

All indications are that Malcolm Turnbull means what he says when he insists the election will be next year, but at the end of this week you could be forgiven for thinking the poll was next month.

It was no surprise that the budget, the last in this parliamentary term, contained a major income tax package, even if staging it over seven years stretched credulity. Normally, however, an opposition might wait some time before unveiling its detailed alternative.

But these times are anything but normal, and the multiple byelections Labor faces meant its sugar needed to be put straight onto the table when Bill Shorten replied to the budget on Thursday night. And the Opposition leader made sure there was plenty of that sugar, with his income tax cuts bigger than the budget's relief for lower and middle income earners.

Shorten gave his speech in less-than-favourable circumstances.

A day before, the High Court had cost him four of his caucus – it knocked out one and in a domino effect three announced their resignations - as the dual citizenship crisis rolled on.

The government cashed in with an attack on Shorten's integrity, based on his refusal last year to admit that eligibility questions clearly hung over a number of ALP members.

The Coalition regards Shorten, who isn't well liked by voters, as perhaps its strongest lifeline to possible electoral survival. It is perennially trying to make his character an issue, starting with the trade union royal commission. So far, the effort has only managed to inflict flesh wounds, although the constant depiction of him as "shifty" may reinforce the public's reservations.

On Wednesday Shorten was trying to explain the disastrous turn of events by saying the court had changed the legal interpretation of the citizenship section. But he knew, after senator Katy Gallagher's disqualification, that the game was over and three resignations were imperative (though Susan Lamb, who holds the vulnerable Queensland seat of Longman, was reportedly

reluctant to go).

Given the heat on him, it was little wonder he didn't deliver his budget speech with much panache.

In his reply, the string of byelections (including one not related to citizenship) were to the forefront of Shorten's mind.

"This is my challenge to the Prime Minister," he said. "If you think that your budget is fair, if you think that your sneaky cuts can survive scrutiny, put it to the test. Put it to the test in Burnie, put it to the test in Fremantle and in Perth."

As MPs take their post-budget soundings, two questions will stand out. Does this budget have a slow burn about it, that will later singe the government? And, how will middle Australia respond to what has become an unashamed income tax auction?

With budgets, there's the on-the-night reaction, followed by the delayed response. Even the now notorious Hockey 2014 budget was not initially received so badly, before the full horror sank in.

This week, we've seen a quick sign-on to the first step of the government's three-part tax package, which gives relief to middle and lower income earners through a new tax offset. But there has been growing opposition to the latter stage of the plan, which flattens the tax scale and advantages high income earners.

If the budget clears the "fairness" hurdle in the short term (despite some specific failures, like the government's refusal to address the inadequacy of Newstart), it struggles to do so further out.

Analyses from the University of Canberra's National Centre for Social and Economic Modelling

(NATSEM), the Grattan Institute, and elsewhere have provided grist for those critical of the tax plan's direction.

NATSEM modelled key aspects of the budget and concluded:

“Generally, no one would be worse off due to the budget measures focusing on tax cuts. Middle income earners benefit the most in the financial year 2018-19 thanks to the introduction of the low and middle income tax offset and an increase in tax threshold. Those earning an average full-time salary of \$83,000 per year would get a maximum tax offset of \$530 back in the upcoming financial year.”

“However in the long term, individuals with high incomes will benefit the most once the tax reform is fully implemented. For example a couple both earning twice the average full-time salary can expect an extra \$13,000 in 2024-25,” NATSEM said.

As its “fairness”, or lack of it, is contested, the parliamentary fate of the more radical back-end of the budget's tax plan remains in limbo. The government, which had to split its company tax package, is insisting it won't go down the same path with its income tax one. But we're in the early stage of the play.

The tax battle is on two fronts. In the byelections and later, Labor will continue its assault on the company tax cuts (the second part of which remain unlegislated). Shorten links the two elements in the tax war, saying Labor “can afford to cut the taxes of 10 million Australians without cutting services because unlike the Liberals we are not wasting \$80 billion on a discredited corporate tax giveaway to the top end of town.”

Out in the electorate, the corporate tax cuts have become an even harder sell in the wake of the banking royal commission.

So on tax, Malcolm Turnbull now finds himself with a triple challenge. He has to convince people that Shorten's more generous income tax package for lower and middle income earners is irresponsible, that the budget's long term reform towards a flatter system is not unfair, and

Grattan on Friday: Shorten gives Turnbull a character-forming task on tax

Written by Michelle Grattan, Professorial Fellow, University of Canberra

that the company corporate tax cuts are as vital as the government maintains for Australia's competitiveness, growth and jobs. It's quite a task really.

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.

Authors: Michelle Grattan, Professorial Fellow, University of Canberra

Read more <http://theconversation.com/grattan-on-friday-shorten-gives-turnbull-a-character-forming-task-on-tax-96455>