

Government pitches tax 'relief' in election-focused budget

Written by Michelle Grattan, Professorial Fellow, University of Canberra

Treasurer Scott Morrison has unveiled an income tax plan that will cost \$140 billion over a decade and initially deliver tax relief up to \$530 a year for 4.4 million people earning between \$48,000 and \$90,000.

The three-stage plan is the centrepiece of Tuesday night's budget, which also brings forward by a year the forecast return to surplus and the peak of Australia's net debt.

The tax plan will be part of the government's pitch for the election, due early next year, with Labor putting up a competing proposal.

The government also hopes that its income tax changes will soften Senate resistance to its legislation to cut the company tax rate for large companies. Morrison stressed that people on low to middle incomes would get a tax cut before big business.

Under the plan, the government says that 94% of taxpayers in 2024-25 will face a marginal rate of 32.5% or less. That compares with 63% if the system was unchanged.

Morrison said that in the first stage, there would be relief for lower and middle income earners. The second stage would protect taxpayers from bracket creep, while the third stage would make the income tax system simpler and flatter.

The initial relief will be given via an additional tax offset, paid when taxpayers receive their assessment, so that it is directed to lower and middle income earners.

In 2024-25 the system will be simplified by abolishing the 37% tax bracket entirely.

"Australians earning more than \$41,000 will only pay 32.5 cents in the dollar all the way up to the top marginal tax rate threshold which will be adjusted to \$200,000," Morrison said.

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"Under the Turnbull government's personal tax plan most working Australians earning above \$41,000 are likely to never face a higher marginal tax rate throughout their entire working life," he said.

Morrison said the plan was "affordable". The revenue impact over the forward estimates is \$13.4 billion. The cost over a decade is \$140 billion.

The budget forecasts a deficit for the current financial year of \$18.2 billion, which Morrison said would be the best budget outcome since the Howard government's last budget a decade ago.

The deficit is forecast to be \$14.5 billion in 2018-19 before returning to balance with a wafer thin \$2.2 billion surplus in 2019-20. Previously the budget had been predicted to return to a surplus in 2020-21. Over the medium term the surplus is predicted to rise to more than 1% of GDP.

Net debt will also peak earlier than predicted, at 18.6% of GDP in 2017-18, falling by about \$30 billion over the forward estimates. Morrison told a news conference in the budget lock up "we have reached a turning point on debt".

Morrison said in his budget speech: "The Australian economy is now pulling out of one of the toughest periods we have faced in generations."

The economy is forecast to grow by 3% in 2018-19, with unemployment at 5.25% compared with 5.5% in this financial year. But the budget forecasts a slowing in what has been the surging growth in employment - from 2.75% in 2017-18 to 1.5% in 2018-19.

Real spending growth in the budget has been kept below 2%, which Morrison said was "the most restrained of any government in more than 50 years". He emphasised that the government was "keeping taxes under our policy speed limit of 23.9% GDP".

The main initiative on the spending side is a package for older Australians including an

additional 14,000 high level home care places costing \$1.6 billion over four years. There will also be extra money for aged care services in regional Australia and increased support for mental health services in aged care facilities.

The government is hoping to boost retirement incomes by making it easier for people to find their lost superannuation, and by abolishing exit fees. It will also crackdown on expensive insurance policies being sold to younger people.

The budget foreshadows raising \$5.3 billion over the next four years from a crackdown on the black economy, including combatting “chop chop” tobacco.

Reaction

The budget was welcomed by business and attacked by Labor and the ACTU.

The opposition said the budget failed both the fairness test and the fiscal test.

Shadow treasurer Chris Bowen and finance spokesman Jim Chalmers said Labor would back the income tax measures that started on July 1 while having more to say later about how else Labor would help working people.

But they said that most of the tax package was “off in the never never – it’s a hoax for Mr Turnbull to tell people they have to vote for him at least two more times before they get tax relief in 2024”.

“Funding just 14,000 new in-home aged care packages over four years is another hoax, with funding being cut from residential aged care to pay for it,” they said in a statement.

Bowen told the ABC Labor would have budget repair as a central element of what it proposed. He also said the ALP would return the budget to surplus in the same year as the government.

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The Business Council of Australia said this was “a strong and sensible budget focussed on growth and built overwhelmingly on the contribution of the business community”. The Australian Industry Group said it would “give business and the community confidence for the future”.

But the ACTU said the government “has chosen to do the bidding of big business, offshore investors and the already wealthy, and neglect the needs of working people”. The budget relied “on failed trickle-down economics to trick Australians into giving a failed Government another term in power”.

The Brotherhood of St Laurence said “the long forgotten people of this federal Budget - yet again - are Australians who rely on Newstart to make ends meet”.

The Institute of Public Affairs was scathing, saying the tax cuts were too timid and too slow.

“The so-called ‘tax speed limit’ is a smokescreen to hide the fact that this is the highest taxing, highest spending, and highest debt Budget in Australia’s history,” the IPA said.

The Greens said the budget showed that “large corporations and the super-rich have rigged the rules for themselves”.

“Under the Government’s radical US-style tax plan, a hedge fund manager on \$200,000 gets 10 times the tax cut as the person who trims the hedges around his mansion.”

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

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