



AUSTRALIAN CENTRE FOR
CHRISTIANITY AND CULTURE

WISDOM FOR THE COMMON GOOD

Budget fails the fairness test

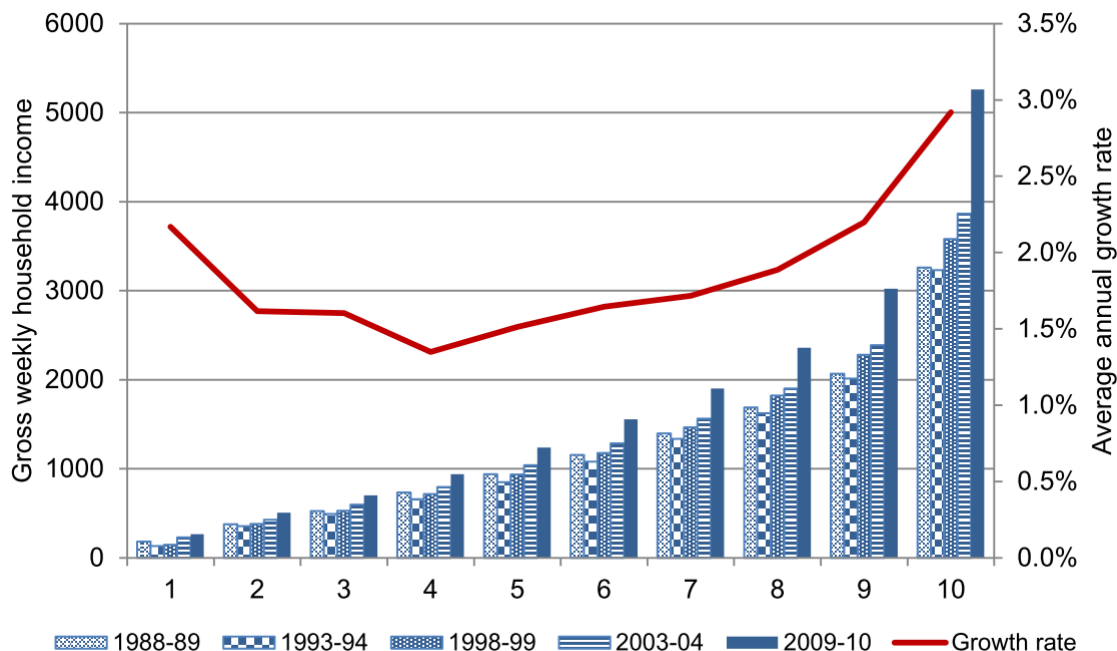
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Jobs and growth is the mantra of the 2016/17 Budget. The jobs agenda is pursued through the new internship program (PaTH) which will ultimately involve large wage subsidies of \$10,000 for a sustained employment outcome. The growth agenda is pursued through a corporate tax cut focusing on smaller businesses and then progressively expanding the scope of the tax cut to medium sized businesses (by changing the definition of small business). It will probably work to stimulate output of small and medium businesses over time. So yes the Government can claim to be loyal to a promise of focusing on jobs and growth.

However, where the Budget fails is to consider the commitment of working families who are in the bottom half of income tax distribution. There has been a hollowing out of middle in income distribution of Australia. Research soon to be published by Charles Sturt University shows the Australian income distribution has become more unequal over time. Household income growth over the twenty years till 2009-10 has increased most rapidly for those in the top decile, whilst those in the second top decile also did relatively well.

Real incomes by gross income deciles, 1988-89 to 2009-10 (2011-12 dollars)



However, working families in the lower half of the income distribution are paying more tax and getting less in terms of tax or welfare relief. The budget does nothing to fix this problem.

The modest tax relief for income earners in the second top tax bracket (over \$80,000) delivers just over \$300 for all taxpayers in the top half of the income distribution. However, for working people, in the lower range (like retail workers and cleaners) there is no tax relief. The modest \$500 tax benefit for low income earners who can contribute to their superannuation, or their spouses, (the LISTO) is small beer and can't be assessed until retirement. Those at or below the average wage don't get any tax relief in their pay packets.

The Budget does nothing to redress the falling living standards of those at or below the average wage. Because of this the Budget fails the fairness test. If we want real tax reform, we have to do more than just slug higher income earners with massive superannuation contributions. We also need to reduce the tax burden on the lower half of the income distribution. These are the people who need tax relief.

What the Government should have done in the Budget is reduce the tax burden on those below the average wage. The tax cuts given to those over \$80,000 should also have been granted to working families – including many struggling sole-parents- in the second tax bracket. This would have made the tax system more progressive and passed the fairness test in the pub or at the school or child care pick-ups. Genuine tax reform is hard and the Government has limited funds to play with. But this Budget does little to redress growing inequality in the Australian income distribution by largely neglecting the less wealthy half of the Australian population.

After the election we need a 'tax summit' where the voices of all Australians can be heard, particularly those on lower incomes. As economists guided by Christian values, we hold dear the notion of the preferential option for the poor - for those on lower incomes - and this includes the growing cohort of the working poor. In next Budget, no matter which of major political parties wins government, we need tax reform that seeks to deal with increasing inequality in the Australian tax system and looks at reducing economic disadvantage faced by struggling families on lower incomes.

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