwithstanding the enormous variation in the circumstances of individuals and households within each of these five buckets – for instance , childless, healthy workers will pay in much more than unemployed families with sicj children – the disparities are as remarkable as they are little-known.

Put simply, only the top fifth of households paid tax. The bottom 6.9 million households, while often incurring income tax liabilities and regularly paying GST , received more in cash welfare and services they paid in.

The concentration of the tax burden on high-income earners would be starker still if the many tens of thousands of senior local, state and federal public servants – whose salaries often exceed \$200,000 a year- were considered a cost. One could argue that taxes paid by workers whose jobs on taxing other workers are akin to a cash refund to everyone else, rather than organic contribution.

Critics tend to argue that ever greater taxes drive economic activity overseas and reduce incentive to work, undermining growth. These are valid arguments but they do not answer the question of what is most desirable “inequality=economic growth” trade-off.

Studies Nicole Hasham

The current government’s mantra, *first*, the government’s company tax policy is worth 465 billion over ten years, *second*, Parliament has already passed a tax cut for companies with turnover of less than \$50 million, and *third*, the government says the policy will boost jobs and wages but welfare groups fear it will lead to budget cuts and affect society’s poorest.

Anglicare, Oxfam Australia, the Salvation Army and ACOSS have expressed their concerns with a representation that already disadvantaged Australians may more for health, education and community services. Further they mentioned, that company tax is a mistake while almost three million people live in poverty, believing that it is unconscionable to pursue company tax cuts while refusing to raise the rate of Newstart and other allowances.

Studies of Removal of Dividend Tax

Australia, unlike practically every other market based democracy, unwisely created this anomaly by distorting the principle by taxing twice –at company level and as dividends. With an ageing population, this distortion would prove unsustainable.

Recommendations

1. The “rich” and companies, can afford to pay tax, so they should be taxed more;
2. Arbitrary increases in taxes to pay for services the market can and should provide offend the rule of law and erode individual property rights;
3. Policies must be economically and socially rational – and just.

