Change THE RULES

The Unfair Tax Plan: Hurting workers and destroying our public services

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Change THE RULES

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Tax Cuts

Contents

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. 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 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. These changes undermine 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.

On top of a tax cut for high income earners the Government is giving an $80 billion dollar tax cut to large corporations further eroding our tax base. As we show later in the this paper, new ACTU empirical analysis show that over 10 years and across OECD countries that there is no correlation between reductions in corporate tax cuts and increases in wages. Further new empirical work by the ACTU, using linear regression analysis, shows countries which cut taxes actually had worse wage performance than those that did not.

Widening inequality in advanced countries has been detrimental to economic growth. As the real wages of lower income earners have stagnated and in some cases gone backwards, as employment has become increasingly insecure and as the middle class has been 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."

Ageing populations 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 continue to improve efficiencies. 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 cannot afford.

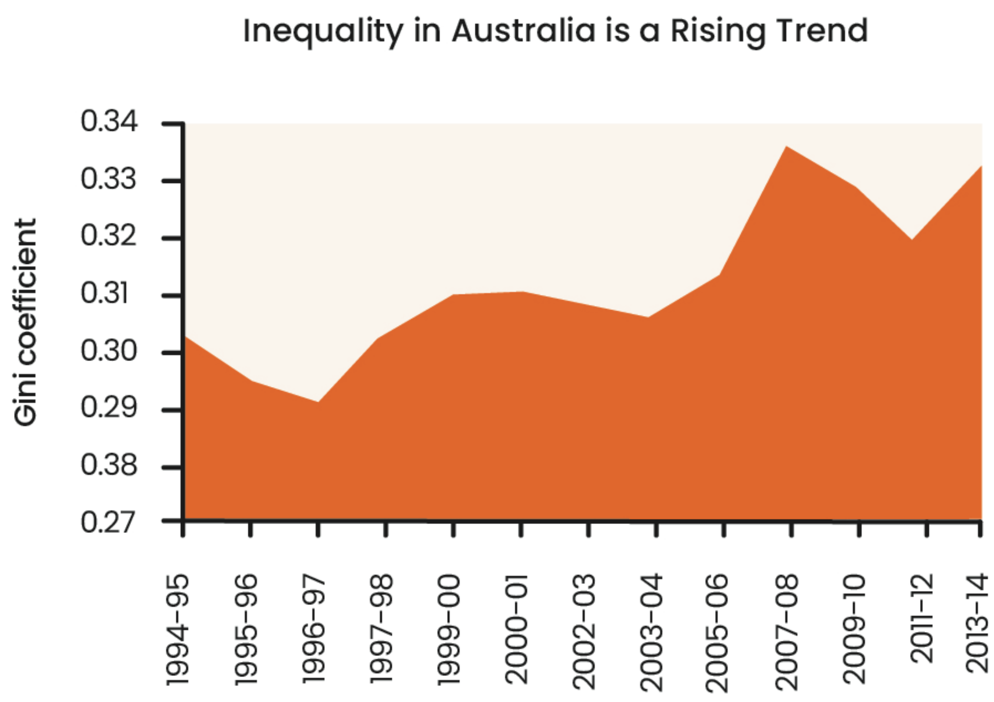
Years of continuous budget cuts and outsourcing has placed an intolerable strain on and damaged Australia's public services, producing significant social and economic costs for the community - including the Census fail, robodebt, 55 million unanswered Centrelink phone calls, and increased biosecurity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

To rebuild our public services and maintain our living standards government needs increased, not less, revenue. Significant investment is needed in the areas of 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 disproportionately increasing the incomes of the rich, 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.

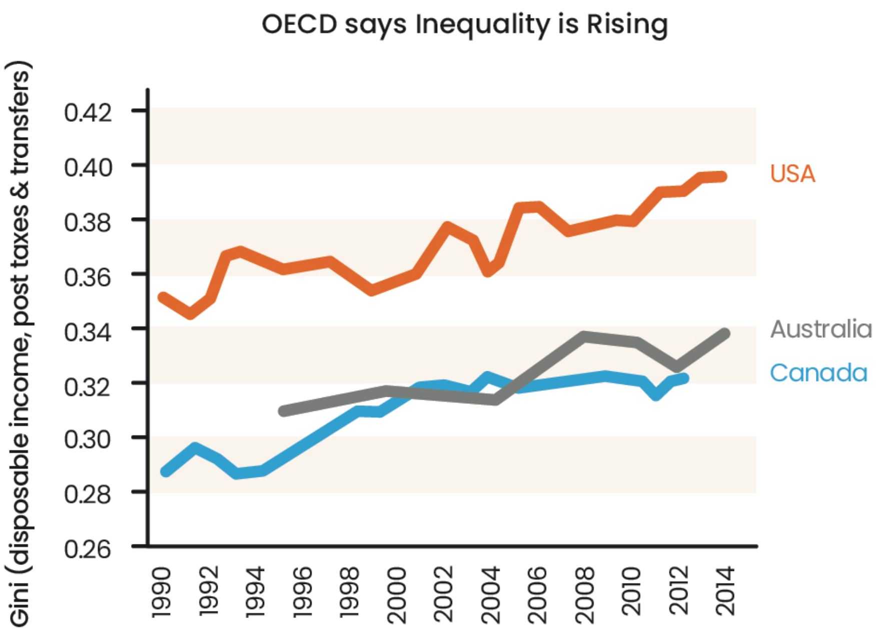


Source: OECD

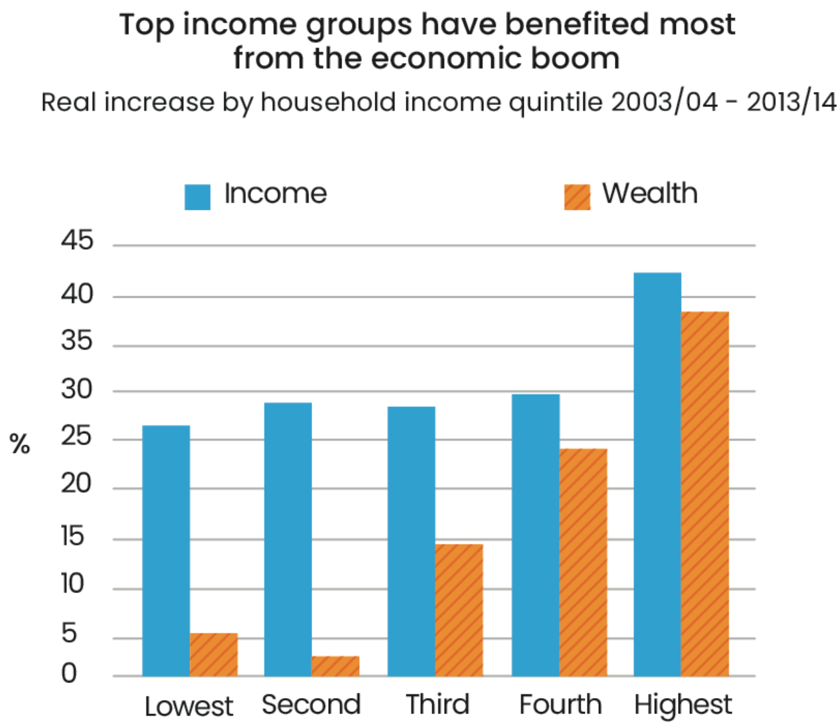
The last OECD Economic Survey of Australia, released in March 2017, had this to say about income inequality in Australia:

"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

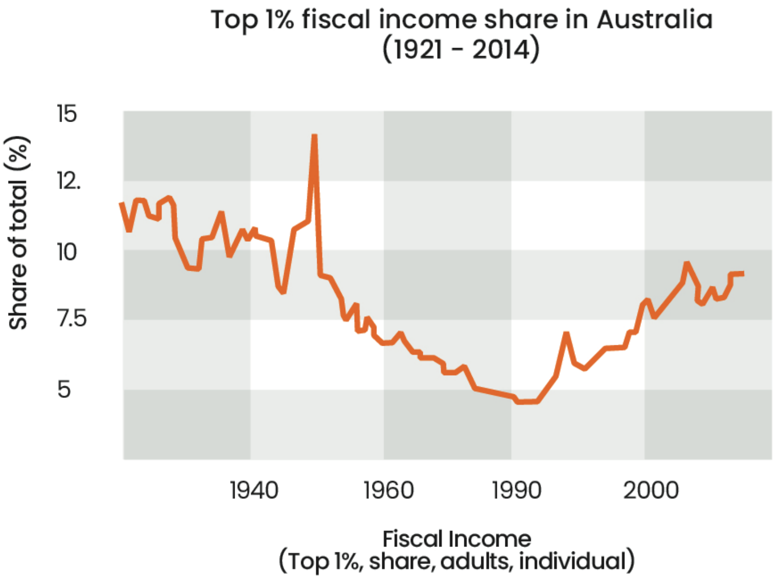


Source: OECD



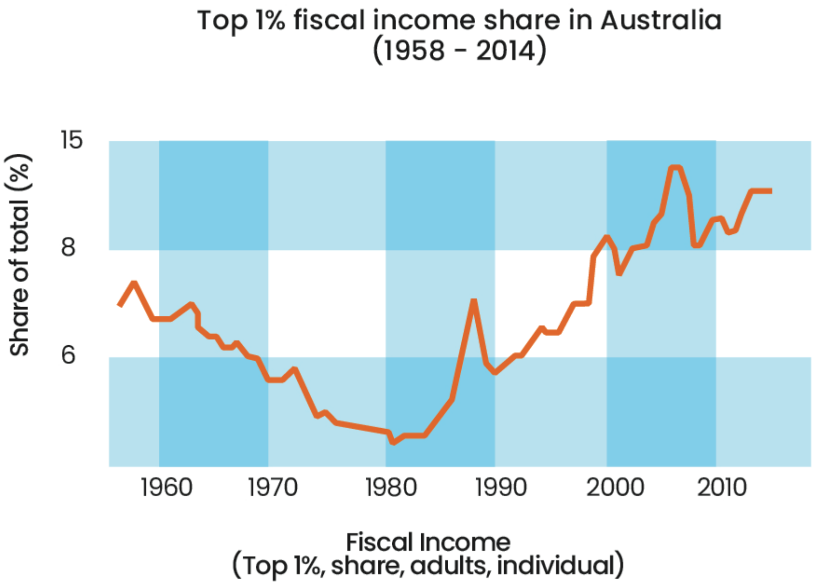
Source: OECD

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.



Source: World Wealth and Income Database

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.



Source: World Wealth and Income Database

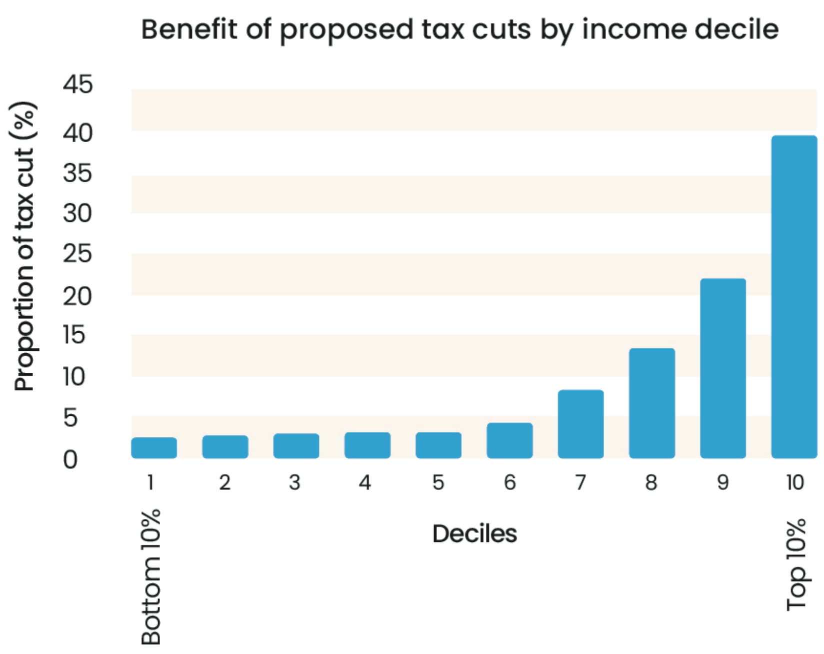
Despite the denials of the Turnbull govern income inequality is rising in Australia. The fact that the Turnbull Government attempts to pretend that inequality is not a problem while the traditionally conservative global economic institutions, such as the OECD and the IMF, argue that rising inequality is among the most pressing issues of our time, demonstrates that the Turnbull Government is out of touch with reality faced by ordinary Australians.

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

The Turnbull 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. 62% of the income tax plan will go to high income earners.

Graph One: Benefit of proposed tax cuts by income decile



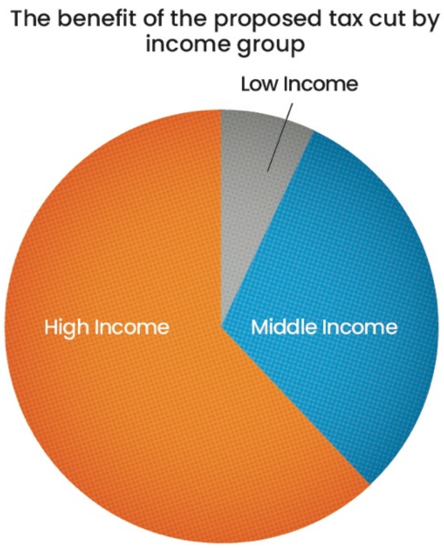
Source: Australia Institute

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

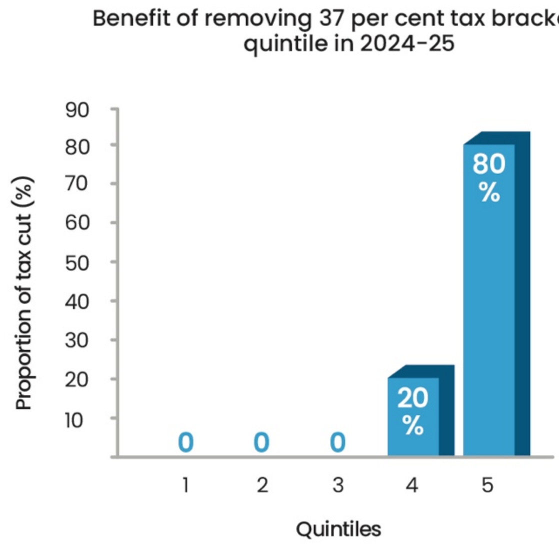


Source: Australia Institute

Matt Grudnoff 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.

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

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



Source: ATO (2018) *Taxation Statistics 2015-2016* and Australia Institute calculations

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*

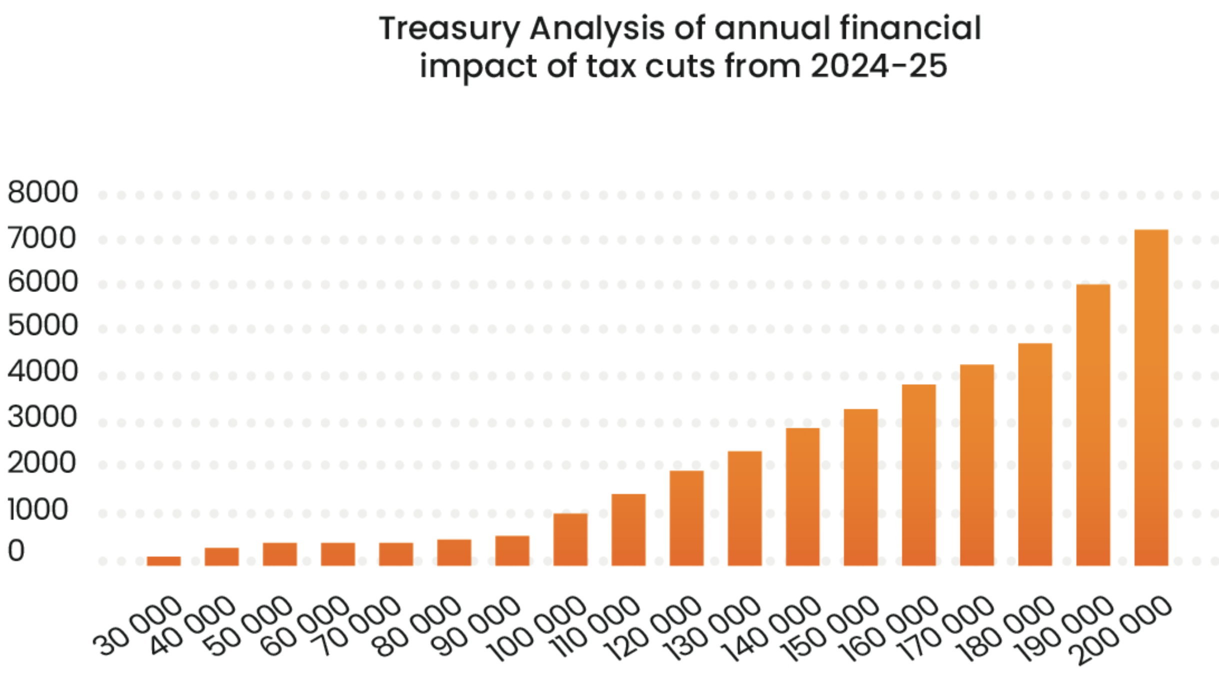
				Of which				
				Step 2				Step 3
Taxable income ($)	2017-18 tax liability ($)	Tax liability under Personal Income Tax Plan ($)	Annual reduction in tax paid ($)	Increasing the $87,000 threshold to $90,000	Increasing the low income tax offset	Increasing the $37,000 threshold to $41,000	Increasing the $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.

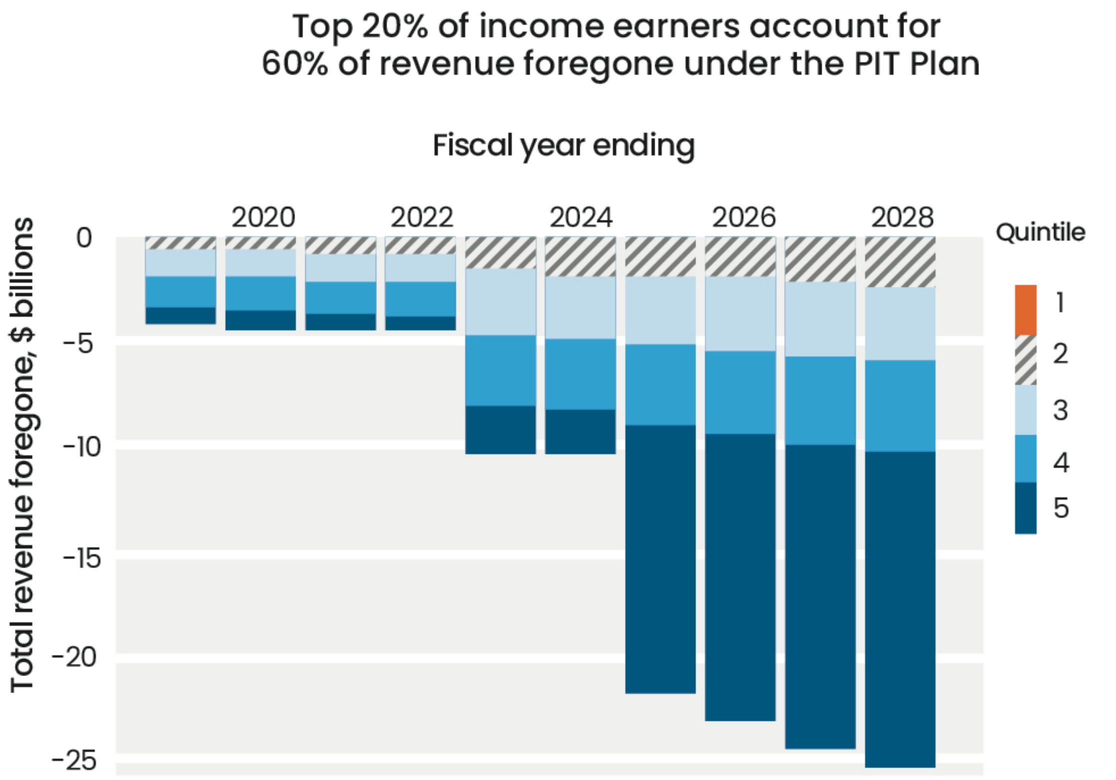
Treasury Analysis of annual financial impact of tax cuts from 2024-25



Source: Treasury

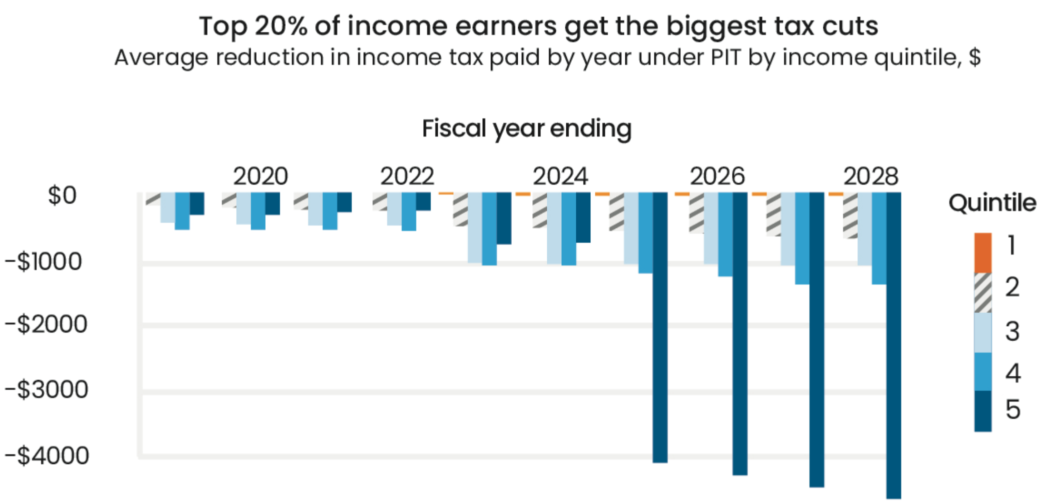
Further analysis by the Grattan Institute shows that once the three-stage plan – including removing the 37c bracket – is complete, $15 billion of the annual $25 billion cost of the plan will is attributable to collecting less tax from the top 20% of income earners, who currently have a taxable income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



Source: *Commonwealth Budget Papers 2018-2019, Grattan analysis of ATO sample file 2015-2016*

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];



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

There is a wide body of evidence, including Treasury analysis, that shows the benefits of these tax cuts are 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 real 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

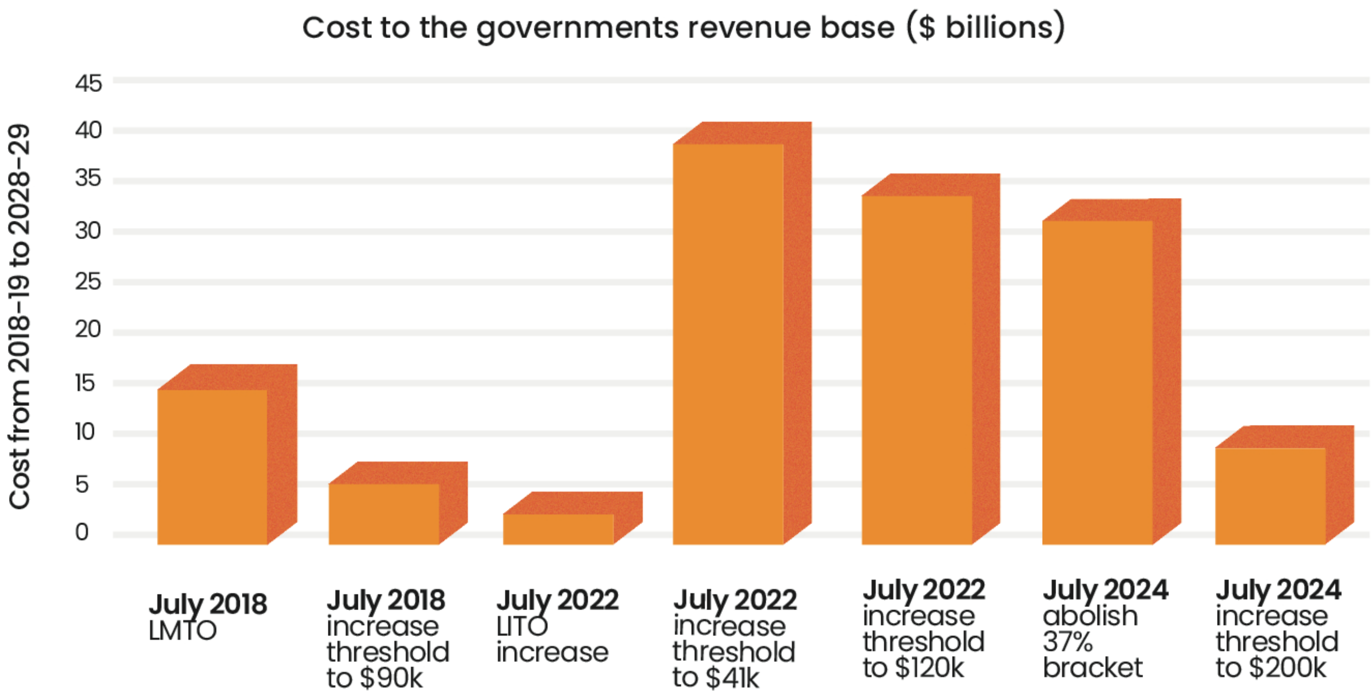
Source: Dr Jim Stanford, from the Centre for Future Work

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].

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



Furthermore new ACTU calculations reveal that the costs of $24 billion per year (as calculated by the independent Parliamentary Budget Office) could pay for;

1. More than 25 million emergency ward patient admissions or[8]

2. Funding for 1.9 million secondary school students or[9]

3. Provide 496,730 people with a disability with individualized support in the first year on the National Disability Scheme[10]

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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

7 ibid

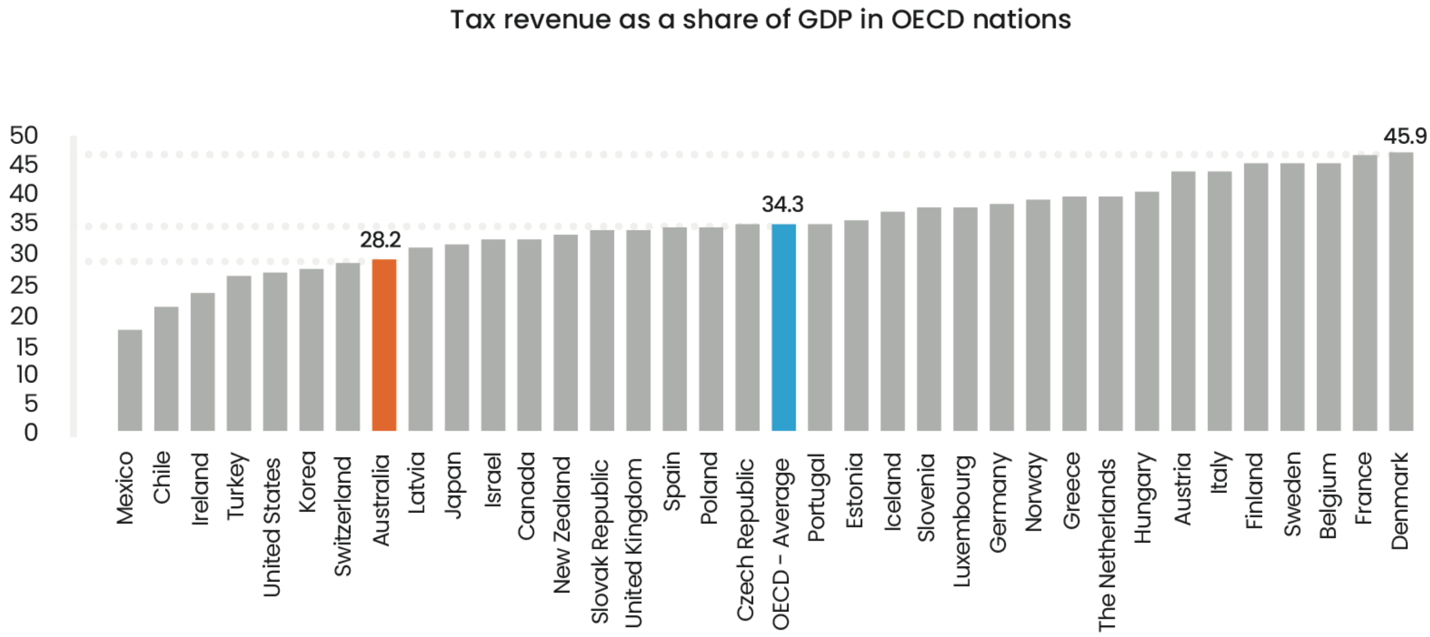
8 Based on emergency ward admissions costing $956 per patient. Independent Hospital Pricing Authority. (2016). National Hospital Cost Data Collection: Australian Public Hospitals Cost Report 2013–14 Round 18. Available at: https://www.ihpa.gov.au/sites/g/files/net636/f/publications/nhcdc-round18.pdf

9 Based on Australian government funding of $12,193 per secondary school student as stipulated in the School Resourcing Standard. National Commission of Audit. (2017). Schools funding. Available at: http://www.ncoa.gov.au/report/appendix-vol-1/9-7-schools-funding.html

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 can see below Australia is the eight lowest taxing country in the OECD (2015). Australia has a revenue crisis and we need to improve not diminish the tax base.

Graph: Tax Revenue as a Share of GDP in OECD nations



Source: Cameron and Murray (2018): Australia the low tax country, Australia Institute, OECD taxation statistics

[10] At full scheme, about 475 000 people with disability will receive individualised supports, at an estimated cost of $22 billion in the first year of full operation (Productivity Commission. (2017). National Disability Insurance Scheme, position paper). This leads to an average of $46,316 per person in the first year of NDIS

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.

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.

Corporate Tax Cuts: Giving $80 billion to the large multinationals

Not only is the Government cutting personal income taxes for the rich they are giving an $80 billion tax cut to large corporations.

The government has repeatedly claimed that cutting corporate tax rates will increase wages..

However new ACTU empirical analysis of OECD data for 34 countries on corporate income tax rates and wage growth rates from 2003 to 2016 does not suggest any association between corporate tax rates and wage growth.

- for the 26 other countries that could be analysed the association of corporate tax changes to wage rates was weak at best, for all countries, and other factors are much more important
- For 15 OECD countries a fall in the corporate tax rate is associated with slower wages growth, but the effect is slight and is statistically significant in only 7 cases.
- For the other 13 countries, the results were negative but were close to zero, and only 4 were statistically significant.
- The results are just as likely to be random.
- 6 countries had no change in the corporate tax rate between 2003 and 2016 but at the same time showed wide variation in wages growth
- the findings from this limited statistical analysis must be treated with caution but do suggest that more detailed analysis including investigation of causality would not change them dramatically

Nineteen countries had falls on trend in both tax rates and wage growth between 2003 and 2016, in some cases very small.

Table 1: Statutory corporate tax rates and real wage growth trends 2003-2016

	Corporate tax rate trends	
Wage growth trends	up	down
up	Iceland,	Belgium (≈0), Germany, Luxembourg (≈0), Poland,
down	Chile, France (≈0), Hungary, Portugal (≈0), Slovak Republic,	Austria, Canada, Czech Republic, Denmark, Estonia, Finland, Italy, Japan, Korea S, Latvia, Mexico (≈0), Netherlands, New Zealand, Norway, Slovenia, Spain, Sweden, Switzerland (≈0), United Kingdom,

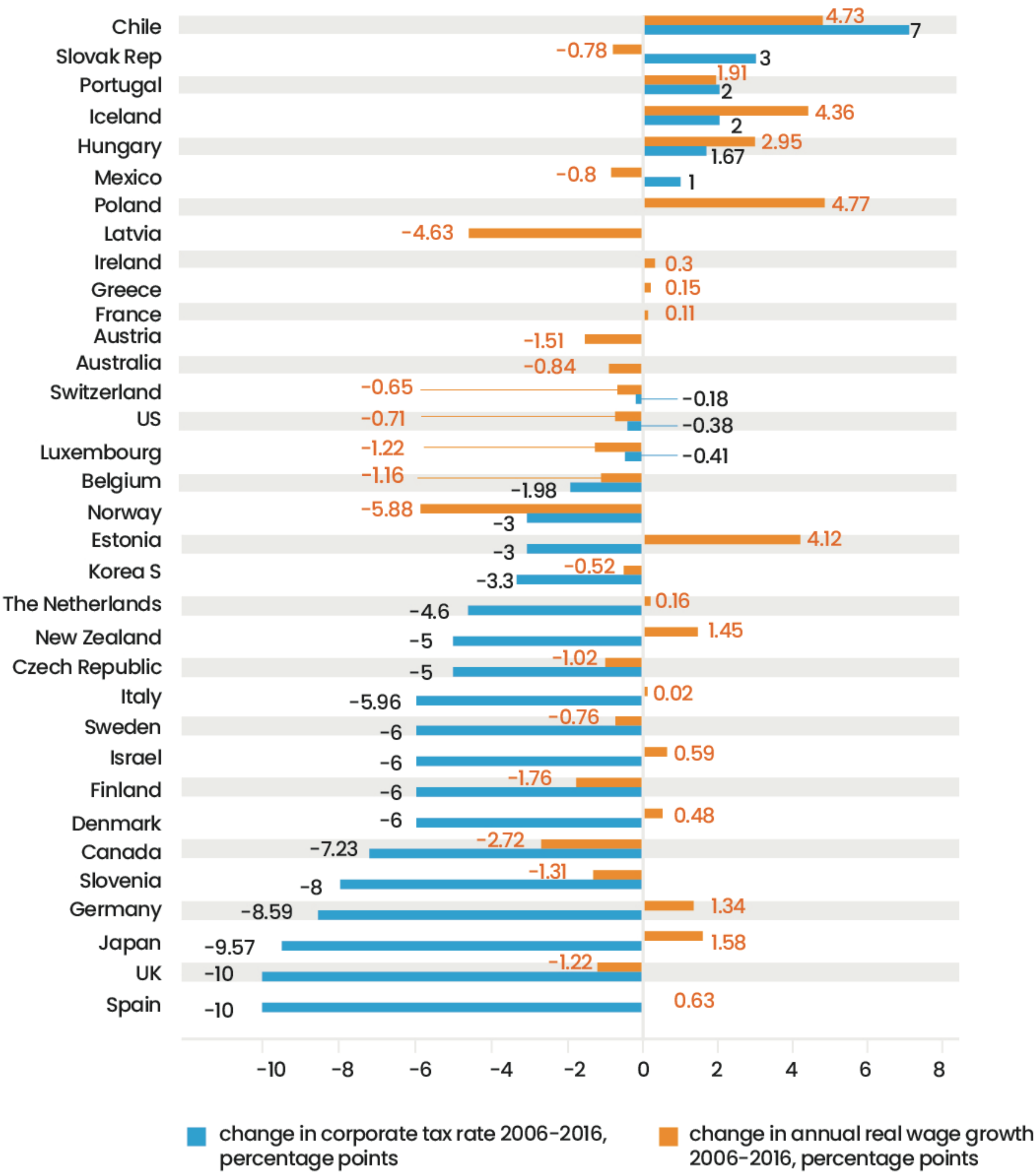
Source: OECD and ACTU calculations

Notes: No change in corporate tax rate: Australia (wage growth down), Ireland (wage growth down)

Bigger percentage point increases in growth of wages are also positively associated with bigger increases in corporate tax rates, but again the association is very weak.

Too many other factors are significant in determining wage growth. The following chart indicates the lack of relation between percentage point changes in corporate tax rates and in wage rates.

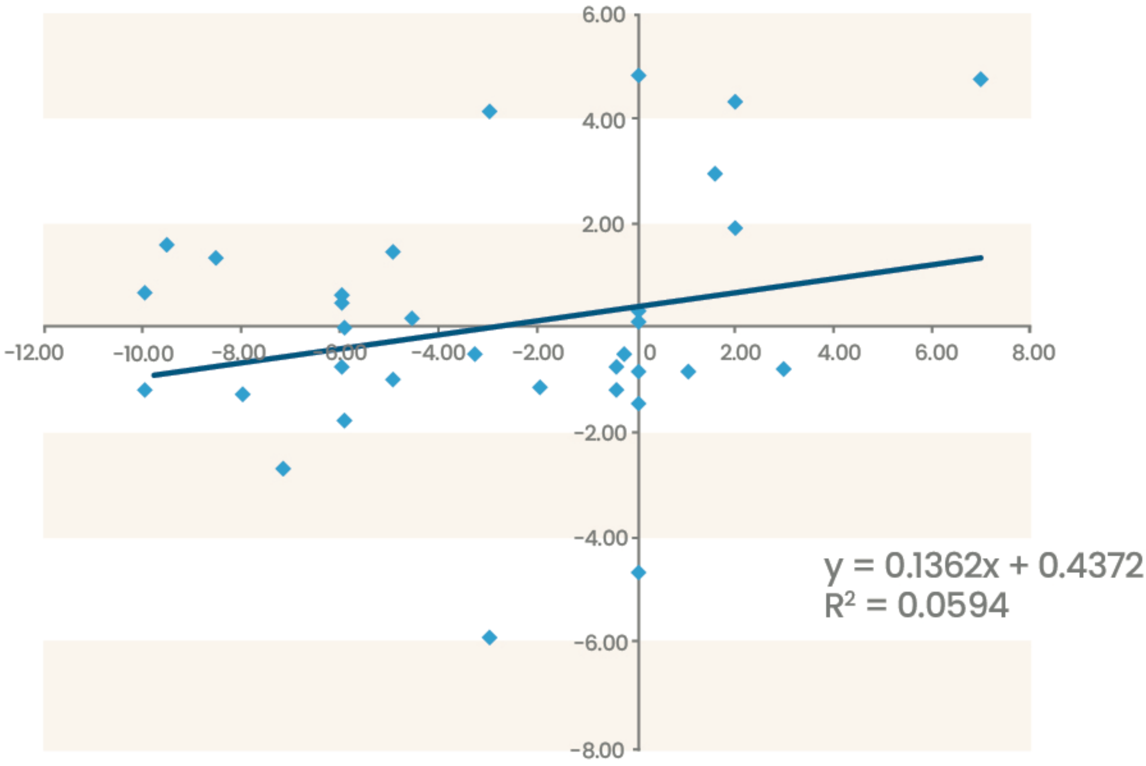
Chart: Percentage point changes in corporate tax rates, ranked, and in real wage growth, 2006-2016



Source: OECD statistics, ACTU calculations

A linear regression of the data above shows a (non-significant) *positive* relationship between changes in corporate taxes and changes in wages (that is, countries which cut corporate taxes actually had worse wage performance than those that did not)

Chart: Linear regression analysis on tax cuts and real wage growth across OECD countries for 2006-2016



It is clear that the Government's claims on wage growth and corporate tax cuts does not match the international evidence.

Conclusions

“Trickledown economics” has failed. 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

And new ACTU empirical research indicates that the Governments main justification for corporate taxes doesn’t conform with the experiences of most OECD countries and the international evidence.

To address inequality and move to a more even playing field it is essential that corporations pay their fair share of tax. Our tax base remains less than optimal because we have allowed multinational companies and the very wealthy far too many opportunities to avoid contributing their fair share to the public purse

In the end it is working people and the vulnerable that have to carry the burden of handing out billions of dollars to the rich and large corporations

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