

12 March 2008

# **TAX LAWS AMENDMENT (PERSONAL INCOME TAX REDUCTION) BILL 2008**

## **Second Reading**

**Mr BRADBURY (Lindsay) (6.15 p.m.)**—I rise in support of the Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008. I think that there are a number of very powerful reasons why the House should support the bill. First and foremost, from my perspective, is that this encapsulates one of the election commitments that the Labor Party took to the last election, and I am very pleased to be speaking in support of a bill that now implements and delivers on that commitment.

I heard the comments from the member for New England and I know that they were heartfelt. One thing about those comments and the position from which the member for New England comes to the debate is that, unlike those of us on this side of the chamber, he was not a part of a party that made a commitment such as this before the election. We were, and I am very proud to now be speaking in support of a bill that delivers on that commitment. I think the member for New England, and others within this place, would agree that it is essential that we deliver the election commitments that we make in order to keep the faith of the electorate. Indeed, we only have to look at some of the examples of where governments in the past have failed to do so to see the great distrust that that brings—not only upon members of governments but upon all of us as parliamentarians and as members contributing to public and political life.

One of the key reasons why I speak in support of this bill is that, if we examine where the first tranche of these tax cuts is being directed, these tax cuts are very much targeted towards low- and middle-income earners, and that is a significant point to reflect upon as we debate this bill. I note that earlier today—or, indeed, last night—the OECD released a report. I will read from the press statement that accompanied the report. It was an international study but part of that study commented on a number of countries, which included Australia. The press statement on the report said:

Across OECD countries, tax changes have tended to favour low-wage earners. But in a few countries—

and it goes on to name those countries, which include Australia—

tax reforms have mainly benefited higher-income groups. In addition, low wage-earners can find themselves paying higher taxes if targeted tax concessions such as employment-conditional benefits or tax credits are not adjusted to take account of inflation. Where such tax reliefs exist, fiscal drag can erode their value, with particularly strong effects on low-wage earners.

The significance of this point is that—whilst it is true that there have been a number of initiatives that have brought about tax cuts over the last decade—as the OECD report suggests, in large part those measures have been targeted towards higher income earners. What we have in this bill and, in particular, in the first tranche—those proposals to take effect from 1 July—is a range of measures targeted specifically towards low- and middle-income earners.

I would like, in the course of this debate, to speak specifically on the low-income tax offset, but I do acknowledge the range of positive measures that are included within this bill. I should say that, against the background of this bill, is the fight that the government is currently engaged in: tackling inflation. I note that this has been an issue that has been commented on not only in the course of this debate but certainly in much of the commentary on whether or not the government should keep its election promise in relation to these tax cuts.

The government has a very strong plan. We all know it is a five-point plan. That plan is directed at tackling inflation. The five components to that are: firstly, delivering a budget surplus which is at least 1.5 per cent of GDP; secondly, lifting national savings; thirdly, investing in skills and education; fourthly, investing in infrastructure; and, fifthly—and I think most importantly in the context of this debate—lifting workforce participation. One of the most significant achievements or outcomes that we are likely to see as a result of the passage of this bill is an increase in workforce participation. Treasury modelling has identified that, if these reforms are implemented, 65,000 additional workers will be added to the aggregate labour supply. At a time when labour shortages are a critical constraint on our nation's productive capacity, it is imperative that we pursue policies such as these that are going to lift our workforce participation.

I would like to now turn my attention to the low-income tax offset, which, I believe, is an initiative that really does stand out in terms of the range of tax reforms that this parliament has considered over recent years. I know that there has been much derision targeted at the Treasurer in relation to his commitment to delivering these tax cuts. There has been much criticism; I know people on the other side have said that they are not even his tax cuts—that he was not the architect of them. There has been no greater advocate of the benefits of providing tax credits to working families, working tax credits, than the Treasurer. The Treasurer, not only when he was the shadow Treasurer but for many years before that, has been a consistent advocate of the need to provide tax credits to low-income earners to lift workforce participation. In fact, the truth of the matter is that, in many respects, it was the former government appropriating policies of the then shadow and now current Treasurer—policies he had been advocating for some time—when they first released their tax package in the lead-up to the election. So let us not be misled into believing that this was a case of policy by xerox, as some on the other side seemed to be suggesting.

One of the great elements of the low-income tax offset is that it allows us to deliver a benefit to low-income earners that does not flow on to higher income earners. The way it works, as many speakers have commented on in this debate, is that as a result of these measures we will be increasing the low-income tax offset from its current level of \$750 to \$1,200 in the first year. There will be increases in the next year and then again in the 2010-11 financial year. I will concentrate on the first tranche—the changes that will come into effect as of 1 July this year if the bill is passed. The effect of lifting the offset from \$750 to \$1,200 will be that low-income earners will effectively be able to derive up to \$14,000 worth of income per year without being subject to tax. They will, of course, be subject to tax, but once the tax offset is taken into account it will offset their tax position and essentially they will have a tax-neutral position. That is a policy tool designed to increase the incentive that is available for low-income earners when making the decision about whether or not to enter the workforce or, in the case of those who have left the workforce, whether or not to re-enter the workforce.

I note that where I quoted the OECD report earlier there is reference to these low-wage traps, often known by economists as poverty traps or unemployment traps—the OECD refers to them as low-wage

traps. These are the barriers to employment for low-income earners. These are the barriers that mean that for a low-income earner the difference between working and not working may be that if you go to work you end up worse off as a result of an increased effective marginal tax rate. The low-income tax offset allows us to minimise that disincentive and, as a result, provide an incentive for people to get back into work.

This is a significant issue right across the country and, as I indicated earlier, Treasury modelling says that 65,000 additional workers will be able to be brought online for the aggregate labour supply. In addition to that, the real impact for many working families in my electorate will be the impact on the second income earner. For many it is a choice, but for a lot of people it is not a choice, particularly with the rising cost of living and rising interest rates. Many families—in fact, more and more families—need a second income in order to pay for the basics: their food and their rent or mortgage repayments. We all talk about the importance of work-life balances, but in balancing those demands the second income earner—more often than not that would be a woman, but that is certainly not exclusively the case and is less so as time goes on—often faces very high effective marginal tax rates on re-entering the workforce. I know that various economists have pointed to that in the past, particularly to the interplay between the family tax benefit arrangements and the tax system. All these factors combine to emphasise the importance of any policy tool such as the low-income tax offset that provides additional incentive for those making that decision about whether or not it is worth while to go back to work.

I have spoken to many people in my electorate when campaigning over the years, and I have to say that many of them say to me that they sit down, do the figures and ask themselves, 'Is it worth while for the second income earner to go back to work once you factor in the costs of child care?' I will be very pleased when the opportunity arises to speak in support of Labor's increase in the childcare tax rebate to 50 per cent, which is another fine initiative and one that will have a real impact on working families in electorates such as mine. I look forward to that opportunity. As an aside and whilst we are talking about tax matters, I make the point that that was another very smart policy initiative insofar as many people around the place were calling for tax deductibility of childcare expenses. The childcare tax rebate at 50 per cent ensures that those on the highest marginal tax rates effectively get the same benefits as if it were tax deductible, but a greater benefit is derived for those who are low-income earners insofar as they are not limited by the amount of tax that they pay in terms of the deduction that they get—which they would be if we went down the tax deductibility path. In that regard, and particularly when you consider that the childcare tax rebate only impacts on out-of-pocket expenses, that rebate, combined with these other initiatives, will have a real impact on workforce participation, particularly for the second income earner in a family.

I was interested to hear earlier in this debate the member for Wentworth, whose contribution really did not add a lot to the debate. There was a lot of criticism of the government, there was a lot of hot air and there was a lot of spin, but there was very little substance. I think the reality of his contribution is that it underpins and reflects that, whilst the government has a policy that is being implemented, there is no alternative tax policy on the other side. I have heard and read many of the comments of the member for Wentworth criticising the government's policies and criticising the government's economic management, even in this early period of our government, yet there are no alternatives. The member for Wentworth talks about the need for more serious tax reform, but he has not actually articulated those proposals—at least not whilst in his current role. That is what concerns me, because he did take the trouble to articulate some of his views on tax matters before he moved into this role.

I have to say that, in relation to the low-income tax offset, I am only glad that it was not the member for Wentworth controlling tax policy before the last election and it was the member for Higgins. Had it been up to the member for Wentworth, he would not have gone down the path of the low-income tax offset, which achieves all the equity and workforce participation gains that I have just spoken about. He put his proposal out in the form of a tax plan, or, as I think the member for Higgins previously said, 'It is not a tax plan; it is actually 281 tax plans.' If I could borrow from one of those tax plans—the plan to increase the tax-free threshold from \$6,000 to \$10,000—the flaw in that approach is that not only are you delivering an increase in the tax-free threshold for the low-income earner but also you are delivering a tax benefit to people right up the scale. It does not matter how much you are earning, you still get the benefit of that increase in the tax-free threshold; whereas, with the low-income tax offset, you have a policy that is targeted to those people who need help the most. That is why it is a policy that this government supports.

If I can also comment on some of the other proposals that the member for Wentworth outlined in his 281 tax plans. In fact, if I can read from an article in the Sydney Morning Herald dated 21 November 2005, it talks about a tax plan that the member for Wentworth espoused when he had all the freedom of being on the back bench. From it, I guess you can get a sense of what he really believes. The article announced his tax plan under the headline 'Turnbull tax plan rewards the rich'—I am sure we are all shocked and surprised to hear that! The article states:

People earning \$1 million a year would pocket income tax savings of more than \$100,000 under cuts to the top marginal rate proposed by the government backbencher—

as he then was—

Malcolm Turnbull, secret Treasury documents obtained by the Herald show.

We all know they were only secret Treasury documents because the member for Higgins and his staff leaked them, because they could see the folly of his proposals. They could see that increasing the tax-free threshold was not the way to go, that the low-income tax offset was a better way to go. The article further states that, as compared to the \$100,000 worth of tax cuts that someone on \$1 million would have received under the member for Wentworth's proposal, the average worker on an income of \$50,000 would only get \$600.

When the member for Wentworth talks about the need for audacious tax reform, since he has failed to articulate any alternative policy we can only assume that he is still advocating his 281 tax plans that he released as a backbencher. We all know that the member for Higgins is now talking about leaving this place. Who is going to stop the member for Wentworth from continuing down this path of delivering a tax policy that would achieve such inequity? That is what our proposals are about: providing greater equity in the way in which the tax system works.

I know that members such as the member for New England, who made a valuable contribution, say that it is okay to deliver benefits to low-income earners and maybe the low-income tax offset is reasonable, but we should not be delivering the other benefits. In the 2008-09 income year, the only other change will be to shift the bracket that divides those on a 15 per cent tax rate and those on a 30 per cent tax

rate. We are talking about shifting that from \$30,000 to \$34,000. There is an equity point in this. If you introduce something such as the low-income tax offset but you do not deliver a tax benefit to those on incomes slightly above it, in the next bracket above it, you are actually creating a higher effective marginal tax rate for those people. In fact, this is what the previous government did on one prior occasion when they introduced tax cuts without ensuring that relief had been provided to middle-income earners.

In an article by economist and professor of public economics Patricia Apps, she said that the low-income tax offset is a policy device for reducing the transparency of the true new rate scale and has been used in successive budgets to allow the Treasurer to announce changes in the income tax scales that do not include the then 34c rate that cuts in after the 15c rate. Essentially, what is being said here is that it is critical to ensure equity that we also pass on tax cuts to those in the bracket immediately above this.

In conclusion, the policies which drive his bill are policies designed for improving and lifting our productive capacity. They are designed to increase workforce participation and, on that basis, they should be supported because that is a key plank of the government's fight in taking up the challenge of inflation—the challenge that the previous government has left us with.