

Who will pay for tax cuts? It must not be low income Australians



Bishop Michael Challen, representing the Brotherhood of St Laurence at the launch of the joint statement on tax reform: "The Treasurer should think twice before increasing consumption tax to pay for income tax cuts."

The following statement on tax reform was released on May 14 by the Australian Council of Social Service, the Australian Catholic Social Welfare Commission, the Brotherhood of St Laurence, and Uniting Church Community Services Australia.

Australia needs equitable tax reform to provide a secure public revenue base to meet present and future social needs, to sustain economic development, and to restore integrity and public faith in the tax system.

Over the coming months, each of our organisations will carefully and impartially assess the options for reform advanced by the major political parties and others. Our common starting point is that those arguing for tax reform have a special responsibility to ensure that the changes they propose do not jeopardise the living standards of low income Australians, who are already struggling to meet even basic living expenses.

Tax reform is risky for low and middle income people — especially when it is not clear how the income tax reductions now likely to be promised by all sides of politics will be paid for. We wish to make three points from the outset about funding of any income tax cuts.

1. OUR STRONGLY HELD VIEW is that any income tax reductions, together with necessary action to improve the living standards of low income families, must be fully and responsibly funded. The federal budget surplus must not be dissipated by tax cuts.

There is a case for returning to taxpayers part of the proceeds of income tax bracket creep (where inflation pushes people into higher tax brackets). However, if tax cuts are paid for by drawing down the budget surplus, then essential public expenditures such as health care, education, and pensions and allowances — which have already been slashed to the bone to produce the surplus — would soon be threatened by another round of cuts. Low income people would be severely affected by this.

2. WE WOULD VIGOROUSLY OPPOSE any increase in taxes on consumption to pay for income tax reductions, as both regressive and economically unnecessary.

All taxes on consumption (which already collect one third of all public revenue) are regressive, so this would increase regressive taxes in order to reduce a progressive tax. In the past, Australians have rightly rejected the notion that they pay for income tax cuts at the check-out counter.

Whatever the pros and cons of a broadly based goods and services tax, an overall increase in taxes on consumption would raise consumer prices and threaten the already precarious living standards of low income Australians. Low income people should not have to rely on fragile 'compensation packages' to sustain their living standards in the face of tax reforms which are regressive by design.

3. IF ANY INCOME TAX REDUCTIONS ARE PROMISED, they should be paid for in another way — by closing off tax loopholes and shelters in the income tax system.

People in comfortable circumstances should not be able to use tax loopholes and shelters to avoid paying their fair share of tax, at the expense of other taxpayers and the whole community. Income tax, the cornerstone of our progressive tax system, should be strengthened, not weakened by tax reform.

Tax reform is essential, but it carries risks. The burden of those risks should be borne mainly by those who have chosen to avoid paying their fair share of tax, and not by low income Australians who are already struggling to make ends meet.

