

Deloitte projects \$129 billion four-year cumulative deficit, proclaims 'a revenue problem'

Written by The Conversation USA

The federal budget deficit from now through to 2018-19 is likely to be \$129 billion, \$21 billion worse than in the December official budget update, according to estimates prepared by Deloitte Access Economics.

Deloitte strongly argues the budget has a revenue problem, not just a spending problem – a proposition consistently rejected by Treasurer Scott Morrison. It suggests total tax needs to go up, but Morrison is committed to the take not rising overall.

A week out from a budget that will launch Malcolm Turnbull's election campaign, the Deloitte Budget Monitor projects a deficit of \$41.7 billion this financial year, \$4.3 billion worse than in the December update.

The deficit is projected to be \$38.6 billion in 2016-17, some \$4.9 billion worse than in the December official figures. The Deloitte numbers for the out-years are \$27.8 billion (2017-18) and \$21.3 billion (2018-19).

"The budget boom of the past decade continues to become a budget bust. The combination of China's slowdown, still rotten commodity prices and weak wage growth have cut overall revenues by \$4.1 billion in 2015-16, and the damage remains large, with a further shortfall of \$3.5 billion in 2016-17," Deloitte says.

"That says we have a revenue problem as well as an even bigger spending problem, and that revenue problem is becoming more apparent."

Most fiscal mistakes have been made in spending, which is where the bulk of budget repair is needed, Deloitte says. "But we have a revenue problem too, and a shift to higher taxes could achieve tax reform at the same time as lifting the tax take."

Deloitte says it would be all right for budget repair to take place over a decade but "it isn't OK to wait a decade to know what policy makers are planning. Figure out the medicine the budget

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needs to take, and then be honest about that with the punters.”

It says bracket creep – inflation pushing taxpayers into higher brackets – is a problem rather than a disaster.

PAYG collections in 2015-16 would be \$1.7 billion lower if the 2014-15 thresholds were indexed (ignoring the temporary budget repair levy imposed by the Abbott government). Bracket creep increases to \$4.1 billion in 2016-17, \$5 billion in 2017-18, and \$7.5 billion in 2018-19.

This means that, as things stand, the tax paid by average taxpayers in 2018-19 would be \$7.5 billion more in that year than if they faced indexed 2014-15 rate scales.

Some months ago Morrison wanted to tackle bracket creep by a major shift in the mix between the GST and income tax. This has now been abandoned, with any personal income tax cuts in the budget expected to be modest.

Deloitte says that “too many people yell too much” about the risk of Australia’s credit rating being downgraded. Were any of the agencies to downgrade Australia’s AAA rating, “we think they’d be making a mistake. Australia has a deficit problem rather than a debt problem.

“But there’s a character issue that’s increasingly in question. Our living standards roared up through the resources boom, but governments of all stripes have used an increasingly entrenched budget deficit to shield the punters from the fact that the pay rise that China granted Oz during the resources boom has since been withdrawn.”

Deloitte stresses that “our deficits aren’t the result of big investments in the future – they’re the result of pretending to the punters that the boom is rolling on”.

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