

Battle over tax reveals two views of Australia's future

Editorial, 12:00AM April 13, 2019

Scott Morrison and Bill Shorten will be traversing the nation during the next five weeks, barnstorming through marginal seats and tiptoeing through Easter and Anzac Day on their march to election day. The contenders are selling very different products — two distinct approaches to governing, based on alternative views of the nation's mood and what Australia could look like a decade down the track.

The Prime Minister is offering to boost incomes through a larger economy, running on his party's traditional values, such as hard work, enterprise and aspiration. His catchcry is "a fair go for those who have a go". Last week's budget outlined a 10-year fiscal plan, including \$302 billion in personal income taxes, to rebuild surpluses and pay down debt.

The Opposition Leader takes a very different view of fairness, promising to radically change an economic system he says is rigged against young people and low-paid workers. Labor's method is more spending on services, funded by new taxes on high earners, property owners, retirees and investors. To raise award wages for some workers, Mr Shorten will hand more power to unions and revamp the terms by which the industrial umpire determines the minimum wage. This is old-school Labor, buried in 1983 after Bob Hawke won office: redistribution to promote equality. "When everyday Australians are getting a fair go, then this economy hums," Mr Shorten said on Thursday in a backyard appeal to voters.

The scale of Labor's re-engineering of Canberra's role in the economy can be estimated after a Treasury analysis mapped out \$387bn in extra taxes on households across a decade, mainly through a rejection of the latter two stages of the Coalition's tax cuts. As well, Labor is curbing negative gearing, halving the capital gains tax discount, raising superannuation taxes, ending cash refunds for excess franking credits, introducing a 2 per cent budget repair levy on top earners and a 30 per cent minimum distribution tax on family trusts, and capping deductions for tax accounting at \$3000. That game plan, giving Mr Shorten a vast war chest for redistribution and social spending, could make Labor the highest taxing government in our history, raking in tax worth 25.9 per cent of GDP.

Of course, such an analysis assumes Labor in power will not return a single dollar of bracket creep over a decade. To get a more likely scenario, within the current budget planning cycle, it's worth considering modelling by the ANU Centre for Social Research and Methods. As David Uren reports today, people earning more than \$85,000 now could expect to be paying about 5 per cent more tax in four years under Labor's tax plan, compared with the Coalition's proposed tax schedule. Mr Shorten's tax plan would raise about \$9bn a year more than the Coalition's, with that increase coming from the top 25 per cent of wage earners.

Mr Morrison argues Labor's tax plan would be a dead weight on economic growth. The Coalition's strategy is to flatten the income tax structure during the coming decade so that, eventually, 94 per cent of taxpayers pay no more than 30c in the dollar. That model would promote workforce participation and aspiration, with workers holding on to more of what they earn. Is it fair, Mr Shorten asks, for a nurse earning \$45,000 and a surgeon on \$200,000 to pay the same rate? Probably not, as the female doctor pays 10 times as much tax as the male nurse. But that is our progressive tax system. The stage has been set for Australians to decide on what constitutes a fair go in a modern nation. Should the apparatus of state simply be a wealth-transfer mechanism or can it be harnessed to be an enabler for free enterprise and growth? That's what this election is really about.