

LABOR'S TAX DELUSION

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- Peter Costello



There are a lot of people in Australia who don't pay tax. Does that shock you? Well it shouldn't because that's the way our tax system is designed.

The 20 per cent of Australians on the lowest incomes pay no net income tax. They are entitled to income support through the pension, unemployment benefits, parenting benefits and other allowances. But they don't pay income tax.

The next 25 per cent of Australians pay hardly any income tax, on average, about \$1500 a year or \$30 a week. These two groups, representing 45 per cent of the population who file tax returns, pay under 4 per cent of the income tax in this country. So who pays income tax? Middle and higher income earners carry the income tax system. Those earning above \$80,000 pay two-thirds of the income tax collected in this country. The 2 per cent of Australians on incomes above \$180,000 really make up the revenue by paying 26 per cent of the country's income tax. Since the country has gone into one of its bouts of envy politics, it is worth reminding ourselves of the facts.

High income earners are not the problem. It would help if we had far more of them. With more high income earners, tax collections would increase and help pay for all the benefits and services the poor rely on. Income tax is the greatest source of revenue for the commonwealth government. The second largest source of revenue is company tax. It shows the same pattern.

There are over 800,000 companies in Australia but it is 1000 companies that pay 60 per cent of the company tax. It is the big companies that make up the bulk of the government's company tax receipts. The only other major source of revenue is the GST.

Last week Labor announced proposals for a new tax on superannuation. Actually it was a re-announcement of something Labor announced in 2013, but never legislated when it was in government. The plan is to tax funds in the pension phase that earn more than \$75,000.

Last time the plan was to tax them over \$100,000. Labor said that would raise \$350 million over four years. This time, by souping it up, it says it can raise \$9.2 billion ... over 10 years.

That's the estimate of proceeds between 2017 and 2027!

We used to announce the cost of policies on an annual basis. When that didn't sound enough we multiplied by four and announced the cost over a four-year period. Now it is apparently necessary to multiply by 10 to get some attention!

Let us suppose it is possible to enact this proposal and that it raised that kind of money. Let's get some idea of what it means in proportion to the budget. It would boost annual tax revenue by a fraction of 1 per cent. If it had come in and raised that kind of money in the decade since 2008 it would have reduced the cumulated deficits (actual and projected) by less than 3 per cent. The idea a tax like this could solve our budget problems is fanciful. It would not even amount to a rounding error in the budget. And that's if it raised everything promised.

In November 2013 after taking Treasury advice the (Coalition) Government said the complexity and cost of this proposal made the whole thing undeliverable. You remember the mining tax. Originally that was going to raise \$9 billion a year. After Labor worked through the complexity and cost and legislated it into a workable form, it raised nothing. One of the reasons we got into this budget problem was the government booked undeliverable revenue then spent against it. History has a habit of repeating itself.

The trouble with the idea that we can tax the budget back into balance by soaking the rich is there just aren't enough rich to go around. The government raised income tax by 2 per cent for top taxpayers in last year's budget. This measure will raise \$3 billion over 3 years and reduce the budget deficit by less than 3 per cent over that period.

In taxation it is more effective to raise small amounts from a large number of people than large amounts from a very small proportion of people. Raising the GST by 2 per cent would raise 10 times the amount that raising the top tax rate by 2 per cent will raise. That's because everyone pays the GST and only 2 per cent of taxpayers are on the top income tax rate.

And that top 2 per cent is already pulling its weight with 26 per cent of income tax. That's the other problem with the soak the rich policy.

It's not as if it's virgin territory. Just about everything that can raise a reasonable amount of revenue has already been implemented.

The government is right. The Budget problem is a spending problem. Just as you raise money by taking small amounts from lots of people you save it by cutting back on small amounts for lots of people — a policy the government is trying to pursue by altering indexation and income thresholds that apply to the payment of benefits.

Budgeting is a numbers business. Unless you touch the bulk of the population, then it doesn't touch the sides.