Australian tax package marks a fundamental shift

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With each passing day, the political fraud of the Australian government's tax package, released last week, is becoming more apparent. Faced with widespread antagonism toward the imposition of a sweeping consumption tax, the Howard government has increased spending on its taxpayer-financed advertising campaign from $10 million to $15 million.

The saturation campaign of television and newspaper ads strives to present the plan as a windfall for every citizen. Yet, as the details emerge they show that the package provides a goldmine for companies and the wealthier layers of society at the expense of the working people, especially the six million already living in poverty.

On Wednesday, the Australian Council of Social Service (ACOSS), the umbrella organisation of private charities and welfare groups, released a report condemning the plan as 'unsustainable, unbalanced, unfair and therefore unacceptable'. The report pointed to the plan's regressive impact, with low income people bearing the brunt of a $6 billion increase in consumption taxes, while half the value of the income tax cuts would go to a minority--higher income earners on $60,000 a year and above.

ACOSS denounced the government's claims that the new 10 percent Goods and Services Tax (GST) would affect the rich and poor alike. 'The figures assume that all people--from pensioners to millionaires--have the same spending and savings patterns and hence will face the same 1.9 percent increase in their cost of living,' ACOSS stated. 'The figures are not credible.'

The government has published deliberately misleading tax tables, disguising both the rewards available to the well-off minority and the costs inflicted on the working class majority. One fact not disclosed by the official advertisements, for example, is that a married couple with an annual income of $150,000 could save $171 a week, through a combination of lower tax rates and 'income splitting', while those on low incomes would be up to $20 a week worse off.

With an election imminent, the ruling Liberal-National Party coalition is attempting to convince people to accept the GST by claiming that 80 percent of taxpayers would have their income tax rate reduced to 30 percent. At present, even some better-paid workers, those earning more than $50,000, are paying 43 or 47 percent.

Prime Minister John Howard and Treasurer Peter Costello have repeatedly claimed that the benefits of income tax cuts would be equally shared in percentage terms. But independent calculations have demonstrated that those households on $70,000 or more would gain 8 to 10 percent in their disposable income while average families on $20,000 to $30,000 would gain just 2 to 3 percent.

These figures do not even take into account the regressive impact of the GST. Economists have estimated that the true inflation impact would be 5 percent, not 1.9 percent, with a disproportionate affect on poorer families, who spend more of their income on food and other essential items.

Moreover, these items will increase in price far more in percentage terms than luxury items because of the offsetting impact of reductions in some other indirect taxes. According to the tables supplied by the government, footwear and clothing will go up by 6.8 percent, meat by 6.6 percent, fruit and vegetables by 5.7 percent, accommodation and restaurants by 6.7 percent, libraries and museums by 7.7 percent and rail transport by 5.8 percent. Yet higher priced electrical goods, cars and banking services will all fall.

The Melbourne Institute of Applied Economic and Social Research calculated that aged pensioners could be $4 a week worse off, together with other social security beneficiaries. But the government plans to increase benefits by only 4 percent. Students and the young unemployed (and their families) who depend on Youth Allowance would get nothing.

Even in calculating the 4 percent figure, the government rejected official advice that compensation offered to low-income people should be based on their levels of consumption, rather than income, because most can only survive by spending more than they receive in income, either by drawing on past savings or going deeper into debt.

However, the rich would be far better off. A wealthy family could 'split' its income among adult family members for taxation purposes to pay only 30 percent instead of the top rate of 47 percent. Alternatively, it could establish a private company so that it pays the corporate rate of 36 percent, soon to be reduced to 30 percent. (The number of private companies grew by 61 percent in the 10 years to 1995.)

A myriad of other tax avoidance devices, including family trusts, superannuation plans, dubious claims for work-related expenses and negative gearing, will continue to flourish, making a mockery of the claims made by the government, like the Labor government before it, that it will crackdown on such tax evasion. ACOSS blames this 'bleeding' of the tax system at the top for much of the $10 billion annual cut in government revenue as a proportion of Gross Domestic Product since the mid-1980s.

The tax plan will effectively increase the value of the tax handouts enjoyed by the wealthy, most of which were multiplied under the previous Labor governments led by Bob Hawke and Paul Keating. Under Labor's superannuation plan, for instance, contributions are lightly taxed at 15 percent (or up to 30 percent for high-income earners), giving greatest benefit to those on the top tax rates. In total, superannuation tax concessions cost $6.5 billion a year.

Negative gearing--tax deductions for investing in rental accommodation--cost an estimated $4 billion, with the number of people claiming them doubling in the six years to 1994-95. In a bid to regain credibility in the working class, the Keating government abolished negative gearing but then reinstated it to head off a collapse in the private rental market. The Labor government also reduced the top company tax rate from 49 percent to 36 percent, a handout worth some $17 billion a year.

The greatest fraud in the current tax package is the assumption that the economy will grow by 3.5 percent for the next four years, producing multi-billion dollar budget surpluses to pay for the changes to income tax rates. Banks and other money market operators immediately pointed to the economic meltdown in Asia and condemned the government's failure to further cut social spending.

'Weaker growth in 1998-99 and 1999-2000 as a result of the Asian crisis could reduce the underlying surpluses to a level which barely fund the tax cuts,' Macquarie Bank said. Other financial market spokesmen predicted that the Asian crisis would slow growth and worsen unemployment, wiping out the projected surpluses altogether. Thus the ground is already being laid for deeper spending cuts.

Already over the past decade, both Labor and Liberal governments have cut a swathe through basic social services, including hospitals, dental care, schools, universities, public housing, aged care, child care, legal aid and job training programs. All these measures have hurt those on low incomes the most, while boosting the budget surpluses now being handed over to the most privileged layers of society.

ACOSS, which actually supported the introduction of a consumption tax, has now urged the government to 'substantially modify' the tax package to produce a fairer outcome. This ignores the basic orientation of all governments in this period, not only in Australia but around the world. It is to slash spending at the cost of social programs and to shift the remaining tax burden from corporate and income taxes to consumption taxes, at the expense of the working people.

Big business increasingly demands an 'internationally competitive tax regime'. That means continually reducing business taxes to undercut other governments, while simultaneously dismantling social services to force working people into low-wage jobs. The very notion of a progressive income tax system--one meant to more fairly distribute the proceeds of production --is being scrapped, together with all notions of social responsibility to those in need.

Conscious of mounting hostility toward the ever more glaring social inequality produced by these processes, the Howard government is anxiously seeking to dress up the underlying shift to consumption tax in the most appealing colours. It is fully aware that the last attempt to impose a GST led to the defeat of the Liberals, then led by John Hewson, in the 1993 elections.

In the wake of that defeat, when Howard became Liberal leader in 1995 he declared that a consumption tax was 'completely off the political agenda in Australia'. Within a year of his government's victory at the 1996 election, the GST was back on the agenda at the insistence of the corporate world. Hence the government's crisis and its desperate advertising blitz.

See Also:
Australian tax plan to hit working people
[14 August 1998]
Australian politics in turmoil
[11 July 1998]