

WORKING TITLE: Peter Costello's five most 'profligate' decisions as treasurer cost the budget \$56bn a year

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PUBLICATION: The Guardian

PUBLICATION DATE: 15/04/15

LINK <http://www.theguardian.com/commentisfree/2015/apr/15/peter-costellos-five-most-profligate-decisions-as-treasurer-cost-the-budget-56bn-a-year>

According to the IMF, the Howard/Costello government were the [most profligate](#) in Australia for the last 50 years. Indeed, while the mining boom was gathering pace they cut taxes so far and so fast that they forced the Reserve Bank of Australia to [rapidly increase interest](#) rates.

While countries like Norway took the benefits of resource price booms and banked them in their [sovereign wealth fund](#), Peter Costello chose to cut taxes for the wealthy instead. He knew at the time that his populist generosity to the highest income earners would force future treasurers to choose between budget deficits or cutting spending on the sick, the poor and elderly. No prizes for guessing which our former treasurer prefers.

The only thing Peter Costello hates more than budget deficits is collecting the revenue needed to fix them. Just as his government did nothing about the long term challenge of climate change, his government did nothing to set up Australia's long term public finances.

Today Mr Costello has [written an op-ed](#) in which he bells the cat on who he thinks should pay less tax. His idea of a fairer tax system means "lowering the reach or rate of top marginal income tax rates".

For the record, here are 5 of Treasurer Peter Costello's most 'profligate' and inequitable decisions, which created the structural deficit inherited by his successors;

1. Permanent income tax cuts during the boom. Worth \$37.6 billion or \$26.4 billion if you exclude bracket creep in 2011-12

During the first phase of the mining boom the federal government's coffers were being filled with a temporary windfall gain. Mr Costello made the decision to use this temporary windfall gain to cut income tax, mainly to high income earners. From 2005 to 2012 these [tax cuts cost the budget bottom line \\$170 billion](#). In 2012 they were costing the budget \$37.6 billion per year. Even accounting for bracket creep, the tax cuts would cost the budget \$26.4 billion in 2011-12. They would be worth more

today. 42 per cent of these cuts flowed to the top 10 per cent of income earners while 80 per cent of income earners got only 38 per cent.

2. Capital gains tax discount. Worth \$5.8 billion in 2014-15

In 1999 Mr Costello introduced the capital gains tax discount. Capital gains tax applies when someone sells an asset for more than they bought it for. This includes things like shares or investment housing. The capital gains tax discount means that for assets owned for more than 12 months only half the capital gain will be taxed. According to the Treasury this is [worth \\$5.8 billion](#) per year.

3. Got rid of fuel excise indexation. Worth \$5.5 billion in 2013-14

In 2001 Mr Costello removed the fuel excise indexation. Fuel excise indexation meant that the tax rate on petroleum fuel kept up with inflation. Its removal from the budget is [estimated to be costing the budget](#) \$5.5 billion in 2013-14

4. Superannuation tax cuts. Worth \$2.5 billion in 2009-10

In 2007 Mr Costello reduced taxation on income earned from superannuation to zero for Australians over the age of 60. At the same time he removed the superannuation surcharge.

The superannuation surcharge acknowledged that the benefit of superannuation tax concessions flowed mainly to high income earners. It meant that those on high incomes paid a higher concessional tax rate on their super contributions and earnings. Mr Costello abolished it in 2005 which meant that high income earners paid a flat 15 per cent tax rate on all superannuation contributions and earnings.

At the time these super changes were estimated to cost the [budget \\$2.6 billion per year](#) by 2009-10. With the rapid growth in superannuation tax concessions (they are currently growing at about 12 per cent) they would be worth much more today.

5. The decision to convert 'franking credits' into cash refunds for shareholders

When companies pay dividends to Australia shareholders out of after-tax profit, shareholders also receive 'franking credits' which are a credit against their own tax obligation and based on the tax paid by the company. This system, known as 'dividend imputation' is unusual and only 4 other countries in the world use it.

However, in 2000 Mr Costello made the system even more generous to shareholders by allowing them to get a cash refund if they receive more in 'franking credits' than they actually owe in tax. Because income from superannuation is tax free for people over 60, high income retirees can use franking credits to get a cash gift of over 40 cents for every dollar they receive in dividends.

The ATO [estimates](#) that Peter Costello's decision to allow 'excess' franking credits to be refunded as cash cost \$4.6 billion in 2012-13.

These five changes are worth \$56 billion per annum. This is likely to be a very conservative estimate since some of these costs were for earlier years. The total is likely to be much more.

Putting this into context the budget deficit last year was \$40.4 billion. The budget conversation would have been very different if these irresponsible and inequitable changes had not been put through by Mr Costello.

The reason we have a budget deficit today is in no small part due to the efforts of Mr Costello. It is interesting that he is now calling on the government to cut spending to pay for the irresponsible tax cuts that he made that mostly benefited the rich.

A growing number of organisations including The Australia Institute are making suggestions on how the government might repair the budget by making changes that would allow more revenue to be raised. Of course Peter Costello dismisses these suggestions and describes them as coming from 'lefties'. Presumably he thinks the IMF is a front for global socialism as well.

It was the IMF who called out the Howard/Costello government as the most profligate in Australia in the last 50 years.

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