

Turnbull wants to take middle-income earners' income tax both up and down

Written by Michelle Grattan, Professorial Fellow, University of Canberra

If you were running a well-honed political strategy you'd surely have your prime minister announce his plan to give middle-income earners income tax relief in a major speech around Australia Day, forming a launchpad for 2018. You wouldn't be tossing it out there at the fag end of a disastrous year, amid the general chaos.

But Malcolm Turnbull is operating on tactics rather than strategy.

Regardless of how long the tax aspiration had been in the pipeline, his [Monday night speech](#) to the Business Council of Australia did its job of securing a "look-over-here" effect, when Turnbull was under fire for cancelling next week's House of Representatives sitting.

It achieved the front-page headlines despite being totally without detail.

Apart from general sentiments about the desirability of lower personal income tax, all Turnbull said in the way of specifics was: "In the personal income tax space, I am actively working with the treasurer and all my cabinet colleagues to ease the burden on middle-income Australians, while also meeting our commitment to return the budget to surplus".

How much this will amount to in the end and when taxpayers would get something tangible remain to be seen. Asked on Tuesday when he thought he would deliver the tax cuts, Turnbull said: "Well, this is going to be our focus next year. Obviously we've got the budget coming up, as always, in May. But we are determined to make sure that there is more money in the pockets of hardworking Australians."

If in the event the tax relief became an election promise, rather than pre-election money in the pocket, would voters be sceptical?

In the meantime, Labor – which proposes a higher tax regime – had plenty of ammunition, not only to assert that Turnbull was looking for a distraction but to remind people that this year's budget actually flagged an increase in personal tax. This is in the form of a higher Medicare levy

to help fund the National Disability Insurance Scheme.

From July 2019 the [Medicare levy](#) will rise from 2% to 2.5%. This will be a nice little revenue-earner, raising A\$8.2 billion over the forward estimates.

As Deloitte's Chris Richardson points out, after finding deep spending cuts too hard a road in trying to repair the budget, the government in May opted for higher taxes (although it had just passed some of its business tax cuts from the 2016 budget and was still pressing the rest).

Richardson dubs the May strategy Plan B, after Plan A, based on spending cuts and epitomised by the 2014 budget, had been abandoned.

"Surely they can give Plan B longer than six months," Richardson says. It seems not.

Richardson says tax cuts are not needed to stimulate the economy, and are counter-productive for fiscal repair – which is dependent on projected revenue growth.

"The figures show that what gets us to [the projected] surplus in 2020-21 is higher taxes. The move from deficit to surplus between 2016-17 and 2020-21 is a swing of 3% of national income. Of that, 2.5% is from revenue and 0.5% from spending cuts," Richardson says.

Personal income tax cuts would be costly. On Tuesday former minister Eric Abetz, speaking on Sky, suggested the priority should be on income tax cuts over the company tax cut for big business that's stymied in parliament. Any retreat on the business tax cut would be a major backflip from the government.

A [Parliamentary Budget Office paper](#) released a few weeks ago notes that the average tax rate for individuals is estimated to increase by 2.3 percentage points from 2017-18 to 2021-22.

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There are increases in every income quintile although they vary. The largest increase is expected in the middle quintile (taxable incomes from \$37,000 to \$56,000) where taxable income is expected to be an average \$46,000 this financial year. These taxpayers are projected to see their average tax rate increase by 3.2 percentage points by 2021-22, the paper says.

As for the Medicare levy increase, it “has the greatest impact on individuals in the third, fourth [\$56,000 to \$85,000], and fifth [\$85,000 and over] income quintiles. Medicare levy concessional arrangements eliminate this impact for the first income quintile and limit the impact for the second,” the paper says.

So we have the government simultaneously planning a tax rise while now talking about tax relief for middle-income earners.

And that takes us to the question of whether Turnbull can manage this new tax debate he has opened. This includes making sure he and his treasurer are on the same page, and the backbench doesn't run off prematurely and in multiple directions. At an earlier stage of his prime ministership, a debate about tax directions didn't go well. He can't afford that sort of mess now that he has so little political capital.

Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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