The temporary deficit levy might be here to stay if Labor is elected . The tax, which targets the wealthy, was actually introduced by the Coalition in 2014 as a means of reducing the budget deficit.

The levy is a 2% increase in the top personal income tax rate from 45% to 47%, which amounts to 49% including the 2% Medicare Levy. It was originally due to expire after three years and the Turnbull Government has planned to honour this. If the Coalition is elected it will end after June 2017.

In his 2014 Federal Budget speech, then Treasurer Joe Hockey said:

“Tonight we are asking higher income earners to help repair the Budget. From 1 July this year and for just three years, we are asking higher income earners to pay a Temporary Budget Repair Levy.”

Temporary pain for the budget gain. These types of levies have become popular in Australia and overseas. Australia had the Queensland Flood Levy in 2011 and a New South Wales government temporary levy on point-to-point transport providers in 2015. The governments in the United States and Canada have imposed many of these levies as well. These are really just disingenuous tax rises that subsequent governments find irresistibly tempting to prolong beyond their original use by date.

Labor argues that the temporary deficit levy should be kept for two reasons – it raises much needed revenue and it’s fair. The levy raises about A$1 billion in revenue per year, over each of the next four years. Given a budget deficit of A$37 billion or 2.2% of GDP , keeping the temporary deficit levy reduces the budget deficit by about 3%.

Raising revenue is one way of reducing the budget deficit, reducing spending is the other. Labor argues that the Coalition government has a revenue problem more than a spending problem.

The debate about whether Australia has a revenue problem or a spending problem is like asking whether a person has a weight problem or an eating problem – you wouldn't have the first if you didn't have the second.

Governments raise taxes to finance spending. The Coalition government argues that it is important to try to live within its means than hit up taxpayers for more revenue.

It is true that Australia is not a particularly highly taxed country, but it relies relatively heavily on income tax and our top personal income tax rate, it's high by international standards . Labor wants the top tax rate to remain 2% higher, by keeping the TDL, on fairness grounds.

The problem with Labor's fairness argument to the temporary deficit levy is that we have no generally accepted standard of tax fairness. There are on the other hand more or less generally agreed standards for a bunch of economic indicators: the maximum sustainable economic growth rate, the lowest sustainable unemployment rate, an ideal target inflation rate.

While we have summary indicators of fairness, like the Gini coefficient which is a numerical measure of the distribution of income, we have no agreed ideal number to shoot for. This is partly because it depends on subjective value judgements.

Another problem with the fairness argument is that it cannot validly be applied to a particular tax or welfare measure. We need to look at the whole package of government income redistributive measures including superannuation, family tax benefits, disability payments and so on. One measure may offset another, so it is misleading to look at one change in isolation.

We do know that high marginal income tax rates – and they are high in Australia - have real economic costs that curb average living standards due to the disincentive effects on work, but again there is considerable debate about the size of these costs. A combination of inherent value judgements and uncertain costs make the debate about high marginal tax rates, like the temporary deficit levy, fertile ground for political rhetoric.

However it would help if we had a more transparent framework for measuring and reporting the impact of government budgets on established indicators of fairness.

Ross Guest has in the past received funding from the ARC.

Read more http://theconversation.com/explainer-what-is-the-temporary-deficit-levy-and-why-was-it-introduced-60432