



**DEPUTY PRIME MINISTER
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The Hon John Murphy MP
Chair
Standing Committee on Petitions
PO Box 6021
Parliament House
CANBERRA ACT 2600

21 FEB 2012

Dear Mr Murphy

Thank you for your letter of 22 August 2011 forwarding a petition regarding the top tax rates for personal income tax and company tax, submitted for the consideration of the Standing Committee on Petitions. I apologise for the delay in responding.

The petition suggests raising the tax free threshold, increasing the top marginal tax rate, increasing the company tax rate, and differentiating the tax treatment of small businesses.

The Government believes that the current mix of personal, company and indirect tax is an appropriate one, which supports our fiscal strategy. The Government's medium-term fiscal strategy is to achieve budget surpluses on average over the medium term, keep taxation as a share of gross domestic product (GDP) below the level for 2007-08 on average, and improve the Government's net financial worth over the medium term.

The strategy has remained unchanged since 2008-09, this Government's first budget. It has guided our response to the global financial crisis and provides the basis for the Government's commitment to return the budget to surplus. The strategy provides the necessary flexibility for the budget position to vary in line with economic conditions to support macroeconomic stability.

In the Updated Economic and Fiscal Outlook released in February 2009 the Government also committed to take action to return the budget to surplus once the economy recovered to grow above trend. As part of this strategy, the Government will allow the level of tax receipts to recover naturally as the economy improves – while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average – and hold real growth in spending to 2 per cent a year until the budget returns to surplus.

The Government remains committed to keeping tax as a share of GDP at or below the level we inherited in 2007-08. The 2011-12 Budget showed that the Government continues to meet this commitment and estimated that tax as a share of GDP will be 21.8 per cent in 2011-12. This is consistent with the Government's fiscal strategy, which is designed to ensure fiscal sustainability.

The petition suggests raising the top marginal tax rate to 66.6 per cent. The Government appreciates that while the Australian economy has come through the global financial crisis in a stronger position than most other comparable economies, there are many Australians who are still struggling to make ends meet. That's why the Government has delivered \$47 billion of tax cuts since coming to office. This includes delivering tax cuts of \$750 for a person on \$30,000, and the 2011-12 Budget measure to deliver up to \$300 of tax relief during the year, rather than at the end of the year. These tax cuts mean that people pay less tax and have more money to help them meet their expenses.

The Government will deliver an \$8 billion package of further tax cuts over the next four years as part of Australia's Clean Energy Future Plan, targeting these tax cuts to low- and middle-income individuals. From 1 July 2012, taxpayers with income up to \$80,000 will all get a tax cut. Around 60 per cent of all taxpayers will get a tax cut of at least \$300. Further tax cuts will be delivered in 2015 for all taxpayers with incomes up to \$80,000, with most receiving a tax cut of up to \$385 in total. Those on higher incomes will pay no more income tax as a result of these reforms.

The petition suggests raising the tax free threshold to \$30,000. From 1 July 2012, the tax free threshold will be more than tripled from \$6,000 to \$18,200, and the low-income tax offset (LITO) will be reduced to \$445. From 1 July 2015, further tax cuts will increase the tax free threshold to \$19,400, with a reduction in the LITO to \$300. Regular wage earners with incomes below the new tax free thresholds will get to keep all of their wages in their regular pay packets, and need not go to the effort of lodging annual tax returns. When the LITO is taken into account, people with incomes of up to \$20,542 will not have a net tax liability from 2012-13, increasing to \$20,979 from 2015-16. At the recent Tax Forum, the Government announced that the statutory tax free threshold would be raised to \$21,000, and the LITO fully abolished, when it is affordable to do so.

The petition notes the current tax treatment of businesses, and suggests introducing an alternative treatment for small business. The Government recognises the contribution that Australia's 2.7 million small businesses make to the Australian economy. Furthermore, the Government acknowledges that smaller businesses may experience greater cash flow difficulties than their larger counterparts and that in some cases this can be an impediment to the growth and expansion of these businesses.

Recognising the benefits to investment and growth, company income tax rates have been reduced across Organisation for Economic Co-operation and Development (OECD) countries over the past 30 years. The fall in the average statutory corporate tax rate across the OECD has been fairly continuous. Australia's company income tax was reduced from 36 to 34 per cent for 2000-01 and to 30 per cent thereafter.

A further reduction in the company tax rate will improve Australia's international competitiveness and make Australia an even more attractive place to invest, driving long term economic growth. This will mean more jobs and higher wages for working Australians.

The Government will reward investment and improve our international competitiveness by cutting the company tax rate from 30 to 29 per cent from 2013-14. Small business will be able to receiving this benefit a year earlier, from 2012-13.

The Government has demonstrated its ongoing commitment to supporting small business through its response to the Australia's Future Tax System Review, the 2011-12 Budget and the Clean Energy Future Plan. Together these commitments will increase cash flow, reduce compliance costs and simplify the depreciation rules for small businesses. These initiatives, from the 2012-13 income year, include:

- allowing small businesses to claim an immediate tax deduction for assets costing less than \$6,500;
- allowing small businesses to write-off assets costing \$6,500 or more in a single depreciation pool at a rate of 30 per cent (15 per cent in the first year); and
- allowing small businesses to deduct up to \$5,000 for new and used motor vehicles acquired from the 2012-13 income year, with the remainder of the motor vehicle value to be depreciated at 15 per cent in the first year and then 30 per cent in following years.

The petition also raised concerns about large companies undercutting their prices to drive small businesses out of operation. In general, large businesses may be able to use economies of scale or scope to supply products more cheaply than small businesses. These sorts of efficiency gains are often good for consumers as they will deliver lower prices. The *Competition and Consumer Act 2010* (CCA) prohibits anti-competitive conduct, such as misuse of market power and predatory pricing, and is enforced by the Australian Competition and Consumer Commission (ACCC). Should people be concerned that a business may be breaching the CCA, they may raise their concerns with the ACCC for its independent consideration.

I note that, when the Committee has considered this response, it will be presented in the House and posted on the Committee's website.

Thank you for bringing this petition to my attention.

Yours sincerely

WAYNE SWAN