Australian Labor government trying to appease big business over limited budget tax changes

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Prime Minister Anthony Albanese's Labor government is seeking to satisfy the demands of the media and corporate elite to either drop or eviscerate its plans, announced in the May 12 federal budget, to make limited reductions to three huge tax concessions that overwhelmingly benefit wealthy investors.

When Treasurer Jim Chalmers handed down the budget, his speech tried to provide a superficial gloss of adjusting the taxation system in favour of wage workers, particularly young people who are finding it increasingly impossible to buy a home due to soaring prices and falling real wages.

Aware of mounting working-class discontent over inequality and the cost-of-living and housing unaffordability crisis, Chalmers claimed to be delivering "the most significant tax reform package in more than a quarter of a century." It would "make the tax system fairer and stronger for workers, businesses, first home buyers and future generations" and "help rebalance a system which is more generous to assets than it is to labour."

Above all, these bogus claims were designed to bury the central thrust of the budget—another $53 billion boost to military spending while cutting essential social services, spearheaded by the biggest attack on a social program in Australian history—the gutting of the National Disability Insurance Scheme (NDIS) to throw some 300,000 people, including children, off disability support services, along with further real cuts to public education and healthcare.

Labor's first minor tax tweak is to a 50 percent Capital Gains Tax (CGT) deduction for property and other business or personal assets held for more than 12 months, first introduced in 1999. Chalmers said it would be replaced by a tax on gains exceeding the official inflation rate, with a 30 percent minimum tax rate. That is still well below the top income tax rate of 45 percent.

The second modification is to "negative gearing" for property investment, which allows landlords to write off any supposed losses against their taxable income, always in the expectation of later reaping capital gains by selling properties. Labor's changes would barely affect the scheme. Existing negative gearing investments would be protected indefinitely ("grandfathered"), and fresh investments would still be negatively geared, as long as they are for newly built properties, rather than older ones.

The third change, yet to be detailed, is to reduce the use of some investment trusts to split family incomes to lower tax rates and/or to pass tax advantages to children.

The vast bulk of these tax handouts go to the rich, at the expense of the working class.

According to calculations by the Australia Institute think tank, the wealthiest 10 percent of income earners receive over 80 percent of the financial benefit from the CGT discounts, and around 50 percent of the financial benefits from negative gearing go to the top 20 percent of households. The Treasury estimates that about 90 percent of total private trust wealth is held by the wealthiest 10 percent of households (those with net worth above $2.3 million).

Labor's proposals would only affect a small proportion of these benefits. Net capital gains reported to the tax office in the 2022–23 financial year alone amounted to around $75 billion. But Treasury projections in the budget forecast the combined changes to the CGT and negative gearing to raise just $3.6 billion over their first three years of operation, from 2027–28 to 2029–30. The trust tax changes were predicted to raise $4.5 billion over four years.

None of this revenue, even if realised, would go to workers. All the budget offered was a miserable $250 annual tax rebate for wage earners, only to begin in mid-2028, and an automatic $1,000 tax deduction for work-related expenses from mid-2027. Combined, that amounts to just about $24 a week, less than a daily cup of coffee.

Labor's budget also rejected calls for increases in the budget for poverty-level pensions and income support payments, which around 5.3 million people aged 16 and over—about 24 percent of the population—rely directly on to live.

Chalmers claimed that the tax changes "will help about 75,000 Australians achieve the dream of home ownership" over the next decade. Even if this were to become true, that would amount to 7,500 home buyers a year—a tiny proportion of the millions of young people increasingly locked out of ever purchasing a home.

Since 1999, when the CGT discount began, average house prices in Australia have risen by around 500 percent—and even higher in major cities—while average wages have increased by about 90 percent. Combined with negative gearing, the CGT deduction helped fuel this staggering surge in the property market, exploited by the banks and billionaire real estate developers.

This has accelerated the fall in home ownership among 25 to 29-year-olds from 50 percent in the 1970s to 36 percent by 2021.

But a furious campaign by business leaders and the corporate media against the tax changes has demonstrated the refusal by Australia's billionaires and their global partners to accept even the slightest inroads into their profits and fortunes.

Threats of investment strikes are being made. Typical was a column in the Murdoch media's *Australian* newspaper by Innes Willox, the chief executive of the Australian Industry Group that represents large and medium-sized employers. Willox declared the proposals "fundamentally misguided and fatally flawed" and warned that "unless changes are made there will come the inevitable decisions to pull investments."

Albanese and his ministers are rushing to satisfy these demands, holding backroom consultations with corporate leaders and signalling Labor's intention to offer "carve-outs" or exemptions, particularly for small and new start-up businesses.

Labor's tax change legislation, tabled in parliament last Thursday, now only contains an overview of the negative gearing and CGT proposals, with the details of various mooted carve-outs to be legislated in a second tranche of bills, for which no timetable has yet been set.

The legislation that was supposed to impose a minimum 30 percent tax on tax-dodging trusts—also far less than the 45 percent highest income tax rate—is yet to surface.

This is not sufficient for the corporate elite. According to the *Australian Financial Review*, Australia's peak business groups, including the Business Council of Australia, are now united in demanding the dropping of the CGT changes for all businesses.

Australian Chamber of Commerce and Industry chief executive Andrew McKellar said rather than focusing on carve-outs, the entire notion of damaging the business community should be rejected. "We are concerned carve-outs here and there would be wholly inadequate," he said. "What is needed is a complete reset."

Even before any new deals for business and investors, the changes in the budget contained a range of concessions, with Chalmers himself highlighting "$3.5 billion in new measures that lower taxes" for business. The budget also continued four existing CGT exemptions for businesses with less than $2 million annual turnover, so that 90 percent of them will pay reduced or no capital gains tax.

Central to the corporate agitation is the myth that the tax changes will disadvantage young people who are investing in negatively-geared property to save the ever-higher amounts needed for a house deposit. But Reserve Bank of Australia data shows that high income recipients dominate the use of negative gearing, with the share of housing investors aged under 30 slipping to under 5 percent, down from around 9 percent in 2000.

Significantly, the immediate fate of the Albanese government's tax legislation rests with the Greens, who hold a balance of power in the Senate. They have already indicated they will pass the legislation by describing it as a "step in the right direction," in line with their overall efforts to shore up the Labor government.