Proposed income tax cuts

Submission to Senate Economics Committee

May 2018

Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially, economically and environmentally responsible public policy and action by government, community and business.

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Summary

Federal Budget revenues are projected to rise by $32B over the next four years, underpinned by growth in wages and profits (which many warn will not occur). The Government proposes to give back about half of this ($15B) through personal tax cuts and abandonment of the 0.5% Medicare Levy increase.

The Government has already spent $4B over the forward estimates providing personal tax cuts to people on taxable incomes of $80,000 or more, when it lifted the threshold from $80 000 to $87,000 from July 2016. The $3B Deficit Levy was also removed last year, giving back almost $50pw to people on incomes above $300,000, despite the Budget remaining in deficit.

Beyond that, against the backdrop of a 23.9% of GDP "cap'' on tax revenue, the Government now proposes another $127B in personal tax cuts ($140B in all) from 2022.

This is not responsible budgeting. Social spending falls well short of need for both essential services, and poverty-alleviation (with no increase in Newstart Allowance, rent assistance, or family payments), affordable housing, health, dental care, mental health, education and community services. The Federal Budget has not been in surplus since the Global Financial Crisis, and the *projected* surpluses are based on shaky Budget estimates.

The proposed personal tax cuts should be opposed in their entirety for six main reasons:

1. Budget revenues are not as healthy as projected.

Despite talk of 'rivers of gold', the revenue estimates in the Budget are doubtful as they assume annual wage growth of 3.5% in the last two years of the forward estimates, and that growth in taxable company profits will not subside once past tax losses are absorbed.

2. Governments will need more revenue to guarantee essential services over the coming decade, and major gaps in social security and community services remain.

Another risky and unrealistic Budget projection is the expectation that real expenditure growth can be held to no more than 1.6%, which is less than population growth. This would follow average growth of 1.9% a year from 2014 to 2018, which the Budget Papers assert is the lowest real spending growth in fifty years.

Even taking account of spending cuts baked into the Budget, the Parliamentary Budget Office projects that from 2017 to 2027, spending on the NDIS, hospitals, Medicare, aged care and schools alone will rise by a total of 1.2% of GDP per year ($21B in today's dollars). This takes no account of major gaps in social programs that have been neglected for years, such as Newstart Allowance, affordable housing and homelessness, community services, and dental and mental health.

3. More tax cuts now will lead to more harsh spending cuts later

Just as eight annual tax cuts during the 2000s led inexorably to the harsh 2014 Budget cuts, tax cuts before Budget surpluses are well entrenched, especially if legislated seven years in advance, would starve future funding for essential benefits and services.

Any more tax cuts now would come off the back of $15B that has been cut from social spending, including freezes in family payments, a tougher penalty system for people locked out of paid work, longer waiting periods for payments for people with no private income, the freeze in Medicare rebates (partly removed in the Budget); and $1.5B per annum (by 2017) cut from essential community services. Far more people are being pushed off the higher pension payments (such as the DSP and PPS), onto the woefully-low Newstart Allowance, further reducing social security spending.

The Budget introduces more harsh restrictions on benefits for people facing financial hardship, including a four year wait for social security for new migrants.

4. Under-funding of essential services is putting pressure on household living standards, as out of pocket expenses increase.

Some of the largest cost of living increases over the last six years were in essential services funded or regulated by Government, including a 57% rise in child care costs, a 40% rise in out of pocket medical costs, 40% rises in energy bills, and a 33% rise in the average cost of pre-school and primary education. If tax cuts are given before the Government can properly fund these services, the community will pay more for them through out-of-pocket charges and service rationing.

5. The proposed tax cuts are regressive, and will be of no benefit to the vast majority of the lowest 40% of income earners.

The Government argues that its 'Low and Middle Income Tax Offset' will benefit low income-earners. However, few of the lowest 40% of income-earners will benefit, as their incomes are generally too low to pay income tax. This group includes people locked out of paid work, students, single parents, people with a disability, pensioners, and part-time employees on low wages (most of whom are women). After 2022, the tax cuts go almost exclusively to the top 20% of income-earners on $90,000 and above, reaching a cumulative value of $227pw for those earning $200,000 or more.

6. Bracket creep has not yet "unwound" the impact on average tax rates of the eight successive personal tax cuts from 2003-11.

Personal income taxes were cut every year from 2003 to 2011, and for high income-earners they were cut again last year. As a result, most taxpayers (the lowest 60% by income) still pay less income tax than they would have if the 2003 tax scales remained in place. The middle 20% of taxpayers only begin to "fall behind" their 2003 tax position in 2020, and lower income-earners are still ahead at that stage.

After many false starts, it will take at least two years to establish whether stronger tax revenues from economic growth will actually restore the Budget to sustainable surpluses. Even in the absence of major gaps in essential services and payments, it would be foolhardy to promise income tax cuts on the back of projected rather than actual Budget surpluses.

If the Bill is passed, this will be the start of a dangerous race to the bottom on income tax cuts that jeopardises future essential services and is little or no benefit to the lowest 40% of households, including most people who rely mainly on social security, and most part-time workers. They are the people with most to lose.

Recommendation:

We recommend the Bill be opposed in its entirety. Tax cuts should not be legislated until the Budget has been in consistent surplus and we are confident the Government can afford the essential services and benefits the community needs, including a substantial increase in the Newstart Allowance and related payments.

Further, they should be accompanied by reforms to strengthen the personal income tax base by reducing the ability of individuals who are relatively well-off to avoid contributing their fair share through tax shelters such as negative gearing, capital gains, private trusts and superannuation.

1. The proposed tax cuts and their impact on individuals and households

In addition to the $65 billion company tax cuts, abandonment of the $13B increase in the Medicare Levy, removal of the Deficit Levy and last year's personal income tax cuts for people earning over $80,000, the Government proposes three further rounds of personal income tax cuts over the next seven years:

(1) From 2018: A Low and Middle Income Tax Offset (on top of the existing Low Income Tax Offset) worth up to $10pw for people earning $21,000-$125,000, plus a further increase in the lower threshold for the 37% rate from $87,000 to $90,000, worth $3pw for those earning over $90,000 (Cost: $13B over four years);

(2) From July 2022: The new tax offset is removed, the lower threshold of the 32% bracket is lifted from $37,000 to $41,000, the LITO is increased from $445 to $645pa, and the lower threshold for the 37% rate is lifted from $90,000 to $120,000;

(3) From July 2024: The 37% tax bracket is abolished altogether, so that people earning $41,000-$200,000 all share a marginal tax rate of 32.5% (Table 1)

The overall cost of the package is $140B over seven years (and approximately $25B per year from 2024).

Table 1: Existing and proposed 2024 personal income tax rates

Tax Rate	Thresholds in 2017-18	New thresholds in 2024-25
Nil	Up to $18,200	Up to $18,200
19 per cent	$18,201 - $37,000	$18,201 - $41,000
32.5 per cent	$37,001 - $87,000	$41,001 - $200,000
37 per cent	$87,001 - $180,000	-
45 per cent	Above $180,000	Above $200,000

Source: Australian Government (2018): Budget Papers

1.1 Impact on individuals

First round (2018-22):

This round mainly benefits ''upper-middle" income-earners, who are mostly fulltime male workers (Table 2):

- people earning less than $21,000 (roughly the lowest 20% of income-earners) get nothing;
- those on $21-37,000 (the 2nd 20%) get up to $4pw;
- those on $37-48,000 (the 3rd 20%) get $4-10pw;
- those on $48-$90,000 (the 3rd and 4th 20%) get $10pw;
- those on $90,000-$125,000 (the top 20%) get $10-$3pw;
- those on $125,000+ (the top 10%) get $3pw. [4]

Table 2: Tax cuts by income level in the first round (2018-22)

Taxable income range	Position in personal income distribution *	Proposed tax cuts from 2018 ($pw)
Up to $21,000	lowest 20%	0
$21,000 to $37,000	2nd 20%	0-4
$37,000 to $48,000	3rd 20%	4-10
$48,000 to $90,000	3rd or 4th 20%	10
$90,000- $125,000	top 20%	10-3
$125,000+	top 10%	3

Sources: Australian Government (2018): Budget Paper No 1, tax cut tables at https://www.budget.gov.au/2018-19/content/jobs.html; Parliamentary Budget Office (2017): Changes in average personal income tax rates: distributional impact, Report No 03/2017

Note: First round only: after 2022 the Government's tax cuts are much higher for high-earners
* Among individuals registered with the ATO (note that when all adults are included, the lowest 40% by income pay no personal income tax, as discussed later).

[4] These figures include many people registered with the ATO who are out of paid work, who generally don't benefit from income tax cuts.

Later rounds: (2022-25)

Table 3 shows the impact of the later rounds of proposed tax cuts on individuals.[5]

- Both rounds (2022 and 2024) mainly benefit the *top 20% of individuals* by income, those earning over $90,000.
- *The 2022 round* is of little or no benefit to the 80% earning less than $90,000 because the rise in the $37,000 threshold and increase in the LITO is offset by removal of the LMITO.
- Those earning over $90,000 get an *extra* tax cut of up to $39 per week as the $90,000 threshold is lifted to $120,000.
- *The 2024 round* (abolition of the 37% tax bracket) only benefits the top 3% earning over $120,000, who receive an *extra* tax worth up to $139 (and *$227pw from all rounds).*
- People earning from $41,000 to $200,000 would all share the same 32.5% marginal tax rate.

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[5] Note that it was not possible to model changes in the distribution of incomes from 2018 to 2024. For example, if wages grow by a uniform 2.5% p.a., these thresholds would each be 17% higher so that $85,000 becomes $100,000.

Table 3: Tax cuts by income level in later rounds (Government package) 2022-25

Individuals by income group (2017-18)	Taxable income range (2017–18) ($pa)	Before and after-tax income of average earner in each group ($pa) [1]	Second round: Extra tax cuts in 2022		Third round: Extra tax cuts in 2024		Cumulative tax cuts 2018-2024[2] ($pw)
			Extra tax cuts in 2022 ($pw)	As a % of after-tax income (%)	Extra tax cuts in 2024 ($pw)	As a % of after-tax income (%)	
Lowest 20%	Up to $20,000	$8,000	$0	0%	$0	0%	$0
2nd 20%	$20,000 to $37,000	$28,000 ($26,000)	$0	0%	$0	0%	$27
3rd 20%	$37,000 to $56,000	$46,000 ($39,000)	$0	0%	$0	0%	$61
4th 20%	$56,000 to $85,000	$69,000 ($54,000)	$0	0%	$0	0%	$72
Highest 20%	$85,000 and above	$156,000 ($106,000)	$39	1.9%	$69	2.3%	$160
Highest 3%	$200,000 and above	>$200,000 (>$133,000)	$39	up to 1.5%	$139	up to 5.4%	$227

Sources: Budget paper No1; Shorten (2018) Budget reply speech; Distributional data: Parliamentary Budget Office (2017), Changes in average personal income tax rates: distributional impact, Report No 03/2017; 2018 Budget Papers at https://www.budget.gov.au/2018-19/content/jobs.html

Note: Individuals registered to pay income tax are divided into five equal groups by taxable income, so thresholds are not the same as tax brackets. Tax cuts are then modelled for individuals on the average pre-tax income for each of the five groups.

1. After-tax income is in brackets

2. Cumulative impact of all tax cuts over 6 years, expressed in 2018 dollars. These income gains would be partly or fully offset by bracket creep over the period, and cannot be compared with taxable incomes in any given year.

1.2 The tax cuts are of little or no benefit to low income-earners

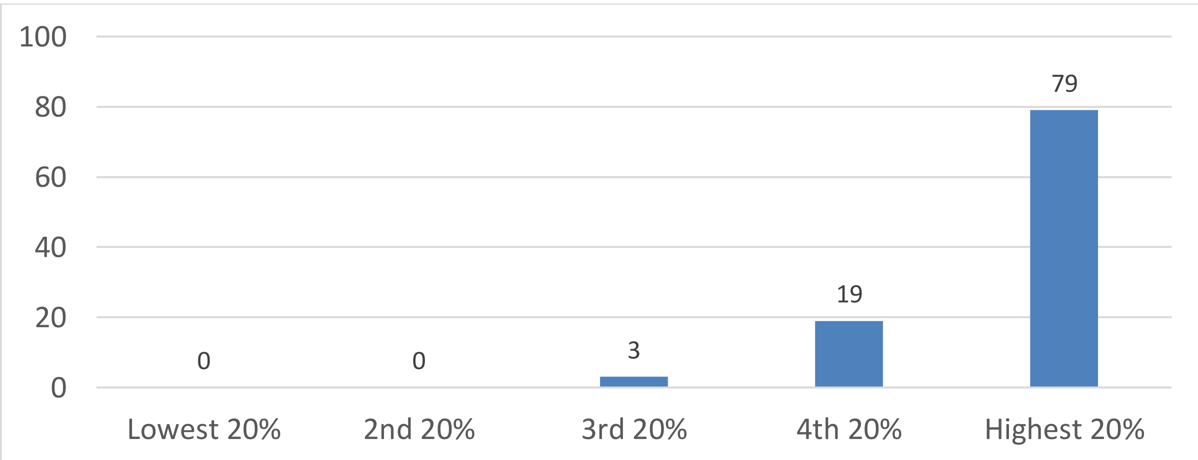
Under our progressive income tax system, the lowest 40% of adults receive little or no benefit from income tax cuts because they currently pay little or no income tax. As discussed later, they do, however pay significant indirect taxes such as the GST.

Many will be surprised to learn that the 40% of people with the lowest incomes have less than $37,000 in taxable income. Most of this group rely on social security payments including age pensions and Newstart Allowance. Others have part-time employment on relatively low wages (for example, cleaners, sales assistants and care workers). The majority of this group are women. Still others receive superannuation benefits which are not included in taxable income, or have business losses.

These groups pay little or no income tax due to the tax-free threshold of $18,200, the Low Income Tax Offset (LITO), rebates for recipients of various social security payments, and special tax concessions for Seniors (including the tax free status of superannuation). Effective tax free thresholds for singles are approximately $21,000 for people of working age generally, $27,000 for Newstart Allowance recipients, and $32,000 for Seniors (in addition to superannuation benefits). These thresholds are higher for couples.

Figure 1 (below) shows Deloitte Access Economics' estimates of the share of personal income tax paid this year by all individual adults. This is a wider group than taxpayers or individuals registered to pay income tax with the ATO (in Table 3 above). Of all adult individuals, the lowest 40% by income does not pay income tax, and therefore do not benefit from income tax cuts. The contribution of high income-earners is discussed below.

Figure 1: Share of income tax paid (2018)

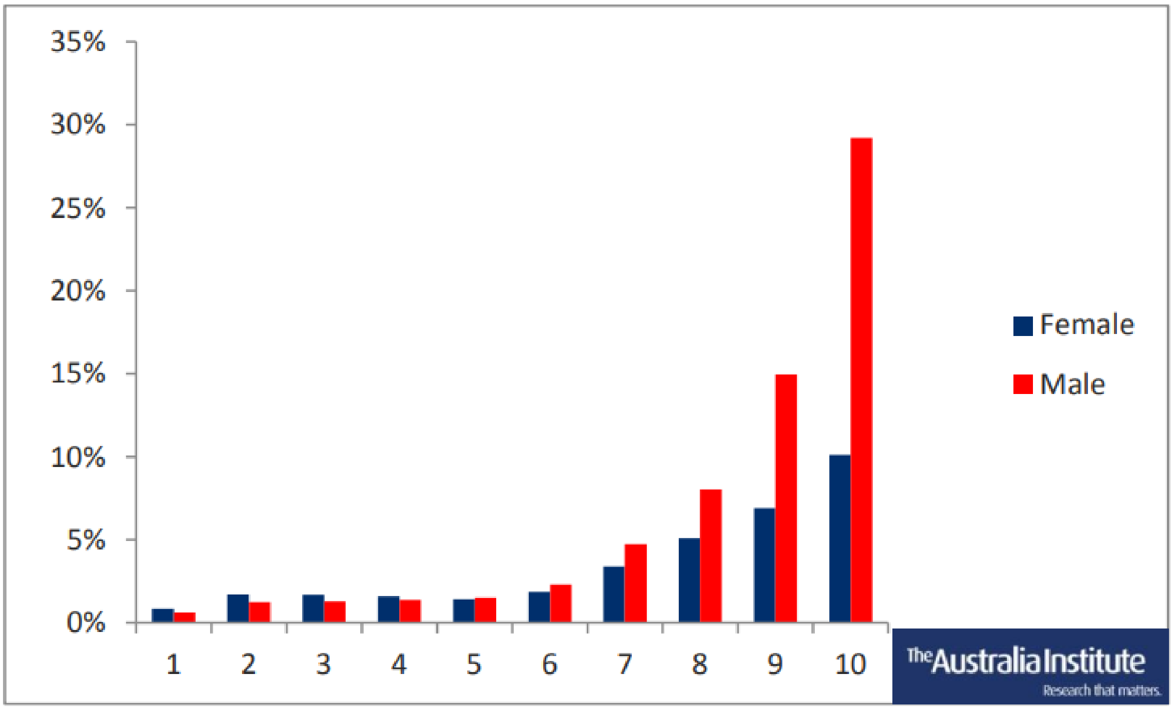


Deloitte Access Economics analysis, cited in "How much tax do the rich actually pay? It depends on how you do the numbers" ABC News 22/5/18

1.3 The tax cuts are of little benefit to most women

Since women are concentrated in lower income groups, The Australia Institute estimates that by 2025, two thirds of the value of the tax cuts will go to men (Figure 2).

Figure 2: Share of tax cuts going to men and women, by personal income (% in 2025)



Source: Grudnoff M (2018), Income tax cuts in 2018 Budget will largely benefit men, Australia Institute.

1.4 The tax cuts are too generous to high income-earners

The Treasurer has raised concerns about the share of income tax paid by high income-earners. This is the intended outcome of a progressive income tax system which levies tax according to ability to pay. While the highest 20% of income-earners pays 70-80% of all income tax (depending whether individuals not registered as taxpayers are included in the distribution), this is because they have 40% of all income and we have a progressive personal tax system.[6] An important role of the personal income tax system is to redistribute resources from those with the greatest capacity to pay to those with the greatest need for Government benefits and services.

Progressivity would be seriously undermined if, as the Government proposes, people on $41,000 to $200,000 were all included in the same tax bracket. Further, a large jump from a 32.5% tax rate to 47% is unlikely to be acceptable to those affected.

The argument for flattening the tax scales to improve work incentives is spurious, since it is well established that men with high incomes are much less responsive to financial rewards from employment than women on low income (especially those caring for children).[7]

Moreover, personal income tax is only part of the wider tax system impacting on households.[8] When indirect taxes such as GST and Stamp Duties are included, the overall rate of tax paid by households at different income levels is almost the same (Figure 3). In 2010:

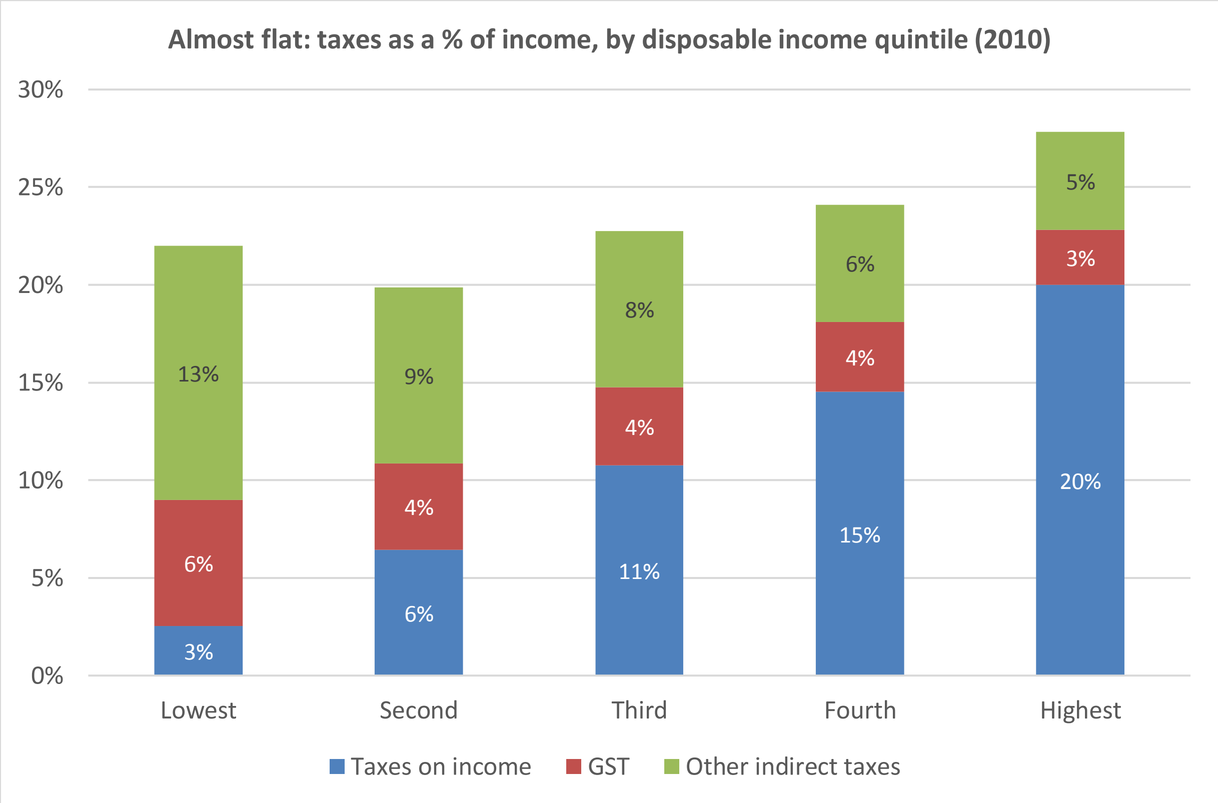
- The lowest 20% of households by disposable income paid an average of 22% of their income in tax
- The middle 20% paid an average of 23%
- The highest 20% paid an average of 28%.

[6] Wood & Daley (2018), Grattan modelling of the government's Personal Income Tax Plan highlights costly cuts to taxes for high income-earners. Grattan Institute; Deloitte Access Economics (2018) Distributional analysis of income tax cuts; ABS (2018), Household income and wealth (2015-16).

[7] Dandie, S. and Mercante, J. (2007), Australian labour supply elasticities: comparison and critical review, Treasury working paper, 2007-04.

[8] The average rate of *income tax* paid in 2015 by all households (whose average *household* income was $2,261pw) was $395pw; for those relying 90% or more on social security (average income $709pw) it was $1pw, for those relying on social security for 50-90% of their income (average income $1,044pw) it was $7pw.
Source: ABS income distribution survey (2015-16), income includes imputed rent for home-owners.

Figure 3: Income and consumption taxes as a percentage of income (2010)



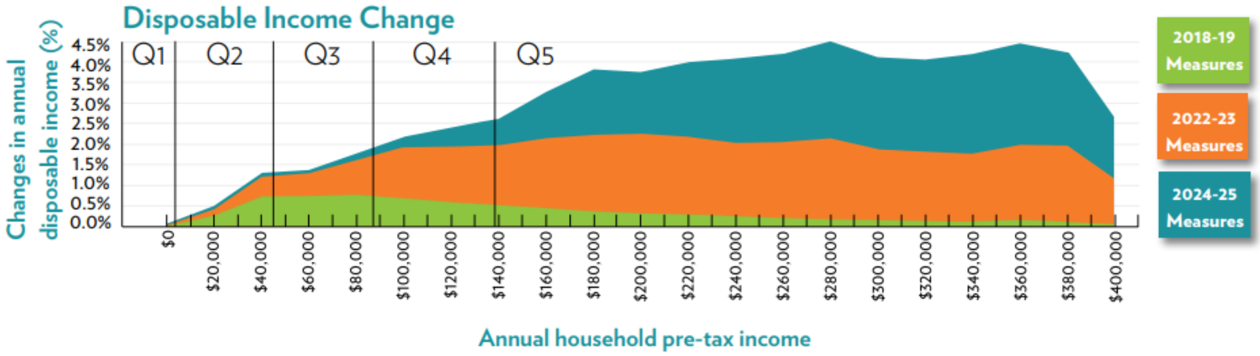
Source: ACOSS (2015) Are we paying our fair share?; ABS (2015) Household expenditure survey 2010.

Note: Households distributed by equivalent disposable income. Includes State taxes such as Stamp Duties.

1.5 Their impact is also regressive at the household level

The average impact of the whole package on each 20% of households by income is also regressive, rising from a 0% increase in disposable income for the lowest 20% to up to 4.6% for the top 20% (Figure 4). This is mainly due to the 2022 and 2024 rounds, both of which predominantly benefit the top 20%, though it is noteworthy that the first round is of limited benefit to the lowest two quintiles.

Figure 4: Who gets the Government's tax cuts? Percentage change in disposable income by household income level



Source: NATSEM 2018, How does the Budget affect us?

Note: Q2, Q3 etc. refers to each 20% of households by pre-tax income. Lowest 20% receives $0.

The impact on households is different to individuals since many households have more than one income earner. The graph also adjusts household incomes for the size of households.

1.6 The impact of bracket creep has been exaggerated.

The above analysis is based on the current distribution of incomes. As the Grattan Institute and ANU Centre for Social Research and Methods point out, by the time the proposed tax cuts are fully implemented in 2025 inflation and wage increases would have significantly lifted individual and household incomes so that the income distribution would look quite different.[9] On this basis, they conclude that the tax cuts would not 'return' to taxpayers all of the impact of tax bracket creep from 2018 to 2025 on average income tax rates, with low and middle income-earners disproportionately affected because the tax cuts are skewed towards high income-earners. On the other hand, it is worth noting that these analyses may use the unrealistically high Budget projections for wage growth discussed above.

'Bracket creep' is poorly understood. It does not only (or even mainly) impact on taxes on earnings above an individual's top marginal tax rate. It also affects the taxes paid on the slices of income lower down the tax scale. Moreover, it is a person's average or overall tax rate, not the marginal rate (the tax paid on the highest ''slice'' of income) that matters from the standpoint of living standards.

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9 Philips B et al (2018), Modelling of the 2018-19 Federal Budget Personal Income Tax Measures; Daley & Wood (2018), The Coalition's tax plan favours the rich and doesn't solve bracket creep for middle-income earners, Grattan Institute.

The proposed tax cuts assume that bracket creep mainly impacts those whose taxable income moves them into the 37% tax bracket as their incomes rise above $87,000. This is not correct. It affects all people earning more than the tax free threshold of $18,000 (which, incidentally, the proposed tax cuts leave in place over the entire seven year period).

The projected erosion of the value of the tax cuts by bracket creep from 2018 to 2025 demonstrates the folly of legislating tax cuts seven years in advance, when we do not yet know how quickly wages and other incomes will grow and who will be most affected by bracket creep. As an attempt to counter bracket creep, the proposed tax cuts are a stab in the dark.

A fairer and more rigorous way to compensate for tax bracket creep is to compare the average or overall tax rates faced by different groups with what they would have paid before the eight successive tax cuts given from 2003 to 2011.

Analysis by the Parliamentary Budget Office shows that *in 2018 most taxpayers (the lowest 60% by income) still pay less income tax than they would have if the 2003 tax scales remained in place* (Figure 5 and Table 4 below).[10] The middle 20% of taxpayers only begin to ''fall behind'' in 2020, and lower income-earners will still be ''ahead'' at that stage. Together with their limited impact for the majority of individuals, this helps explain the underwhelming public reaction to the proposed tax cuts.

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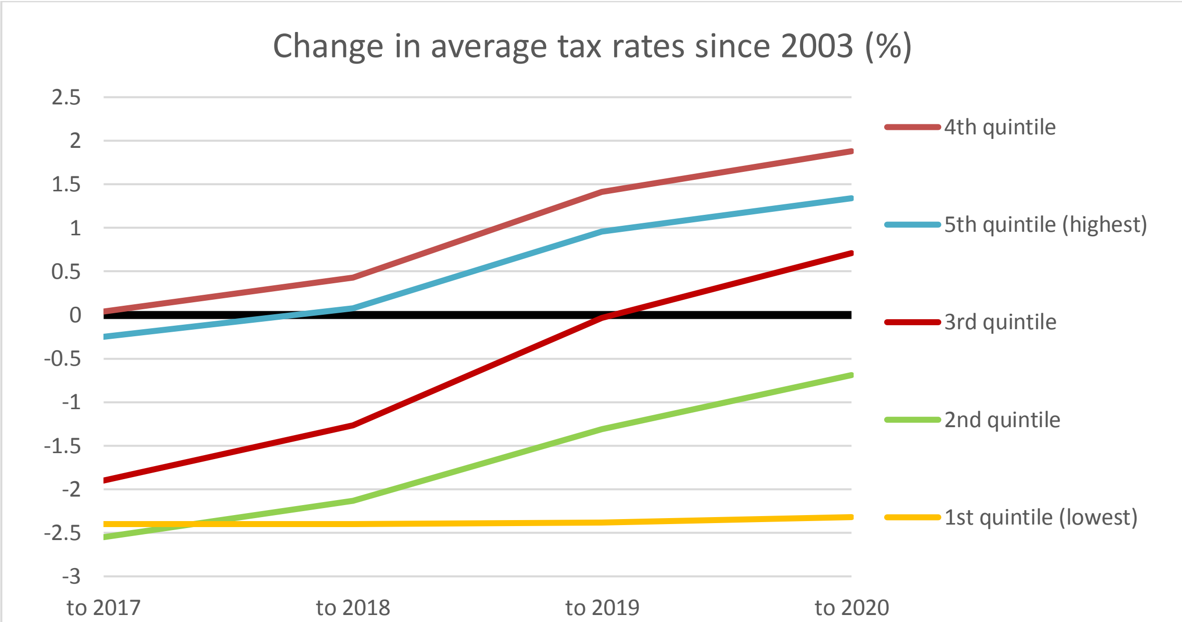
[10] High income-earners benefited from last year's tax cut, when the $80,000 tax threshold was lifted to $87,000 at a cost of $4B a year (not included in the PBO analysis below)

Figure 5: Impact of bracket creep on average tax rates for individuals with different incomes



Source: Parliamentary Budget Office (2017), Changes in average personal income tax rates: distributional impact, Report No 03/2017.

The above graph shows the change in average tax rates, compared with what would have been paid if the 2003 tax rates and thresholds remained in place. Note that average tax rates shown here (the tax paid on all income) are lower than marginal tax rates (the tax paid on income within a person's tax bracket).

The effect of bracket creep can be seen in the rising average tax rates from 2017 to 2020. However, in 2017 virtually all taxpayers still paid less tax than they would have under the 2003 tax scale.[11]

[11] On the left hand side of the graph, all except the fourth quintile are below the 'no change' or zero line.

Table 4: Impact of bracket creep on average tax rates for individuals

Taxable income range (2017–18)	From 2003 to 2017	From 2003 to 2018	From 2003 to 2019	From 2003 to 2020
1st quintile (lowest)	-2.40	-2.40	-2.38	-2.32
2nd quintile	-2.55	-2.13	-1.31	-0.69
3rd quintile	-1.90	-1.27	-0.03	0.71
4th quintile	0.04	0.43	1.41	1.88
5th quintile (highest)	-0.25	0.08	0.96	1.34

Source: Parliamentary Budget Office (2017), Changes in average personal income tax rates: distributional impact, Report No 03/2017

Note: A negative figure indicates a group is paying *less* tax than they would have under the 2003 scales.

2. The state of the Budget and revenue for essential services

The Budget estimates that a small surplus of $2B will be achieved in 2019, and projects that this will grow to more than 1% of GDP by 2025 notwithstanding the proposed personal and company tax cuts and abandonment of the Medicare Levy increase.

Looking behind these figures, from 2017 to 2021 the Budget expects that stronger individual and corporate incomes will boost revenues cumulatively by $32B. Of this, $15B is devoted to the proposed tax cuts and reversal of the Medicare Levy increase.

2.1 Shaky revenue assumptions

This scenario is built on shaky assumptions:[12]

- That increases in company tax revenues will be cumulative rather than one-off (due to companies running out of accrued tax losses);
- Annual wage growth of 3.5% in the out years.

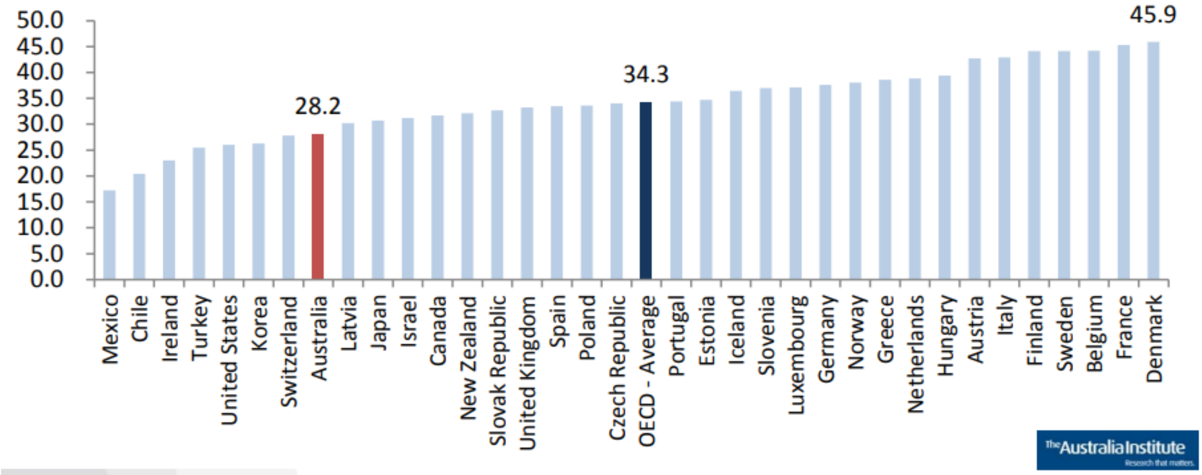
Despite these Budget uncertainties, the Government has committed itself to an artificial ''cap'' on tax revenue of 23.9% of GDP, which is likely to be reached in 2020 (two years after the tax cuts commence). This is not a responsible approach to budgeting: the Government should not attempt to restore the Budget to surplus with one hand tied behind its back.

> "Tax as a share of GDP when you include all levels of government is just 27.8% in Australia. This compares to an average of 34.2% across all OECD countries. There are many options to reform taxation and derive greater value from the money diverted from private use. Placing an artificial and contrived ceiling on taxation as a share of GDP has to be both a long way down the list of sensible reforms and one that is controversial in practical implementation."
> *Professor John Freebairn, tax expert from the University of Melbourne*

Australia has a revenue problem and needs to strengthen not shrink our tax base if we are to meet community needs. We are the eighth lowest taxing country in the OECD (Figure 6).

[12] Deloitte Access Economics (2018): Budget Monitor.

Figure 6: Tax revenue as a share of GDP in OECD nations (2015)



Source: Cameron & Murray (2018): Australia, the low tax country, Australia Institute; OECD taxation statistics

Note: Includes state and local taxes

2.2 Governments will need more revenue to provide essential services over the coming decade

Another shaky assumption on which projected Budget surpluses are built is that growth in Budget spending will be limited to an average of 1.6% per year in real terms (after inflation), less than population growth and the 1.9% average annual growth in spending since 2014, which the Budget papers assert was the lowest increase in spending in the last 50 years.

These estimates for growth in Budget spending are dubious for the following reasons:

- Even taking account of harmful spending cuts locked into the Budget, the PBO projects that from 2017 to 2027, spending on the NDIS will rise by 0.8% of GDP ($14B), hospitals and Medicare by 0.1% each ($2B each), aged care by 0.2% ($4B) and schools by 0.1% ($2B) – a total of 1.2% of GDP ($21B) per year in these four programs alone.[13]
- Since the 2014 Budget, the Government has attempted to stem growth in health spending by the crude device of freezing indexation. A freeze on growth in the Medicare rebate was prolonged and hospital funding to the States was limited to the sum of CPI and population growth (a freeze in real terms). This was clearly

[13] Parliamentary Budget Office (2017), Medium term budget projections, Report No 2/2017.

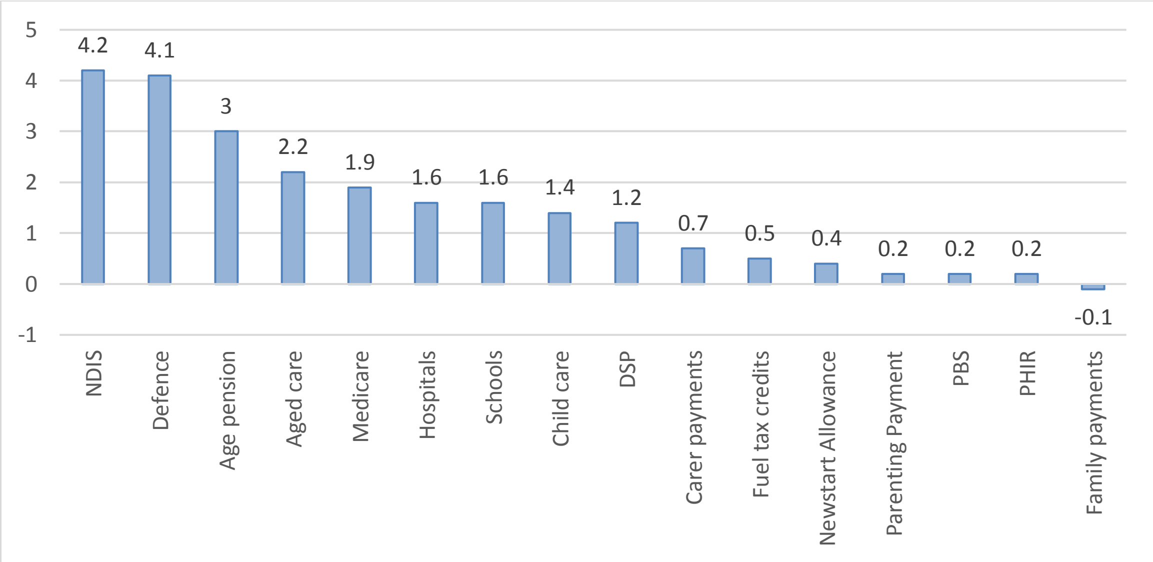
unsustainable. In the latest Budget the Government partially lifted the Medicare rebate freeze and last year it reached agreement with the States to extend previous indexation arrangements for hospitals funding until 2020. The PBO assumes that the freeze will not be imposed after that.

- There is no doubt health could be funded more efficiently (by investing more in prevention, changing the funding system for care for people with chronic illness, and removing the $6B private health rebate), but even if this is done health spending will still have to rise as a share of GDP to meet the care needs of an ageing population and ensure that everyone benefits equitably from advances in medical care.
- It is also clear that the NDIS is under-funded, since the quality of support packages available for one third of recipients is below expectations.[14] Recent media reports suggest that the National Disability Insurance Agency plans to restrict access to disability supports plans for children with autism. An increase in Medicare Levy revenues is needed after all.
- Further, various freezes in social security payment levels and thresholds put in place since the 2014 Budget are having increasingly harsh effects, increasing poverty and deprivation amongst a growing number of adults and children.

Figure 7 (below) shows the main programs expected to contribute to future increases in Budget expenditure over the next decade.

[14] One third of recipients of NDIS packages reported that the services they received did not improve post-NDIS, or that they declined in quality http://www.flinders.edu.au/sabs/nils/research/projects/evaluation-of-the-trial-of-national-disability-insurance-scheme.cfm

Figure 7: Contributions to projected growth in Budget spending from 2017-2028 (%)



Source: Parliamentary Budget Office (2017), '2017-18 Budget medium term projections.'
Note: Based on 2017 policy settings

These are mostly essential services that are strongly supported by the public (though some defence investment, such as the new generation of submarines, appears to be extravagant). The public understands these pressures on the Budget. In a recent survey, 55% of respondents said they be prepared to pay *more* tax to improve health services.[15]

Major gaps in social security and community services remain:

Even if it were possible to curb spending in essential services without harm to the public, a substantial boost to spending is needed in areas that have been neglected for decades, such as:

- Unemployment and student payments (frozen in real terms for 24 years, now just $270pw);
- Affordable housing (where despite the crisis in affordable housing and a sharp rise in homelessness, there has been virtually no increase in social housing dwellings since 2014 and Private Rent Assistance is just $68pw for a single adult on a low income);

[15] Per Capita (2018): Tax survey.

- Dental care (which is still not included in Medicare and has been cut for adults with low incomes);
- Mental health faces a crisis due to large shortfalls between services available and growing community needs;
- Community services, such as financial counselling, Aboriginal and Torres Strait Islander services, and community legal services, which have not kept up with community needs, and were drastically cut in the 'horror' 2014 Budget.

It is a sad indictment of our priorities as a nation that the main impacts of these service deficits are felt by people who are too poor to pay income tax, who will receive no benefit from the proposed income tax cuts.

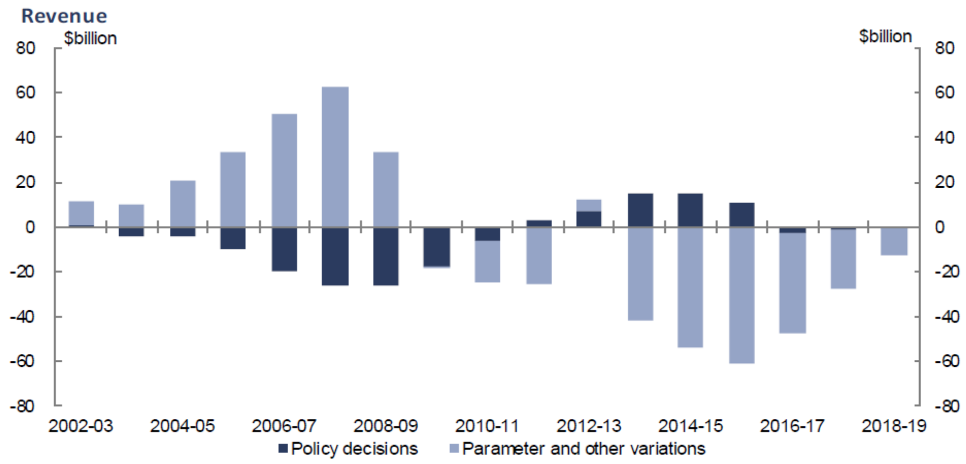
> "There remain real questions about adequacy of the unemployment benefit, real questions about the affordability looking ahead for family payments, and real questions about the complexity of our retirement income system, particularly the way the Age Pension interacts with super,"
>
> "I'm not sure on the right expression but it seems to me absurd, theatrically absurd, that we know we're going to have to raise taxes but we're having an argument about which taxes to cut."
>
> *Ken Henry, Chairman of National Australia Bank and former Treasury Secretary, The Australian, 2/4/18*

2.3 More tax cuts now will lead to more harsh spending cuts later

In 2003, ACOSS warned that repeated income tax cuts would lead to harsh spending cuts later on.[16] Eight successive annual tax cuts followed, and the proceeds of a temporary boom in company tax revenue were used to legislate permanent reductions in personal tax rates (Figure 8, below). The inevitable Budget problems after the boom subsided were used to justify harsh cuts in social spending by the Abbott Government in the 2014 Budget.

[16] ACOSS (2003): Federal Budget Media Release.

Figure 8: The impact of eight annual tax cuts (2003-11) on the Budget



Source: Parliamentary Budget Office (2016): Impact of policy divisions and parameter variations on the Budget outlook.

Note: Dark shaded bars show the impact of policy decisions (tax cuts and increases) and the light bars show the impact of economic conditions (the boom up to 2008, and subsequent downturn).

From 2014 to 2017, *over $15B was removed from social security and community services,* including:

- $12B in social security cuts over four years (from 2013) including freezes in family payments for the poorest families, a tougher penalty system for unemployed people, and longer waiting periods for payments for people with no private income;
- The ongoing freeze in Medicare rebates;
- $1.5B per year cut from essential community services, including Aboriginal and Torres Strait Islander services, community legal centres and refuges for victims of domestic violence.

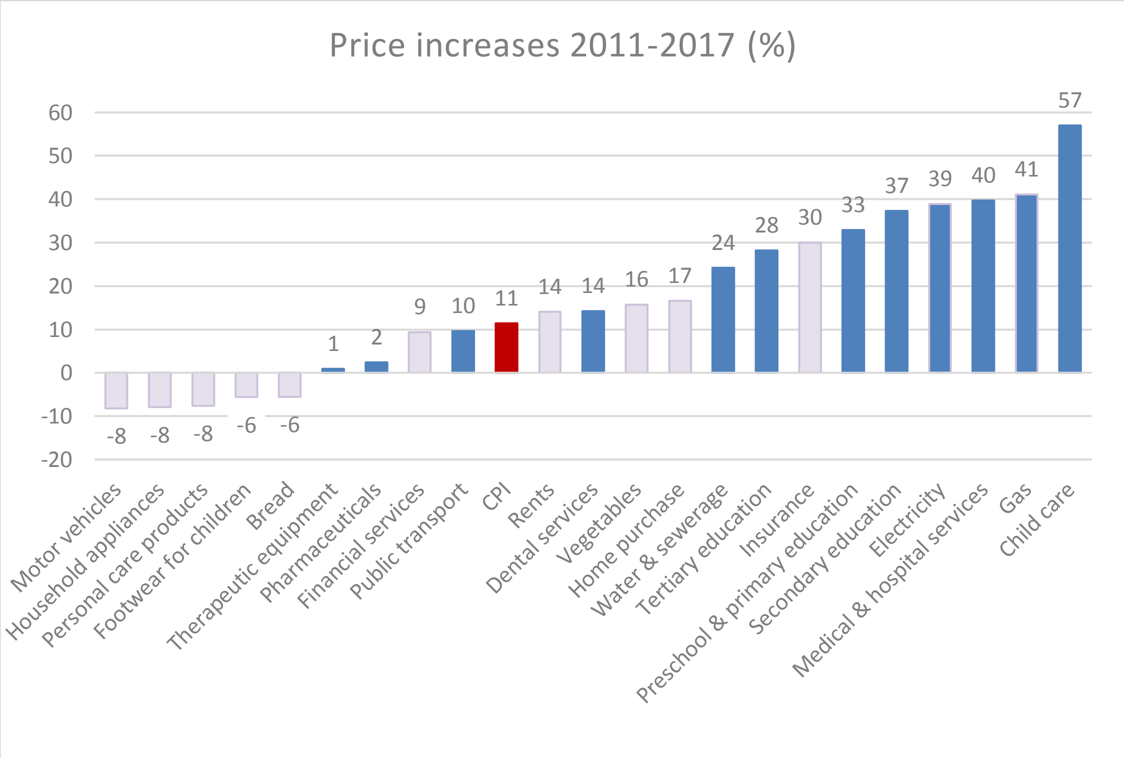
More cuts are still on the books but have so far rejected by the Senate, including:

- A three year wait for social security for new migrants with no source of income, extended to four years in the latest Budget despite the Parliament's rejection of the original proposal;
- Cuts to payments to assist people of working age on pension payments to study;
- Abolition of the $4-7pw Energy Supplement for pensioners and unemployed people.

2.4 Under-funding of services is putting pressure on household living standards

Sluggish growth in wages and high housing and energy costs are not the only reasons that low and middle-income households are under financial pressure. *Some of the largest price increases over the last six years were in essential services funded or regulated by governments*, including a 57% rise in child care costs, a 40% rise in out of pocket medical costs, 40% increases in energy bills, and a 33% rise in the average cost of pre-school and primary education (Figure 9).

Figure 9: The highest price rises are in publicly funded or regulated essential services



Source: ABS, Consumer Price Index. Average price increases over the last six years (not per year).

Note: Dark blue bars are publicly subsidised services, to which users also contribute.

We have a choice: pay for essential services according to our capacity in the traditional way through the tax system, or pay more for them up front when we visit the doctor, or need child care or aged care services. Those on the lowest 40% of incomes will suffer most if these out-of-pocket costs keep rising. *They have the least to gain, and the most to lose, from premature tax cuts targeting those on the highest incomes.*

Income tax cuts – whether personal or company income – should not be considered until the Budget has recorded a surplus for at least two years and essential benefits and services are assured.

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