

EDITORIALS

And lo, suddenly we were talking about income tax

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On Monday morning the federal government announced it was cancelling a crucial and ominous parliamentary sitting week; that evening it threw out the tantalising but implausible lure of income tax cuts in what looked more like a political mercy drop than a serious policy proposal. Malcolm Turnbull's speech to the Business Council of Australia recommitted the Coalition to its full "enterprise plan" to reduce corporate tax to 25 per cent for all businesses but added a new push on income tax. "In the personal income tax space, I am actively working with the Treasurer and all my cabinet colleagues to ease the burden on middle-income Australians, while also meeting our commitment to return the budget to surplus," the Prime Minister said. No dates, no rates, no figures and no promises.

Mr Turnbull followed his speech with a dawn media event to spruik an idea that was dismissed as a "thought bubble" by Labor. "We are determined to make sure there is more money in the pockets of hardworking Australians; look, taxes in Australia are high, there's no doubt about that," he said before switching to North Korea.

And so the search for an economic narrative — the *raison d'être* of the Turnbull leadership — continues. This is not to say the imperative for income tax cuts is not strong. This newspaper believes strongly in lower taxes and believes the nation has damaged its own competitiveness by forestalling on substantial tax reform in the past decade. The trouble is that when the budget has been locked deep in deficit for almost a decade, the push to lower income taxes has to be underpinned by sustained efforts to reduce expenditure and deliver reform while advocating this as the way to lower the tax burden.

Instead, after the profligate Labor years when unrealistic revenue dreams were used to justify unsustainable spending and silly promises about surpluses, the Coalition has lacked consistency and clarity. Commendably, it has at least put a handbrake on spending growth. But it also has increased taxes. And it has retreated from the tough budget repair plans that hit a brick wall in the 2014 budget. This week's amorously ambitious plan for income tax cuts came out of the clear blue sky, just when the government had stepped on yet another political rake.

More than \$1 in every \$4 spent in Australia this year will be spent by the federal government. And near enough to \$1 in every \$4 will go to Canberra in taxes. When it comes to income tax, about half of households pay no net tax, which increases the burden on those that do contribute. Governments increased expenditure in recent years to fund programs such as the National Disability Insurance Scheme, Gonski education funding and paid parental leave. Rather than cutting other programs or finding efficiencies, the extra spending has come from increased debt and taxes.

Apart from the insidious march of bracket creep in which inflation pushes more PAYE taxpayers on to higher marginal tax rates, we have seen a temporary deficit levy of 2 per cent imposed on top wage earners from July 2014 for three years, a 0.5 per cent increase in the Medicare levy from 2013 to part-fund the NDIS, plus another 0.5 per cent to do more of the same starting next year, and a new bank levy that inevitably is passed on to customers. A carbon tax and mining tax imposed by Labor were axed in 2014 but Labor promises to reintroduce a price on carbon and reimpose the deficit levy as a permanent top income tax rate of 49.5 per cent if it returns to power.

Mr Turnbull and Scott Morrison have spent most of this year arguing for their corporate tax rate plan which, so far, has been implemented for companies with annual turnover below \$50 million. Labor and the Greens have blocked the rest of this plan — even though Bill Shorten previously has advocated cutting company tax to the same level — deriding it as an unaffordable handout to big business. The reduction of all company tax to 25 per cent is an important and relatively modest reform designed to boost economic growth.

In this climate the sudden switch to a tax discussion smacks of a political tactic rather than an economic strategy. The Opposition Leader and Labor have demanded the government bolster incomes by abandoning the planned Medicare levy increase, a cynical response given Labor introduced the NDIS without funding it and first started to pay for it through the levy. Their attack against the Coalition's tax foray is easy — queries on affordability ring true — but we need to remember that Donald Trump is promising cuts in the US by Christmas and we can't afford to fall further behind.

As well as exercising its political desire to raise popular ideas, the government must be expecting its mid-year budget update to show the path back to surplus is going better than expected so that in next year's budget it can hand back a

bit of bracket creep. No one is even talking about tackling debt yet. Substantial tax reform and a small-government agenda still seem a long way away.