

## **NFAW Submission to the Senate Economics Legislation Committee Inquiry into the Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018**

This submission is being made on behalf of The National Foundation for Australian Women (NFAW).

NFAW is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women.

NFAW is concerned about the financial security of women, and the role of the tax system in achieving that security. Since the Government ceased publication of the *Women's Budget Statement* in 2014 we have prepared an annual *Gender Lens on the Budget* which is made available to Parliamentarians in time for consideration of annual tax budget measures.

The following submission is largely extracted from the *2018-19 Gender Lens on the Budget* which can be accessed at <https://www.nfaw.org/page/a-gender-lens-budget>.

### **Key Points**

Measures that reduce the tax payable by low income earners will disproportionately benefit women. However, NFAW has a number of concerns with the structure of the proposed tax measures:

- The tax offset increases the effective marginal tax rate by 1.5% for taxpayers within the taper zone, which increases work disincentives for women and other low income taxpayers.
- Women who earn less than \$18,200 are excluded from any benefit of the tax offset they do not pay tax, and between \$18,201 and \$21,595 they will not receive the full entitlement as the tax payable is less than \$645.
- The decision to pay this amount as an annual lump sum rebate following assessment of income tax is not consistent with the needs of low income families. Low income families are better served by receiving the benefit on a regular basis through reduced PAYG payments, particularly in a low wage growth environment.
- The measures intended to take effect in stages two and three are constitute a structural change to the progressivity of the tax system that benefits high income taxpayers. The proposed flattening of the tax scales from 2022 will disproportionately benefit male taxpayers.



- The fiscal capacity to deliver tax cuts of the magnitude proposed for stages two and three depends on the performance of the economy over the next five years and on containing spending growth to an average 1.1% in real terms over three years. These projections are based on optimistic assumptions and cyclical bumps including commodity prices, as well as excessively constrained spending, and not on reformed and sustainable fiscal policy. That is, we could experience severe austerity.
- The tax cuts will reduce revenue by billions. Publicly funded services will take a hit, with the potential to reduce jobs. Only spending on schools and the NDIS will grow in real terms. This is of major concern. Women are over-represented at lower income levels. Changes to government benefits and services affect them disproportionately.
- The Government anticipates significant trickle down effects from the remaining corporate tax cuts. If achieved, these economic improvements would benefit women; however, they are relatively small, long run in nature and highly contested. A major concern for gender equity relates to fiscal sustainability, as even further cuts in spending, or other tax rises, would be needed to fill the hole in revenues produced by the company tax cut.

## **Recommendations**

NFAW recommends that the LITO and the LIMTO be converted to a transfer payment available to low and middle-income earners in conjunction with other payments, instead of being delivered to low and middle-income taxpayers through the tax system.

NFAW recommends that, because the second and third stages of the personal income tax plan are regressive, they should not proceed.

NFAW recommends that bracket creep should be addressed by reviewing the tax rate thresholds.

### **1. Economic and fiscal context of the proposed Bill**

The 2018-19 Budget estimates a significantly reduced fiscal deficit on a cash basis (the "underlying cash balance") of \$14.5 billion in 2018-19. This is an improvement in the budget bottom line, and the government forecasts reaching a surplus in 2019-20. Total receipts estimated for 2018-19 are \$473.7 billion (Budget Paper No.1, Statement 3, Table 2, 3-10). This includes taxation receipts of \$440.5 billion. Total government expenditure (payments) is estimated to be \$484.6 billion (Budget Paper No.1, Statement 5, Table 1, 5-5). Taxation comprises 93% of all revenues and funds 91% of all expenditures.

Table 1: Budget aggregates

	Actual		Estimates		Projections		Total(a)
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
<b>Underlying cash balance (\$b)(b)</b>	<b>-33.2</b>	<b>-18.2</b>	<b>-14.5</b>	<b>2.2</b>	<b>11.0</b>	<b>16.6</b>	<b>15.3</b>
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
<b>Net operating balance (\$b)</b>	<b>-32.1</b>	<b>-12.6</b>	<b>-2.4</b>	<b>8.6</b>	<b>19.6</b>	<b>27.4</b>	<b>53.2</b>
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	

(a) Total is equal to the sum of amounts from 2018-19 to 2021-22.

(b) Excludes expected net Future Fund earnings before 2020-21.

Source: Table 1, Budget Paper 1, Statement 3, 3-5.

Achieving fiscal balance at this time after a decade of fiscal deficits will depend on better than expected economic performance on many parameters, in particular higher commodity prices and higher company tax receipts. The recent reduction in the Australian general government fiscal deficit largely reflects cyclical gains in tax collection, including a strong pickup in Commonwealth Government revenues from income taxes. This year, the budget shows a [small recovery in revenues](#) because commodity prices and company tax revenues have picked up.

### *The tax to GDP cap and excessive expenditure constraint*

The budget proposes a [23.9% "speed limit" or "cap" on Australia's tax to GDP ratio](#). The cap is supposed to limit Commonwealth taxes as a share of GDP once a budget surplus is reached:

"In this Budget, the Government has formalised its 23.9 per cent tax-to-GDP cap within its fiscal strategy. Whilst the tax system exists to fund the essential services that Australians expect and are entitled to receive, the cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth, costing jobs and investment." (Budget Paper No.1, Statement 3, 3-8).

While cutting taxes, the budget achieves Commonwealth fiscal balance by limiting spending excessively, at the expense of good government and the poorest in our society. The Government is offsetting all new spending with cuts elsewhere, and has not increased welfare payments such as Newstart, in spite of its dramatic decline in real terms relative to wages. In the longer term, the forecast surplus depends on optimistic wage parameters and continued high company tax revenues as well as lower interest payments on government debt. The IMF's projections of fiscal consolidation and falling government debt to GDP ratios for Australia over the period 2018 to 2023 have a similar bias; they assume that expenditure reductions account for nearly three quarters of the improvement in the fiscal balance.

As debt is paid down, the level of taxation becomes the primary determinant on government spending. Australia's [Charter of Budget Honesty](#) aims for prudent budgeting in the medium to long term but does not contain a legislated [fiscal rule](#). Usually, fiscal rules seek to limit deficits to balance revenues and expenditures over the business cycle, or to restrict public debt to pay for capital investment and not current expenditures such

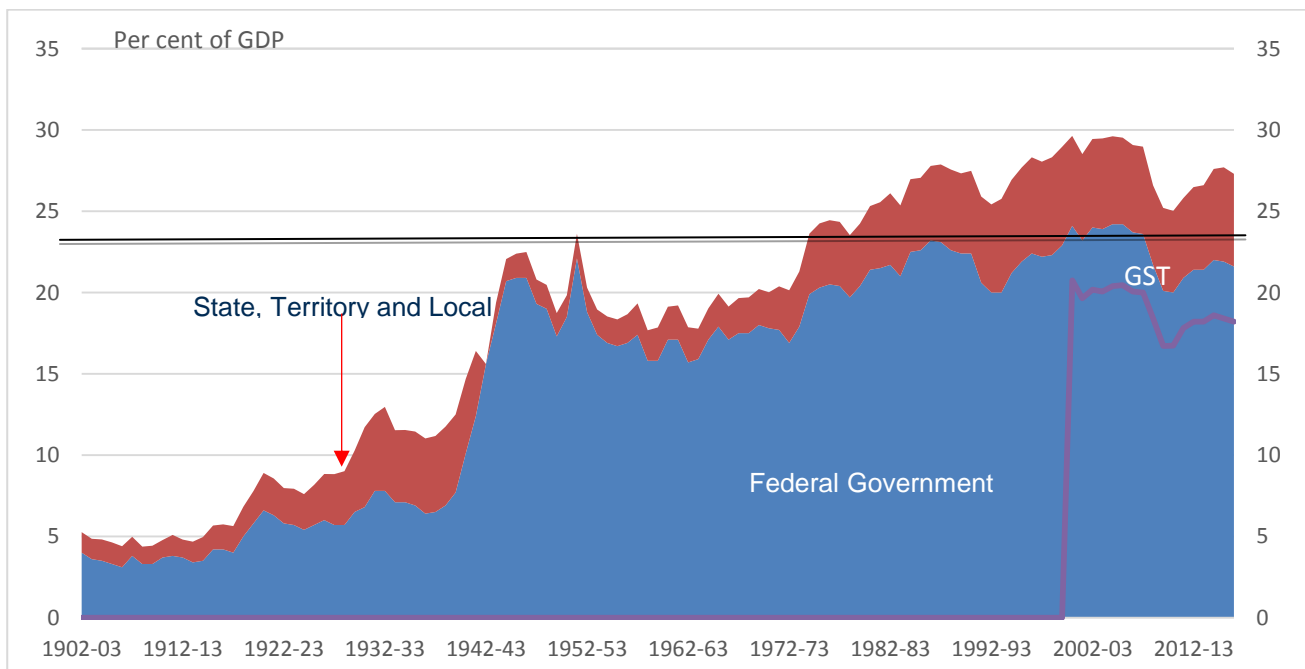
as salaries or social security. The OECD [recommends](#) limits on debt and expenditures to help ensure sustainable budgeting.

The “formalisation” of the 23.9% tax to GDP cap is political not legal and puts constraints on tax reform at the level of government most able to achieve it – in our most important taxes. The tax “cap” is not a fiscal rule, but rather it aims to limit the size of government by keeping taxes arbitrarily low. A tax to GDP cap at this level was [recommended](#) by the [National Commission of Audit](#), established in 2013 by then-Treasurer Joe Hockey with precisely this goal.

There are precedents for the tax cap by governments on both sides of politics. From 1985 to 1988, the Hawke-Keating government committed to a “trilogy” capping taxes, spending and debt. That political commitment, which was not fully met, had the goal of maintaining the tax level over the electoral cycle to support tax reform package that lowered marginal rates and broadened the tax base. The government enacted the Capital Gains Tax, Fringe Benefits Tax and significant company and international tax reforms.

The federal tax cap of 23.9% of GDP is an [average](#) of tax levels since 2000. If we averaged tax levels over the last century, this would produce a cap of about 15% of GDP, starting from the very low federal tax level of 4% of GDP at federation. This is shown in the next chart.

Figure: Tax levels since federation: % of GDP



Source: Tax and Transfer Policy Institute, [A Stocktake of the Tax System and Directions for Reform](#) (2015) Chart 3.2, updated to 2016-17 using budget and ABS data

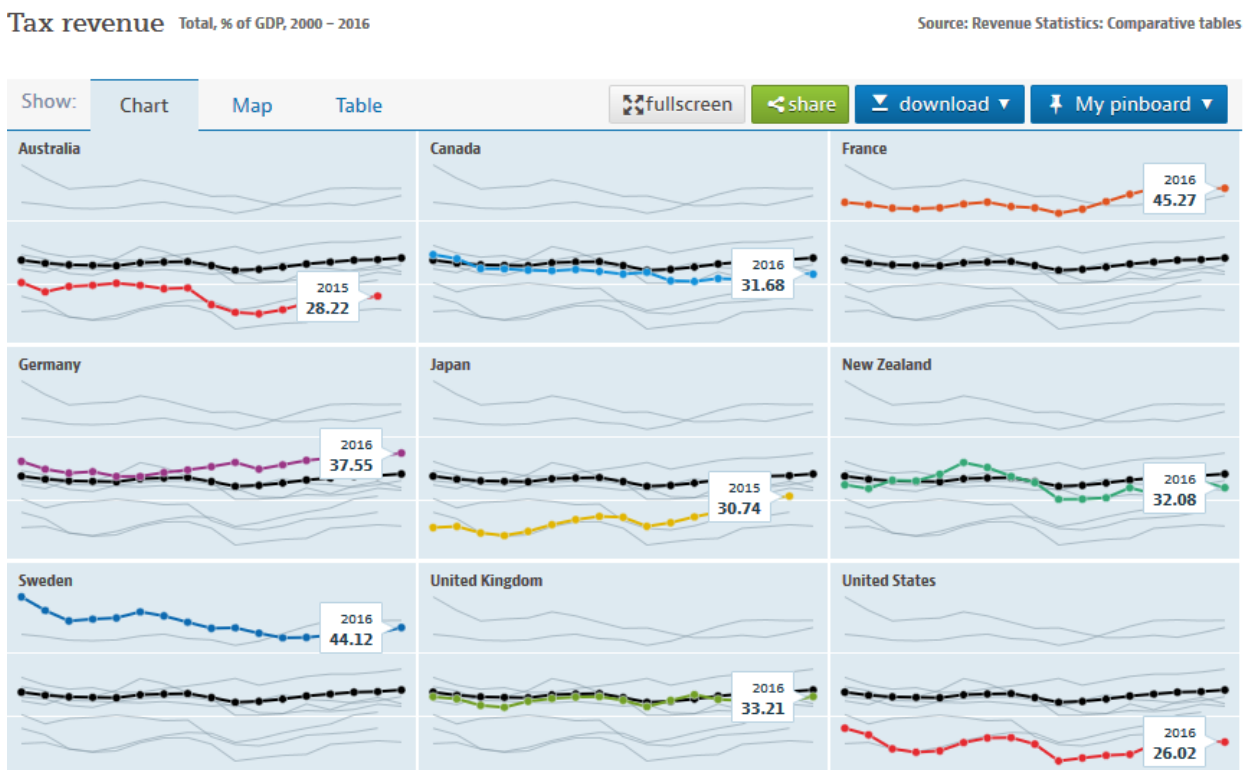
*Comparing debt and taxes with other countries*

Overall, Australia’s fiscal balance performance remains poor relative to most comparable countries. In April 2018, the International Monetary Fund (IMF) published revised fiscal indicators for all countries (International Monetary Fund, 2018). The fiscal balance for Australia (including the states and territories), is estimated at -1.7 per cent of GDP for calendar year 2018, the seventh worst fiscal balance for the 35 advanced economies.

Australian government debt (including state and local government) was 64% of GDP in 2015, according to the OECD (OECD, 2018a). However, private (household) debt in Australia is one of the highest in the world, estimated at close to 200% of GDP (Chalmers, 2018). It is likely that women are worse off as a result of this relatively low government debt; the latter, at low interest rates, spreads the risk of debt, and funds public expenditure on social security, education and health, from which women benefit.

The Government commits to “stabilising and reducing net debt over time” in this budget. Australia’s government net debt is estimated at \$341 billion in 2017–18, or 18.6% of GDP, which the Government describes as a “peak” of net debt declining ultimately (projections only) to an extremely low 3.8% of GDP by 2021–22. The declining ratio is a result of debt growing slower than projected GDP. Gross Commonwealth debt is estimated at 31.2% of GDP in 2018-19. Net interest payments on debt is estimated at \$14.5 billion in 2018–19, or about 3% of government expenditure (or 1% of GDP).

Figure: “All-in” tax levels (all levels of government), selected OECD countries, trend line 2000-2016



Source: OECD (2018b), [Revenue Statistics](#) (selected countries; black line is OECD average 2000-2016)

Australia has a much lower tax to GDP ratio than comparable countries of Canada, the United Kingdom, New Zealand, Germany, France, Japan, and Sweden (the black line is the OECD average); many of those countries have lower unemployment than Australia. The United States has lower taxes overall but a [far greater fiscal deficit](#) – it finances government with debt. In its 2018 budget, New Zealand achieves a fiscal surplus and continues to pay down debt, while increasing social and some infrastructure spending (Government of New Zealand, 2018). It can achieve this with a higher tax to GDP ratio than the “all-in” ratio for Australia, including its substantial GST with a high rate and broad base. High taxing countries such as Sweden and Denmark have significantly lower debt than Australia; they also have equal or higher GDP growth than Australia (OECD, nd).

The Commonwealth tax level exceeded 23.9% of GDP under the Howard-Costello government in several years during the 2000s. It seems likely we will need to increase our tax level somewhat in future, to ensure fairness and sufficient investment in Australia, in a changing and risky world with an ageing population.

### *Budget economic parameters*

The economic parameters in the Budget feed into the revenue forecasts for the forward estimates (3 years after 2018-19). The Budget contains optimistic forecasts of GDP (rising from 2  $\frac{3}{4}$  % of GDP in 2017-18 to 3 % of GDP in future years).

Business investment forecasts are higher than last year, growing 4.5% of GDP in 2019–20, and wages are forecast to grow by 3.25% of GDP in 2019–20. These are substantially higher than the actual outcomes for 2016–19 (business investment at negative 4% of GDP and wages at 1.9% of GDP). Wage taxes are supported by higher labour market participation at 65.5% of the working age population. The Government also assumes that the rest of the world is growing faster than Australia (major trading partners at 4.25% of GDP), driven by growth in China and India.

As the personal income tax is our largest tax and most of it falls on wages, the forecast of wage growth is a critical parameter in the Budget. The budget forecast trend for the fiscal balance almost exactly tracks the budget forecasts for wages growth.

### *Net operating balance and capital investment*

In its 2017–18 budget, the Government presented the accrual based “net operating balance” in the budget headline measures for the first time. This has been repeated in the current budget (Table 1 extracted above).

Net operating balance is an accrual measure that excludes, according to the Government's definition, capital investment and is intended to highlight the ongoing management of “recurrent expenditure”. The Government continues its approach from last year of stating (Budget Paper No.1, Statement 3, Box 7, 3-33):





"If government cannot meet recurrent spending from today's taxes then this spending must be funded by taking on public debt which will have to be funded by higher taxes in the future."

This budget does not expand capital spending but continues the "capital program" (described as large, but not particularly so) from the last budget. This more permissive approach to borrowing to fund capital investment is sensible in an era of low interest rates and a need for more infrastructure. It includes ongoing increases in the defence budget and spending on numerous road and rail projects around the country, as well as the new Sydney airport. Capital investment by the government is recorded in Budget Paper No. 1, Budget Statement 4:

- Direct investment in capital expenditure such as buildings, equipment and software (about \$13.8 billion in 2017-18).
- Grants for capital purposes, including most of the road and rail projects (made directly to states), recorded as current expenditure for other purposes in the Budget.
- Investment in financial assets, which includes higher education concessional loans to students (counted as an asset, not expenditure, in the Budget).

It is sensible for the Commonwealth to allocate funds, including borrowing, to capital investment; however, many of the projects "capitalised" in the budget may never provide a financial return in a business sense, and are better considered with other government spending. As money is fungible, there is ultimately no justification for the allocation of debt to specific government departments or in such projects being presented as "off budget".

### *A "tax cut" budget that reduces progressivity*

Last year, the Budget contained policy measures that sought to raise revenue, including an increase in the Medicare Levy, the new Bank Levy, foreign visa worker levy and various integrity and base protection measures in the GST, company tax and personal income tax.

The Medicare levy rise was not passed by the Parliament and has been abandoned by the Government. The Major Bank Levy was introduced and is estimated to raise \$1.15 billion in 2017-18, increasing to \$1.9 billion in 2021-22.

This year's budget contains personal income tax cuts but does not contain broad-based tax reform. The tax cuts will benefit men more than women, on the whole, and permanently reduce progressivity in the income tax rate structure.

The tax cuts will reduce revenue by billions. Publicly funded services will take a hit, with the potential to reduce jobs. Only spending on schools and the NDIS will grow in real terms. This is of major concern. Women are over-represented at lower income levels. Changes to government benefits and services affect them disproportionately.

## **NFAW analysis: Implications for women of the economic and fiscal settings**

A strong and fiscally sustainable government to deliver public goods and social welfare is good for women. The accuracy and realism of fiscal forecasts matters to all Australians, men and women, as the budget should be transparent and present the real fiscal position of government.

It is good for all people, and women in particular, that the Government has accepted that core public funding is needed for what the Government calls essential services. However, the excessive constraints on government spending limit this commitment. The continued emphasis on fiscal discipline at all costs is at the expense of women who suffer more from cuts in social welfare, public expenditure on health, education, safety and the age pension, and those on low incomes.

The assumption that only capital expenditure delivers benefits over time is plainly wrong. Recurrent expenditure includes expenditure to prevent domestic violence, pay teachers and nurses, fund Newstart and family payments, fund vaccines and pay for courts and the justice system. Women and the broader population, and future economic prosperity, benefit from all these forms of public spending. To the extent that government insists on cutting or not increasing this spending where needed, this will negatively affect women.

The tax to GDP cap is a backward looking political measure that does not take seriously the need for increased government expenditure in future to support human capital and infrastructure investment, and health and social security expenditure. Tax reform to strengthen the tax base is crucial for longer term budget repair. This government continues the failure in tax reform across the board, which has been in the too hard box of four federal governments for the past eight years. It is critically important to prepare government finances for the period beyond 2025 when baby boomers start turning 80 years of age.

## **2. The proposed Tax Package**

The headline measure for the 2018-19 budget is the restructuring of personal income tax rates.

Page	Treasury	2017 -18	2018 -19	2019- 20	2020 -21	2021 -22
		\$m	\$m	\$m	\$m	\$m
33	Personal Income Tax Plan	-	-360. 0	-4,120 .0	-4,42 0.0	-4,50 0.0
32	Personal Income	-	-80.0	-50.0	-50.0	-50.0



	Tax-increasing the Medicare levy low-income thresholds					
32	Personal Income Tax – retaining the Medicare levy rate at 2 per cent	-	-400.0	-3,550.0	-4,250.0	-4,600.0

Source: Budget Paper No 2; Part 1 Revenue Measures

The first stage of the personal income tax plan is to introduce a new Low and Middle Income Tax Offset (LIMTO) that will assist taxpayers earning less than \$125,333 per annum. This is coupled with an uplift in the tax threshold for the 37% rate from \$87,000 to \$90,000. The offset is in addition to the existing low income tax offset (LITO), and has the following effect:

<b>Taxable Income</b>	<b>LIMTO</b>	<b>LITO</b>
<b>Less than 18,200</b>	Nil	Nil
<b>18,201 – 37,000</b>	\$200	\$445
<b>37,001 – 48,000</b>	Increases to \$530	\$445
<b>48,001 – 90,000</b>	\$530	phases out at \$66,667
<b>90,001 – 125,333</b>	\$530 phases out	nil
<b>Over 125,334</b>	nil	nil

The LIMTO will be paid following lodgement of an income tax return, not with wages through reduced PAYG instalments.

Both the LITO and the LIMTO are non-refundable tax offsets, therefore a person with a tax liability lower than the amount they would be entitled to will not receive a cash refund. Therefore a person with a taxable income lower than \$18,200 will not benefit from this measure, and a person with a taxable income below \$21,595 will not receive the full benefit of the tax offsets.

The second and third stages of the income tax measures are not costed in the Budget as they will not take effect until after 1 July 2022. The plan will reduce the marginal tax rate payable by taxpayers with a taxable income of more than \$90,000:

Tax Years	Income Range (\$) for each Tax Rate			
	19%	32.5%	37%	45%
1/7/17-30/6/18	18,201 – 37,000	37,001 – 87,000	87,001 – 180,000	> 180,000
1/7/18-30/6/22	18,201 – 37,000	37,001 – 90,000	90,001 – 180,000	> 180,000
1/7/22-30/6/24	18,201 – 41,000	41,001 – 120,000	120,001 – 180,000	> 180,000
1/7/24 onwards	18,201 – 41,000	41,001 – 200,000	abolished	> 200,000

### *Medicare Levy*

The 2017-18 Budget proposed an increase in the level of the medicare levy from 2.0% to 2.5% to assist in the funding of the NDIS. This proposal has not passed into legislation, and the Government has abandoned the proposal as all planned Commonwealth expenditure on the NDIS will be able to be funded through the Budget.

The low income threshold for payment of the medicare levy will be indexed to exempt the lowest income earners from the levy:

	Indexed threshold from 1 July 2018		Current Threshold	
	Single	Family (+ per child)	Single	Family (+ per child)
<b>Pensioner or Senior</b>	\$34,758	\$48,385(+ \$3,406)	\$34,244	\$47,670 (+\$3,356)
<b>Other</b>	\$21,980	\$37,089 (+\$3,406)	\$21,655	\$36,541 (+\$3,356)

### *Personal Income Tax: ensuring individuals meet their tax obligations*

The ATO has been allocated \$130.8m to ensure that individuals and their tax agents comply with the tax laws, including underreported income and over claimed deductions. This will be achieved through a range of data matching, education and audit activities. This extends funding due to expire on 1 July 2018.

### *Taxation: Business Taxation*

Budget 2018-19 incorporates the Enterprise Tax Plan announced in the 2016–17 budget which provided for a reduction in the corporate tax rate from 30% to 25% to be phased in over a 10 year period.

The proposed tax cuts have not been fully legislated by the Parliament. Tax cuts have been legislated for small companies with a turnover of less than \$50m, which will reduce to 25% from 1 July 2027. Tax offsets are also available to unincorporated businesses with a turnover less than \$5m per annum from 1 July 2018. This offset reduces the tax rate tax by 8%, increasing to 16% in 2026-27, by up to \$1,000 per annum.

The instant asset write-off for assets costing less than \$20,000 has been extended for a further 12 months at an estimated cost of \$550m (Budget Paper No. 2, p. 20).

In the current budget the Government has announced a range of measures to protect the integrity of the taxation system, including:

- better targeting of the Research and Development tax offset based on the level of activity as a proportion of the company's expenditure for the year (Budget Paper No. 2, p. 21);
- changes to the Thin Capitalisation rules to ensure that asset valuations used to calculate the amount that can be claimed for interest deductions are aligned with the values in the company's financial statements (Budget Paper No. 2, p. 46); and
- changes to the taxation arrangements that apply to foreign investors investing in certain passive investments in Australia (Budget Paper No. 2, p. 38).

### *Taxation: Black Economy Package*

The Budget includes a range of measures to combat illegal activities, including Phoenix companies and the Black Economy. The measures are in response to recommendations of the Report of the Black Economy Taskforce (Treasury, 2017).

The black economy includes transactions and activities conducted outside the applicable tax and regulatory systems, while phoenix activities refer to the activities of company directors who misuse the corporate structure to avoid paying debts, including tax and superannuation debts, by liquidating a company.

The ATO has been allocated funding to:

- Implement debt recovery strategies in relation to the collection of tax and superannuation debts (Budget Paper No. 2, p. 19)
- Reform taxation and corporations law to introduce new tools including offences and penalties to deter phoenix activity (Budget Paper No. 2, pp. 2, 37)
- Expand the taxable payments reporting system (TPRS) to contractors within the security industry, road freight providers and computer design and services. The TPRS is already in force within the building and construction and cleaning industries (Budget Paper No. 2, p. 22)
- Introduce a limit of \$10,000 on cash payments, excluding financial transactions and non-business transactions between consumers (Budget Paper No. 2, p. 23)
- Fund increased ATO activity to replace funding due to expire on 30 June 2018 (Budget Paper No. 2, p. 23)
- Disallow tax deductions for wages where a business has not withheld the appropriate rate of tax from wages or contract payments where an ABN has not been supplied (Budget Paper No. 2, p. 23)

- Make technical amendments to the taxation of entities to limit the ability to alienate income and other forms of tax minimisation (Budget Paper No.2, pp. 41-45)
- Create an illicit tobacco taskforce and tightening the payment and taxation controls. (Budget Paper 2, p 12.).

### **NFAW analysis: Implications for women of the Personal Income Tax Plan**

Measures that reduce the tax payable by low income earners will disproportionately benefit women, as 85% of female taxpayers report taxable income of less than \$90,000 per annum compared to 72% of male taxpayers (ATO, 2018).

However the tax offset increases the effective marginal tax rate by 1.5% for taxpayers within the taper zone, which increases work disincentives for women and other low income taxpayers. The potential to increase workforce participation by part time workers through a lower tax rate is therefore moderated by the effect of the taper rate.

The use of a tax offset to deliver benefits to lower income taxpayers introduces increased complexity to the system, particularly in the way in which the two tax offsets are layered and stepped with different withdrawal thresholds. The use of such tax offsets was considered in the Henry Review (2010), which recommended

**‘Recommendation 5:** The Medicare levy and structural tax offsets — the low income, senior Australians, pensioner and beneficiary tax offsets — should be removed as separate components of the system and incorporated into the personal income tax rates scale. If a health levy is to be retained, it could be applied as a proportion of the net tax payable by an individual.’

A further flaw in the use of a tax offset is that it is only paid to the extent that a person is required to pay tax (excluding the medicare levy). Women who earn less than \$18,200 are excluded from this measure as they do not pay tax, and between \$18,201 and \$21,595 they will not receive the full entitlement as the tax payable is less than \$645.

The decision to pay this amount as an annual lump sum rebate following assessment of income tax is not consistent with the needs of low income families. Low income families are better served by receiving the benefit on a regular basis through reduced PAYG payments, particularly in a low wage growth environment. In order to meet the needs of low income families and to distribute the benefit to non-taxpayers, the benefit should be delivered as a transfer payment in conjunction with other benefits payable to low income earners (Hodgson & Boden, 2008).

The measures intended to take effect in stages two and three are described as addressing bracket creep and simplifying the system. However these measures are in fact a structural change to the progressivity of the tax system that benefits high income taxpayers (NATSEM, 2018). The budget papers note that this will create a flatter tax structure (Budget Paper No. 2, p. 33), which inherently reduces the progressivity of

personal income tax rates. Modelling (Grattan, 2018) shows the effect in different tax brackets, but also shows that these measures do not fully adjust for bracket creep as average tax rates do still increase as income increases, although the rate of that increase is depressed.

The proposed flattening of the tax scales from 2022 will disproportionately benefit male taxpayers as the 28% of men who report taxable income of more than \$90,000 is nearly double the 15% of women in the 37% and 45% tax brackets. In numerical terms, in the 2015–2016 income year, 662,716 women and 1,570,364 men had a taxable income exceeding \$89,421; therefore 2.3 times as many men as women would have benefited from the reduction in the 37% tax rate to 32.5% (ATO, 2018).

Stages two and three are not costed as they are to be delivered after the period covered by budget estimates and projections. However the fiscal capacity to deliver tax cuts of this magnitude depends on the performance of the economy over the next five years. The tax cut is not accompanied with base broadening which had been recommended by the Henry Review (see section 1.1).

The abandonment of the proposed increase in the medicare levy is welcome as it would increase the average tax burden on most Australians and it also would act as an increase in the effective marginal tax rate. In the 2017 Gender Lens (NFAW, 2017, p. 39) we noted that a flat rate of increase across all tax brackets increased the burden on low income taxpayers, and recommended that the desired increase be obtained through other more progressive measures.

### *Taxation: Business Taxation*

Our analysis of the corporate tax cuts in the 2016–17 Gender Lens remains relevant. The stated purpose of the company tax cut has been to encourage ‘investment, raise productivity, increase GDP and over time raise real wages and living standards’ (Commonwealth of Australia, 2016b, p. 41). These positive economic effects are predicted by various models (Treasury, 2016) and it is argued that they will ‘pay for’ about half of the revenue lost from the tax cut.

If achieved, these economic improvements would benefit women; however, they are relatively small and long run in nature, and moreover they are contested (for example, see Dixon et al, 2016). A major concern for gender equity relates to fiscal sustainability, as further cuts in spending, or other tax rises, would be needed to fill the hole in revenues produced by the company tax cut.

Both the Government and the Opposition proposals, including investment allowances or depreciation for capital investment, aim to lower taxes on businesses which increase investment in Australia. Both policies would have a fiscal cost. The Opposition policy for an investment allowance for investment in capital plant and equipment may more directly benefit male-dominated industries which have significant capital costs (such as mining or manufacturing) compared to female-dominated industries including services.



### **Taxation: Black Economy Package**

The tax system needs to be strong and comprehensive to raise the funds required to provide services.

Women are the beneficiaries of the services that the Government provides, and it is in the interests of women to ensure that the tax system functions as intended.

People vulnerable to being exploited by the black economy include migrant and CALD workers, visa holders and people employed in industries where sham contracts are prevalent, including the NDIS, cleaning and security industries (see section 4.2 – workforce programs).

Vulnerable workers are liable to be paid at rates below the relevant award or minimum wage as well as losing entitlements to superannuation, workers compensation and leave.

It is in the interest of a fair and just community to protect vulnerable workers by proactively pursuing measures to combat the black economy.

### **Recommendations**

NFAW recommends that the LITO and the LIMTO be converted to a transfer payment available to low and middle-income earners in conjunction with other payments, instead of being delivered to low and middle-income taxpayers through the tax system.

NFAW recommends that, because the second and third stages of the personal income tax plan are regressive, they should not proceed.

NFAW recommends that bracket creep should be addressed by reviewing the tax rate thresholds.

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