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Legislation Committee

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

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Senate Economics Legislation Committee

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Chapter 1

Introduction

1.1 On 9 May 2018, the Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 was introduced into the House of Representatives.[1] On 10 May 2018, the Senate referred the provisions of the bill to the Senate Economics Legislation Committee for inquiry and report by 18 June 2018.[2]

1.2 The bill seeks to implement to Personal Income Tax Plan, announced in the 2018–19 Budget, to make income taxes lower, simpler and fairer. In his second reading speech, the Treasurer emphasised that:

> The plan will mean individuals will be able to take on additional work, seek advancement and put the extra hours in, knowing that their extra income and their extra hard work will remain with them and that a higher proportion will not go to the government in higher taxes…
>
> The plan will be delivered in three steps.
>
> 1. It will provide tax relief to low- and middle-income earners first.
> 2. It will protect what Australians earn from bracket creep.
> 3. It will ensure Australians pay less tax, by making personal taxes simpler and flatter.[3]

Conduct of the inquiry

1.3 The committee advertised the inquiry on its website. It also wrote to relevant stakeholders and interested parties inviting written submissions by 25 May 2018. The committee received 22 submissions, which are listed at Appendix 1.

1.4 The committee held a public hearing in Canberra on 6 June 2018 for this inquiry. A list of witnesses who appeared at the hearing can be found at Appendix 2.

1.5 The committee would like to thank all the individuals and organisations that made written submissions and participated in the public hearing.

Overview of the bill

1.6 The bill has two schedules both of which amend various taxation acts.

1.7 Schedule 1 to the bill amend tax law to:

- introduce the low and middle income tax offset to reduce the tax payable by low and middle income earners in the 2018–19, 2019–20, 2020–21 and 2021–22 income years; and

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1 *Journals and Proceedings*, No. 57, 9 May 2018, p. 1509.

2 *Journals of the Senate*, No. 97, 10 May 2018, p. 3094.

3 The Hon. Scott Morrison MP, Treasurer, *House of Representatives Hansard*, 9 May 2018, p. 8.

- for 2022–23 and later income years, the schedule merges the low and middle income tax offset and the low income tax offset into a new low income tax offset.

1.8 Schedule 2 to the bill amends tax law to progressively increase, over seven financial years, the income tax rate thresholds. Increases are set to occur in the following fiscal years, 2018–19, 2022–23 and 2024–25.

Tax offsets for low and middle income earners

1.9 Schedule 1 amends the Income Tax Assessment Act 1997 (ITAA 1997) and Income Tax Assessment Act 1936 (ITAA 1936) to introduce the low and middle income tax offset and later replace both that offset and the existing low income tax offset with a new low income tax offset.[4]

1.10 The low and middle income tax offset provides the benefit of the Personal Income Tax Plan to low and middle income earners prior to 2022–23.[5]

1.11 The low and middle income tax offset is available to individuals who are Australia residents during 2018–19, 2019–20, 2020–21 and 2021–22 income years and have a taxable income for that year not exceeding $125 333. The low and middle income tax offset is also available to trustees during these years if they are taxed on a share of the net income of a trust on behalf of an Australian resident beneficiary that is under a legal disability, provided the amount does not exceed $125 333. Similarly, if a trustee is taxed in relation to the shares of multiple beneficiaries of the trust, the trustee is separately entitled to the offset in respect of each share of a beneficiary for which the trustee is taxed.[6]

1.12 The low and middle income tax offsets operates in addition to the low income tax offset and taxpayers may be entitled to receive both tax offsets.[7]

1.13 The amount of the offset available depends on the relevant income of the individual or trustee for the income year. Table 1 summarises the amount of the low and middle income tax offset at different income levels.

Table 1: Amount of the low and middle income tax offset[8]

Amount of relevant income	Amount of the low and middle income tax offset
Not more than $37,000	$200
Exceeding $37,000 but not exceeding $48,000	$200 plus 3 per cent of the amount of relevant income that exceeds $37,000

4 *Explanatory Memorandum*, p. 13.

5 *Explanatory Memorandum*, p. 15.

6 *Explanatory Memorandum*, p. 14.

7 *Explanatory Memorandum*, p. 14.

8 *Explanatory Memorandum*, p. 15.

Exceeding $48,000 but not exceeding $90,000	$530
Exceeding $90,000 but not exceeding $125,333	$530 less 1.5 per cent of the amount of relevant income that exceeds $90,000

1.14 The amount of the offset is capped and is not available to reduce tax payable on unearned income of minors.[9]

1.15 Where a taxpayer is entitled to both the low and middle income tax offset and the beneficiary tax offset, the beneficiary tax offset applies to reduce tax payable before the low and middle income tax offset.[10]

1.16 The new low income tax offset replaces both the low and middle income tax offset and the low income tax offset in the 2022–23 income year and later years. The new low income tax offset is available to individuals who are an Australian resident during 2022–23 or a later income year if their taxable income for that income year does not exceed $66 667. Similar provisions for trustee apply as for the low and middle income tax offset.[11]

1.17 The amount of the new low income tax offset available depends on the relevant income of the individual or trustee for the income year. Table 2 summarises the amount of the new low income tax offset at different income levels.

Table 2: Amount of the new low income tax offset[12]

Amount of relevant income	Amount of new low income tax offset
Not exceeding $37,000	$645
Exceeding $37,000 but not exceeding $41,000	$645 less 6.5 per cent of the amount of relevant income that exceeds $37,000
Exceeding $41,000 but not exceeding $66,667	$385 less 1.5 per cent of the amount of relevant income that exceeds $41,000

1.18 Consistent with the low and middle income tax offset, the amount of the new low income tax offset is capped and is not payable on the unearned income of minors.[13]

1.19 Also consistent with the low and middle income tax offset, in determining the amount of this cap, the beneficiary tax offset is treated as having been applied in the way most favourable to the taxpayer.[14]

9 *Explanatory Memorandum*, p. 15.

10 *Explanatory Memorandum*, p. 15.

11 *Explanatory Memorandum*, pp. 16–17.

12 *Explanatory Memorandum*, p. 17.

13 *Explanatory Memorandum*, p. 17.

14 *Explanatory Memorandum*, p. 18.

1.20 This schedule also makes amendments to the low income tax offset so it is not available after the introduction of the new low income tax offset in the 2022–23 income year.[15]

Income tax thresholds

1.21 Schedule 2 amends the *Income Tax Rates Act 1986* (ITRA 1986) to make the following changes to the rates of tax that apply to the taxable income of individuals and other entities not subject to special rules:

- from the 2018–19 income year, the rate of income tax that applies to the amount of an individual's ordinary taxable income between $37 000 and $90 000 (rather than $87 000) is 32.5 per cent;
- from the 2022–23 income year:
  - the rate of tax that applies to the amount of an individual's ordinary taxable income between $18 201 and $41 000 (rather than $37 000) is 19 per cent; and
  - the rate of tax that applies to the amount of an individual's ordinary taxable income between $41 001 and $120 000 (rather than $87 000 or $90 000) is 32.5 per cent;
- from the 2024–25 income year:
  - the rate of tax that applies to the amount of an individual's ordinary taxable income between $40 001 and $200 000 (rather than $87 000, $90 000 or $120 000) is 32.5 per cent;
  - the rate of tax that applies to the amount of an individual's ordinary taxable income exceeding $200 000 (rather than $180 000) is 45 per cent; and
  - the 37 per cent rate of income tax is abolished.[16]

1.22 Equivalent changes will apply to other entities that are taxed like individuals as well as to the thresholds that apply to foreign residents and working holiday-makers.[17]

1.23 Tables 3, 4, 5 and 6 summarise the proposed changes to income tax rates and thresholds over the course of the plan.[18]

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15 *Explanatory Memorandum*, p. 18.

16 *Explanatory Memorandum*, p. 7.

17 *Explanatory Memorandum*, p. 7.

18 *Explanatory Memorandum*, pp. 10–13.

Table 3: Income tax rates and thresholds in 2017–18

Australian residents		Foreign residents		Working holiday-makers	
Taxable income	***Tax payable***	***Taxable income***	***Tax payable***	***Taxable income***	***Tax payable***
0 to $18,200	Nil	0 to $87,000	32.5 cents for each $1	0 to $37,000	15 cents for each $1
$18,201 to $37,000	19 cents for each $1 over $18,200	$87,000 to $180,000	$28,275 plus 37 cents for each $1 over $87,000	$37,001 to $87,000	$5,550 plus 32.5 cents for each $1 over $37,000
$37,001 to $87,000	$3,572 plus 32.5 cents for each $1 over $37,000	$180,001 and over	$62,685 plus 45 cents for each $1 over $180,000	$87,001 to $180,000	$21,800 plus 37 cents for each $1 over $87,000
$87,001 to $180,000	$19,822 plus 37 cents for each $1 over $87,000			$180,000 and over	$56,210 plus 45 cents for each $1 over $180,000
$180,001 and over	$54,232 plus 45 cents for each $1 over $180,000				

Table 4: Income tax rates and thresholds between 2018–19 and 2021–22

Australian residents		Foreign residents		Working holiday-makers	
Taxable income	***Tax payable***	***Taxable income***	***Tax payable***	***Taxable income***	***Tax payable***
0 to $18,200	Nil	0 to ***$90,000***	32.5 cents for each $1	0 to $37,000	15 cents for each $1
$18,201 to $37,000	19 cents for each $1 over $18,200	***$90,001*** to $180,000	$29,250 plus 37 cents for each $1 over ***$90,000***	$37,001 to ***$90,000***	$5,550 plus 32.5 cents for each $1 over $37,000
$37,001 to ***$90,000***	$3,572 plus 32.5 cents for each $1 over $37,000	$180,001 and over	$62,550 plus 45 cents for each $1 over $180,000	***$90,001*** to $180,000	$22,775 plus 37 cents for each $1 over ***$90,000***
$90,001 to $180,000	$20,797 plus 37 cents for each $1 over ***$90,000***			$180,000 and over	$56,075 plus 45 cents for each $1 over $180,000
$180,001 and over	$54,097 plus 45 cents for each $1 over $180,000				

Table 5: Income tax rates and thresholds in 2022-23 and 2023-24

Australian residents		Foreign residents		Working holiday-makers	
Taxable income	***Tax payable***	***Taxable income***	***Tax payable***	***Taxable income***	***Tax payable***
0 to $18,200	Nil	0 to ***$120,000***	32.5 cents for each $1	0 to $***41,000***	15 cents for each $1
$18,201 to ***$41,000***	19 cents for each $1 over $18,200	***$120,001*** to $180,000	$39,000 plus 37 cents for each $1 over ***$120,000***	***$41,001*** to ***$120,000***	$6,150 plus 32.5 cents for each $1 over ***$41,000***
$41,001 to ***$120,000***	$4,332 plus 32.5 cents for each $1 over ***$41,000***	$180,001 and over	$61,200 plus 45 cents for each $1 over $180,000	***$120,001*** to $180,000	$31,825 plus 37 cents for each $1 over ***$120,000***
$120,001 to $180,000	$30,007 plus 37 cents for each $1 over ***$120,000***			$180,000 and over	$54,025 plus 45 cents for each $1 over $180,000
$180,001 and over	$52,207 plus 45 cents for each $1 over $180,000				

Table 6: Income tax rates and thresholds in 2024-25 and later income years

Australian residents		Foreign residents		Working holiday-makers	
Taxable income	***Tax payable***	***Taxable income***	***Tax payable***	***Taxable income***	***Tax payable***
0 to $18,200	Nil	0 to ***$200,000***	32.5 cents for each $1	0 to $41,000	15 cents for each $1
$18,201 to $41,000	19 cents for each $1 over $18,200	***$200,001*** and over	$65,000 plus 45 cents for each $1 over ***$200,000***	***$41,001*** to ***$200,000***	$6,150 plus 32.5 cents for each $1 over ***$41,000***
$41,001 to ***$200,000***	$4,332 plus 32.5 cents for each $1 over ***$41,000***			***$200,001*** and over	$57,825 plus 45 cents for each $1 over ***$200,000***
$200,001 and over	$56,007 plus 45 cents for each $1 over ***$200,000***				

Consequential amendments and other provisions

1.24 The bill also makes a number of consequential amendments to the tax law to reflect the proposed changes relating to the introduction of the Personal Income Tax Plan.[19]

1.25 The repeal of Part IV of the ITRA 1986 applies in relation to the 2017–18 income year and later years. It does not affect the operation of the temporary budget repair levy in prior years when it was operative.[20]

1.26 A number of the amendments to income tax rate thresholds made by the bill only apply to specified periods. As such, schedules 1 and 2 contain amendments to repeal these provisions two years after they have ceased to apply and remove related references that have become redundant. This ensure that tax law is not unnecessarily expanded and made more complex for the reader by keeping redundant provisions.[21]

Human rights implications

1.27 The bill is compatible with human rights and does not raise any human rights issues.[22]

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19 *Explanatory Memorandum*, pp. 20–21.

20 *Explanatory Memorandum*, p. 21.

21 *Explanatory Memorandum*, p.22.

22 *Explanatory Memorandum*, p. 23.

Chapter 2

Views on the bill

2.1 This chapter explores the views stakeholders expressed regarding the proposed personal income tax plan.

General views on the bill

2.2 There was a broad level of support for lowering the personal income tax burden, both through the low and middle income tax offsets and reducing personal income tax rates generally.

2.3 The Business Council of Australia (BCA) urged the Senate to pass the bill without amendment:

> The Business Council supports the three-stage personal income tax plan, which will reduce the tax burden faced by individuals. It will deliver a more competitive personal tax system that improves incentives to work and save. It achieves this while maintaining a highly progressive tax and transfer system.[1]

2.4 Ernst and Young also supported the bill as it provides appropriate incentives for individuals to participate in the workforce and increases the relative competitiveness of Australia for individuals with skills that are attractive internationally.[2]

2.5 PwC concluded from its own modelling that:

> …the Government's proposed PITP [Personal Income Tax Plan] provides much-needed relief from the pressures of bracket creep to Australian taxpayers and it does so in a way which retains the central character of progressivity in Australia's income tax system. For these reasons, we support the PITP as an appropriate response to these issues.[3]

2.6 The Council of Small Business Organisations Australia (COSBOA) supported the simplification and flatting of the tax system under the personal income tax plan, and also noted that tax relief would provide a boost for small business activity:

> The other issue for small business people is that we quite often just pay ourselves a small amount of money until the business gets going. When we have a good year, we often have a really good year, and we pay an awful lot of tax in that year. This is something that says to a small business person there's a bit more certainty about planning as well. When you have a great year, you can plan on that.
>
> …

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1 Business Council of Australia, *Submission 7*, p. 1.

2 Ernst and Young, *Submission 8*, p. 1.

3 PwC, *Submission 20*, p. 11.

> More money means more spending and people in hospitality and retail, et cetera, will be happier, and hopefully they'll see their share of it. But the big win for us, when I talk to my members, is that removal of the complexity and the fear people have of moving into tax brackets…[4]

2.7 Other stakeholders were more qualified in their support for the personal income tax plan.

2.8 The Centre for Independent Studies (CIS) supported the 'main thrust' of the personal income tax plan but considered that it could be improved to better promote economic efficiency. The CIS was also concerned that the introduction of the Low and Middle Income Tax Offset (LMITO) would increase the complexity of the income tax system in the short term and increase effective marginal tax rates.[5]

2.9 The Institute of Public Affairs (IPA) welcomed the government's endeavour to reduce the tax burden on Australian workers:

> The two major components of the income tax plan put forward in the 2018–19 Budget—increasing the top threshold of the 32.5 per cent bracket from $87,000 to $120,000 from 2022 and removing the 37 per cent tax bracket from 2024–25—present the most substantial changes to the tax system in years and will benefit every Australian worker.[6]

2.10 While supporting the proposed changes, the IPA was critical that the government had not engaged in 'deep, structural reform of the tax and transfer system'.[7]

2.11 The Tax Institute also advocated for broad tax reform:

> While the measures in the 'Personal Income Tax Plan' (Plan) are a 'step in the right direction', they fall short of a holistic solution to the revenue reliance on personal taxes and the issues associated with the personal tax rate regime.[8]

2.12 However, not all stakeholders supported the proposed personal income tax plan. These concerns mainly centred on not seeing tax relief as a priority when they believe the revenue is needed for social and community services. For this reason, the Tax Justice Network-Australia (TJN-Aus) concluded that:

> …in Schedule 1 the TJN-Aus opposes the tax offset for those on incomes above $90,000 per year. Similarly TJN-Aus opposes the reduction in the rate of personal income tax proposed in the Bill for those with salaries greater than $90,000 per year. [9]

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4 Mr Peter Strong, Council of Small Business Organisations Australia, *Committee Hansard*, 6 June 2018, p. 48.

5 Centre for Independent Studies, *Submission 2*, [pp. 3, 8 and 9].

6 Institute of Public Affairs, *Submission 1*¸ p. 3.

7 Institute of Public Affairs, *Submission 1*¸ p. 3.

8 The Tax Institute, *Submission 10*, p. 1.

9 Tax Justice Network Australia, *Submission 6*, p. 1.

2.13 The Australian Council of Social Services (ACOSS) and the Community and Public Sector Union (CPSU) went further and submitted that the government needed to increase revenue, not provide tax cuts as proposed under the personal income tax plan.[10]

Timing of the plan

2.14 A number of stakeholders advocated for the personal income tax plan to be fully implemented sooner than proposed.

2.15 The IPA recommended that the government implement the entire plan from the start of the 2018–19 financial year:

> …the delayed and drawn out implementation time frame for these major changes is concerning and raises questions about how serious the government is about implementing them. The implementation date should be brought forward to the coming financial years, 2018–19, to ensure that Australian workers are more likely to receive the full benefits of the government's proposed income tax plan.[11]

2.16 Although not as extreme in its position, the CIS advocated for an earlier introduction on the grounds of greater public credibility:

> Credibility would be enhanced by an earlier introduction, such as full implementation within the life of the next parliament and within the four-year forward estimates horizon for the 2018–19 Budget. This would imply full implementation by 1 July 2021 rather than 2024.[12]

2.17 Mr John Daley from the Grattan Institute raised concerns about legislating for tax cuts too far into the future:

> … if you legislate for tax cuts that are future dated and then the world changes, you can be left in a budgetary position that is not really one that you would choose and politically it tends to be very hard to unwind the tax cuts that have already been legislated.[13]

2.18 Similarly, Mr Matt Grudnoff from The Australia Institute considered that:

> I don't think that we should be legislating out beyond the forward estimates; but certainly the government could announce that this is where they intend to go, and, as we get closer to that time, they can then legislate, having a better idea of what the economy is doing and where the economy is going.[14]

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10 Australian Council for Social Services, *Submission 4*; Community and Public Sector Union, *Submission 18*.

11 Institute of Public Affairs, *Submission 1*¸ p. 4.

12 Centre for Independent Studies, *Submission 2*, [p. 10].

13 Mr John Daley, Grattan Institute, *Committee Hansard*, 6 June 2018, p. 4.

14 Mr Matt Grudnoff, The Australia Institute, *Committee Hansard*, 6 June 2018, p. 25.

2.19 However, Mr Strong, CEO of COSBOA, considered that it was prudent to have a long term plan. Mr Strong noted that successful large businesses have long term plans.[15]

Distributional impacts

2.20 Various stakeholders highlighted that the tax system will continue to be progressive under the government's personal income tax plan.[16] For example, analysis undertaken by the Grattan Institute confirmed that progressivity does not change significantly under the personal income tax plan.

2.21 Further, Treasury's analysis also showed effective marginal tax rates do not materially worsen under the government's personal income tax plan.[17]

2.22 Information provided by The Tax Institute highlighted the difference between marginal tax rates and average tax rates. For example, in 2024–25 under the personal income tax plan, while a $41,000 income earner would face the same marginal tax rate as a $200,000 income earner their average tax rates would be substantially different. An income earner on $200,000 would pay around thirteen times more tax than the person on $41,000 and their average tax rate would be around three times higher.[18]

2.23 The Grattan Institute also highlighted that high income earners, such as those on the top marginal tax rate, would continue to pay a similar proportion of overall personal income tax collections under the government's plan compared to the current system.[19]

2.24 Modelling by PwC showed:

> The amount of tax paid by the top 20 per cent of taxpayers increases year-on-year during the period of the PITP, as would be expected from a system that maintains progressive tax rates for taxpayers on high incomes.
>
> …
>
> …we note that the highest earning taxpayers in Australia will pay a top marginal rate of tax which is high relative to other comparable nations (45 per cent for taxable incomes exceeding $200,000). For example, Australia's rate is equal top in the following list of federal taxes for individuals
>
> - Australia 45% (proposed)
> - United Kingdom 45%
> - United States 37%
> - New Zealand 33%

15 Mr Peter Strong, Council of Small Business Organisations Australia, *Committee Hansard*, 6 June 2018, p. 49.

16 See PwC, *Submission 20*; Ernst and Young, *Submission 8*.

17 Treasury, *Submission 12*, p. 10.

18 The Tax Institute, *Submission 10*, Appendix B, p. 5

19 Grattan Institute, *Submission 14*, p. 7.

- Canada 33%.[20]

2.25 Other stakeholders raised concerns that lower income earners received less tax relief. For example, Professor Miranda Stewart and Emily Millane argued that:

> …the removal of the third rate in the progressive rate structure is unnecessary and a retrograde step. It is a permanent change to the personal income tax rate structure that will make the income tax less progressive. It undermines the fundamental principle of our progressive income tax which aims to tax on the basis of ability to pay...It is appropriate to maintain progressivity across the middle and upper middle of the wage distribution.[21]

2.26 The Australia Institute concluded that low income earners (50 per cent of all taxpayers) would only receive seven per cent of the benefits.[22] While the ACTU commented that:

> This personal income tax plan is targeted at those in the higher income deciles. A staggering 62% of the income tax plan will go to high earners.[23]

2.27 The Grattan Institute highlighted that:

> …while the components of the Tax Plan will be introduced in a staggered way, their impact will be permanent and ongoing. So although the last tranche comprises only 29 per cent of the cost of the package over eleven years, it will cost approximately 40 per cent in each year thereafter.[24]

2.28 Associate Professor Jinjing Li from the National Centre for Social and Economic Modelling (NATSEM) outlined the distributional effects between urban and regional areas:

> Geographically, people who live in the central part of the capital cities are more likely to benefit from the proposed changes when they're fully implemented due to the distribution of the income spatially.[25]

2.29 However, Treasury pointed out that this assessment did not look at the whole picture. Treasury explained that as low income earners pay less tax, and, in proportional terms, benefit considerably more from tax relief under the government's personal income tax plan. Under the personal income tax plan over the period 2018–19 to 2024–25, a person on a taxable income of $50,000 would receive cumulative tax relief of 6.25 per cent, compared to a person on $90,000 receiving cumulative tax relief of 2.94 per cent and a person on $200,000 receiving cumulative tax relief of 2.51 per cent. Further, a person on $50,000 would pay cumulative tax of

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20 PwC, *Submission 20*, pp. 2 and 11.

21 Professor Miranda Stewart and Emily Millane, *Submission 16*, p. 9.

22 The Australia Institute, *Submission 13*, p. 8.

23 Australian Council of Trade Unions, *Submission 11*, p. 14.

24 Grattan Institute, *Submission 14*, p. 6.

25 Associate Professor Jinjing Li, National Centre for Social and Economic Modelling, *Committee Hansard*, 6 June 2018, p. 10.

$56,089 over this period, a person on $90,000 cumulative tax of $154,439 and a person on $200,000 cumulative tax of $458,809.[26]

2.30 The Australia Institute drew attention to the gender distributional split caused by the proposed personal income tax cuts:

> The over representation of men at higher income levels coupled with the fact that the tax cuts favour high income earners means that men get a larger proportion of the tax cuts than women. Men get twice the tax cut compared to women.[27]

2.31 Professor Miranda Stewart and Emily Millane discussed alternatives to the personal income tax plan, such as universal family payments, to improve incentives for second household income earners. They concluded that:

> …the government has alternatives available to it that would more directly respond to concerns of lower and middle earners while continuing to deliver equity and efficiency in the personal income tax system.[28]

2.32 Treasury noted that the personal income tax system was currently gender neutral and would continue to be so under the government's personal income tax plan.[29]

Bracket creep

2.33 One of the main reasons cited by the government for introducing the personal income tax plan was to address bracket creep.

2.34 Bracket creep, often referred to as 'fiscal drag', occurs when an individual's income increases over time and a higher tax rate starts to apply, but tax thresholds are held steady. Bracket creep reduces progressivity of the individual's income tax scales over time. This is because the tax increase for individuals with lower incomes is greater as a proportion of their income than for those at higher incomes.[30]

2.35 The BCA explained the effects of bracket creep:

> Left unchecked, bracket creep will steadily make the personal tax system less progressive. Bracket creep increases taxes by stealth through inflation. It disproportionately and unfairly hurts lower-and middle-income earners. Bracket creep is regressive and hidden.[31]

2.36 Ernst and Young suggested that the reforms in the Bill help to address bracket creep.

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26 Treasury, answers to questions on notice, 6 June 2018 (received 14 June 2018), p. 4.

27 The Australia Institute, *Submission 13*, p. 10.

28 Professor Miranda Stewart and Emily Millane, *Submission 16*, p. 5.

29 Mr John Fraser, Treasury, *Estimates Committee Hansard*, Senate Economics Legislation Committee, 29 May 2018, p. 26.

30 Australian Government, 'Individuals income tax', *Re:think*, http://bettertax.gov.au/our-tax-system/individuals-income-tax/bracket-creep/ (accessed 13 June 2018).

31 Business Council of Australia, *Submission 7*, p. 2.

> In our view, the bracket creep and its layering additional tax burdens onto Australia's working age population is not good policy. It:
>
> - Creates disincentives to work
> - Creates incentives to tax structuring rather than to work to grow Australia
> - And the incentives to tax structuring are greater, the greater the divergence between personal tax and corporate tax rates.
>
> The bill addresses all of these challenges.[32]

2.37 The ANU Centre for Social Research and Methods considered, after undertaking its own analysis of the plan, that:

> The bracket creep analysis shows that the tax cuts are significant but they do not entirely remove bracket creep and average tax rates increase across low, middle and high income households. They return to taxpayers some, but not all, of the fiscal drag being generated by the non-indexation of tax thresholds.[33]

2.38 The BCA concluded that:

> The Bill does not fully eliminate bracket creep, which requires constant recalibration or indexation of tax thresholds, but the changes are a positive step and provide the foundation for broader reform. High personal tax rates that cut in at relatively low income thresholds mean that people may choose not to work overtime or seek promotion.[34]

2.39 Indeed, Mr John Daley from the Grattan Institute concluded that:

> So the net impact of the tax is it will give back all of bracket creep, pretty much, to those in the top 10 percent but nothing like all of the bracket creep to those who are further down the distribution.
>
> …
>
> The key facts are that bracket creep will reduce the progressivity of the system over the next 10 years, and the tax plan doesn't materially unwind it.[35]

2.40 Similarly, Per Capita commented that:

> The simplest and most effective way to deal with bracket creep is to index tax bracket thresholds to inflation (including the tax-free threshold)… 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.

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32 Ernst and Young, *Submission 8*, p. 3.

33 ANU Centre for Social Research and Methods, *Submission 3*, p. 12.

34 Business Council of Australia, *Submission 7*, p. 4.

35 Mr John Daley, Grattan Institute, *Committee Hansard*, 6 June 2018, pp. 1 and 3.

> 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.[36]

2.41 The CIS advocated for ongoing indexation of income tax thresholds to address bracket creep:

> The CIS believes that the government's current tax proposal should be enhanced by formally indexing income tax thresholds once the proposed discretionary increases in thresholds are fully implemented.[37]

Committee view

2.42 The committee acknowledges that decisions to implement significant changes to the personal tax and transfer system often invoke highly charged responses to which reasonable minds can differ. In this context, the committee welcomes the various views put forward by stakeholders throughout this inquiry in the spirit of a balanced public debate.

2.43 That said, the committee considers that measures outlined in the bill will provide certainty to taxpayers for the next seven years and will help households manage the budget pressures they face. Permanent tax relief as proposed in the bill will leave more of Australian's hard earned income in their pockets and ensure that the personal tax system continues to reward effort and foster aspiration.

2.44 Changes to the tax and transfer system are not mutually exclusive and the committee acknowledges the work of the government to encourage greater workforce participation by providing more support to low and middle income families through the new Child Care Subsidy.

2.45 While recognising the different views of stakeholders, the committee is comforted by Treasury's assurance that there will probably be very little change to the overall progressivity of the tax system arising from the implementation of the personal income tax plan.

2.46 Accordingly, the committee considers that the personal income tax plan should be passed so as to deliver a personal income tax system that is simpler and fairer.

Recommendation 1

2.47 The committee recommends that the Senate should pass the bill.

Senator Jane Hume
Chair

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36 Per Capita, *Submission 17*, p. 2

37 Centre for Independent Studies, *Submission 2*, [p. 8].

Dissenting Report from Labor Senators

1.1 Labor Senators pushed for the establishment of this inquiry. Given the total cost of these personal income tax cuts over the medium term is $143.95 billion dollars, it is only right and proper that this bill receives the scrutiny and analysis that it deserves.

1.2 This inquiry has also demonstrated how out of touch this Government is; a Government prepared to risk the budget bottom line to hand out tax cuts to big business and top income earners, while doing very little for low and middle income households.

The Government's Policy objective is ideological, not rational

1.3 Treasury officials confirmed that the design of this package was designed to meet largely ideological ends:

> As far as the government's personal tax plan goes, it was designed, in the government's words, to deliver lower taxes, protect against bracket creep and lead to a simpler system.[1]

1.4 Treasury officials also confirmed that policy issues around workforce participation and consumer spending were not part of the driving reasons to design these tax cuts:

> Senator KETTER: No sorts of objectives in terms of workforce participation, consumer spending or any of those sorts of things?
>
> Ms Mrakovcic: Well, I think that the government's objectives as per its Personal Income Tax Plan are set out in what the government has said about its package. That's not to say it doesn't have those impacts or it wouldn't impact in those ways, but—
>
> Senator KETTER: It doesn't set out to do those?
>
> Ms Mrakovcic: The government has set out, certainly, the objectives it set itself in terms of the personal tax plan. But I think that those were certainly issues that the government would have been aware of, and they are captured in some of the language around reward for effort and incentives to take on extra hours to work et cetera. So I think that, if you go into the detail around where it explains those issues, it does traverse some of that ground. And certainly the budget documents also make reference to the forecast taking into account the impacts of the personal tax plan on consumption.[2]

1.5 This evidence demonstrates that this tax plan is ideologically driven. Genuine policy concerns such as workforce participation (generally or in key cohorts), lack of wage growth and increasing disposable income of targeted households as a way of boosting consumer spending were not in the forefront of decision making of this Government. Instead, the Government chose to impose its lower taxing, flatter taxing

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1 Ms Maryanne Mrakovcic, *Committee Hansard*, 6 June 2018, p. 71.

2 *Committee Hansard*, 6 June 2018, p. 74.

ideology to personal income taxes. Once again, a clear sign that this Government has run out of ideas and is resorting to ideology.

1.6 In contrast, Labor has always taken a careful, considered and nuanced approach to policy development and isn't afraid of detailed analysis.

The Government refuses to disclose year-on-year costings of this policy beyond the forward estimates, and it is clear that each step has very different costs.

1.7 During the course of this inquiry, Treasury officials maintained the Government position, which was to not release year-on-year costings beyond the forward estimates for different elements of this tax plan. Labor Senators believe this is both in the public interest and prudent given most of the tax cuts commence beyond the forward estimates period.

1.8 In response to repeated requests for this information, Labor Senators asked the Parliamentary Budget Office (PBO) to provide these figures and Labor Senators thank the PBO for these figures in relatively tight timeframes.

1.9 Labor Senators want to make the following points about the PBO’s figures on each stage of the plan:

(a) Step 1 – carries a relatively modest cost of $15.9 billion over the medium term and is targeted at low to middle income earners;

(b) Step 2 – which contains a number of different tax changes contains the majority of the costs of this package over the medium term (given Step 3 elements commence in 2024-25); and

(c) Step 3 – is both very expensive at the end of the medium term at $10.35 billion per year, compared to the full package final annual cost of $24.6 billion per year and the cost of Step 3 grows at about 12% per year, twice the rate of projected nominal GDP growth.

These tax cuts put at risk the budget position if key budget forecasts are not met.

1.10 In order to justify these personal income tax cuts, the Government continues to rely on its budget projections which predict a wafer-thin return to surplus which does not even reach 1.0% of GDP by the end of the forward estimates period.

1.11 This inquiry heard a consistent message that the surplus predictions rely on budget forecasts around wages growth, productivity growth, population growth and terms of trade which do not match recent historical trends. In addition, even the Treasury Secretary has admitted that geopolitical risks are greater now than a year ago:

> Senator KETTER: Mr Fraser, in your opening statement you talked about the global risks, in particular China—the debt situation there, the geopolitical issues. You've also touched on the royal commission and that there could well be some unanticipated tightening in financial conditions as a result of reactions to that. Taking the range of international and domestic conditions together, in your judgement, are there more risks now than there were a year or two ago in relation to the economic outlook?

> Mr Fraser: Unequivocally, yes, with the geopolitical risks. That's very sad. When you look over the past year—you know, I, as an amateur, would say the Middle East situation is more complex and more worrying. The issues in Saudi Arabia and Yemen, the issues with Israel and Iran—this is all very worrying. Korea is probably pretty much the same, or even a tad better. But the issues with the South China Sea are probably worse. The markets—there are people who have hedge funds that try to make money out of geopolitical risk, and that is suggesting that they're regarding it as more of a risk.[3]

1.12 The Grattan Institute did not think that it was prudent to legislate for tax cuts well into the future, beyond the forward estimates:

> Secondly, is it prudent to legislate that far in the future? As our submission makes clear, we don't think so.[4]

1.13 The Grattan Institute went on to say that legislating tax cuts like this would leave the Commonwealth less able to deal with any potential future downturn and reduces the Commonwealth's ability to protect jobs in those circumstances:

> Mr Daley: It means the government effectively has fewer options if there is a downturn. It has less fiscal firepower, as many would put it, less opportunity in the downturn to deliver a short-term tax cut or welfare payment or whatever is appropriate—a short-term boost to infrastructure or other forms of fiscal stimulus—that would be aimed, in that circumstance, at promoting employment to ensure that you don't get the short run unemployment that then becomes long-term unemployment, which tends to be the really big problem of economic downturns. That's what you're trying to avoid—that is, a big jump in unemployment in a downturn. Traditionally, what Australia has done, and what we did do in 2008, was a big budgetary shift that was largely successful in avoiding a substantial jump in unemployment.
>
> Senator KETTER: That firepower is used to save jobs, for example, isn't it?
>
> Mr Daley: It's used to save jobs in the short run so as to prevent unemployment going up in the short run. One of the things we know about unemployment is it tends to be sticky: people who lose their jobs in the short run, in the middle of a recession, often find it very difficult to get jobs in the longer run, and so you get a permanent drop, or at least a long-term drop, in the potential economic output and, therefore, the resources available to the community.[5]

1.14 Dr Stephen Anthony also cited a number of issues with the cost of these tax cuts given the assumptions that underpin the Government's fiscal position. His overall

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3 Mr John Fraser, *Senate Economics Legislation Committee Budget Estimates Hansard*, 29 May 2018, p. 27.

4 Mr John Daley, *Committee Hansard*, 6 June 2018, p. 5.

5 Mr John Daley, *Committee Hansard*, 6 June 2018, p. 5.

position is summarised immediately below, with additional detail on key economic drivers following:

> It would be that I have examined the budget outlook over the next decade, and my view is that we will be hard-pressed to afford tax cuts at the same time as growing the economy at the rate that is anticipated in this budget. There is no room for any sort of economic slowdown or interruption in the budget as presented last May.[6]

- On productivity growth:

> If you look at the budget outlook and the medium-term projection, the coathanger of that projection is the assumption of productivity growth of 1.6 per cent. That is double the current rate or the average of the period since the GFC.[7]

- On migration:

> …which leaves the population growth rate to be 1.5 or 1.6 per cent, depending on the year we're talking about.
>
> The issue with that growth rate is that it's all well and good, but if we build our population at that rate through time without having the sort of strategic plan in place to make the most of that population growth and to develop human capital, then we are no doubt going to generate unbalanced growth in some regions of the country. Presumably, that's what we're seeing in Sydney and Melbourne right now.[8]

- On wages growth:

> The idea that we're going to move back to the sort of 30-year average of wage costs—wage prices—within 18 months seems extremely optimistic, I would have thought. It suggests a level of capacity utilisation in this economy and a return to the 'normal' of the pre-GFC period that we're just not observing. And it's not being observed here or in most of the world right now. So I would've thought that a budget strategy that's predicated on high wages growth is extremely—well, at least, not cautious; let's put it that way.[9]

- On terms of trade:

> So there is a small reduction in the terms of trade over the outlook and into the medium term, but it still leaves the terms of trade extremely high in historical terms. That may be correct but, once again, in a global environment that could experience significant shocks, those terms of trade could get dented very quickly, and obviously that would have significant impacts on the budget bottom line.[10]

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6 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 63.

7 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 63.

8 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 64.

9 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 64.

10 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 5.

1.15 Associate Professor Ben Phillips also stated that lower wages growth of about 2.5% per year rather than the projected 3.5% per year could impact revenue as much as $39 billion dollar per annum:

> When you look at, say, 2.5 per cent wage growth compared to 3.5—obviously, that's a difference of one per cent per year. When you put that out to, say, 10 years into the future, it's roughly an 11 or 12 per cent reduction in wages overall. Already you've got 10 to 12 per cent less tax revenue from that. Then you've also got bracket creep. On top of that, you're also missing out on bracket creep, so you're looking at a considerable reduction in terms of the overall tax take. That's where we get the estimate of around $39 billion per annum.[11]

1.16 Labor Senators are also deeply concerned that the cumulative impact and loss of revenue flowing from Government's corporate tax cuts and personal income tax cuts over medium term will put the budget in a very precarious position, as summarised by Dr Anthony:

> My view is that, by the middle of the next decade, the combination of the individual tax cuts and the company tax cuts would, even on the government's budget parameters, essentially remove all of the possible surplus that the economy could have generated if the economy softens or grows at an even slightly slower rate than that forecast in the budget. For example I modelled a half a percentage point of GDP lower each year from 2018-19. If that slowing occurs, the budget will be in deficit by around one per cent of GDP by the middle of the next decade. So I don't think the combination of these tax cuts can be affordable.[12]

1.17 Labor Senators believe that the budget needs to be in a sustainable position over the long term, which enables future Governments to use fiscal stimulus where needed to protect jobs. The actions of the last Labor Government during the Global Financial Crisis prevented widespread unemployment and it is important that future Governments be afforded such capacity.

1.18 Labor Senators are also concerned if these personal income tax cuts are passed by the Parliament, such reductions in revenue could be used by a future Coalition Government during an economic slowdown to justify cuts to essential services such as health, education and infrastructure.

1.19 This inquiry has demonstrated that there are many downside risks to the budget position over both the forward estimates and particularly the medium term. Labor Senators also know that net debt for this coming year is double what it was when the Coalition came to office; and gross debt, which crashed through half a trillion dollars on their watch for the first time in history, will remain well above half a trillion dollars every year for the next decade. The Government is abandoning all hope of repairing its abysmal record on debt and deficit by attempting to legislate for this

11 Associate Professor Ben Phillips, *Committee Hansard*, 6 June 2018, p. 16.

12 Dr Stephen Anthony, *Committee Hansard*, 6 June 2018, p. 64.

full package of personal income tax cuts given the well-known downside risks to Australia's fiscal and economic position.

The behavioural impacts championed by this Government were refuted by a broad range of stakeholders

1.20 Part of the expected benefits of this package championed by the Government is that a flatter tax system will incentivise people to take on additional work:

> It is important that the personal income tax system does not act as a disincentive for those taking on additional work or seeking advancement.[13]

1.21 The Grattan Institute argued that for many high income earners, marginal income tax rates are not much of a disincentive to work additional hours:

> Many of the submissions, such as those from EY, the Business Council of Australia and the Centre for Independent Studies, assert that a high marginal tax rate for top income earners has a big economic cost because it discourages people from staying in Australia, depriving Australia of their talent. This is myth four: Australia's high top marginal tax rates do not materially affect decisions to work more or to live in Australia. There is an ocean of literature on this, and it all comes to the same conclusion internationally.[14]

1.22 In fact, Grattan cited that many millionaires are moving to Australia despite so-called high marginal taxation rates:

> Let's look at a nice piece of evidence very recently. The AfrAsia Bank Global Wealth Migration Review, released recently, looked at the migration of millionaires around the world. It found that, in the last year, 10,000 millionaires moved to Australia and almost none left. That is the highest net migration of millionaires to any country last year in absolute terms, let alone correcting for population. This is in a year where, as lots of submissions point out, Australia's top marginal tax rate was relatively high and cut in at a relatively low income. Singapore, with its very famous 15 per cent tax rate, only attracted a thousand millionaires.[15]

1.23 When The Australia Institute was asked a similar question, they cited that there are only particular cohorts which face the high issue of marginal taxation rates, often women who are paying for childcare:

> Senator McALLISTER: The Treasurer has spoken, in introducing this package, about the need to incentivise people to work. Which parts of the workforce would benefit most from additional financial incentives to work, if we are interested in increasing productivity and labour productivity in particular?
>
> Mr Richardson: All the evidence is that it's the second income earner in the household, especially women returning to work. That's where the big

13 Budget 2018-19, *Budget Paper No. 1*, pp. 1–12.

14 Mr John Daley, *Committee Hansard*, 6 June 2018, p. 2.

15 Mr John Daley, *Committee Hansard*, 6 June 2018, p. 2.

problem is, and the poverty traps that are facing them are not just the tax scales, of course, but possibly loss of other benefits—social security benefits, family tax benefit, childcare expenses and transport expenses. That was going to be my interjection before. This is the really serious part of the incentive structure in our tax system. It's one of the things that's been offered as the explanation of why participation among Australian women, especially in that demographic, is much lower in Australia than other comparable OECD countries.

Mr Grudnoff: If the government were seriously interested in incentivising and increasing participation then it would be far better off taking the billions of dollars that it's planning to give to high-income earners and sticking it into something like childcare. You would get far more bang for your buck and have far more impact on participation by doing that.[16]

1.24 The National Foundation for Australian Women and Professor Stewart also refuted the idea that there were substantial benefits to reducing top marginal taxation rates:

I'd like to make one more comment on that rate removal in general terms, and that is that the efficiency case for that has not been made out. There really is no empirical evidence to show that, systemically, at that upper middle of the income distribution between $40,000 and $200,000, there are negative work effects, for example, or investment effects at that level of income. To the extent that we might see disincentive effects, they're probably arising either at the very top or at the bottom of the distribution, and I'll say something about effective marginal tax rates.

…

The final general remark I would make is that the highest effective marginal tax rates that we see in our distribution are not at the top of the income distribution. The top marginal rate plus Medicare is 47, as you know. The highest effective marginal rates are at the bottom and in the middle, and they are faced primarily by second earners who are losing family benefits and paying net childcare costs—net of means-tested childcare benefit. The best way to illustrate that rate, which is, I would say, a significant deterrent to work participation, is to do it by day. I have an illustration in a sort of bar chart on page 4 my submission, but I'm not sure if it's before the committee.[17]

The Bill fails to address the high effective marginal taxation rates (EMTRs) faced by working women with caring responsibilities.

1.25 Professor Miranda Stewart's submission states that:

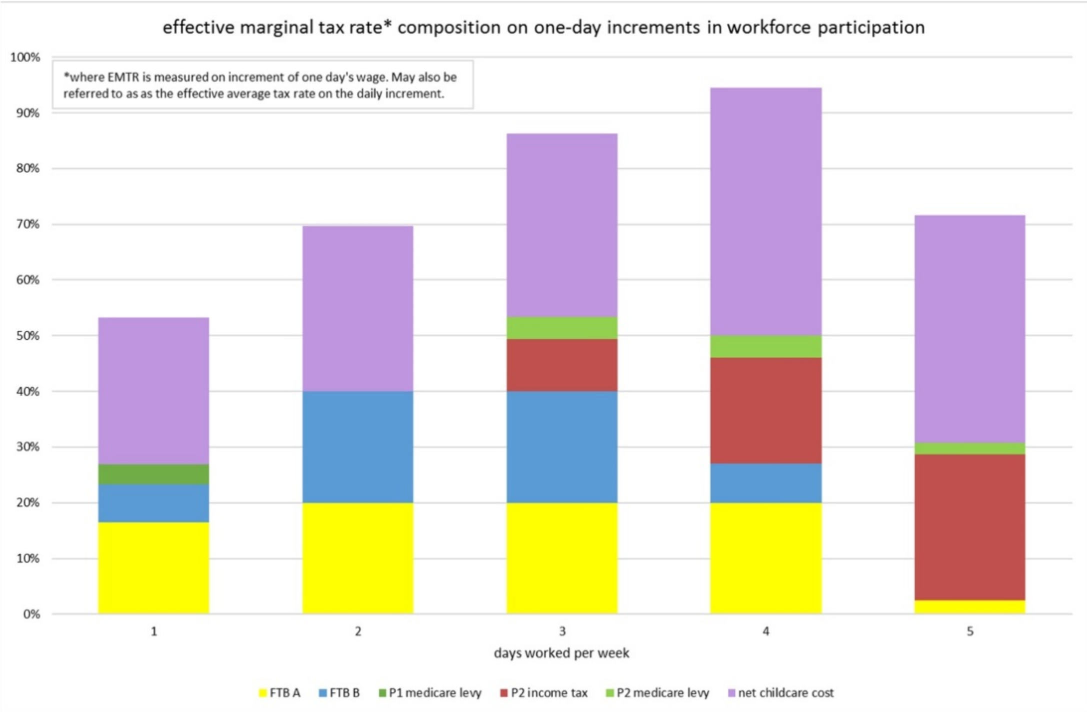
The tax cut does not address the key inefficiency in our tax-transfer system, which deters work and reduces the ability of households to save and consume. Australia's existing PIT rate structure combines with our tightly

16 *Committee Hansard*, 6 June 2018, p. 26.

17 Professor Miranda Stewart, *Committee Hansard*, 6 June 2018, pp. 32–33.

means tested and targeted cash transfer system to produce the highest effective marginal tax rates (EMTRs) for individuals towards the lower-middle and bottom of the income distribution. This is the result of the combined withdrawal of family payments or Newstart, the net cost of childcare and the personal income tax rates. In particular, this negatively affects women with caring responsibilities, deterring them from increasing work participation hours. Figure 3 illustrates the effect of combined tax and transfer rules on earnings by day of the second earner (almost always the woman) in a moderate wage household with two young children.

Figure 3: EMTR on second earner, salary $50,000, primary earner $50,000, two children aged 2, 3 (2016).



Source: Stewart (2017), Figure 1.8b

The changes proposed under the PITP Bill do little to address these high EMTRs. The interim Low and Middle Income Tax Offset will provide targeted assistance to low income earners but will push up the EMTR faced by women in the lower middle of the distribution.[18]

1.26 Professor Stewart also stated that lifting the workforce participation of women, often the second income earner, would have a comparatively bigger impact on household consumption in the economy:

Senator McALLISTER: My last question goes to the economic impact of this. We've discussed quite a lot the fairness of organising the tax system in a way that applies very high effective marginal tax rates to second income earners in those lower tax brackets, but in terms of the economy the Grattan Institute has previously said that removing disincentives for women to enter

18 Professor Miranda Stewart, *Submission 16*, p. 4.

> the paid workforce would increase the size of the Australian economy by about $25 billion per year. There are substantial economic gains to be made if we can increase women's workforce participation, aren't there?
>
> Prof. Stewart: Yes, I would support that, even just on the basis of the ability to push households which are currently, as a matter of standard practice, 1½-earner households or one-earner households with children in them to be more what you might call two-earner or two-job households. Those households have more ability to consume in the economy, to save for a house and buy houses, to save more generally, to build retirement savings—superannuation savings—for both people in the household, as this committee has identified before, and to also pay taxes. Dual-earner households, economically, give quite a lot of bang for the buck.[19]

1.27 Overall, Labor Senators are sceptical of the Government's claims, particularly in Step 3 that a flatter taxation system would enable significant additional hours to be worked. Such concerns are heightened when Step 3 is assessed against its final annual cost of $10.35 billion dollars per year.

Distributional analysis of this bill

1.28 Labor Senators believe it is prudent that this legislation receive scrutiny in terms of the progressivity of the proposed taxation system as well as distributional effects by gender and geography. The Grattan Institute confirmed that the full package would decrease the tax burden on high income earners while increasing the tax burden on middle income earners:

> …senators can argue openly about whether reducing the extra burden on high-income earners but increasing the tax paid by middle-income earners is fair.[20]

1.29 Professor Miranda Stewart stated that this tax package was:

> …both inefficient and a retrograde step and that that undermines 100 years of progressive income tax rate structure in Australia.[21]

1.30 The Australia Institute found that the later stages overwhelmingly benefit high income earners:

> The problem is that the benefits from the latter stages of the tax will overwhelmingly flow to high-income earners. These latter stages are also worth considerably more in dollar value than stage 1. Increasing the top threshold to $200,000 and removing the 37 per cent tax bracket will mainly benefit the top 20 per cent of tax payers. By 2024, 80 per cent of the benefit of that top end tax cut will go to the top 20 per cent and the remaining 20 per cent will go to the next 20 per cent of taxpayers. This means that the bottom 60 per cent of taxpayers will get no benefit at all. Because of this, we are recommending to the Senate that it split or amend the bill to remove

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19 *Committee Hansard*, 6 June 2018, p. 39.

20 *Committee Hansard*, 6 June 2018, p. 3.

21 *Committee Hansard*, 6 June 2018, p. 31.

> those parts that flatten income tax by increasing the top threshold and removing the 37 per cent tax bracket.[22]

1.31 The Grattan Institute also found that that '$15 billion of the annual $25 billion cost of the plan will result from collecting less tax from the top 20 per cent of income earners'.[23]

1.32 On gender, it is clear that each stage progressively tends to favour men, who typically receive a higher income.

1.33 The contrast is very high in Step 3, where almost 75% of Step 3 flows to men ($30.35 billion versus $11.25 billion).[24]

1.34 On gender analysis, Treasury officials confirmed that they had not carried out such analysis:

> Senator KETTER: Also, I just want to confirm, again, that there was no gender analysis done in relation to the impact of the particular measure.
>
> Ms Mrakovcic: That's correct.
>
> Senator KETTER: Did the government instruct Treasury not to carry out a gender analysis?
>
> Ms Mrakovcic: I think it's fair to say that we didn't do gender analysis because, as the secretary again pointed out last week, we actually see the tax system as gender-neutral.[25]

1.35 The National Foundation for Australian Women responded to comments in Senate Estimates confirming the lack of gender analysis this way:

> Senator McALLISTER: Right. I asked the Treasury secretary why gender analysis was not undertaken on this initiative and his response was, 'Because the tax cuts are gender neutral.' Is he correct?
>
> Ms Coleman: He had a smile on his face when he said that? That's just a nonsense. The intention was gender-blind, I would say, rather than gender-neutral. The statistics that are there clearly indicate that these tax cuts are a long, long way from being gender neutral. It's just a nonsense.[26]

1.36 The other distributional impact which is important to Labor Senators is geography.

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22 Mr John Daley, *Committee Hansard*, 6 June 2018, p. 3.

23 Daley, J. & Wood, D., The Coalition's tax plan favours the rich and doesn't solve bracket creep for middle-income earners, 11 May 2018, accessed via https://grattan.edu.au/news/the-coalitions-tax-plan-favours-the-rich-and-doesnt-solve-bracket-creep-for-middle-income-earners/

24 Parliamentary Budget Office, Answers to written questions on notice, received from the Parliamentary Budget Office on 5 June 2018, accessed via https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/PersonalIncomeTaxPlan/Additional_Documents

25 *Committee Hansard*, 6 June 2018, p. 70.

26 *Committee Hansard*, 6 June 2018, p. 38.

1.37 Professor Li stated during the hearing that people living in capital cities, particularly Sydney and Melbourne would stand to gain the most given the spatial distribution of high income people. By contrast, that means that proportionally, the rest of the country stands to gain much less from the tax package.

1.38 Recent analysis by the Australia Institute confirms such findings:

> The biggest winners from the tax cut are wealthy electorates in Sydney and Melbourne. As shown in Table 1, the top 10 electorates all come from these cities. The average household in any of the top 10 electorates would get at least 50% more than the average Australian household.[27]

1.39 Other analysis which is in the public domain are calculations which paint Labor's bigger, better, fairer tax package as higher taxing, as published by The Australian on 30 May 2018, titled 'Labor's $2000 tax sting for average workers'.

1.40 Treasury officials on 30 May 2018 confirmed that they were not aware of this analysis,[28] which indicates it is likely that such analysis originated within the Treasurer's office, not Treasury. Such analysis included a forklift driver earning $145,000 per year. The ACTU characterised the use of such figures this way:

> Senator KETTER: It was just interesting that, in the context of our conversation earlier about the Treasurer saying, or the government saying, that this package is designed to provide relief for middle Australia, we saw in the Treasury modelling an example of a forklift driver or excavator operator at BHP coal being on $145,000 used in the context of comparing the alternative tax policies.
>
> …
>
> Mr Roberts: I've given the median wage figure of $53,000 for all workers. It increases to about $65,500 for all full-time workers. But that is the median—
>
> …
>
> Mr Roberts: I'd say if there's a forklift driver earning $140,000 they would be well and truly the exception.[29]

1.41 Such analysis underscores how the Treasurer has politicised Treasury and undermined their policy work. Labor Senators are deeply concerned that the Treasurer continues to operate in the way that he does, and Labor will stop this activity in Government.

Labor Senator's position on this bill

1.42 Labor Senators will continue to take a careful, considered and nuanced approach to policy.

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27 The Australia Institute, 2018 tax cuts by electorate, p. 2, accessed via http://www.tai.org.au/sites/defualt/files/P558%20Tax%20cuts%20by%20electorate_0.pdf

28 Senate Economics Legislation Committee, Budget Estimates 30 May 2018, p. 15.

29 *Committee Hansard*, 6 June 2018, p. 59.

1.43 This Government is ideologically driven and bereft of ideas. By continuing to insist that the bill be taken as a whole and refusing to both conduct and release even basic fiscal and distributional impacts, the Government insults the intelligence of the Australian people.

1.44 Labor Senators have a strong suite of policies that will be implemented in Government to put the budget in a sustainable position, including reforms to negative gearing, capital gains tax, trusts and dividend imputation.

1.45 While the Government continues to take its ideological approach of lower, less progressive taxation, Labor in Government will seek to get the best return for the taxpayer as possible, taking economic circumstances into account.

1.46 The Treasurer has politicised Treasury, which a Labor Government will be left to fix.

1.47 Labor Senators support low and middle income tax relief.

1.48 Labor Senators want to ensure that a future Government can properly fund public services such as health, education and infrastructure while recognising that low and middle income households are under pressure. Labor Senators will not support unsustainable levels of tax cuts that put essential public services at risk.

1.49 Labor Senators also have a plan for bigger, better, fairer income tax cuts that can be responsibly accommodated through Labor's suite of savings.

Recommendation 1

1.50 That the Government deliver tax cuts in a fiscally responsible way that does not jeopardise the ability for future governments to respond to changes in economic circumstances.

Recommendation 2

1.51 That the Government ensures that any tax cuts do not risk the ability of future governments to fund important government services.

Recommendation 3

1.52 That the Government prioritise legislating tax cuts which:

- **(a) Are fair and equitable; and**
- **(b) Support low and middle income earners so as to deliver a bigger short term boost to consumption and economic growth.**

Senator Chris Ketter	**Senator Jenny McAllister**
Deputy Chair	**Senator for New South Wales**

Greens Dissenting Report

The price of a civilised society

1.1 This Bill asks parliament a fundamental question: what do we want of our government? Government is about choices. How much tax a government collects, and on whom the obligation falls, is a choice about the services that government provides and how much we share in our nation's prosperity.

1.2 A choice to cuts taxes is one that says, 'whatever government is providing for you at the moment is more than what you need.' It would be a rare person that thinks that government is providing more than enough to meet our current needs, let alone our future needs.

1.3 This Bill makes the choice that successive governments have made in the neoliberal era. It is a choice to contract and constrain the ability of government to provide services and to make investments for our collective benefit. Inevitably, this choice is one that better serves individuals with the means to support themselves than it does those who are battling to make a go of it.

1.4 It is for these reasons that the Australian Greens oppose this small-hearted, small-minded and fiscally reckless legislation.

1.5 This Bill is small-hearted in that it chooses tax cuts over the government doing a better job of providing the things that people need today. Things like raising Newstart above the poverty line, conquering the problem of violence against women, or building a proper NBN. Apparently, foregoing $23 billion a year so millionaires can enjoy another $7,000 in their pocket is more important than helping a mother re-enter the workforce a couple of days a week.

1.6 This Bill is small-minded because it limits our ability to prepare for the future. We have an aging population, increasing healthcare costs, infrastructure that is not fit-for-purpose, the need to be highly educated in a global economy, and—for the sake of humankind's ongoing existence—a responsibility to get on board the energy revolution needed to combat climate change. To neglect these issues is, in effect, to steal from future generations.

1.7 And this Bill is fiscally reckless. At a time of record low wage growth, the government has jerried-up its economic forecasts to lock in tax cuts in seven years' time; $144 billion ostensibly for the sake of bracket creep, with little confidence that the future government will actually be able to afford this. This Bill demonstrates that the Liberals are not interested in surpluses. They are interested in protecting the rich and running down government.

1.8 The government is employing a bait and switch trick to sell these tax cuts. A little bit of candy for everyone to start with; but in the end those at the top end take home the bacon.

1.9 What this Bill is really about is the shift in the 32.5% marginal tax rate (MTR), shifting the upper threshold firstly to $90,000, then to $120,000, and finally out to $200,000. Of the estimated $144 billion loss in revenue over ten years, over half of this goes exclusively to those earning more than $87,000.

1.10 These are the best paid workers in our society, most of whom are men. For example, the Stage 2 shift in the 32.5% MTR upper threshold from $90,000 to $120,000 will cost $36 billion over the next ten years. The Greens estimate, using the budget's heroic wage growth forecasts, that at the point at which this comes into effect this will be to the benefit of the top one-third of wage earners, two-thirds of whom are men.

1.11 The Greens believe a secure and expanded revenue base is required for government to fulfil its role to provide a high standard of public services and public infrastructure. This Bill is contrary to these aims and should be opposed. It uses bracket creep as a ruse to give tax cuts to those who need it least. It to binds future governments to these tax cuts on the back of the most tenuous economic forecasts. It reduces the progressivity of the income tax system, which is directly at odds to our self-image as an egalitarian nation. And, as such, it does nothing to address inequality, and will further pit Australians against each other at the expense of public services.

Recommendation 1

1.12 That the Bill be opposed.

Senator Peter Whish-Wilson

Senator for Tasmania

Appendix 1
Submissions and additional documents

Submissions

1. Institute of Public Affairs
2. The Centre for Independent Studies
3. The ANU Centre for Social Research and Methods
4. Australian Council of Social Service
5. GetUp
6. Tax Justice Network Australia
7. Business Council of Australia
8. Ernst & Young
9. Australian Small Business and Family Enterprise Ombudsman
10. The Tax Institute
11. Australian Council of Trade Unions
12. The Treasury
13. The Australia Institute
14. Grattan Institute
15. National Foundation for Australian Women
16. Professor Miranda Stewart & Ms Emily Millane
17. Per Capita
18. Community and Public Sector Union
19. Professor Peter Whiteford
20. PwC
21. Friendly Societies of Australia
22. St Vincent de Paul Society National Council Australia

Answers to questions on notice

1. Answers to written questions on notice, received from the Parliamentary Budget Office on 5 June 2018.
2. Answers to written questions on notice, received from the Parliamentary Budget Office on 13 June 2018.
3. Answers to questions taken on notice at a public hearing in Canberra on 6 June 2018, received from Treasury on 14 June 2018.

Tabled documents

1. Document tabled by the Australian Taxpayers Alliance at a public hearing in Canberra on 6 June 2018.

Appendix 2
Public hearings

Canberra, 6 June 2018

Members in attendance: Senators Hanson-Young, Hume, Ketter, McAllister, Storer, Whish-Wilson.

ANTHONY, Dr Stephen, Chief Economist, Industry Super Australia

COLEMAN, Ms Marie, Chair, Social Policy Committee, National Foundation for Australian Women Ltd

DALEY, Mr John, Chief Executive Officer, Grattan Institute

EWING, Mr Robert Joseph, Principal Adviser, Tax Analysis Division, The Treasury

GRUDNOFF, Mr Matt, Senior Economist, The Australia Institute

HODGSON, Dr Helen, Member, Social Policy Committee, and Director, National Foundation for Australian Women Ltd

HUMPHREYS, Dr John, Deputy Director, Australian Taxpayers' Alliance

KYLOH, Mr Damian, Associate Director, Economic and Social Policy, Australian Council of Trade Unions

LI, Associate Professor Jinjing, National Centre for Social and Economic Modelling, University of Canberra

MRAKOVCIC, Ms Maryanne, Deputy Secretary, Revenue Group, The Treasury

PHILLIPS, Associate Professor Ben, Australian National University

PURVIS-SMITH, Ms Marisa, Division Head, Individuals and Indirect Tax Division, The Treasury

RICHARDSON, Mr David, Senior Research Fellow, The Australia Institute

ROBERTS, Mr Tom, Director, Industrial and Social Policy, Australian Council of Trade Unions

STEWART, Professor Miranda, Private capacity

STRONG, Mr Peter, Chief Executive Officer, Council of Small Business Organisations Australia