

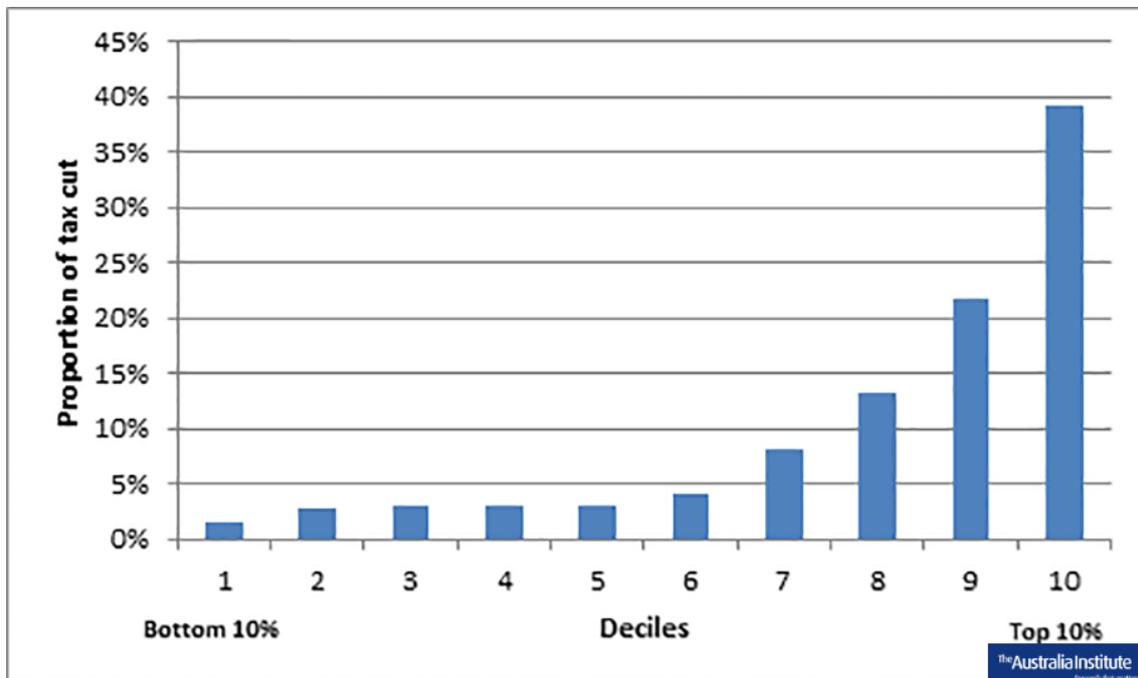
Radical plan to increase inequality in Australia revealed in budget

Major overhaul of progressive system would see flat tax for most Australian workers with 7% of benefit for low income earners and 62% for the wealthiest

By Matt Grudnoff

The centrepiece of the budget is an enormous income tax cut over seven years. This is unusual because the budget papers only show the impacts of policy changes over four years. What is also unusual is that the big parts of the tax cuts start in the fifth year, just outside the budget’s forward estimates and therefore the real impacts of these tax cuts are hidden from public view.

Table 1. Benefit of proposed tax cuts by income decile



This tax cut is a fundamental change to our income tax system. It is not simply an income tax cut; it will move Australia to a flat tax for over 80% of workers.

The jewel in the tax system is the progressive nature of our income tax. It means those who can afford to pay more do so. Moving from a progressive system to a flat tax system means a big tax cut for those at the top and very little for those at the bottom. In fact if this tax cut is implemented in full, then those on low incomes will be paying a bigger share of total income tax and those at the top will be paying a smaller share.

A simple way to look at this is to compare two taxpayers. Someone earning \$40,000 per year will get a tax cut of \$455 per year while someone earning \$200,000 will get a tax cut of \$7,225 per year. Some might say that of course someone on \$200,000 will get a bigger cut; after all they pay more tax. But while someone on \$200,000 earns five times more than someone on \$40,000, their tax cut will be 16 times larger.

This is the problem with flattening a progressive tax system. High income earners will get an oversized tax cut, completely out of proportion to their incomes. This shows up clearly when we look at what proportion of the tax cut goes to which group.

At The Australia Institute we have been analysing the proposed tax cut since the release of the budget to calculate how much of the tax cut will go to high income earners and how much goes to middle and low income earners.

Method

Using the latest taxation statistics we have constructed a model of Australia's income tax regime. We then broke down all taxpayers into 100 groups from the lowest income earners to the highest. By inflating income by nominal GDP and calculating how much each group pays as the income tax cut is introduced, we can calculate who pays what.

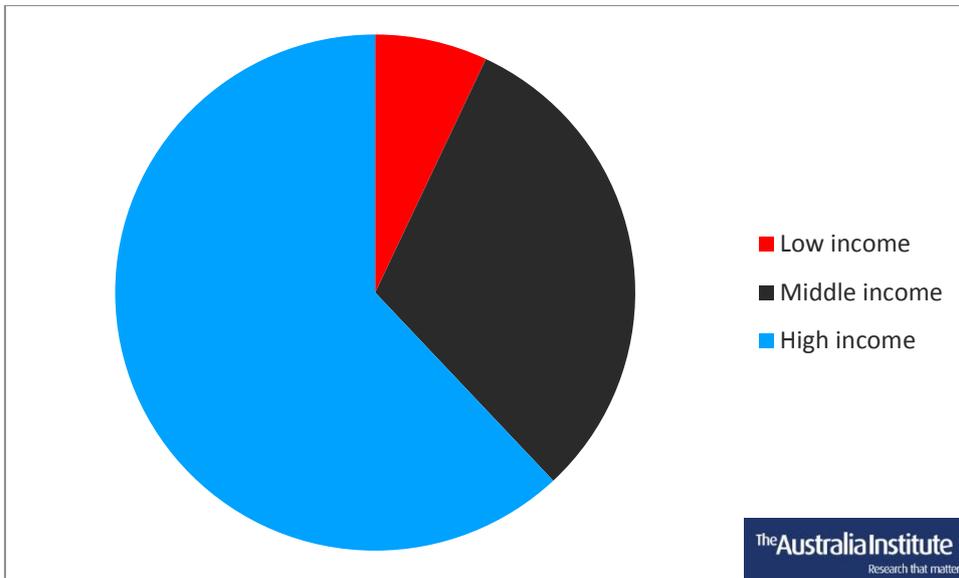
We then split Australian taxpayers into three groups: high income earners (those in the top 20% of tax payers), low income earners (those in the bottom 30% of tax payers) and middle income earners (the remaining 50% of tax payers).

The table below shows how much of the tax cut each group will get after the tax cut is fully implemented in 2024.

Table 2. Benefit of proposed tax cuts by income group

	Low income earners	Middle income earners	High income earners
Proportion of tax cut	7%	31%	62%
Approximate number of tax payers	3 million	5 million	2 million

Table 2. Benefit of proposed tax cuts by income group



This method was also adopted to create Table 1, which breaks down taxpayers by decile.

We can see that high income earners are by far the biggest winners from this tax cut. They get about twice the proportion of the tax cut as middle income earners despite the fact that there are less than half as many high income earners as middle income earners. High income earners get over 60% of the tax cut while middle income earners get only about 30% of the cut.

Low income earners largely miss out, getting only 7% of the value of the tax cut. This means high income earners get about nine times more in tax cuts than those at the bottom.

If we look even more closely at those at the top, we see that the further up the income scale you go, the bigger the benefit is. While the top 20% (high income earners) get 62%, the top 10% (very high income earners) get about 40% of the tax cut.

If we look more closely at low income earners we see that while the bottom 30% (low income earners) get only 7% of the cut, very low income earners (the bottom 10% of tax payers) get just 1.5% of the tax cut.

While this tax cut has some parts that are designed to give relief for those on middle and low incomes, it is clear that the actual result of this tax cut is to hand out billions of dollars to high income Australians and make Australia's tax system more regressive.



Matt Grudnoff is the Senior Economist at The Australia Institute.

For interview, contact Elise Dare – 0477 291 943