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Submission on *Lower Tax Bill 2018* **22 February 2019**

The Tax Justice Network Australia (TJN-Aus) welcomes this opportunity to make submission on the *Lower Tax Bill 2018*. The TJN-Aus strongly opposes the Bill due to the great harm it would cause to the well-being of millions of Australians and urges the Committee to recommend the Bill be rejected. The Senate Economics Committee, including its members and secretariat, have done very commendable work and serve the Australian community well. The Committee has a very full agenda dealing with important reforms. Therefore, it is of great disappointment to see the Committee's limited resources being wasted on such a ridiculous Bill.

Given the sheer stupidity of the Bill, the TJN-Aus will not waste its own limited resources to produce a detailed submission to make the obvious case the Bill should not proceed. We will simply provide critique of some aspects of the Bill, to make the case as to why the entire Bill should be rejected. The only benefit the Bill has provided is that it should make clear to the Australian public that the Liberal Democrats are unfit to be elected to government at this time and their vision for Australia is one that would inflict great harm on millions of Australians.

The Commonwealth Government is already struggling to provide adequate funding for aged care, education, responding to family violence, combating rampant wage theft, tackling human trafficking, curbing cybercrime (including online child sexual abuse) and curbing fraud in both the public and private sectors¹ to name just a handful of areas where greater government revenue is needed. Thus, it would be reckless for any Australia government to contemplate giving away half of its revenue.

Failure to provide adequate law enforcement impacts on the well-being of the community and on individuals being subjected to human rights abuses and other harms, but can further impact on government revenue. For example, the failure to adequately regulate and carry out law enforcement on VET sector providers saw VET FEE-HELP payments from government to VET providers increasing from \$325 million in 2012 to \$2.9 billion in 2015.² By the government's own admission an alarming proportion of the funding has been wasted, paid by the government directly to con men and criminals. The government is now having to spend further revenue in legal actions to recover some of the funds.

Trashing Income Tax

With a flat income tax rate of 20% and a \$40,000 tax free threshold Bill would contribute substantially to the growth in inequality in Australia.

IMF staff report there is a tentative consensus in the literature that "inequality can undermine progress in health and education, cause investment-reducing political and economic

¹ <https://aic.gov.au/publications/sr/sr001>

² Australian Government, 'Redesigning VET FEE-HELP. Discussion Paper', 2016, p. 15.

instability, and undercut the social consensus required to adjust in the face of shocks, and thus that it tends to reduce the pace and durability of growth.”³

The IMF staff report that lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution.⁴

A 2011 survey of Australian attitudes on wealth inequality and taxation found that Australians dramatically underestimate the degree of wealth inequality within their society and favour a society becoming more equal in terms of wealth distribution.⁵ This desire to live in a more equal society is relatively stable across political ideology. All political groups least preferred living in a country with Australia’s level of wealth inequality, by strong majorities. Furthermore, Australians support a more equal wealth distribution as well as progressive taxation. However, they have not forged strong links between the two issues. Respondents also supported Government adopting policies that would promote wealth equality in Australia.⁶

The ability to accumulate wealth is necessary for borrowing (house deposit), security in times of hardship, and interest allows an income stream.⁷ If there is a wealth gap that means some can and some can’t attain this, this has flow on affects for people’s sense of security and livelihood.

Emerging evidence also links economic inequality with decreased psychological wellbeing and poor health. Wilkinson and Pickett’s *The Spirit Level* linked directly the major health and social problems to levels of income inequality through an analysis of OECD countries. People living in unequal societies were several times more likely to be in jail, be mentally ill, be obese, be murdered and have higher infant mortality. Whilst there have been critiques of both their methodology and statistical analysis, their observations do point to inequality being a factor that impacts on many social indicators of well-being for a society.

Andrew Leigh in his book *Battlers and Billionaires* argues Australian culture has an egalitarian spirit that we need to protect. In Australia we have recognised the benefits of this and have policies in place that support that continuing.⁸

Income inequality also impacts on people’s opportunity to move beyond or out of their social sphere meaning the question of luck as to which sort of family you were born into becomes a large determinant of where you end up.⁹

³ Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth*, IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.

⁴ Jonathan D. Ostry, Andrew Berg and Charalambos G. Tsangarides, *Redistribution, Inequality and Growth*, IMF Staff Discussion Note SDN/14/02, February 2014, p. 4.

⁵ D. Neale et. al., *Australian Attitudes towards wealth inequality and progressive taxation: A national survey of knowledge, attitudes and perceptions of wealth inequality and progressive taxation*, A report prepared for the ACTU, 15 April 2011, p.7

⁶ D. Neale et. al., *Australian Attitudes towards wealth inequality and progressive taxation: A national survey of knowledge, attitudes and perceptions of wealth inequality and progressive taxation*, A report prepared for the ACTU, 15 April 2011, p.17

⁷ D. Neale et. al., *Australian Attitudes towards wealth inequality and progressive taxation: A national survey of knowledge, attitudes and perceptions of wealth inequality and progressive taxation*, A report prepared for the ACTU, 15 April 2011, p.3

⁸ A. Leigh, *Battlers and Billionaires: the Story of Inequality in Australia*, Redback, Collingwood, 2013, p.85.

⁹ A. Leigh, *Battlers and Billionaires: the Story of Inequality in Australia*, Redback, Collingwood, 2013, p.91.

Leigh also identifies a higher participation rate in democratic processes amongst wealthier people such as contacting government officials or signing petitions. In addition inequality can affect political outcomes by shaping our notion of the common good. "When the most affluent use different hospitals and schools, travel solely by private transport and live among those in their own income bracket, they may lose touch with the need for a strong safety net to protect the most disadvantaged."¹⁰ Clearly, the Liberal Democrats are already at this position of not providing for a safety net to protect the most disadvantaged in our society.

Trashing Corporate Income Tax

The plan in the Bill to give away billions in revenue to multinational corporations by lowering the corporate income tax rate to 20% would:

- Also increase inequality in Australia, with inequality being increasingly shown to be a factor in undermining social cohesion in OECD countries;
- Make our tax system less progressive, meaning the wealthier Australians will contribute less to the provisions of services and law enforcement for a good society in Australia;
- Deliver more money to foreign shareholders, who do not pay tax in Australia; and
- Reduce revenue for services and law enforcement in Australia.

We support the view of Adjunct Professor of Monash University, Stephen King, in his publicly stated view that:¹¹

Would a global tax race of beggar thy neighbour by cutting company tax be good for Australia? The answer clearly is no. The best thing that a country like Australia could do is to try and use our influences on the international stage to make sure that does not happen. It's best to stop it.

A cut in the corporate tax rate will increase inequality in Australia as the bulk of corporate income tax is a tax on capital. The US Treasury estimates that corporate income tax falls 82% on capital and only 18% on wages.¹²

Piketty points out "there is a set of forces of divergence associated with the process of accumulation and concentration of wealth when growth is weak and the return on capital is high."¹³ His data shows substantial growth in income inequality in the OECD countries he examined and in the US this "spectacular increase in inequality largely reflects an unprecedented explosion of very elevated incomes from labour, a veritable separation of the top managers of large firms from the rest of the population."¹⁴ The work by Andrew Leigh suggests that Australia faces a similar problem with real wages for the bottom tenth having risen 15%, while wages for the top tenth have risen 59% in the period 1975 to 2010. Cumulatively, the increase in inequality over the past three decades represents a \$365 billion shift from the bottom 99% to the top 1%. His work found the richest 50 people in Australia have more wealth than the bottom two million.¹⁵

¹⁰ A. Leigh, *Battlers and Billionaires: the Story of Inequality in Australia*, Redback, Collingwood, 2013, p.89.

¹¹ Jessica Irvine, 'What economists think about corporate tax cuts', *The Age*, 24 February 2018, 13.

¹² Tax Justice Network, 'Ten Reasons to Defend the Corporate Tax', 2015, p. 28.

¹³ Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 23.

¹⁴ Thomas Piketty, 'Capital in the Twenty-First Century', The Belknap Press of Harvard University Press, London, 2014, p. 24.

¹⁵ Andrew Leigh, 'Gap between haves and have nots must be narrowed', *The Australian*, 21 April 2014.

Piketty points to increasing wealth inequality, which he argues is the result of the rate of return on capital remaining significantly above the growth rate for an extended period of time.¹⁶ He points out the consequence is:¹⁷

.... the concentration of capital will attain extremely high levels – levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies.

Trashing Alcohol Taxes

The plan in the Bill to abolish alcohol duties and the Wine Equalisation Tax would increase the level of harm caused in by alcohol consumption in Australia, driving up alcohol related assaults, diseases caused by alcohol and the prevalence and intensity of family violence. As pointed out by the Foundation for Alcohol Research and Education (FARE), alcohol is more affordable than it has been in the past three decades. There is strong evidence to demonstrate that the lower the price of alcohol, the higher the levels of consumption.¹⁸

In 2009, a meta-analysis was conducted of 112 peer reviewed studies on the effects of alcohol price and taxation levels on alcohol consumption and found that there was “overwhelming evidence of the effects of alcohol pricing on drinking”. Young people and heavy drinkers are particularly sensitive to alcohol price, with the heaviest drinkers more likely to seek out cheaper drinks than moderate drinkers.¹⁹

Alcohol taxation is the most cost-effective measure to reduce alcohol harms. An analysis of alcohol harm prevention policies found that alcohol taxation was the most effective policy, had the most breadth of research and has been implemented across a range of countries. The analysis found that alcohol taxation is effective, as it has the ability to reduce consumption and related harms but also provides a source of revenue. A key element of alcohol taxation polices is its ability to target heavy drinkers.²⁰

Policies that increase the price of alcohol lead to a reduction in the proportion of young people who are heavy drinkers, a reduction in underage drinking, and a reduction in per occasion ‘binge drinking’. Research in the USA found that a one per cent increase in price due to taxation resulted in a 1.4 per cent reduction in binge drinking (defined as drinking at or above levels associated with intoxication) by adults.²¹

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¹⁶ Thomas Piketty, ‘Capital in the Twenty-First Century’, The Belknap Press of Harvard University Press, London, 2014, p. 25.

¹⁷ Thomas Piketty, ‘Capital in the Twenty-First Century’, The Belknap Press of Harvard University Press, London, 2014, p. 26.

¹⁸ <http://fare.org.au/policy/pricing-taxation/>

¹⁹ <http://fare.org.au/policy/pricing-taxation/>

²⁰ <http://fare.org.au/policy/pricing-taxation/>

²¹ <http://fare.org.au/policy/pricing-taxation/>

Background on the Tax Justice Network Australia

The Tax Justice Network Australia (TJN-Aus) is the Australian branch of the Tax Justice Network (TJN) and the Global Alliance for Tax Justice. TJN is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. TJN works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. TJN's objective is to encourage reform at the global and national levels. The Tax Justice Network aims to:

- (a) promote sustainable finance for development;
- (b) promote international co-operation on tax regulation and tax related crimes;
- (c) oppose tax havens;
- (d) promote progressive and equitable taxation;
- (e) promote corporate responsibility and accountability; and
- (f) promote tax compliance and a culture of responsibility.

In Australia the current members of TJN-Aus are:

- ActionAid Australia
- Aid/Watch
- Anglican Overseas Aid
- Australian Council for International Development (ACFID)
- Australian Council of Social Service (ACOSS)
- Australian Council of Trade Unions (ACTU)
- Australian Education Union
- Australian Manufacturing Workers Union
- Australian Nursing & Midwifery Federation
- Australian Services Union
- Australian Workers Union, Victorian Branch
- Baptist World Aid
- Caritas Australia
- Centre for International Corporate Tax Accountability and Research
- Community and Public Service Union
- Electrical Trades Union, Victorian Branch
- Evatt Foundation
- Friends of the Earth
- GetUp!
- Greenpeace Australia Pacific
- International Transport Workers Federation
- Jubilee Australia
- Maritime Union of Australia
- National Tertiary Education Union
- New South Wales Nurses and Midwives' Association
- Oaktree Foundation
- Oxfam Australia
- Save the Children Australia
- Save Our Schools
- SEARCH Foundation
- SJ around the Bay
- Social Policy Connections
- TEAR Australia
- The Australia Institute
- Union Aid Abroad – APHEDA
- UnitedVoice
- Uniting Church in Australia, Synod of Victoria and Tasmania

- UnitingWorld
- Victorian Trades Hall Council
- World Vision Australia