Eroding the Progressive Nature of the Tax System and Increasing Inequality

ACTU Submission to Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 [Provisions]

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The Turnbull Government's income tax plan erodes the very essence of a progressive taxation system and increases inequality

Australia is a prosperous country proudly founded on decent living standards and the fair go. However, these standards are under threat from the Turnbull Government's income tax plan. The idea that a corporate executive on $200,000 dollars a year should pay the same marginal rate of tax as a worker earning close to the minimum wage on $41,000 destroys the very principles of a progressive tax system. This is exactly what happens under stage two and three of Government's income tax plan which removes the 37 per income cent tax bracket. Indeed, these changes will lead to a flat tax for 80% of workers. While the Turnbull Government will try and sell this as a tax cut for ordinary Australians, the truth is that this tax cut predominately benefits the rich elite. This tax cut will hand out billions of dollars to high income Australians and make Australia's tax system more regressive. A staggering 62% of benefits from the income tax plan will go to high income earners.

The government has also revealed this measure will end up costing extraordinary amounts of revenue (the Treasurer has indicated the ten-year cost of the plan is $140 billion). The purpose of the tax system is to generate sufficient revenue to provide the services the community expects and deserves of governments and to support a fair society with decent living standards for all. Australia's tax system is based on the notion of progressive taxation. But these changes all but destroy the progressive nature of the tax system and will cause income inequality to widen. The ACTU's position is that the tax system should support the role of government to provide quality services and investment in high-skilled, high-wage job creation and do so in a way that is fair for all tax-payers.

Widening inequality in advanced countries has been detrimental to economic growth. As the real wages of lower income earners have stagnated or even gone backwards, as employment has become increasingly insecure and as the middle has hollowed out, consumer demand has weakened and growth has slowed. The world's most prominent international economic organisations including the World Bank, the IMF and the OECD have all found that the increase in inequality in many advanced economies in the last three decades has had a negative effect on growth and prosperity. The IMF has concluded that increasing the income share of the poor and the middle class actually increases growth while a rising income share of the top 20% results in lower growth – "that is, when the rich get richer, benefits do not trickle down."

Population ageing and the increasing availability of new life-saving, life-enhancing medical technologies will continue to cause health costs to rise faster than GDP, even with reforms that address any remaining waste and inefficiencies. Meeting these and other pressing needs- school funding, investment in infrastructure, innovation and job creation - will require improvements to our overall budget revenue position. Handing out billions of dollars to high income Australians is a decision our country can ill afford.

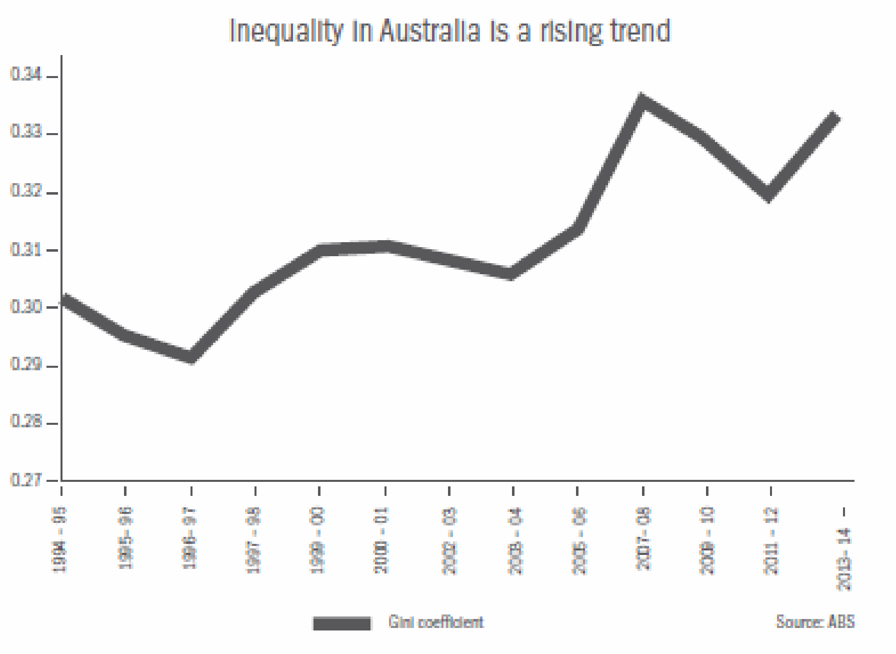
Years of continuous budget cuts and outsourcing has damaged Australia's public services, producing significant social and economic costs for the community - including the Census fail, robodebt, 55 million unanswered Centrelink phone calls, and increased biosecurity failures.

To rebuild our public services and maintain our living standards, government needs increased, not less revenue. Significant investment is needed in areas such as health, education, infrastructure and public sector ICT policy and service delivery capacity. Without it, millions of Australians will end up worse off as they will receive inferior and more expensive public services in return for a negligible tax cut.

Context: Australia faces rising inequality and Turnbull's tax plan will make it worse

By increasing the incomes of the rich disproportionately, this tax cut will lead to a further widening of the gap in income distribution. Income inequalities are greater than at any time in the last 70 years. Small elites have amassed vast fortunes and massive political power. For the vast majority of people, living standards have declined and job security has disappeared. Inequality is the challenge of our time. If we don't change course, Australia will be a fully Americanised society of high inequality and dead end jobs, with long working hours, no holidays, zero job security and poverty pay levels. Australia must not go any further down this path. Instead we must return to being a country in which families on a normal income can afford to buy a home, provide a good education for their kids and have a decent standard of living.

Societies that pay their workers fairly and provide job security tend to have low crime levels, less social problems and are more inclusive. Treasurer Scott Morrison has denied that inequality is a problem. However the facts are clear. The distribution of income throughout society is becoming more unequal. The graph below shows that since the mid-1990s income inequality in Australia has been getting worse. Despite a blip just after the Global Financial Crisis, when share prices fell for a short period and those rich enough to make lots of income through their investments took a hit, it is the clear that the general trend has been towards widening income inequality.

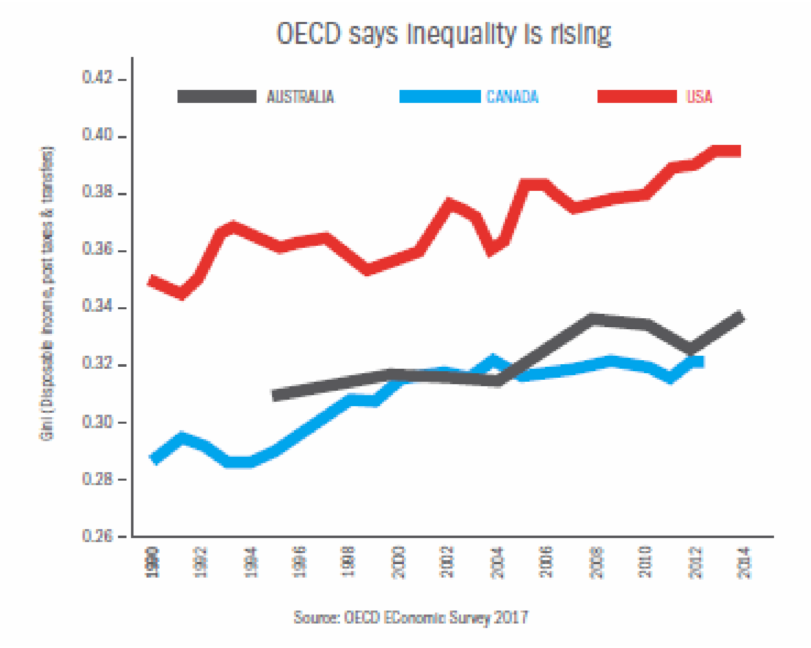


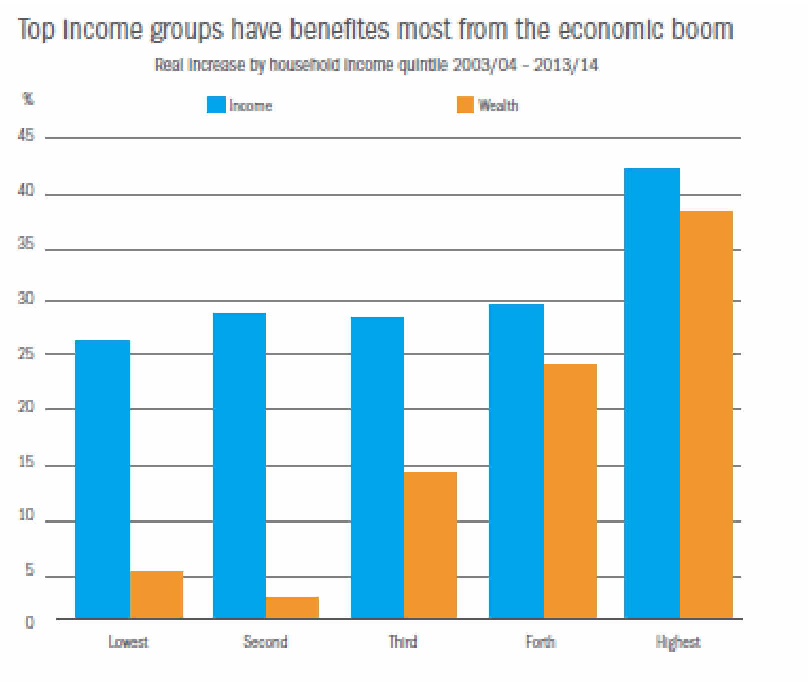
Source: OECD

The last OECD Economic Survey of Australia, released in March 2017, had this to say about income inequality in Australia:

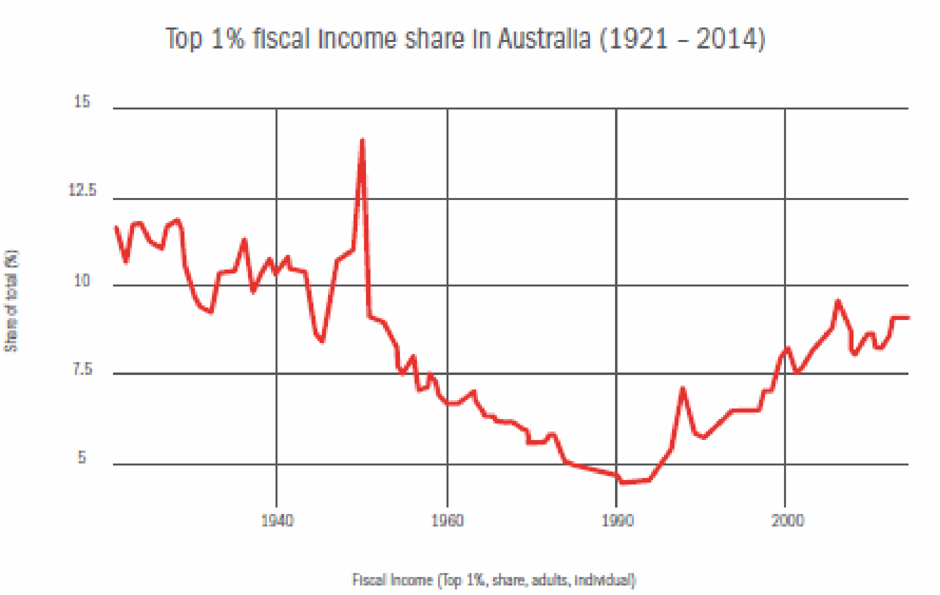
"Inclusiveness *has been eroded. The Gini coefficient has been drifting up and households in upper income brackets have benefited disproportionally from Australia's long period of economic growth. Real incomes for the top quintile of households grew by more than 40% between 2004 and 2014 while those for the lowest quintile only grew by about 25%.*"

The OECD also released the following graphs that show inequality is rising and the top incomes have benefited disproportionately

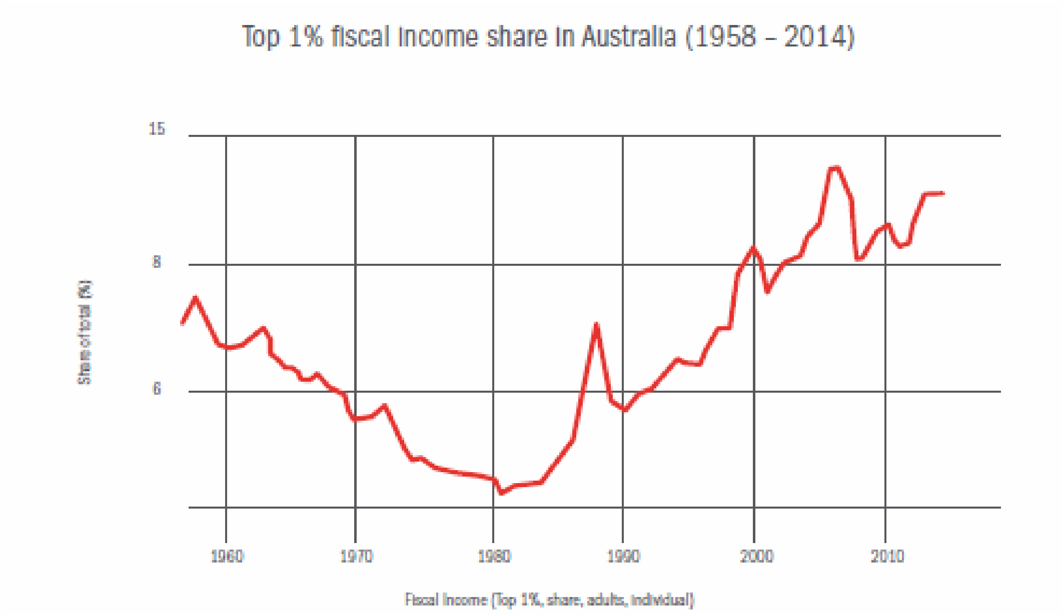




The graphs above highlight that Australia has a lower level of inequality than the USA but the level has been rising over time. If we turn to the share of income held by the top 1%, it is clear inequality is at a 70 year high.



And the share of income held by the richest 1% of the population has been steadily rising since neoliberal approaches began to dominate economic policy in the 1980's.



Notwithstanding comments by key Government ministers, income inequality is definitely rising in Australia.

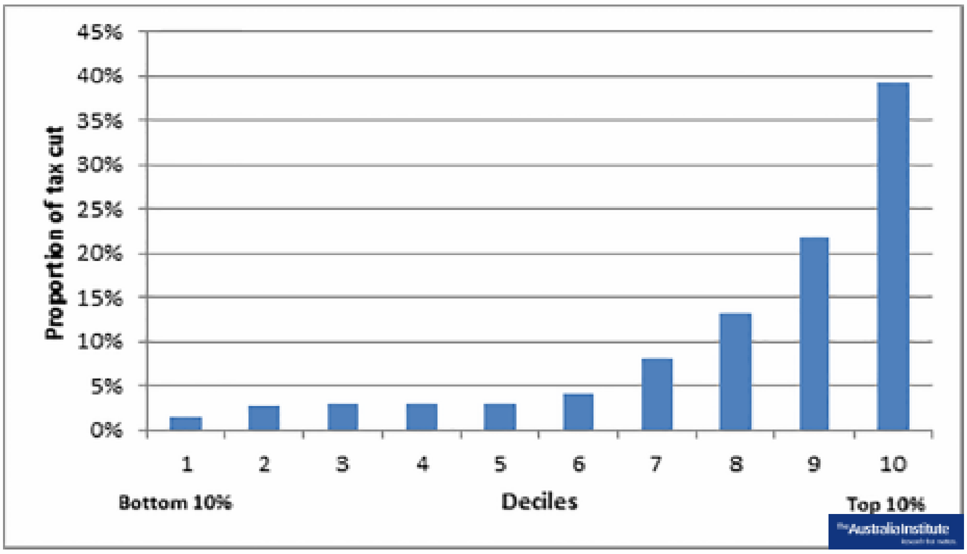
The fact that our Government attempts to pretend that inequality is not a problem while the traditionally conservative global economic institutions, such as the OECD and the IMF, argue that rising inequality is among the most pressing issues of our time, demonstrates that our Government is desperate and completely out of touch with reality.

It's the rich elite who really benefit from the tax cuts

The government income tax plan moves over time to a flat marginal tax rate for all Australians earning between $41,000 and $200,000 dollars – by removing the current 37 per cent tax bracket (so there will only be four tax brackets rather than five). Under these plans, all Australians earning between $41,000 and $200,000 would have a tax rate of 32.5%. This will affect 1.8 million Australians.

The Australia Institute has produced the following analysis which highlights that the proposed benefits of tax cuts are clearly concentrated amongst those in upper income deciles. Indeed 62% of the income tax plan will go to high income earners.

Graph One: Benefit of proposed tax cuts by income decile



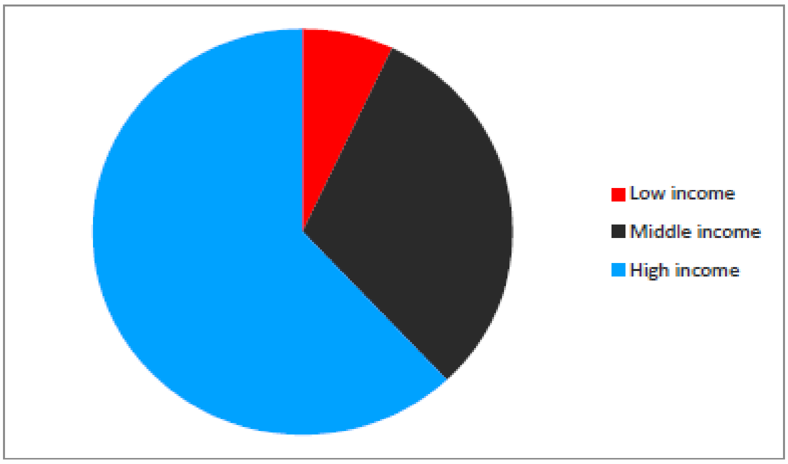
Source: Australia Institute

Table One: Benefit of proposed tax cuts by income group

	Low income earners	Middle income earners	High income earners
Proportion of tax cut	7%	31%	62%
Approximate number of tax payers	3 million	5 million	2 million

Source Australia Institute

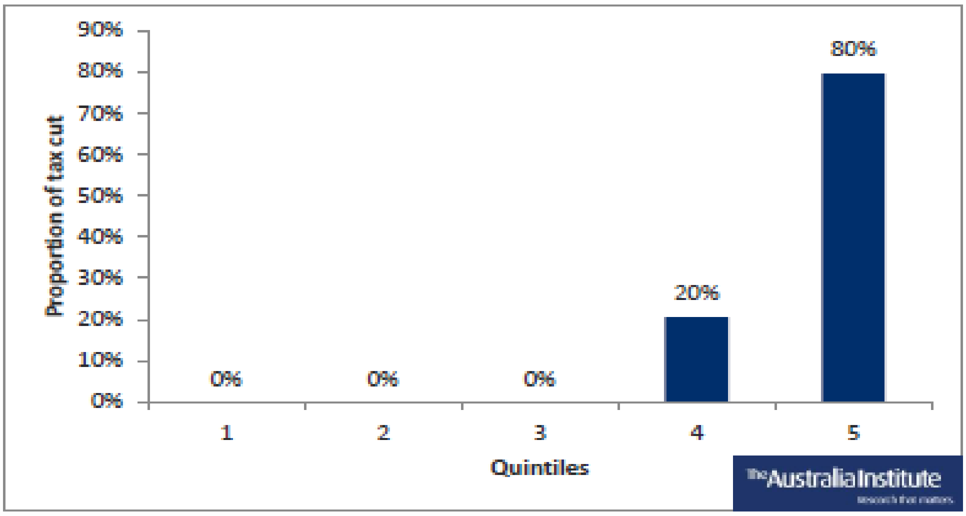
Figure: The benefit of the proposed tax cut by income group



Source: Australia Institute

Matt Grundnoff from the Australia Institute has also modelled just the income distributional impacts of increasing the 32.5 cent threshold from $90,000 to $200,000 and the removal of the 37 cent bracket[1]. This represents part of stage two and all of stage three of the Government's tax plan

Graph: Benefit of removing 37 per cent tax bracket by quintile in 2024-25



Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

1 Matt Grundoff ' High income earners the big winners from scrapping 37% tax bracket', The Australia Institute, May 2018

The Australia Institute research shows that the top quintile of taxpayers (the top 20 per cent) gets 80 per cent of the benefit from removing the 37 per cent bracket. The next 20 per cent of taxpayers receive the rest of the benefit. The remaining 60 per cent of taxpayers get no benefit. In dollar terms the Treasury have released estimates of the financial impact of the Turnbull Government's 7-year income tax plan on taxpayers, broken down into taxable incomes from $20,000 to over $200,000. We can see below that the impacts for later stages of the tax cuts will result in a $7,225 annual reduction in tax paid for someone with a taxable income of $200,000.

Treasury Analysis of annual financial impact of tax cuts from 2024-25

Table 5: Annual financial impact - from 2024-25*

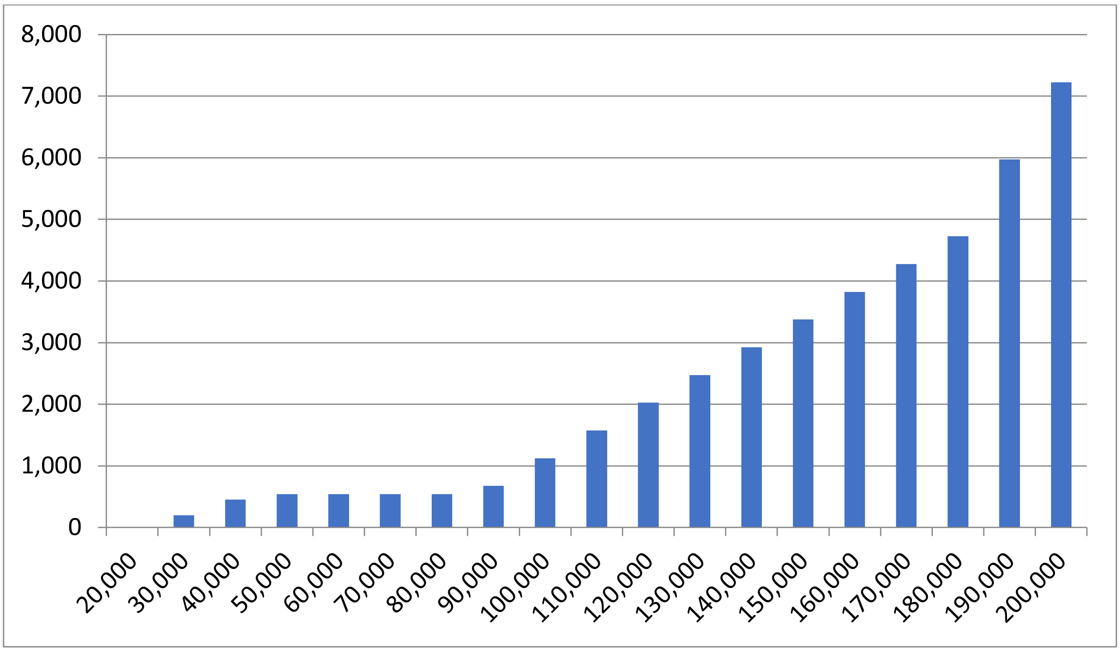
				Of which				
				Step 2				Step 3
Taxable income ($)	2017-18 tax liability ($)	Tax liability under Personal Income Tax Plan ($)	Annual reduction in tax paid ($)	Increasing the $87,000 threshold to $90,000	Increasing the low income tax offset	Increasing the $37,000 threshold to $41,000	Increasing the $90,000 threshold to $120,000	Abolishing the 37% bracket**
20,000	0	0	0	0	0	0	0	0
30,000	2,397	2,197	200	0	200	0	0	0
40,000	4,947	4,492	455	0	50	405	0	0
50,000	8,547	8,007	540	0	0	540	0	0
60,000	12,147	11,607	540	0	0	540	0	0
70,000	15,697	15,157	540	0	0	540	0	0
80,000	19,147	18,607	540	0	0	540	0	0
90,000	22,732	22,057	675	135	0	540	0	0
100,000	26,632	25,507	1,125	135	0	540	450	0
110,000	30,532	28,957	1,575	135	0	540	900	0
120,000	34,432	32,407	2,025	135	0	540	1,350	0
130,000	38,332	35,857	2,475	135	0	540	1,350	450
140,000	42,232	39,307	2,925	135	0	540	1,350	900
150,000	46,132	42,757	3,375	135	0	540	1,350	1,350
160,000	50,032	46,207	3,825	135	0	540	1,350	1,800
170,000	53,932	49,657	4,275	135	0	540	1,350	2,250
180,000	57,832	53,107	4,725	135	0	540	1,350	2,700
190,000	62,532	56,557	5,975	135	0	540	1,350	3,950
200,000	67,232	60,007	7,225	135	0	540	1,350	5,200

* Figures in the table are calculated only taking into account the basic tax scales, low income tax offset and the Medicare levy (at 2 per cent with the change to the Medicare levy low income thresholds). Actual outcomes for many individuals and households would differ.

** This column shows the effect of increasing the top threshold of the 32.5% bracket from $120,000 to $200,000, beyond which the top marginal rate of 45% would apply.

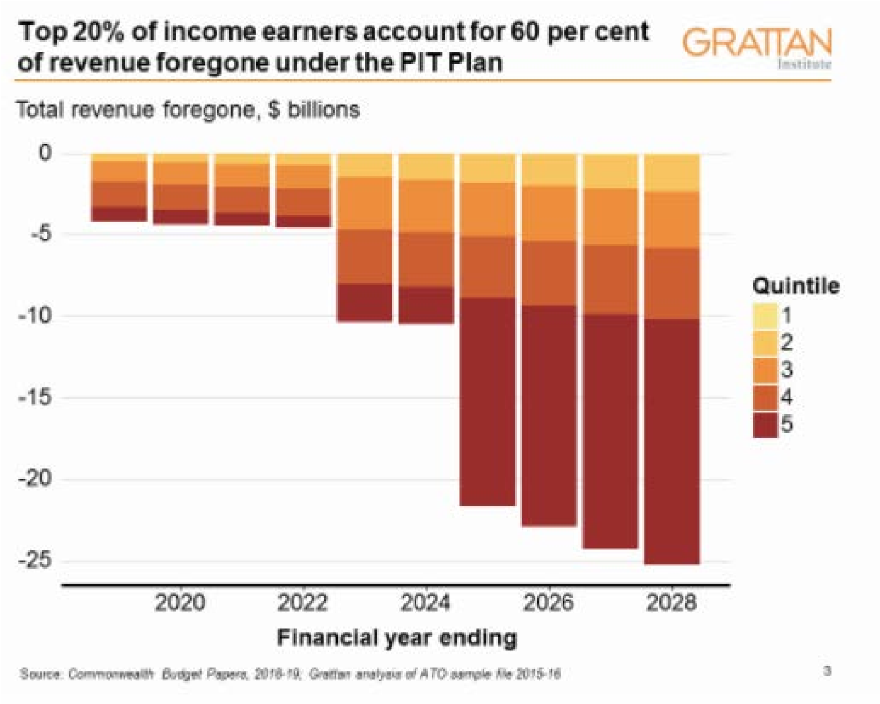
We can see more clearly in the graph below how the impacts are greater for those with higher taxable incomes.

Treasury Analysis of annual financial impact of tax cuts from 2024-25

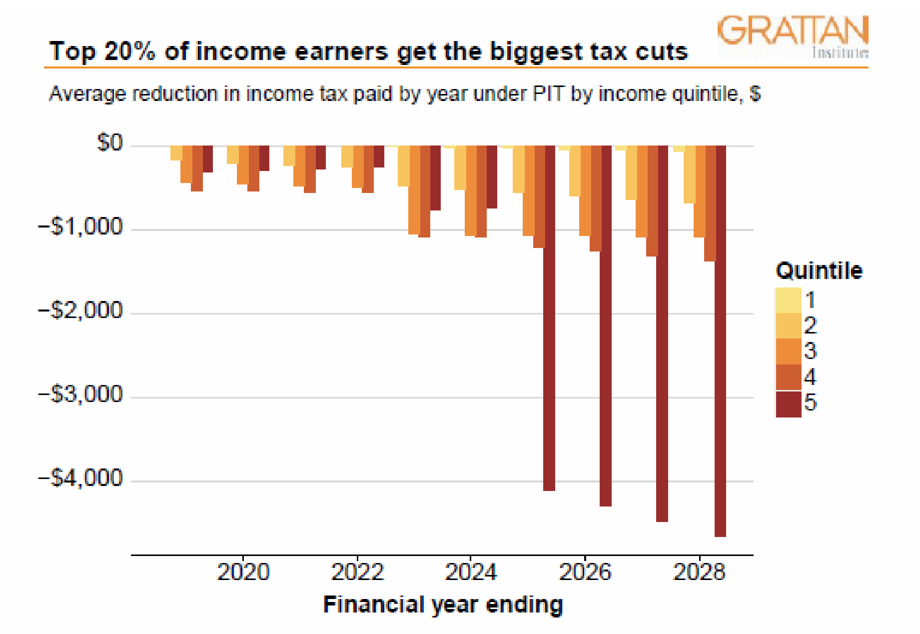


Further analysis by the Grattan Institute shows that once the three-stage plan – including removing the 37c bracket – is complete, $15 billion of the annual $25 billion cost of the plan will is attributable to collecting less tax from the top 20% of income earners, who currently have a taxable income of $87,000 or more[2].

2 https://grattan.edu.au/wp-content/uploads/2018/05/Grattan-costing-of-the-Government-Personal-Income-Tax-plan-for-Web-1.pdf



The Grattan institute also show that the majority of the benefits accrue to those in the top income deciles. This can clearly be seen in the graph below[3];



[3] ibid

There is a wide body of evidence, including Treasury analysis, that shows the benefits of these tax cuts are primarily targeted at individuals with higher incomes. This will lead to a continued widening of income inequality in Australia.

While the Turnbull Government is trying to pitch this as a tax cut for middle Australia, the actual median wage for all workers (part time and full time) is just $52,988. Half of all Australian workers earn less than this[4].

Even if we just consider full time workers, the median annual income for a full-time worker is just $65,577[5]. While the Government tries to claim 'middle Australia' earns between $150,000 and $200,000 a year – Australian workers know the reality.

Australian workers need wage increases not tax cuts targeted to the rich elite

Dr Jim Stanford, from the Centre for Future Work, has analysed the difference between the gains for workers from the Government's tax plans and those that would result if wage growth were to return to normal levels of 3.5%. This analysis shows that for a worker earning $60,000 per year (above the median income of Australians), the Coalition tax plan will increase disposable income by $530 by the last year of the budget period (2021-22). In contrast, annual normal wage increases (of 3.5 percent per year) would boost disposable income by almost $6000 – 11 times as much.

[4] https://www.theguardian.com/business/grogonomics/2018/may/31/tax-cuts-are-awful-for-middle-australia-to-pretend-otherwise-is-misleading
[5] Ibid

Wage Increases are better: Boost to Annual Disposable Income in 2020-21 from different sources

Current Earnings	Coalition tax plan	Annual 3.5% Wage Increases
20,000	$0	$2,950
40,000	$290	$4,780
60,000	$530	$5,975
80,000	$530	$7,435
100,000	$515	$9,294
125,000	$135	$11,617

Source: Dr Jim Stanford, from the Centre for Future Work

What working Australians really need is a plan to return the country to normal levels of wage growth rather than income tax cuts targeted at the rich. Unfortunately the Government's support for cuts to penalty rates for 700,000 workers and ongoing attacks on unions will continue to leave wage growth at close to record lows.

The costs of these tax cuts are substantial

The cost in terms of lost revenue is significant at $144bn to the end 2028-29[6]. The $33bn spent to remove the 32.5% tax bracket occurs over just five years – meaning on average, it will cost the budget $6.6bn a year.

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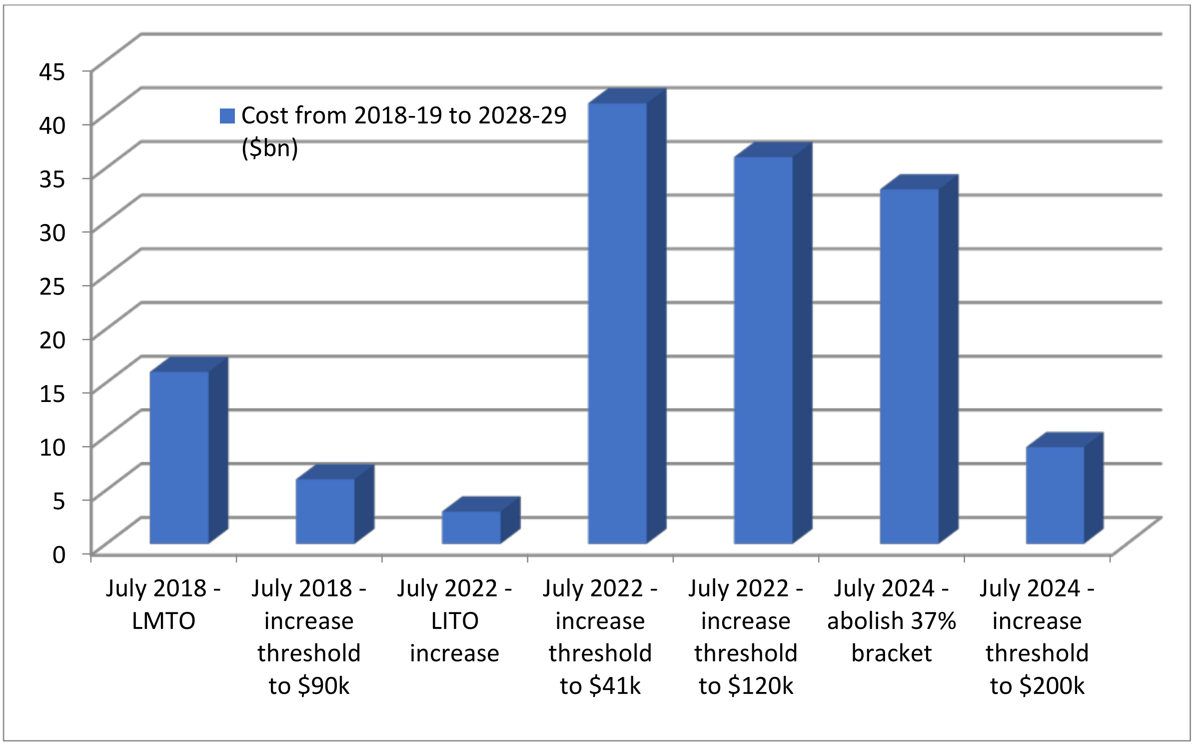
6 https://www.theguardian.com/business/grogonomics/2018/may/31/tax-cuts-are-awful-for-middle-australia-to-pretend-otherwise-is-misleading

Graph: Cost to the governments revenue base ($ billions)[7]



[7] ibid

Australia needs additional tax revenue to Invest and our build our domestic economy

Faster economic growth requires investment in our country's greatest resource – our people. Growth and higher living standards require investment in schools, TAFE, and universities, as well as major new investments in public infrastructure – including roads, rail transport and a first rate National Broadband Network. These investments provide opportunities for all our people to be part of our economic success.

We need an economic plan that tackles growth and fairness simultaneously. The IMF has also become an outspoken supporter of fiscal stimuli in countries where governments have low levels of deficit and debt, through investments in infrastructure and skills. Despite the hyperbole so prevalent in our national economic debate, Australia has a very low fiscal deficit and, compared to other countries, a low level of public debt. It makes sense to invest in critical areas for the long term, such as clean energy technologies, public transport, and better communication infrastructure. This will create jobs in the short run and expand our potential long term growth. This will encourage higher levels of private investment. An increase in Government investment now will see us reap the benefits through more, higher paid jobs and increased government revenues in the future.

By contrast the Liberal Party remains stuck in the bygone era of Ronald Reagan and the discredited theory of "trickledown economics". Tax cuts for large corporations and wealthy individuals are not an economic plan. Increasing corporate welfare only leads to more corporate rent-seeking and tax cuts primarily targeted at the rich creates a more unequal society.

Conclusion: Those who can afford to pay more will now pay less

This personal income tax plan is targeted at those in the higher income deciles. A staggering 62% of the income tax plan will go to high earners. This will further increase income inequality in Australia and destroy the progressive nature of our tax system.

We urge the Government to turn away from "trickledown economics". Tax cuts for large corporations and wealthy individuals harm us all. Fewer public services, roads, bridges, nurses and teachers are just some of the costs.

It is working people and the vulnerable that have to carry the burden of handing out billions of dollars to the rich.

Since its formation in 1927, the ACTU has been the peak trade union body in Australia. There is no other national confederation representing unions. For 90 years, the ACTU has played the leading role in advocating in the Fair Work Commission, and its statutory predecessors, for the improvement of employment conditions of employees. It has consulted with governments in the development of almost every legislative measure concerning employment conditions and trade union regulation over that period.

The ACTU consists of affiliated unions and State and regional trades and labour councils. There are currently 43 ACTU affiliates. They have approximately 2 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector.
The Fair Work Amendment (Repeal of 4 Yearly Reviews and Other Measures) Bill ("the Bill") deals with three distinct matters. We deal with them separately in this submission. In short form our views are as follows:

- The first (dealt with in Schedule 1 of the Bill) relates to the abolition of the requirement to conduct reviews of modern award every four years. We support those provisions in principle, however we do not support the creation of a default requirement that all award variation matters be allocated to a Full Bench and we are concerned that the drafting of the transitional saving provision in relation to existing matters may have some unintended effects.

- The second (dealt with in Schedule 2 of the Bill) would provide for errors in the agreement making process to be forgiven in proceedings for the approval of an enterprise agreement. We are of the view that the provisions run counter to the objective that bargaining is inclusive, fair and well informed. We do not support the provisions.

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