

The Senate

Economics
Legislation Committee

Lower Tax Bill 2018

April 2019

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Chapter 1

Introduction

1.1 On 6 December 2018, the Senate referred the Lower Tax Bill 2018 (the bill) to the Senate Economics Legislation Committee (the committee) for inquiry and report by 2 April 2019.

1.2 On 29 November 2018, the bill was introduced in the Senate by former Senator David Leyonhjelm.¹ The bill seeks to reduce annual Commonwealth Government taxation by almost half by abolishing various taxes and reducing the rates of other taxes. The bill seeks to significantly reduce personal income tax and fringe benefits tax and abolish the Medicare levy. It also seeks to significantly reduce corporate income tax and abolish import duties, tobacco duties, alcohol duties and wine equalisation tax, fuel duties and luxury car tax, the passenger movement charge and the major bank levy.

Overview of the bill

1.3 The Explanatory Memorandum (EM) outlines the overarching rationale for the measures in the bill, which are intended to reduce Commonwealth Government taxation by nearly 50 per cent, as follows:

Tax should be kept to a minimum as it involves using coercion to take someone's property. Accordingly, government spending funded by taxation should be limited to the provision of 'non-excludable' services like national defence and the regulation of air quality. Access to the benefits of 'non-excludable' services cannot be confined to those who would pay for such services voluntarily. As such, the private sector is not well suited to provide 'non-excludable' services.²

1.4 The EM includes a Parliamentary Budget Office (PBO) costing of the proposed tax changes proposed in the bill.³ The PBO costing notes:

The proposal would decrease the fiscal balance and the underlying cash balance by \$622,760 million over the 2018–19 Budget forward estimates period. The fiscal balance impact reflects a decrease in revenue of \$661,000 million and a decrease in expenses of \$38,240 million over this period.⁴

1.5 In his second reading speech, former Senator Leyonhjelm expressed the view that:

1 Former Senator David Leyonhjelm resigned from the Senate on 1 March 2019.

2 *Explanatory Memorandum*, p. 1.

3 *Explanatory Memorandum*, attachment pp. 1–7.

4 *Explanatory Memorandum*, attachment, p. 1.

Such a large tax reduction is also responsible, provided it is coupled with an even greater reduction in Commonwealth Government spending, so that the Commonwealth Government's budget and balance sheet are repaired.⁵

1.6 The bill contains one schedule comprising three parts.

Schedule 1, part 1

1.7 Schedule 1, part 1 seeks to abolish a range of duties and taxes—including: import duties; tobacco duties; alcohol duties and wine equalisation tax; fuel duties and luxury car tax; the passenger movement charge; and the major bank levy—by repealing the following Acts:

- *A New Tax System (Luxury Car Tax) Act 1999*
- *A New Tax System (Luxury Car Tax Imposition—Customs) 6 Act 1999*
- *A New Tax System (Luxury Car Tax Imposition—Excise) Act 10 1999*
- *A New Tax System (Luxury Car Tax Imposition—General) 14 Act 1999*
- *A New Tax System (Wine Equalisation Tax) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—1 Customs) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—5 Excise) Act 1999*
- *A New Tax System (Wine Equalisation Tax Imposition—9 General) Act 1999*
- *Customs Tariff Act 1995*
- *Customs Tariff (Anti-Dumping) Act 1975*
- *Excise Act 1901*
- *Excise Tariff Act 1921*
- *Fuel Tax Act 2006*
- *Major Bank Levy Act 2017*
- *Passenger Movement Charge Act 1978*
- *Petroleum Excise (Prices) Act 1987*
- *Product Stewardship (Oil) Act 2000*
- *Tradex Duty Imposition (Customs) Act 1999*
- *Tradex Duty Imposition (Excise) Act 1999*
- *Tradex Duty Imposition (General) Act 1999*
- *Tradex Scheme Act 1999*
- *Treasury Laws Amendment (Personal Income Tax Plan) Act 2018*

5 Senator David Leyonhjelm, Second reading speech, *Senate Hansard*, 29 November 2018, p. 35.

Schedule 1, part 2

1.8 Schedule 1, part 2 seeks to amend the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* to abolish the low income tax offset and low and middle income tax offset.⁶

1.9 Part 2 also seeks to amend the *Income Tax Rates Act 1986* to reduce the company tax rate to 20 per cent for companies of all sizes and raise the tax free threshold for personal income tax, for both residents and working holiday makers, from \$18,200 to \$40,000.⁷

1.10 Finally, part 2 seeks to amend the *Medicare Levy Act 1986* to effectively abolish the Medicare Levy by reducing the amount payable to 0 per cent, regardless of income.⁸

Schedule 1, part 3

1.11 The schedule 1, part 3 seeks to amend the *Fringe Benefits Tax Act 1986* to reduce the fringe benefits tax rate from 47 per cent to 20 per cent.

Legislative scrutiny

1.12 The Senate Standing Committee for the Scrutiny of Bills made no comment in relation to the bill.⁹ The Parliamentary Joint Committee on Human Rights deferred consideration of the bill.¹⁰

Conduct of the inquiry

1.13 The committee advertised the inquiry on its website and wrote to relevant stakeholders and other interested parties inviting submissions. The committee received five submissions which are listed at Appendix 1.

1.14 The committee appreciates the efforts of all stakeholders who contributed to the inquiry.

6 *Explanatory Memorandum*, p. 9.

7 *Explanatory Memorandum*, pp. 9–13.

8 *Explanatory Memorandum*, p. 13.

9 Senate Standing Committee for the Scrutiny of Bills, *Scrutiny Digest 15 of 2018*, p. 48.

10 Parliamentary Joint Committee on Human Rights, *Report 1 of 2019*, p. 125.

Chapter 2

Views on the bill

2.1 The committee received five submissions to the inquiry. Submitters expressed opposing views on the bill. This chapter summarises the general views on the bill, as well the views on the proposed amendments to personal income tax, company income tax, and alcohol taxes.

General views on the bill

2.2 The Tax Justice Network Australia (TJN-Aus), an organisation which advocates for fairer tax systems, strongly opposed the bill 'due to the great harm it would cause to the well-being of millions of Australians'.¹ In its view, 'it would be reckless for any Australia government to contemplate giving away half of its revenue'.²

2.3 Mr Ryan Kennealy, a student from the University of Adelaide, did not support the bill. He noted:

While I remain an advocate for lower taxes and a more efficient tax system, the Lower Tax Bill 2018 does not seek to accomplish that in a way that is consistent with the value of fairness. It presents more challenges to government and society as a whole than solutions.³

2.4 The EM notes that former Senator Leyonhjelm obtained costings from the Parliamentary Budget Office for a range of measures to halve annual Commonwealth Government spending, which could, in his view allow 'a near-halving of Commonwealth Government taxation, while still allowing considerable improvement in the Commonwealth Government's budget and balance sheet'.⁴

2.5 Mr Kennealy expressed concern that the EM does not provide detail on the spending cuts that would be necessary if the bill is passed, noting:

Senator Leyonhjelm has not provided in detail what programs would have to be cut in order to compensate for this loss of revenue. These proposals show that, even over the forward estimates, government spending would have to be reduced to the equivalent of cutting the entire welfare budget three times over. The Explanatory Memorandum states that the government should only provide funding to 'non-excludable' services, such as defence and air quality regulation. Senator Leyonhjelm must be clearer on exactly where funding would need to be cut.⁵

1 Tax Justice Network Australia, *Submission 3*, p. 1.

2 Tax Justice Network Australia, *Submission 3*, p. 1.

3 Mr Ryan Kennealy, *Submission 1*, p. 3.

4 *Explanatory Memorandum*, p. 1.

5 Mr Ryan Kennealy, *Submission 1*, p. 3.

2.6 The Australian Taxpayers' Alliance (ATA), a taxpayers' advocacy group, considered that 'unreasonably high taxes are a handbrake on economic growth, prosperity and individual human flourishing'.⁶ While the ATA supported the proposed tax cuts, it submitted that these cuts 'should be 'phased in' alongside cuts to government spending in order to ensure that the tax cuts do not cause an increase in public debt to be shouldered by future generations'.⁷

Personal income tax

2.7 TJN-Aus cautioned against the measures proposed in the bill relating to personal income tax. It was concerned about the potential negative consequences of establishing a flat personal income tax rate of 20 per cent and amending the tax free threshold to \$40,000, particularly as this measure 'would contribute substantially to the growth in inequality in Australia'.⁸

2.8 Conversely, the ATA believed that the bill's proposal to raising the income tax threshold and implementing a flat income tax would:

...deliver immense benefits by increasing the wealth of Australian workers and increasing the incentives for promotions and career progression. It will also deliver benefits in the form of increased consumption which will stimulate the economy as individuals are able to spend more of what they earn.⁹

Company income tax

2.9 TJN-Aus described the measures in the bill relating to company tax rates as a plan to 'to give away billions in revenue to multinational corporations by lowering the corporate income tax rate to 20%'. TJN-Aus believed the measures would:

- Also increase inequality in Australia, with inequality being increasingly shown to be a factor in undermining social cohesion in OECD countries;
- Make our tax system less progressive, meaning the wealthier Australians will contribute less to the provisions of services and law enforcement for a good society in Australia;
- Deliver more money to foreign shareholders, who do not pay tax in Australia; and
- Reduce revenue for services and law enforcement in Australia.¹⁰

2.10 The ATA supported the proposed reduction of Australia's company tax rate to 20 per cent in order to ensure that Australia keeps up with the rest of the world. It

6 Australian Taxpayers' Alliance, *Submission 4*, p. 1.

7 Australian Taxpayers' Alliance, *Submission 4*, p. 12.

8 Tax Justice Network Australia, *Submission 3*, p. 1.

9 Australian Taxpayers' Alliance, *Submission 4*, p. 11.

10 Tax Justice Network Australia, *Submission 3*, p. 3.

proposed phasing in the tax cut over time 'in order to reduce the windfall gain to foreign investors from their existing investments here, while acting as a signal for future investment in Australia'.¹¹

Alcohol taxes

2.11 TJN-Aus maintained that alcohol taxation 'is the most cost-effective measure to reduce alcohol harms'. As such, it expressed concern that the proposed measures in the bill to 'abolish alcohol duties and the Wine Equalisation Tax would increase the level of harm caused by alcohol consumption in Australia, driving up alcohol related assaults, diseases caused by alcohol and the prevalence and intensity of family violence'.¹²

2.12 Conversely, the ATA informed the committee that:

ATA believes that so-called 'sin taxes' on products such as alcohol should be repealed or significantly reduced. Not only do these taxes distort the market while penalising mainly the majority of consumers who drink responsibly, they also represent the overreach of government whereby the relative price inelasticity of these products is used as justification to exploit ordinary consumers for the purpose of raising government revenue.¹³

2.13 The ATA also raised concerns that the Wine Equalisation Tax inhibits craft and boutique producers from entering the market and growing their business above a size in which a tax concession presently exists. In relation to craft brewers, it also noted that:

Brewers pay less excise for beer sold in vessels larger than 48L and beer sold in vessels (kegs and bottles) less than 48L attract a higher rate of excise. This effectively punishes smaller, craft brewers and makes it even more difficult for them to compete with their large, established, mass-producing counterparts.¹⁴

2.14 On 13 February 2019, the government introduced the Treasury Laws Amendment (2019 Measures No. 1) Bill 2019 and the Excise Tariff Amendment (Supporting Craft Brewers) Bill 2019, which includes measures to address this issue by extending concessional excise duty rates to brewers that supply draught beer in kegs or other containers that have a capacity of 8 litres or greater.¹⁵

Committee view

2.15 The committee supports the delivery of personal income tax relief to encourage and reward working Australians and notes the government's announcement

11 Australian Taxpayers' Alliance, *Submission 4*, p. 3.

12 Tax Justice Network Australia, *Submission 3*, p. 4.

13 Australian Taxpayers' Alliance, *Submission 4*, p. 3.

14 Australian Taxpayers' Alliance, *Submission 4*, p. 9.

15 Treasury Laws Amendment (2019 Measures No. 1) Bill 2019; Excise Tariff Amendment (Supporting Craft Brewers) Bill 2019, *Explanatory Memorandum*, pp. 15–16.

that it would fast-track tax relief for around 3.3 million small and medium-sized businesses.¹⁶

2.16 The committee notes the need to balance the delivery of essential services without resorting to growth-inhibiting higher taxes. The committee does not consider the bill achieves this balance, as the proposed measures in the bill nearly halve Commonwealth tax revenue without providing any detail of the programs that would need to be cut in order to compensate for this loss of revenue.

2.17 The committee notes that the sponsor of the bill, former Senator David Leyonhjelm, resigned from the Senate on 1 March 2019.

Recommendation 1

2.18 The committee recommends that the Senate not pass the bill.

Senator Jane Hume

Chair

16 Commonwealth of Australia, *Mid-Year Economic and Fiscal Outlook 2018–19*, December 2018, p. 5.

Additional Comments from Labor Senators

1.1 Labor Senators do not support former Senator Leyonhjelm's *Lower Tax Bill 2018*.

1.2 Senator Leyonhjelm's bill is explicit in stating that the taxes in this bill can be lowered or abolished because the Government should only be spending money on so-called 'non-excludable' services.

1.3 Successive Federal Parliaments have taken the view that Government investment in areas such as education and health are essential to the long term success and prosperity of this nation. Labor Senators believe that the types of cuts proposed by former Senator Leyonhjelm would leave Australian communities and the Australian economy worse off.

1.4 This bill seeks to dramatically reduce taxes before the limiting of government spending outlined by former Senator Leyonhjelm has been implemented. As such, it exposes the Federal Budget to radically higher deficits in the future unless the kind of service cuts desired by former Senator Leyonhjelm are implemented. This kind of budget mismanagement is unfortunately not limited to the Liberal Democratic Party.

1.5 This Government has mismanaged the domestic economy, which is suffering from negative per capita growth, weak wages growth and flat-lining productivity growth. Yet the Government is irresponsibly riding on the coat tails of another temporary commodity price resurgence.

1.6 Despite billions of dollars in revenue pouring through the door and the urgent need for Budget repair, the Liberals have racked up record debt and left the Budget in a much worse position than when they inherited it from Labor, which governed during the Global Financial Crisis.

1.7 On the Liberals' watch, net debt has more than doubled to a new record high of \$373.4 billion and gross debt has crashed through half-a-trillion dollars for the first time ever in the country's history.

1.8 Since becoming Prime Minister just over six months ago, Scott Morrison has already added about \$21 billion in net debt—or about \$135 million a day.

1.9 The Liberals economic and fiscal management is far from what they claim it to be: debt is at record highs, growth has slowed, wages are stagnant, living standards have stalled and demand is lagging.

1.10 Labor has made the tough calls when it comes to repairing the Budget and growing our economy in an inclusive and sustainable way in the interests of ordinary Australians.

1.11 Labor has also supported tax cuts when the policy rationale and economic circumstances are suitable. Under a Shorten Labor Government, 99 per cent of businesses will receive a tax cut, no business will have their tax rate increased, and all businesses will be able to plan and invest with confidence and certainty. Labor also supports an Australian Investment Guarantee, which will help boost much-needed investment in the economy.

1.12 Labor is the only party with a plan to properly fund schools and hospitals, and strengthen our economy through nation building infrastructure projects. At the same time, Labor can also pay down the Liberals' record debt and rebuild fiscal buffers.

1.13 In order to deliver responsible budget management, targeted tax cuts and a growing, inclusive economy, this bill should be rejected and a Shorten Labor Government elected.

Senator Chris Ketter
Deputy Chair

Senator Jenny McAllister
Senator for New South Wales

Appendix 1

Submissions

- 1 Mr Ryan Kennealy
- 2 Mr Ashley Holmes
- 3 Tax Justice Network Australia
- 4 Australian Taxpayers' Alliance (ATA)
- 5 Mr Melville Miranda

