

INQUIRER

It's simple: whichever political party blinks first on tax cuts, loses

Dennis Shanahan, *The Australian*, 12:00AM May 26, 2018

The game is on for victory at the next election, and that game is playing political chicken over tax cuts, both corporate and personal.

Malcolm Turnbull and Bill Shorten formally began the political fight over personal income tax cuts this week in parliament after fighting over company tax cuts, still without a final resolution, for three years.

Now the Prime Minister and Opposition Leader are eye-to-eye over tax, and it will be a test of character and credibility as to who blinks first. Both leaders are deeply and personally committed to their respective plans and are working desperately to further tie their opponent to his party platform.

The Coalition claims Shorten can't be trusted and Labor says Turnbull will be humiliated if he changes tack on tax. A defeat, even a serious setback or retreat, could be disastrous for either leader. The contest also will determine the shape of the next election and is a test of which side can best sell its respective tax packages — a test the Coalition has failed so far.

The Coalition's central economic agenda has been job creation — “a million jobs” — by encouraging business to invest, and its central political agenda is providing personal income tax relief across the board in the long term. Turnbull said of the Coalition's economic and tax agenda in parliament: “It's fair, it's progressive and it supports the enterprise of Australians that is delivering the record jobs growth our nation is seeing today.”

Labor's central economic agenda has been to raise revenue from “big business”, real estate investors, trusts, self-funded retirees and superannuants, and to return that revenue as its central political agenda to low to middle-income earners who are under pressure from stagnant wage rises and -escalating household costs through tax cuts and health and education services.

The immediate contest over taxes will be played out during the next nine weeks leading to the five by-elections on July 28, the outcome of which will further define and determine the tax policies to be taken to the next election.

The reality is that both sides are promising much the same for company tax and personal income tax cuts within the four-year budget estimates and neither is offering big change in the short to medium term; the Coalition's biggest tax cuts and reforms, such as killing off bracket creep, are seven years away and Labor's refusal to pass on high-income and the biggest company tax cuts are equally on the never-never.

Right now Turnbull and Shorten face two huge decisions with a headline deadline of July 1 but a realistic political schedule of months of campaigning.

On corporate tax cuts, the basic decision for Turnbull on the remaining unlegislated \$35 billion in corporate tax cuts for the biggest of businesses and banks effective by 2026-27 is whether he stands by them. They are unpopular and the Coalition has failed to sell them politically or the \$50bn in tax cuts for smaller businesses already passed with ALP and/or independent support.

On personal income tax cuts, totalling \$144bn across 10 years, Turnbull, Scott Morrison and Mathias Cormann must decide whether to stick to their "all or nothing" deal on tax cuts and/or split the bill that would allow low to middle-income earners to get their promised tax offset of up to \$530 a year from July 1.

For Shorten, Chris Bowen and Jim Chalmers on the Labor economic team there is no real choice on company tax cuts. Labor agreed with tax cuts for the smaller companies but is trenchantly opposed to final tax cuts for "the big end of town and the big banks". Labor's choice on personal income tax cuts is whether it drops its opposition to the total 10-year plan, which includes relief for those on incomes of more than \$120,000, to allow low to middle-income earners to get the Coalition's offset from July 1.

The choices are stark and there will be no hiding from retreat.

Already the unpopularity of the corporate tax cuts to the biggest companies and banks is making itself felt politically: Pauline Hanson's rejection of the final round of cuts was driven by antipathy towards "big business and big banks" in regional areas and particularly in the north Queensland by-election seat of Longman. Hanson ditched her support and left the unlegislated company tax relief stranded and friendless.

Campaigning for the Longman by-election yesterday, Shorten encapsulated Labor's stance as "reversing cuts to hospitals, health and schools, and making sure that working-class people get a decent tax cut, and we are not going to support, unlike Mr Turnbull or his allies in One Nation, corporate tax cuts for the big end of town".

Nationals MPs are reaching the same conclusion and voicing concern to their leadership about holding on to dead cat company tax cuts. There are Liberals who also think it is necessary to simply declare the final tax cuts impossible to pass and take back the \$35bn in lost revenue at the end of the decade.

Certainly Labor is including the \$35bn in its election war chest, although the Treasurer pointed out this week the "saving" for Labor across the budget four-year outlook was only \$1.3bn — "no big sum". But the issue is not one of expediency or cost, it is credibility, and with the Coalition team working full time, finally, to attack Shorten's damaged credibility, Turnbull cannot credibly walk away from the central plank of his economic strategy.

This was Turnbull's attack on Shorten over the economy and tax this week: "The only Labor leader that has abandoned economic common sense, in just another one of his numerous backflips that make Australians realise he cannot be trusted, is the Leader of the Opposition, the member for Maribyrnong, the 'unbelieva-Bill'."

Labor's response was to suggest Turnbull would be "humiliated" if the backbench forced him to dump the company tax cuts and to raise his series of false starts on tax reform, including changing the GST and state income tax. Pressure in regional seats is the price Coalition MPs will have to pay for Turnbull's credibility.

Blinking on personal income tax cuts — the initial once-off tax offset of up to \$530 a year for lower-income earners — is likelier in what is an even greater game of brinkmanship on tax.

Turnbull and Morrison are more adamant about keeping their seven-year, \$144bn personal income tax plan in one piece than they are about going to an election with the company tax cuts in full. Shorten is equally adamant that Labor will insist the bill be split to allow the low-income cuts to go ahead as scheduled and debate later the cuts for the high-income earners still two elections away.

The government's argument is simple: Labor can push through the short-term tax offsets and effectively do away with bracket creep for 94 per cent of wage earners by accepting the package and passing it through the Senate. If not, the Coalition will blame Labor for denying tax cuts to low-income earners and delivering less to taxpayers overall. Labor's response is equally simple: the Coalition is holding workers feeling the pinch of low wages "hostage" in return for tax breaks to the "big end of town", "the rich", "the big banks" and the "multinationals".

This standoff is unlikely to be resolved before July 1, but that does not mean the tax office can't allow for tax offsets in the future, given the bipartisan support. But it does mean that up to the by-elections the government will be accusing Labor of refusing tax cuts and the opposition will accuse the Coalition of being "mean and tricky" in denying the tax cuts in the budget due from July 1.

It is unlikely that a government that promises tax cuts from July 1 and has support for the first tranche can sustain a credible argument for the nine months it must if Turnbull's timetable for an election next year is kept. The government has set up this game of high-risk chicken and will have to bear the consequences.