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Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Inquiry into the Major Bank Levy Bill 2017 and the Treasury Laws Amendment (Major Bank Levy) Bill 2017

Committee Secretary,

The Government's proposed levy should be abandoned. It is a tax on all Australians which will increase the cost of buying a house and starting a business, was designed without consultation, and is predicated on highly illiberal grounds.

There is no tax which can be 'absorbed'. All taxes are paid for by people, either as workers, consumers, or owners (including shareholders). The bank tax will be no exception to this.

Australia's financial system is relatively uncompetitive, with total market share highly concentrated amongst the big four banks. This means the majority of the tax will be passed onto consumers through higher borrowing costs. Estimates by finance firm Morgan Stanley and David Murray, AO, suggest the tax could increase home loan rates by 0.2%. This will increase the cost of purchasing a property by $22,000 (assuming a $500,000 loan over 30 years with an original repayment rate of 5%).

A similar tax in the United Kingdom has been increased four-fold since introduction. If the bank tax was increased in Australia by the same factor the cost of acquiring a property would increase by $90,000. This would put home ownership further out of reach for many Australians, and is in direct contradiction to the Government's proposed policies to improve housing affordability.

Business and personal loan costs are also likely to increase. This will further dampen start-up activity in Australia which is already trending down. For instance, between 2004 and 2016 there were 5% (325,900 versus 310,000) fewer businesses starts, despite a 22% increase to the population aged 15+.

The remainder of the tax not passed onto consumers will be borne by shareholders through lower profits, or employees through lower compensation. As most Australians own shares in the major banks through compulsory superannuation, most Australians will be made poorer by the bank tax.

The tax will also have effects beyond the financial sector. Financial intermediaries are conduits that funnel funds from savers to borrowers. This allows the former to earn investment income and the latter to bring forward expenditure to engage in financially costly actions they otherwise would have to forego.

The bank tax – as with a milieu of other government taxes, fees, charges, and regulations – will introduce an additional distortion into the financial sector. The macroeconomic effect will be to reduce the allocative efficiency of the economy, which will reduce productivity growth (which is already well below trend) and economic growth.

An ancillary consequence of lower productivity growth will be slower wage growth, which is currently at a record low in the private sector. At the same time, lower economic growth will reduce labour demand, thus reducing employment growth and increasing unemployment and underemployment. Analysis from PwC found that the average loss in GDP from the bank tax will be approximately $650 million every year, with 6000 fewer jobs on average per year.

Further, the targeting of specific businesses by the Government raises the prospect that businesses in other sectors will be targeted. This increases the risk of investing in Australia, and so discourages investment. The effect will be to further dampen private sector business investment which is expected to fall to a record low 9% of GDP by 2020.

Aside from the economic effects, the targeting of five specific businesses for unique tax treatment is arbitrary and illiberal.

Rather than increasing taxes and regulation, the government should be liberalising and deregulating the financial sector including by explicitly removing the too-big-to fail bail-out policy. This will increase competition, lower borrowing costs, and increase economic growth.

To repair the Budget the Government should not introduce any new taxes or raise existing taxes. Instead, the Government should reduce expenditure, delegate education, health, and environment policy functions to state governments, and reduce regulation and red tape to increase economic growth, employment, and wages.

The IPA trusts that our contributions will be of assistance to the Committee. We would be pleased to answer any questions. Please do not hesitate to contact us: in writing to [redacted] by telephone on [redacted] or by email to [redacted]

Regards,

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Enclosure:
Institute of Public Affairs Parliamentary Research Brief: Five Reasons why the Government Should Abandon the Bank Tax