



4 June, 2018

## **SUBMISSION TO THE SENATE STANDING COMMITTEE ON ECONOMICS**

### **INQUIRY INTO TREASURY LAWS AMENDMENT (PERSONAL INCOME TAX PLAN) BILL 2018 [PROVISIONS]**

#### **1. ABOUT PER CAPITA**

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

#### **2. INTRODUCTION**

Per Capita is broadly supportive of efforts to address bracket creep in our personal income tax (PIT) schedule, particularly for low income earners. While this bill goes some way towards achieving this aim, the entire package is poorly targeted if addressing bracket creep is the main aim. The full package, as proposed in this Bill, unnecessarily favours high income earners, reduces the progressivity of the personal income tax schedule and does nothing to address the extremely high effective marginal tax rates faced by many recipients of government payments.

We would prefer to see bracket creep addressed through simple indexation of the tax brackets and any substantial changes to the personal income tax system considered as part of a broad, integrated tax (and transfer) reform program, rather than as a standalone bill.

Per Capita firmly believes that maintaining a strongly progressive income tax system is critical for the preservation of the relatively egalitarian nature of Australian society. As a result, we do not support Stage Three of the proposed changes where the 37c tax bracket is removed entirely. While it is possible for a relatively flat tax rate system to maintain

progressivity if the tax-free threshold is sufficiently high, in the absence of any shift in the tax-free threshold, these proposed changes will primarily serve to exacerbate inequality and erode the progressivity of our personal income tax schedule.

### 3. BRACKET CREEP

The simplest and most effective way to deal with bracket creep is to index tax bracket thresholds to inflation (including the tax-free threshold). This almost completely resolves the issue and removes it from politics. Simple indexation would mean that addressing bracket creep could no longer be falsely labelled as tax reform or tax cuts and that personal income tax changes that erode the progressivity of the tax system could not be sold as if they are simply addressing bracket creep.

It's also worth noting that moving from below the tax-free threshold into the lowest tax bracket is also bracket creep and no effort has been made to address this in the Bill.

### 4. PARTICIPATION

There is no empirical evidence that tax rates lower than 50% on moderately high-income earners cause significant inefficiencies or discourage work ([Stewart, 2018](#)). By contrast, some effective marginal tax rates faced by income support recipients in Australia [exceed 50%](#) and do indeed discourage work and participation. Genuine reform of the personal income tax system in Australia that is aimed at improving the efficiency of the system and increasing participation would seek to address the impact of these effective marginal rates as a top priority. This is particularly important for women returning to work after having children and, as such, is a critical element of addressing Australia's gender pay gap.

### 5. PROGRESSIVITY, INEQUALITY AND THE PROVISION OF PUBLIC SERVICES

The proposed removal of the 37c tax bracket in 2024-25 erodes the progressivity of our PIT system and results in the total impact of the tax cut package being highly skewed towards high income earners. Per Capita strongly opposes this element of the Bill and we believe the majority of Australians would also oppose it given that the *Per Capita Tax Survey 2018* found that over 65% of Australians believe that high income earners already pay too little tax ([Per Capita, 2018](#)).

Much of the justification for tax cuts (both PIT and company tax) comes from the government's commitment to maintain the federal government tax to GDP ratio at or below 23.9%. This figure appears arbitrary with no evidentiary basis. The government

offers no justification for this "speed limit" on the size of Australia's tax take beyond the unsupported assertion that higher taxes weaken the economy.

The *Per Capita Tax Survey 2018* (Per Capita 2018) also found that a clear majority of Australians would like the government to increase spending on health, education and social security. If such increases in expenditure are to be realised then we should be cautious about income tax cuts that go beyond addressing bracket creep. While we recommend a cautious approach to PIT cuts, we are not suggesting that any increase in government expenditure to meet community expectations should be funded through the PIT schedules. Instead, we would like to see a tightening of tax concessions that primarily benefit high income Australians.

Our '*Cost of Privilege*' report, prepared for Anglicare Australia this year, found that about \$70 billion per year is claimed in tax concessions by the top 20% of income earners in Australia ([Per Capita and Anglicare Australia 2018](#)). Tightening these concessions would simplify the PIT system, improve its integrity and progressivity and provide revenue to maintain and improve public services in line with community values and expectations.

## 6. CONCLUSION

The proposed changes to Australia's personal income tax system contained in this bill have not been adequately justified by the government. They have not been related back to an overall approach to taxation in Australia or placed in context of other tax reform priorities.

While elements of the package will result in modestly improved outcomes for low and middle-income earners, the government has skewed the package to overwhelmingly benefit high income earners who stand to receive as much as \$7,000 per year in tax cuts.

Per Capita Australia would like to see bracket creep dealt with through legislated indexation of personal income tax brackets and any further reform of personal income tax placed in the context of broader reform of Australia's tax and transfer system. We are strongly opposed to the abolition of the 37c personal income tax bracket as proposed in this package.

## 7. REFERENCES

**Per Capita (2018).** *Per Capita Tax Survey 2018*. Per Capita Australia.

[https://percapita.org.au/our\\_work/per-capita-tax-survey-2018/](https://percapita.org.au/our_work/per-capita-tax-survey-2018/)

**Per Capita and Anglicare Australia (2018).** *The Cost of Privilege*. Anglicare Australia.

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**Stewart, M. (2018).** *Budget Forum 2018: Tax Caps and Tax Cuts: Good for Australia?*

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