Australian government in turmoil over budget tax levy

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Australian Prime Minister Tony Abbott's proposal to impose an income tax levy in his government's first budget, due on May 13, has provoked a political crisis, with mounting warnings in the corporate media that the plan could be the death of his government.

Abbott has defended his scheme—to introduce a 1 or 2 percent "deficit" levy on middle- and high-income recipients—despite a torrent of condemnation throughout ruling circles, accusing him of breaking his frequent pre-election vows last year not to increase taxes.

Today's Melbourne *Age* warned Abbott that his plan "has caused widespread shock and dismay, even from within his own party," and that the "damage had already been done," even if Abbott dropped the proposal. Right-wing Murdoch media columnist Andrew Bolt bluntly declared that Abbott's "deficit tax" would "risk killing his government" and threaten the prime minister's "survival."

The *Australian Financial Review* reported that Abbott "is being pulverised for breaking a no-new-tax promise," triggering splits in his cabinet's "razor gang" expenditure review committee. The newspaper cited Mark Steinert, the chief executive of Stockland, Australia's largest residential developer, warning that the levy was a risk to the economy, because it would "upset a lot of people and affect sentiment."

In seeking to justify his plan, Abbott revealed his political calculations. With the numerous leaks from the budget pointing to savage cuts to welfare—particularly age pensions, disability and carers payments and healthcare—he is anxious to head off social unrest by claiming that "sacrifices" are being required from everyone, by the rich, as well as the poor.

"We cannot just sort out our problems at the expense of people who are receiving government benefits, at the expense of people who are the recipients of programs and so on," Abbott said. "High-income earners should bear a significant quantum of the burden."

An unnamed "senior source" told Murdoch columnist Niki Savva: "We have to be able to look pensioners and low-income earners in the eye and say everyone will be making a contribution." Savva, an adviser to the previous Howard government, predicted that the levy "will happen" because it was "vital to the integrity of the budget as an equity measure."

All this is a cynical fraud, on every level. Even if the deficit tax proceeds, it will not affect the super-rich. The levy will reportedly be set at 1 percent on taxable incomes above $80,000 a year, rising to 2 percent at $180,000. Most of the burden will fall on the more than 1.8 million taxpayers who, according to the latest tax office statistics, now declare taxable incomes above $80,000 and below $180,000.

As for the 290,000 taxpayers who report incomes above $180,000 and ranging into the millions, they already pay little or no tax, thanks to a vast array of tax avoidance schemes, both domestic and global. Yesterday's *Australian Financial Review* gave just a glimpse of this reality, reporting: "People earning over $180,000 will be more inclined to engage in negative gearing [a tax dodge involving property investment], contracting, trusts and other tax minimisation structures to avoid the 2 percent levy."

Institute of Chartered Accountants head of tax policy Michael Croker told the newspaper: "The levy may prompt some tax planning—using discretionary trusts to send distributions to lower tax rate family members who don't pay the levy." Other forms of "clever tax planning" included shifting income into company structures, because the top corporate tax rate is 30 percent, well below the top income tax rate of 49 percent.

More fundamentally, no token levy on higher taxable incomes can disguise the fact that it is the working class, including the poorest layers of society, that is being made to pay the price for the ongoing economic breakdown since 2008 and the deepening impact of that breakdown on Australia, via falling prices and demand for mining exports.

With the help of the previous Labor governments of Rudd and Gillard, the financial elites that caused the crash—and were then bailed out by massive government stimulus packages—have exploited the crisis to further enrich themselves, through soaring share prices and executive salaries, by slashing jobs, wages, working conditions and public services.

But the corporate and media establishment is making it clear that it is not prepared to accept any impost on higher incomes—no matter how illusory—or any deviation from carrying through a fundamental gutting of welfare and social services. It is demanding that, rather than indulge in "quick fixes" like a tax hike, the Abbott government cast aside its 2013 election campaign promises not to immediately slash pensions and other social programs.

Today's editorial in the *Australian Financial Review* underscored the message, declaring that "far too much government spending in Australia has been aimed at winning elections" and "the money to fund these electoral games is no longer available." It warned that in order to restore business and investor confidence, the government had to deliver on Treasurer Joe Hockey's proclamations that "the age of entitlement is over."

These are deeply anti-democratic rumblings, not too thinly veiled. If any government, including Abbott's, fails to inflict the dictates of the financial markets, regardless of election pledges, it will face concerted opposition and destabilisation by big business.

Former Victorian state Premier Jeff Kennett provided another indication yesterday of the mounting impatience in ruling circles when he gave an extended interview to ABC television's "Lateline" program, decrying the lack of "vision" and "courage" that made governments offer electoral promises and then refuse to reverse them because of fear of popular "bitching and moaning." Kennett is sometimes dismissed as a loose cannon, but he vented the sentiments being expressed in corporate boardrooms, denouncing the Abbott government for squibbing the need for "big picture" change in the budget.

Labor and its former partners in government, the Greens, have anxiously sought to demonstrate that they have heeded the corporate call, vowing to block any levy in the Senate. Labor leader Bill Shorten declared: "It's a bad idea, it's a broken promise, it's a tax increase. Labor will have no part of it." Shorten accused Abbott of "weasel words," echoing the criticisms of the Murdoch media of the previous Labor government for not cutting savagely enough into social spending.

Shorten sought to justify his position by accusing Abbott of producing a "dumb, crazy idea to tax millions of hard-working Australians." That only underscores Labor's primary social base—the affluent layers of society. According to Greens leader Christine Milne, those earning above $80,000 need to be protected, describing them as mostly "middle-income earners." Those on incomes above $80,000 constitute the top 15 percent of taxpayers.

Likewise, Labor and the Greens opposed Abbott's promised paid parental leave scheme, which he was forced by corporate pressure to water down yesterday because it would "slug" business with a tax levy to finance it.

With the Abbott government's Commission of Audit report, to be released today, widely reported to be calling for billions of dollars more to be stripped from welfare and social programs, business pressure is mounting on the government to go far further in the budget, or face possible moves to replace Abbott as prime minister.