

Australia's federal government clearly sees its program of annual reductions in the company tax rate as the core element in its plan for "jobs and growth".

There is now a large – though by no means uncontested – [body of evidence](#) to support the contention that reductions in company tax rates can support faster rates of GDP growth and higher wages. It does this by stimulating higher levels of investment and hence higher levels of labour productivity.

But there is very little evidence supporting the favouring of small businesses over large in this regard. The significant preference which both this budget and its predecessor have extended to small businesses appears to owe much more to a desire to bow before small business than to any unambiguous economic rationale.

Small businesses have accounted for only 18% of the increase in employment over the most recent five years for which data are available, while firms with more than 200 employees – which the ABS defines as "large" – have accounted for 52% of the increase in total employment over the past five years, despite accounting for less than 32% of total employment. And large businesses are [more likely to engage in "innovative activities"](#) than small ones, especially ones with four or fewer employees.

In other words, if the government wanted to cut company taxes in a way that was most likely to result in increased job creation or higher levels of innovation (assuming that cutting company taxes would have that effect), it should have cut company taxes for large companies ahead of small ones. But that would have been exceedingly difficult, politically, in the current climate.

Mixed messages

The other key element of the government's ten year enterprise tax plan is the increase in the tax threshold for the second-top marginal rate from \$80,000 to \$87,000. The government says this will prevent "average full time wage earners ... from moving into the second highest tax bracket". But when you consider the difference between gross and taxable incomes, and that most people use deductions to reduce their taxable income, \$87,000 is far from average.

Super and personal tax tweaks will drive more people into the property market

Written by The Conversation

The budget seems to be saying to people with taxable incomes of less than \$80,000 – if you want to pay less tax, get yourself a negatively-gearred property investment.

The budget is also arguably saying the same thing to people with taxable incomes of more than \$250,000, people who have already contributed \$500,000 to superannuation over the course of their lifetimes, or people who already have at least \$1.6mn in their superannuation accounts. The message is if you put any more into superannuation, we are going to tax you more, but if you put it into a negatively-gearred property investment, we won't touch you, because (in the words of the Treasurer's Budget Speech), "that would increase the tax burden on Australians just trying to invest and provide a future for their families".

I am quite comfortable with the budget's proposed changes to superannuation arrangements. But I can't see why people – even wealthy people – who are "just trying to invest" through superannuation should be singled out for less generous tax treatment, while people who are doing exactly the same thing through negatively geared property (or other) investments should remain unscathed.

The Treasurer reportedly toyed with [the idea of limiting "excesses and abuses"](#) of negative gearing, with caps on claims. This would have more or less exactly paralleled what the budget seeks to do with regard to superannuation.

The decision not to go down that path was [reportedly "a political – and not an economic – move"](#).

But it has, and will have, economic consequences.

Combined with the Reserve Bank's latest cut in official interest rates, the budget's decisions and non-decisions with regard to income tax cuts, superannuation and negative gearing are likely to encourage more Australians to borrow more money in order to invest in the property market. At a time when Australia has one of the developed world's [highest ratios of household debt to GDP](#) or personal income, and amongst the developed world's [most expensive residential real estate](#).

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This is a condensed version of a longer essay on the 2016 federal budget.

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