Australian Labor helps deliver a "tax jackpot for investors"

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One of the final events of the parliamentary year in Australia was the passage of the last major piece of the Howard government's “New Business Tax System”. In a media release on December 10, Treasurer Peter Costello declared that “with key legislation passed by Parliament receiving Royal Assent today ... Australia will now have a modern, fair, and internationally competitive business taxation system.”

Costello had good reason to be pleased with himself. In just five months the government has enacted two schemes to hand the wealthy billions of dollars a year in tax cuts. Responding to the insistent demands of global financial markets, it has fundamentally restructured the entire taxation system.

The measures were secured with the help of both official Opposition parties—Labor and the Australian Democrats. First, in July came a compact with the Democrats to slash personal tax for high-income recipients by up to $60 a week and introduce a highly regressive 10 percent consumption tax (Goods and Services Tax—GST). Second, on November 24, came the Labor Party's agreement to halve the Capital Gains Tax (CGT) and reduce the corporate tax rate from 36 percent to 30 percent.

The second accord came after a day of secret talks and a public exchange of letters between Costello and his Labor counterpart, Simon Crean. In announcing their pact, the pair exchanged mutual compliments. Crean told reporters: “I congratulate the Treasurer for the constructive way in which he has entered into the discussions.”

There had been a scramble between the Labor Party and the Australian Democrats to be the first to strike a deal with the government. Led by Kim Beazley, the Labor leaders were determined not to be left out in the parliamentary cold as they were in July when the Democrat-government GST agreement enabled the consumption tax to go ahead without Labor's support.

While the Democrats leader Meg Lees and her finance spokesman Andrew Murray were still negotiating with Costello on the latest package—seeking minor changes to avoid a budget deficit—Crean rushed a letter off to Costello, offering to accept the plan in full, subject to meaningless assurances that the tax cuts would be paid for by anti-tax avoidance measures. Costello immediately wrote back: “We agree to the three points”.

One newspaper headline described the outcome as a “Tax jackpot for investors”. As of July 1 next year, by the government's own estimates, companies and those making capital gains by buying and selling assets will gain more than $4 billion a year. Most of the benefit will go to large-scale speculators, particularly offshore investment funds. The top CGT rate will be halved to 24.25 percent, which is also half the top income tax rate.

This has definite social and financial implications. In the first place, it establishes the principle that funds derived from speculative profit are taxed at a much lower rate than wages and salaries, and also at a lower rate than corporate profits. Many investors will shift their capital into highly speculative activity, while re-arranging their financial affairs to disguise income as capital gains. The package paves the way for the return of the “bottom of the harbour” tax schemes of the 1970s, whereby speculators evaded income and company taxes.

Those on the highest incomes will have the greatest incentive to do so. By one calculation, for example, someone on a taxable income of less than $20,700 could gain $149 a year from the reduced CGT rate if they sold an asset for a profit, whereas people on

$100,000 to $500,000 would gain an average of $6,500 a year.

Business leaders and sharemarket traders welcomed Labor's pact with the government. “It means people will be more ready to move in or out to crystallise gains or losses—that will lift turnover on the market,” commented BNP Equities strategist Dr Dennis Maloney. The Australian All Ordinaries share index looks set to end 1999 at record levels.

Business leaders had exhorted Costello to take Labor's offer, rather than prolong negotiations with the Democrats. The Democrats were also promising to have the legislation passed by the end of the year, but corporate spokesmen were keen to have the Labor leaders, who could form the next government, locked into the package. Dick Warburton, the chairman of the Business Coalition for Tax Reform and chairman of David Jones, had urged Costello to talk to Crean.

For their part, the Labor leaders were anxious to win back the full favour of the corporate elite, on whose behalf they ruled during the Hawke and Keating governments of 1983 to 1996, and to appeal to the well-heeled layers who will benefit from the new tax system.

Just how far the government and the Opposition leaders have already gone in redistributing wealth from the working class to big business was shown by estimates of “corporate welfare” published by the *Sydney Morning Herald* this month. Summing up its findings, the *Herald* stated: “Each year, Australian taxpayers hand over more than $6 billion to selected parts of the corporate sector in direct outlays and tax breaks, more than is spent on unemployment and sickness benefits ($5.8 billion).” Much of the cash is used to restructure and rationalise corporate operations—invariably at the expense of jobs, wages and working conditions.

The newspaper's figure does not include general tax breaks such as the accelerated depreciation allowance, nor the substantial cut that the Hawke and Keating governments made in the corporate tax rate during the 1980s and 1990s—from 49 percent to 36 percent. Neither does it count the expected further $1 billion per year boost from assorted subsidy programs unveiled by the Howard government in recent months.

Labor's November 24 tax pact with the government came just one day after another unprecedented tax decision. Prime Minister John Howard announced a $1 billion levy to pay for the ongoing military intervention in East Timor and a major expansion of the armed forces. Howard became the first Australian politician to announce an extension of income taxes for the military since Robert Menzies did so in 1939 for World War II.

Yet for all the claims of strong popular support for the Timor operation, the government displayed considerable nervousness in deciding how to implement the levy. Having unashamedly shifted the general burden of taxation from the rich and onto working people, it claimed to be doing the reverse.

Instead of imposing a universal military tax, the government declared that only the wealthy would have to pay. It proposed a 0.5 percent levy on those earning more than $50,000 and a one percent levy on those on more than $100,000 a year. The mass media obligingly responded with headlines such as “Tax the rich”. Both Labor leader Beazley and Democrats leader Lees quickly backed the levy, praising the government for hitting the rich.

It is not difficult to expose this populism, however. The armed forces tax will hardly touch the windfall provided by the GST and CGT scheme. According to the University of Canberra's NATSEM calculations, a double income couple with two children on an annual income of $150,000 will still be $60 per week better off after the “Timor levy”.