

Community and Public Sector Union

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Senate Standing Committees on Economics
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Canberra ACT 2600

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**Inquiry into Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018
[Provisions]**

Dear Committee Secretary

As the primary union representing Australian Public Service employees, the Community and Public Sector Union (CPSU) is committed to providing a strong voice for our members in key public policy and political debates. Decisions around the tax system are central to our members' interests as it raises the revenue required to fund public services.

The CPSU welcomes the opportunity to make a submission to this inquiry into the Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 [Provisions].

The CPSU also supports the submissions made by the Tax Justice Network, the Australian Council of Social Services and the Australian Council of Trade Unions.

Australia is a wealthy nation. With a fair tax system, we would have the collective resources available to provide excellent education, health, aged care and public services, a strong social safety net, and to enact policies that would deliver a sustainable prosperity for all. However, the Coalition Government, through this tax plan and other policy decisions, is choosing to erode our collective resources, and benefit corporations and the already wealthy at the expense of the majority.

The CPSU submits that the Coalition Government's tax plan should be rejected because:

1. It is based on cuts to the public services and public service jobs;
2. Erodes the tax base and denies revenue needed for public services;
3. The proposed tax plan is highly regressive;
4. It is based on unrealistic wage growth assumptions;
5. The Government is deliberately undermining those wage growth assumptions through its public sector wages policy, and
6. Tax cuts are the conservatives' prelude to cuts to social security, public services and public service jobs.

1. Based on cuts to welfare and services

The Government's Budget projection is that real expenditure growth will be held to no more than 1.6 per cent over the forward estimates.¹

That 1.6 per cent is, according to ACOSS, below the funding increase necessary to cater for a growing population.² This suggests that the Government has not budgeted for the public services needed to meet population growth. Public services are already under resourced and over stretched. A failure to match services to population size will further erode the quality of services.

2. Erodes the tax base and denies revenue needed for public services

The Coalition Government has already chosen to substantially erode the tax base through its planned corporate tax cuts. That policy would remove \$65 billion. Those corporate tax cuts come at a time where many corporations currently pay little or no tax, and where many corporations do not make a fair contribution to the community from which they draw their abundant wealth.

The Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 would further erode the tax base by again reducing the contribution made by the already wealthy. The Government's plan would remove a further \$140 billion.

Years of continuous budget cuts and outsourcing have eroded Australia's public services. The CPSU has warned the Government in many previous submissions about the impact of cuts on the Australian community. Cuts have now led to a growing number of problems, demonstrated by the 2016 Census, Robo debt debacle, tens of millions of additional unanswered phone calls, and the outbreak of white spot disease, resulting in significant social and economic costs.

To rebuild our public services and maintain our living standards, government needs more revenue not less. Our public services urgently need more funding, but the Government's proposed income tax cuts will mean less revenue for the essential public services that Australians rely upon. Without it, millions of Australians will end up worse off as they will receive worse and more expensive services in return for a negligible tax cut.

Australians support more funding for our public services. The recent Per Capita Tax Survey found that 71.67 per cent of Australians believe the government should spend more on public services.³ Rather than cutting the rate for those at the top, 70 per cent of Australians support raising the high income tax rate.⁴ Two thirds (65.19 per cent) believe high-income earners do not pay enough tax and only 10.08 per cent believe that they pay too much.⁵ Australian do not support a tax plan that will deliver 62 per cent of the benefits to high earners.⁶

¹ Australian Government (2018, May). Budget Paper No. 1 Budget Strategy and Outlook 2018-19. Retrieved from <https://www.budget.gov.au/2018-19/content/bp1/index.html>

² ACOSS (2018, May). Submission to Senate Economics Committee: Proposed income tax cuts

³ Emma Dawson and Warwick Smith (2018, May). 2018 Per Capita Tax Survey. Per Capita.

⁴ Centre for Policy Development (2017, December). What Do Australians Want? Active and Effective Government Fit for the Ages

⁵ Emma Dawson and Warwick Smith (2018, May). 2018 Per Capita Tax Survey. Per Capita.

⁶ Matt Grudnoff (2018, 10 May). 62% of tax cuts benefits go to highest income earners. The Australia Institute. Retrieved from <http://www.tai.org.au/content/62-tax-cuts-benefits-go-highest-income-earners>

3. The proposed tax cuts are highly regressive

The CPSU opposes the Government’s plan to make our tax system more regressive by reducing the amount of tax paid by high income earners and slashing the revenue available for our essential public services, making rising inequality even worse.

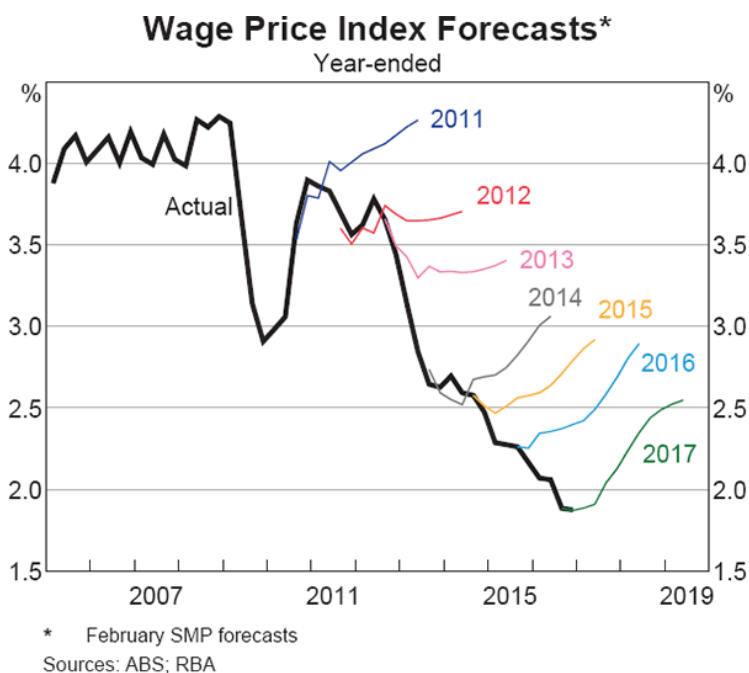
The proposed flattening of the tax system will mean that an individual who earns less than the median income will be in the same tax bracket at someone earning \$200,000, more than what over 95 per cent of Australian taxpayers earn.

The highest income earners will be the beneficiaries. They will get 62 per cent of the benefits under the Government’s proposal, while just 7 per cent of the benefit goes to the 30 per cent of Australians on the lowest wages.⁷

4. Based on overly optimistic wage growth assumptions

The Government’s tax cuts are underpinned by overly optimistic wage growth assumptions. The 2018-19 Budget assumes that wage growth will suddenly rebound in coming years from the current 2.1%⁸ to 3.5 percent per year⁹.

The chart below, entitled ‘Wage Price Index Forecasts’, from the Reserve Bank shows there have been persistent errors in the wage growth forecasts since 2011.¹⁰ The Government’s Budget projections rely on similarly overly optimistic forecasts about wage growth.



⁷ Matt Grudnoff (2018, 10 May). 62% of tax cuts benefits go to highest income earners. The Australia Institute. Retrieved from <http://www.tai.org.au/content/62-tax-cuts-benefits-go-highest-income-earners>

⁸ Australian Bureau of Statistics (2018, 16 May). 6345.0 - Wage Price Index, Australia, Mar 2018. Retrieved from www.abs.gov.au/ausstats/abs@nsf/mf/6345.0

⁹ Australian Government (2018, May). Budget Paper No. 1 Budget Strategy and Outlook 2018-19. Retrieved from <https://www.budget.gov.au/2018-19/content/bp1/index.html>

¹⁰ James Bishop and Natasha Cassidy (2017, March). Bulletin – March Quarter 2017 Insights into Low Wage Growth in Australia. Reserve Bank of Australia. Retrieved from <https://www.rba.gov.au/publications/bulletin/2017/mar/2.html>

5. The Government is deliberately undermining those wage growth assumptions through its public sector wages policy

The wage growth forecasts of 3.5 per cent are in stark contrast to the 2 per cent wage cap imposed by the Government's Workplace Bargaining Policy 2018.¹¹

The wages policy adopted by the Government for its public sector workforce impacts on the level of wages growth across the wider Australian economy. Low wage growth in the public sector directly contributes to low wages growth for the rest of the Australian workforce. This Government has previously acknowledged the role that its wages policy places in the broader economy, stating that *"the public sector is a large employer – its wage outcomes have a macroeconomic effect."*¹²

6. Tax cuts are the conservatives' prelude to cuts to social security, public services and public service jobs

The CPSU notes that if the overly optimistic wages and growth forecasts are not met, this will put pressure on the Government's stated aim to return to Budget surplus.

Based on their track record, this Government could be expected to then make the political decision to cut social security, public services and public sector jobs.

The CPSU notes the ACOSS submission highlighted that repeated, permanent tax cuts in the 2000s, reliant on temporary revenue increases, led to harsh spending cuts after the boom subsided with fiscal pressures used to justify the cuts.¹³

There is every likelihood that pattern, described by economist Richard Denniss as the 'right-wing ratchet',¹⁴ would be repeated again if this tax plan is adopted.

Conclusion

The Government's tax plan limits the collective resources available to us and uses those reduced resources to favour the already wealthy. This is the wrong choice for our nation.

At a time when inequality is at a 70 year high¹⁵ and significant investment is needed in areas such as health, education, infrastructure, defence, research and public sector ICT and service capacity, the Government's plan to further reduce government revenue and make the tax system more regressive should be rejected.

¹¹ Australian Public Service Commission (2018, 6 February). Workplace Bargaining Policy 2018. Retrieved from <http://www.apsc.gov.au/priorities/workplace-relations/bargaining-policy-2018>

¹² Australian Public Service (2015, 7 August). Australian Government Public Sector Workplace Bargaining Policy. Retrieved from <http://www.apsc.gov.au/publications-and-media/archive/publications-archive/2014-workplace-bargaining-policy>

¹³ ACOSS (2018, May) Submission to Senate Economics Committee: Proposed income tax cuts

¹⁴ Richard Denniss (2015, July). Of clowns and treasurers. The Monthly. Retrieved from <https://www.themonthly.com.au/issue/2015/july/1435672800/richard-denniss/clowns-and-treasurers>

¹⁵ Australian Council of Trade Unions (2017, September). Rising Inequality - An Australian Reality. Retrieved from <https://www.actu.org.au/actu-media/media-releases/2017/new-actu-report-rising-inequality-an-australian-reality>

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Yours sincerely



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