ACTU SUBMISSION

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CONTENTS

INTRODUCTION

Australia is a prosperous country proudly founded on a 'fair go for all'.

As with other developed economies, Australia must adapt and respond to the challenges and opportunities brought about by technological change, globalisation, demographic changes, including an ageing population and widening inequality.

A fairer, more prosperous Australia will deliver sustainable economic growth. Decent jobs and high living standards generate local consumer demand and productivity and are critical to boosting the economic prosperity of nations.[1]

The 2016-17 Budget must focus on building a broad based economy; in quality private and public sector jobs, boosting our competitive advantages and investing in value-adding industries, innovation, new technologies and export opportunities.

Tax reform should focus on ensuring government has a sufficient revenue base to support a productive community; including universal access to health, education and welfare and to make the necessary investments for a strong, competitive economy for the future.

We urge the government not to continue to be driven by expenditure cuts and a spiral of under-investment in growth opportunities. Australia is already one of the lowest collectors of revenue and spenders on public services in the OECD. Austerity policies have failed both here and abroad as drivers of long term and sustainable growth.

Economic organisations including the World Bank, IMF and the OECD, have all recently noted that the increase in inequality in many economies in the last three decades,[2] has had a negative effect on growth and prosperity.[3]

Australia's overall strong growth and employment record, matched with a strong social safety net, universal and high quality education and health care, an effective superannuation system, a decent minimum wage and employment standards has acted to slow the growth of income inequality experienced in countries such as the US and the UK.[4]

However, inequality in Australia is now rising at a faster rate than most other countries and is a key threat to our economic growth and prosperity. Economic inequality in Australia extends far beyond the exclusion of disadvantaged Australians from the workforce. Since the mid-2000s workers wages have not kept up with overall economic growth. Cuts to critical services and support that form our social wage result in a further squeeze on low to middle income households, who are a crucial driver of growth, consumer demand and rising living standards.[5]

We urge the government to produce a Budget that builds, not undermines the key foundation blocks of equality and decent living standards and invests in the skills, innovation and infrastructure necessary to secure our future prosperity.

[1] "Inclusive Growth For Shared Prosperity", Swaroop, V. (2015), http://blogs.worldbank.org/developmenttalk/inclusive-growth-shared-prosperity

[2] *"Inequality and Labour Market Institutions",* IMF Staff Discussion Note (July 2015), p.5 and "*In It Together – Why Less Inequality Benefits All*", OECD (2015), p.23.

[3] "*In It Together – Why Less Inequality Benefits All*", OECD (2015), p.20.

[4] Inclusive Prosperity: Australia's record and the road ahead p.8

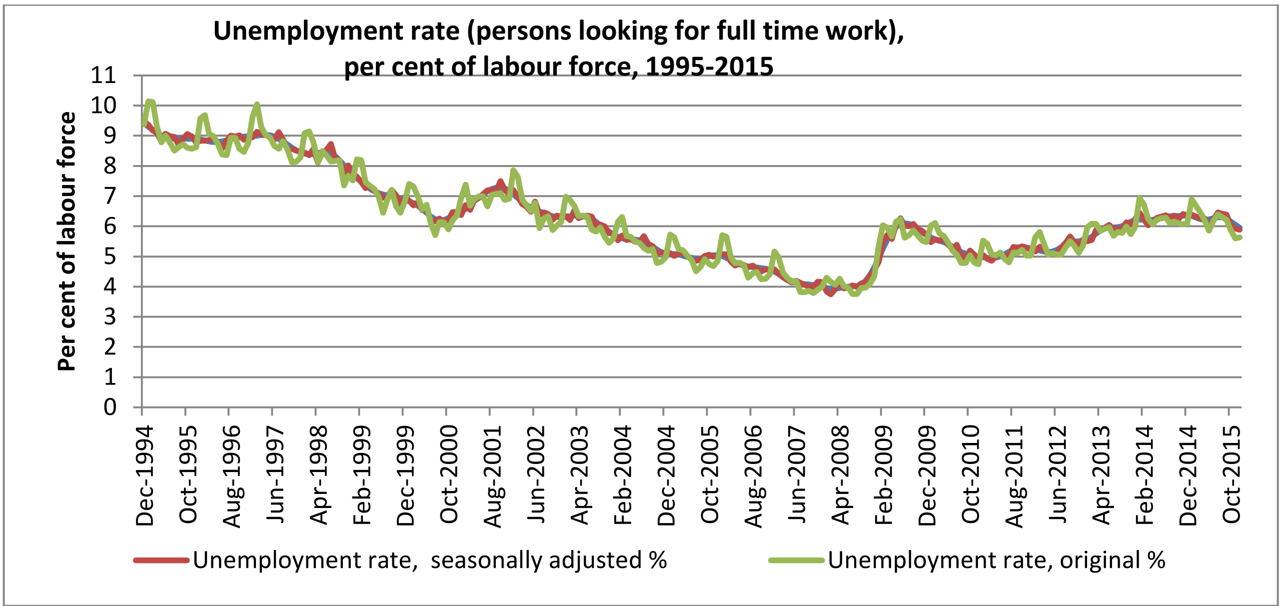
[5] Inclusive Prosperity Commission, Australia's Record and the Road Ahead, p.1,4.

THE JOBS CRISIS CONTINUES

With unemployment remaining at a high level and poor economic growth prospects, we cannot afford complacency. Reducing unemployment and improving economic growth must be priorities for the 2016-17 Budget.

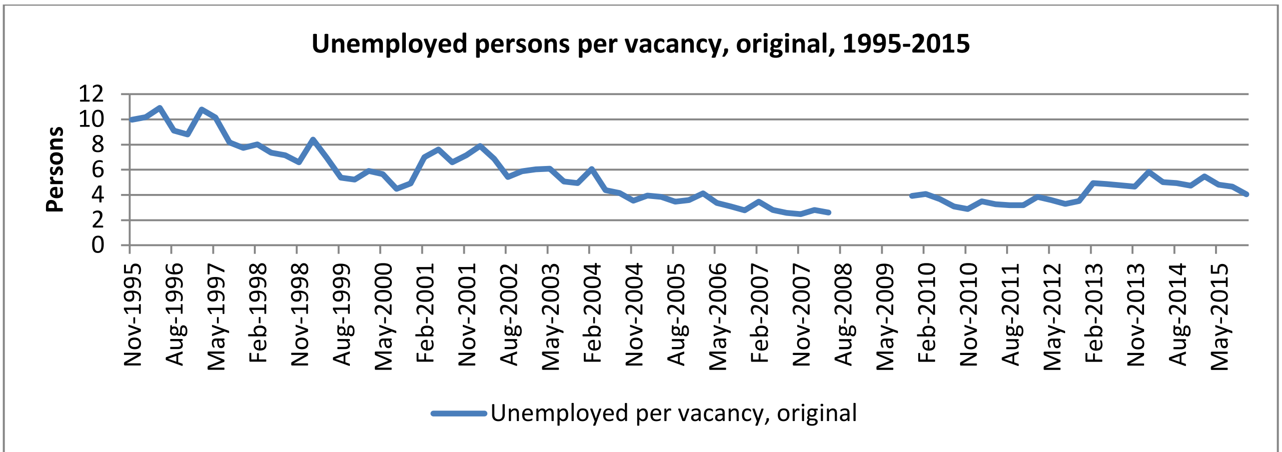
Unemployment has been close to or above 6% for nearly four years to December 2015. Unemployment remains more than 50% above the level of 3.7% (seasonally adjusted) for February 2008, at the onset of the global financial crisis. Over 734,000 people are currently unemployed, and another one million are underemployed and would like to work more.[6] The unemployment rate conceals the increasing proportion of people working on a part time and casual basis.

In addition, there has been a recent divergence between the ABS jobless figures and private estimates, adding to fears that consecutive budget cuts at the ABS as well as out-dated computer and other systems are affecting the accuracy of labour market data. The highly respected Roy Morgan Research estimates the unemployment rate to be 10.3% or 1.3 million unemployed Australians with a further 9.4% underemployed or 1.2 million underemployed.[7]



Source: ABS 6202.

The prognosis for unemployment as forecast in the MYEFO is not good, at 6% for 2016-17. There were only 170,000 vacancies for the 744,000 unemployed in November 2015. Three out of every four unemployed people looking for work will not find it.



Source: ABS 6354, 6202.

[6] December 15, Trend Total Unemployed.
[7] Available at: http://www.roymorgan.com/findings/6659-australian-unemployment-estimates-january-2016-201602050544

The opportunism that has surrounded the addition of 300,000 employed persons over 2015 has to be viewed in the context of a corresponding increase in the working age population of 280,000 over the same period. The increase in employment numbers is close to the increase in the working age population. This amounts to a much more modest actual growth of about 40,000 in numbers employed in 2015 compared with what would be expected from population growth and the unemployment rate. It explains why the unemployment rate has remained high despite the apparent growth in employment and it signals a stagnant rather than improving labour market.

A BUDGET TO REDUCE UNEMPLOYMENT

Government can and must act to reduce unemployment and under-employment in the coming Budget. An unemployment rate with a 6 in front of it is not a situation that should be accepted and if we believe private estimates, we are effectively in recession level unemployment. Further cuts on the spending side of the budget will hold up job growth.

The Budget should act to reduce unemployment by:

- Increasing expenditure in line with OECD comparators in order to bring the quantity and quality of service delivery to support a productive community;
- Allowing the 'automatic stabilisers' to work in an economy which is forecast to deteriorate, which means acceptance of a short term increase in the budget deficit;
- Supporting Australian jobs directly through industry policy and innovation programs, specifically aimed at diversifying the economy through investment and supporting transitioning industries;
- Building the education, training and skills of Australian workers and managers;
- Supporting services which reduce barriers to employment, including child care and paid parental leave and bringing these up to or above the standard in comparable countries;
- Increasing public sector jobs and employment in the Commonwealth sector in order to improve service delivery and other aspects of public administration; and
- Providing adequate services and support for job seekers, including targeted programs to boost skills and linkages to vocational training and TAFE.

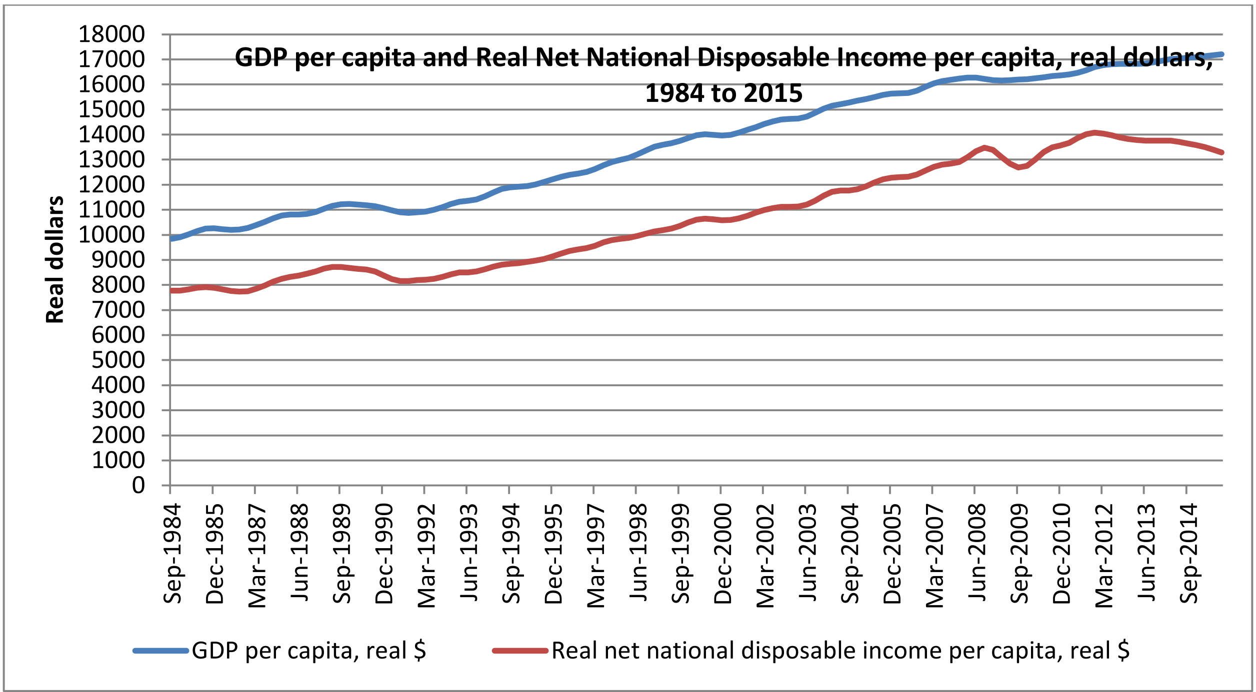
A BUDGET TO PROMOTE ECONOMIC GROWTH

The budget must address Australia's slowing economic growth. This is a widely forecast consequence of the end of the mining boom, the decline in the Australian dollar, commodity prices and the declining growth trajectory of China and other emerging markets.

The Treasurer and other experts have indicated a poor prognosis for the economy. GDP increase for the year to September 2015 was 2.3% in real terms, however real GDP per capita grew only 0.9%. Real Net National Disposable Income (RNDDI) per capita which takes into account the current fall in the terms of trade and is the best measure of the economy's actual income, fell 2.7% in the year to September 2015. The MYEFO has moved down its GDP forecasts from the budget, from 2.75% to 2.5% for 2015-16, and further down from an optimistic 3.25% to 2.75% for 2016-17.

Real GDP has grown an apparently healthy total of 9.4% over the four years from September 2011 to September 2015. However this is misleading because it does not take into account population growth. The chart below shows how slowly GDP *per capita* has grown less than one per cent per annum, more slowly than the other periods of positive growth over that period. The RNNDI per capita has *fallen* a total 5.6% over the four years to September 2015, representing a sustained national income recession.

The gap has widened between GDP per capita and RNNDI per capita over the last four years.



Source Cat 5206

To promote economic growth and job creation, this Budget must invest in industry and innovation policies

Australia has one of the lowest public expenditure on innovation as a share of GDP in the OECD. Australia also ranks last out of 26 OECD nations in collaboration between "innovative-active" businesses and public research institutions.[8]

This is of critical importance given the predicted impact of technology and global competition on jobs.[9] A recent report published by CEDA indicates that there is a "high probability that as much as 40 per cent of jobs in Australia could be replaced by computers within a decade or two".[10]

The government's Innovation Statement is a step in the right direction but it is highly targeted at the 'start up' sector while effectively ignoring the SME businesses which offer the greatest value added and jobs growth opportunities. As such, it is grossly inadequate, nowhere near redressing the government's past significant cuts to funding for services to support research, development, industrial innovation and collaboration between industry and the research sector. These cuts included the CSIRO, higher education and block research grants, vocational education and TAFE as well as the abolition of the former government's Industry Innovation Precinct and Australian Industry Participation policies.

This budget must re-invest in our capacity to develop the skills and technologies for the future by providing for a comprehensive industry policy which:

a) Develops industry level plans which identify barriers to growth and weaknesses in investment and skill formation that threaten the sustainability of industries and sectors;

b) Supports a high skilled, high quality and secure public sector and community services workforce;

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[8] http://www.theaustralian.com.au/higher-education/report-compares-australian-innovation-with-oecd-figures/news-story/9e0259a2f71feac52753de6a7d6f9aef

[9] *Australia's Future Workforce*, CEDA, June 2015 at page 8

[10] *Australia's Future Workforce*, CEDA, June 2015 at page 8:

c) Recognises employees and their unions have an essential role to play in helping to build better and more productive workplaces;

d) Halts and reverses cuts to public support for science, innovation and collaboration and provides an adequate and stable funding framework consistent with long-term research and development for a mix of academic and commercial purposes;

e) Recognises the vital role that infrastructure plays in facilitating growth and takes urgent action to close our massive national infrastructure deficit;

f) Recognises the role the government can play in growing industry capability through intelligent use of government procurement;

g) Facilitates investment in new production technologies, processes and products; and

h) Focuses on the opportunities renewable energy and green jobs can contribute to our economic growth.

INVESTMENT IN SKILLS AND EDUCATION

Schools Education

Pivotal to the achievement of social inclusion and economic growth is education policy which ameliorates social divides, ensures the best opportunities for all Australians and builds an economy where prosperity is based on the capability and skills of citizens.

There is a large body of evidence demonstrating the crucial role education plays in economic growth.[11] Modelling by the OECD estimates that improving educational enrolment and attainment in Australia would result in gains to GDP in 2095 130% greater than current GDP, or over $2 trillion.[12]

A focus on quality education for all, regardless of background, is crucial if Australia is to reach its growth potential. [13] That is why reforms like the Gonski education funding model are crucial and must be fully implemented. The additional $6 billion in annual funding (state and commonwealth) required to implement the Gonski school funding model amounts to about 0.4% of Australia's GDP. Investing to achieve universal basic skills could increase GDP by 2.8% per year over the long term.

Higher Education, TAFE, Vocational Education and Training (VET)

The higher education, TAFE and VET sectors support skills and job development, underpin social cohesion by encouraging access and equity, and play a fundamental role in innovation and economic growth through on the job innovation, adaptation to and adoption of new technologies, investment in industry partnerships and research and development.

The Government's higher education agenda of fee deregulation and funding cuts unfairly shifts the cost burden for university education onto the shoulders of students and their families.

Australia's public investment in higher education is still well below that of other industrialised economies and Australian students currently pay amongst the highest fees in the world to attend public universities.

As well as the crucial role universities play in training our future workforce, higher education is the third largest export industry in Australia. Universities constitute the largest component of the sector generating nearly $17 billion annually in export income.

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[11] For example, see: Acemoglu, D. *Introduction to Modern Economic Growth*, (2009). Princeton University Press, Princeton

[12] OECD (2014) Trends in Income Inequality and its Impact on economic Growth European Expert Network on Economics of Education (2015) Reducing Inequality in Education and Skills: Implications for Economic Growth.

[13] For example, see: Barro, R. Education and Economic Growth. *Annals of Economics and Finance*, 14-2, (2013).

The budget should increase government investment and support for higher education, TAFE and VET including:

(a) Increasing higher education funding to the equivalent of 1 per cent of GDP, from the current 0.7 per cent, comparable to other industrialised economies;

(b) Creating institutional linkages between university based research, development and innovation with industry and businesses; and

(c) Providing a stable and sustainable funding model.

High quality, nationally consistent, equitable and affordable vocational education and training (VET) including properly-funded TAFEs is critical to transitioning to the jobs of the future. The skills, national qualifications and further education that TAFEs and the VET system deliver are vital for workers, for the future skill needs of industry and the nation and for a fair society that provides opportunities to all.

The reputation of the VET sector has been hit in recent years by chronic under-funding and confidence in the value of a VET qualification has suffered by the opening up of the publicly funded training system to thousands of poorly regulated private training providers. Recent revelations that the government is considering the further privatisation of VET training is of great concern given the poor results privatisation has achieved in the past. This ‘reform’ should be resisted in the longer term interests of a skilled workforce. As in other areas of policy, the short term budgetary impacts of privatisation need to be weighed against the longer term costs of decreased affordability and quality to national economic performance.

The budget should refocus on the importance and value of skills, including:

a) A full review of funding, including the consequences of contested funding, and the quality of VET;

b) Committing to maintain TAFE funding in real terms, with a full and immediate reinstatement of TAFE funding cuts; and

c) Ongoing support for a co-contribution funding mechanism between government and industry that supports the up-skilling of new and existing workers.

Apprenticeships and traineeships

To meet our future skills needs and provide employment opportunities, a sustained increase in apprenticeship and traineeship completion rates is required across Australian workplaces.

Apprenticeship completion rates continue to fall around the 50% mark, meaning one in every two apprentices do not finish. Commencement rates for both apprenticeships and traineeships have been flat or in decline for several years. Yet the government’s record on supporting apprenticeships is dismal. Since coming to power, they have:

- Cut $1 billion to apprenticeship programs in the 2014-15 Budget;
- Replaced apprentice *Tools for Your Trade* grants with apprentice debt;
- Rebadged and cut funding to Australian Apprenticeship Centres;
- Abolished the Joint Group Training program;
- Abolished Industry Skills Councils; and
- Abolished the tripartite Australian Workforce and Productivity Agency.

This budget is an opportunity to reverse these backward steps and provide for improvements to the apprenticeship system including improving apprenticeship and traineeship wages, support services for apprentices and employers and facilitating collaborative tri-partite structures which enhance the linkages between government, business and employees and their unions.

Removing barriers to labour market participation

Expenditure cuts to programs which support labour market participation undermines productivity and economic growth.

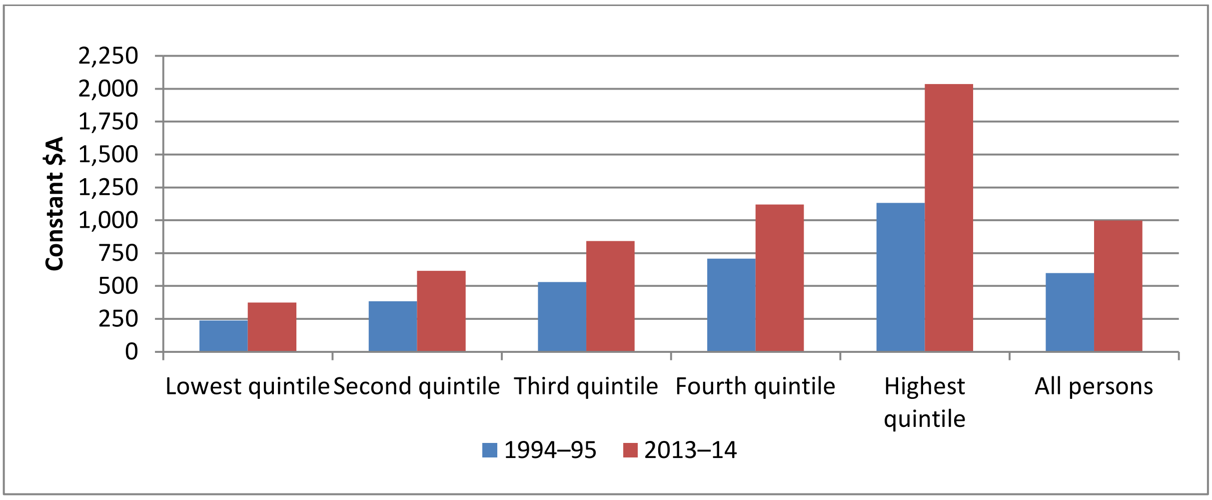
The Budget must properly fund aged care, the NDIS and halt its proposed cuts to Paid Parental Leave and Family Tax Benefits, which, along with affordable early childhood education and care are critical to supporting greater workforce participation of highly skilled, educated and experienced women.

A BUDGET FOR EQUALITY AND DECENT LIVING STANDARDS

Australia is now in the bottom half of the equality ladder of OECD countries with income and wealth distributions widening faster than many other OECD countries. This includes the gender pay gap which has widened to a 20 year high, with women working full time hours still earning on average 17.7% less than their male counterparts.[14]

The income of the top household quintile has increased dramatically relative to that of all other quintiles over the past two decades, even after taxes and transfers.

Widening income inequality Australia, 1994-95 to 2013-14, equivalized disposable weekly household income, constant dollars

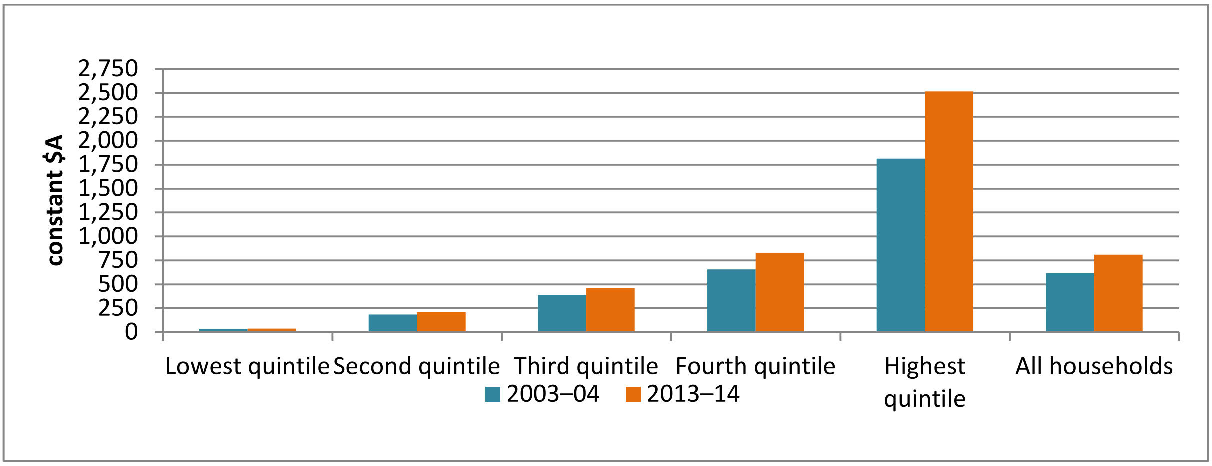


Source: ABS 6523

Wealth inequality has widened even more markedly than income inequality.

Widening wealth inequality in Australia, 2003-04 to 2013-14, annual household net worth, constant dollars 1000s

[14] ABS Cats 6554, 6302

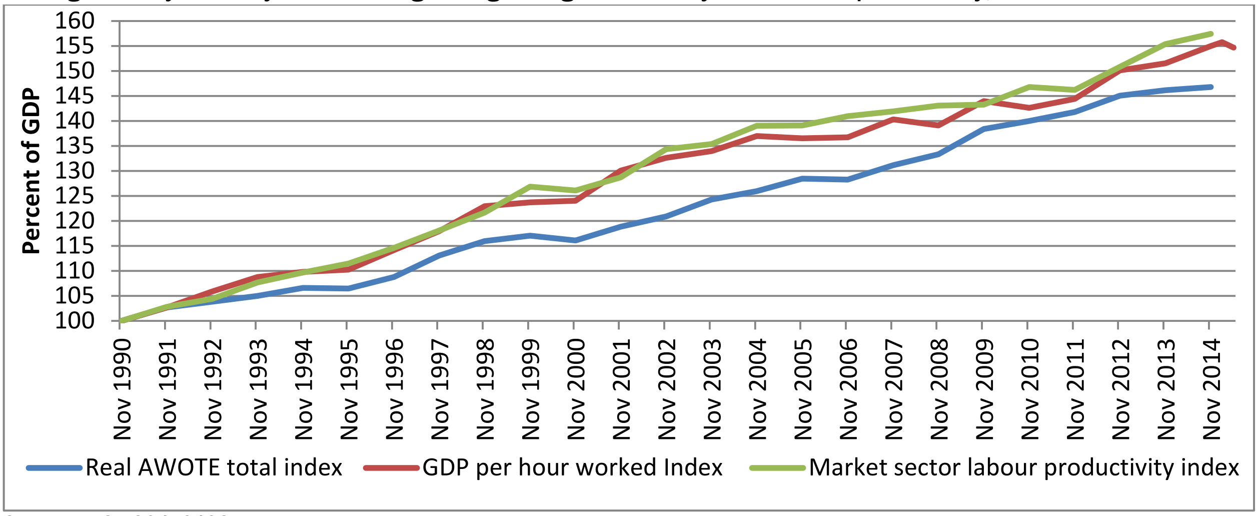


Source: ABS Cat 6523

Despite working longer, harder and more productively, the growth in workers' wages has lagged behind labour productivity improvements over decades, fueling income inequality, especially between the majority that rely on wages for income and the minority that receive a significant portion of their income from capital returns.

The benefits of growth in GDP have not been shared with labour in a fair or proportional way. Despite working more productively, the fruits of that labour have gone to profits rather than wages. AWOTE has grown at 1.5% per annum over the last twenty years, less than half the rate of GDP growth of 3.2% per cent. The gap between labour productivity and wages has grown since 2011- with GDP per hour growing over 5% faster than wages in 2014 alone.

Average weekly ordinary time earnings are growing more slowly than labour productivity, in real terms



Source: ABS 5204, 6402,

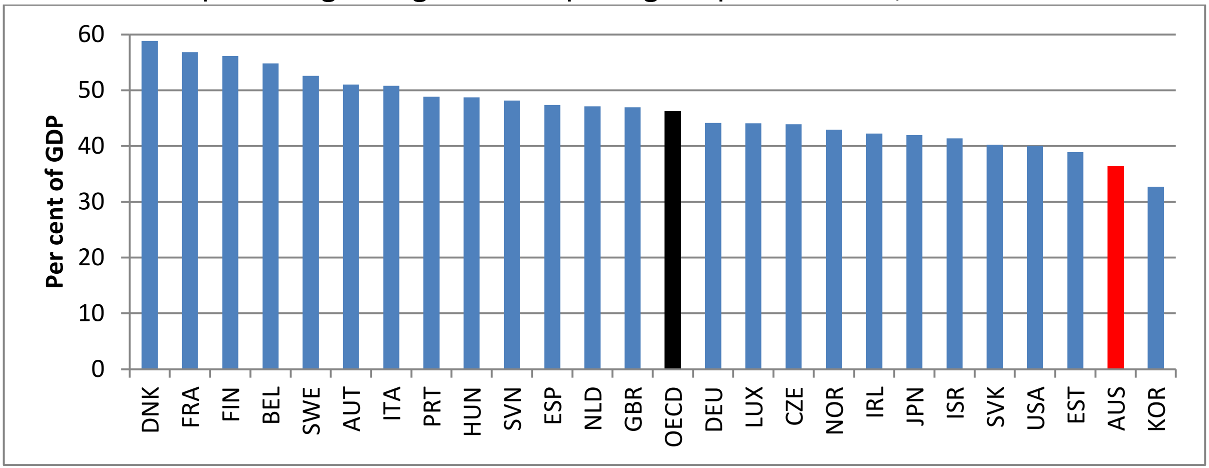
Apart from the issue of fairness, inequality holds back economic growth and tears at the social fabric of society. The proposed budget cuts to critical services and support that form our social wage will result in a squeeze on middle Australia. Decent wages and living standards support strong local consumption, generating significant economic and job growth. Squeezing low and middle income earners who spend the largest proportion of their income will cause significant economic problems in the long term.

THERE IS NO SPENDING CRISIS

The budget should recognise that government spending is key to promoting economic growth and fairness. Bringing the provision of health, education and other infrastructural services up to standards commensurate with comparable countries is vital to support business and a healthy and productive community.

Australia is a low government spending country, with the second lowest government expenditure as a share of GDP of the high income OECD countries, at 36.3% of GDP in 2012, a massive ten percentage points below the OECD average of 46.3%.

International comparison of general government spending as a per cent of GDP, OECD countries

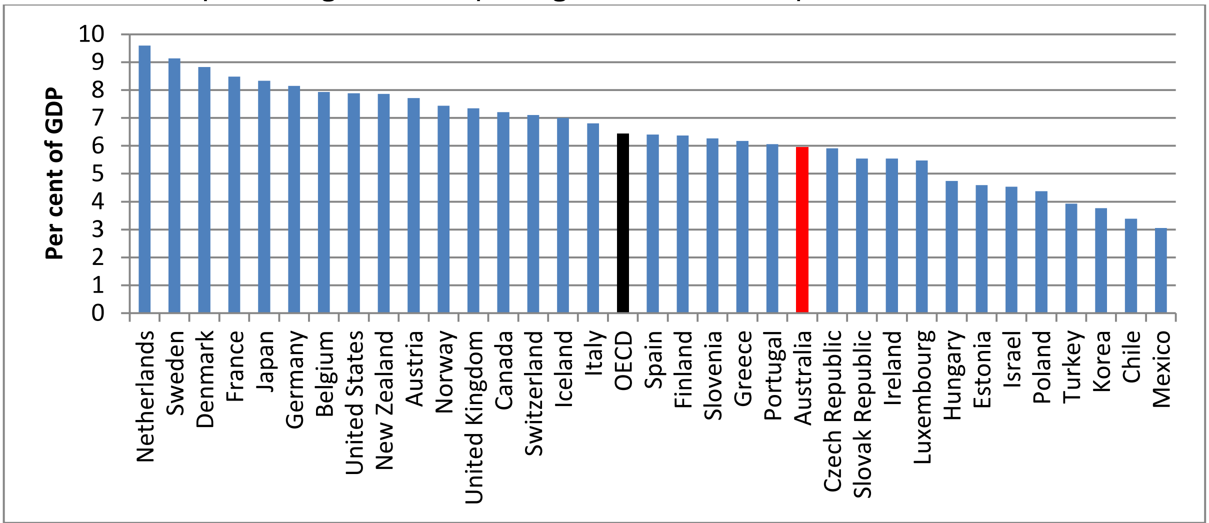


Source: OECD, from http://stats.oecd.org/#, general government spending and for Australia, 2012, most recent comparable

Health spending

Government expenditure on health as a share of GDP in Australia is also below the OECD average.

International comparison of government spending on health care as a per cent of GDP, OECD countries



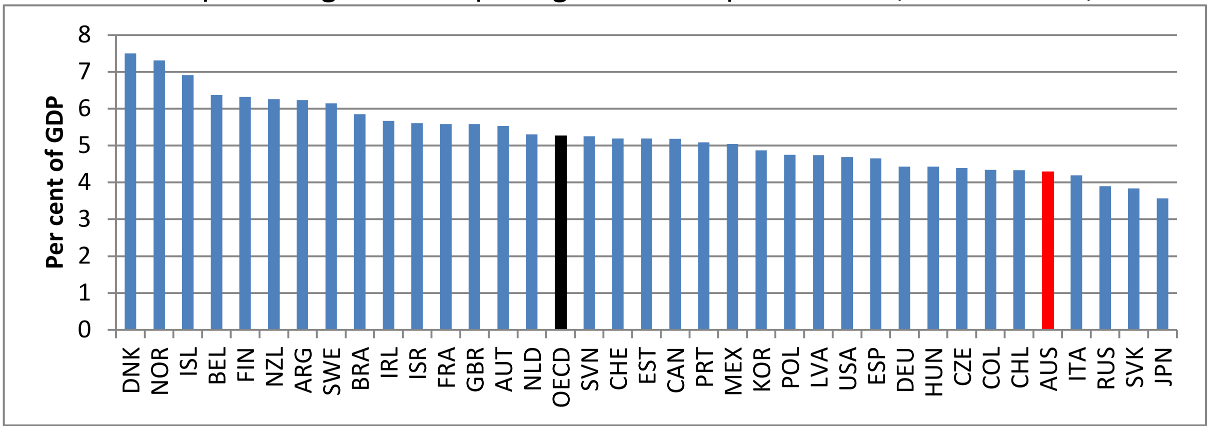
Source: OECD, from http://stats.oecd.org/#, government current spending on health care, 2012

Moreover individual Australians spend more out of pocket on health care than those in the other high income countries. While the total government health care spend per capita in Australia is about six per cent less than the high income country average, the out of pocket spending on health per individual Australian is a full third higher than the high income country average.[15] The average out of pocket spend is estimated to be at least A$1000 per year per person in Australia. The current governments planned reforms to health care are designed to shift this cost burden even further to ordinary Australians and away from the public sector. These reforms are neither warranted, nor wise and should be resisted.

Education spending

Australia also has one of the lowest shares of government expenditure on education out of the OECD countries, 4.3% of GDP compared with the OECD average of 5.4% in 2011.

International comparison of government spending on education percent of GDP, OECD countries, 2011



Source: OECD (2015), Public spending on education (indicator). doi: 10.1787/f99b45d0-en (Accessed on 02 November 2015)

For primary, secondary and TAFE levels combined, Australia's share of government expenditure in total educational expenditure (85%) was third lowest of all OECD countries.[16] Its share of government expenditure in total for tertiary education (45%) was fifth lowest[17] and in early childhood education and care is half of that recommended by the OECD.[18] It has become much more reliant on private spending on education than most other OECD countries.

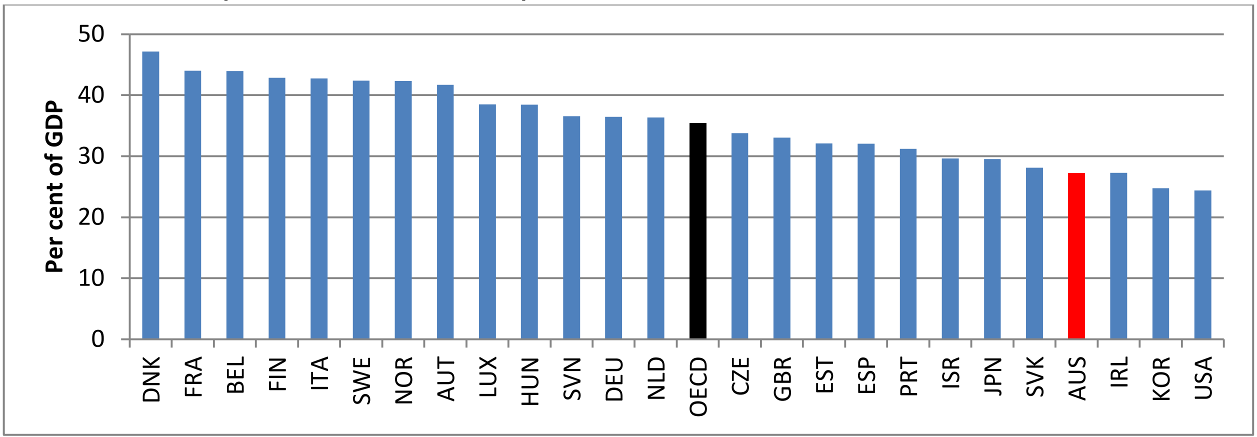
THE NEED FOR TAX REFORM

Rather than the oft pronounced spending problem, the long term challenges to sustainability of public finances are clearly the result of a revenue problem: government revenue has been steadily declining over the past decades.

Australia's total tax revenue as a percentage of GDP at 27.3% is well below the OECD average of 35.5%.[19] Australia has equal third lowest share of total tax in GDP of the high income OECD countries.[20]

[15] 2013, derived from World Bank http://wdi.worldbank.org/table/2.15#
[16] 2011
[17] OECD Education at a Glance 2014 p239
[18] OECD Expenditure Database 2014, Chart PF3.1.A Public expenditure on childcare and early education services, per cent of GDP, 2011
[19] in 2012 (most recent)
[20] The USA in particular has funded expenditure from budget deficits.

International comparison of total tax as a per cent of GDP, OECD countries



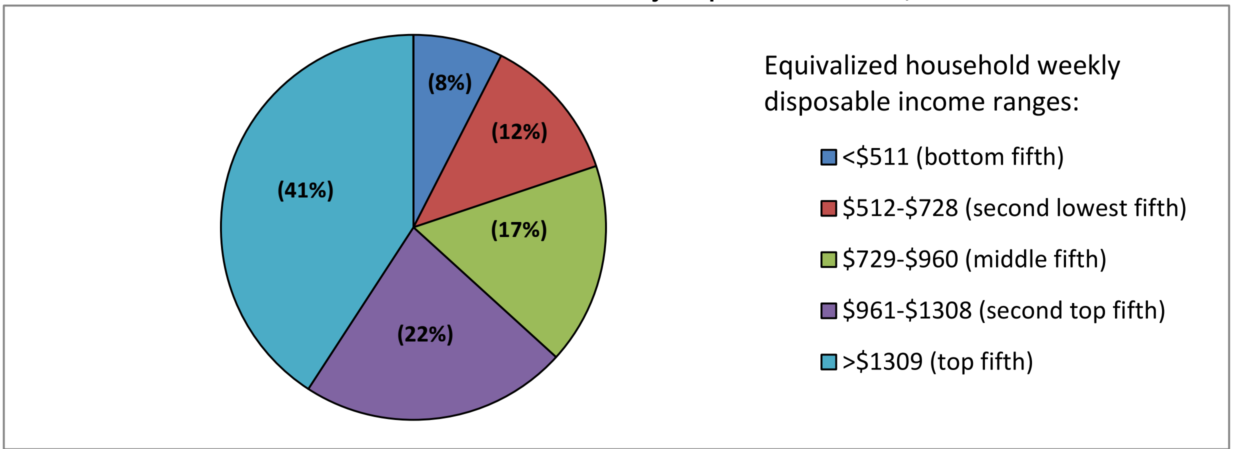
Source: OECD, http://stats.oecd.org/, tax revenue statistics, 2012

The tax system is unfair

Not only do we collect less tax than the majority of other OECD countries, our system is increasingly inequitable, with those with high incomes paying a smaller and smaller share of taxes over time while receiving a bigger and bigger share of income. [21] The top marginal income tax rate has decreased from 67% fifty years ago[22] to 45%.[23]

The lack of progressivity in the tax system is shown by the decline in the share of middle and lower income households in disposable household income over the last ten years and the increase in the share of the top fifth. [24]

Share of household income in total household weekly disposable income, 2013-2014



Source: derived from ABS Cat 6523 Income and income distribution 2013-2014[25]

Australia has tax concessions which are not available to the same extent in most other high income countries. Measures specific to Australia include those pertaining to capital gains, negative gearing, superannuation and trusts. These are used disproportionately by high income earners to further reduce their taxable income. Seventy-five individuals in 2011-12 who received more than $1 million

[21] Profit share of income has increased from 24% to 37% over the 50 years to 2014 (The Australia Institute, 2014, Income and Wealth Inequality in Australia p12).
[22] The Australia Institute, 2014 Income and Wealth Inequality in Australia, p14.
[23] (https://www.ato.gov.au/Rates/Individual-income-tax-for-prior-years/#).
[24] ABS 6523
[25] *adjusts household composition to represent the income that a household consisting of a single individual would have to have

in income in 2011-12 paid virtually no income tax at all. These individuals were able to declare an average taxable income of just $1.09.[26]

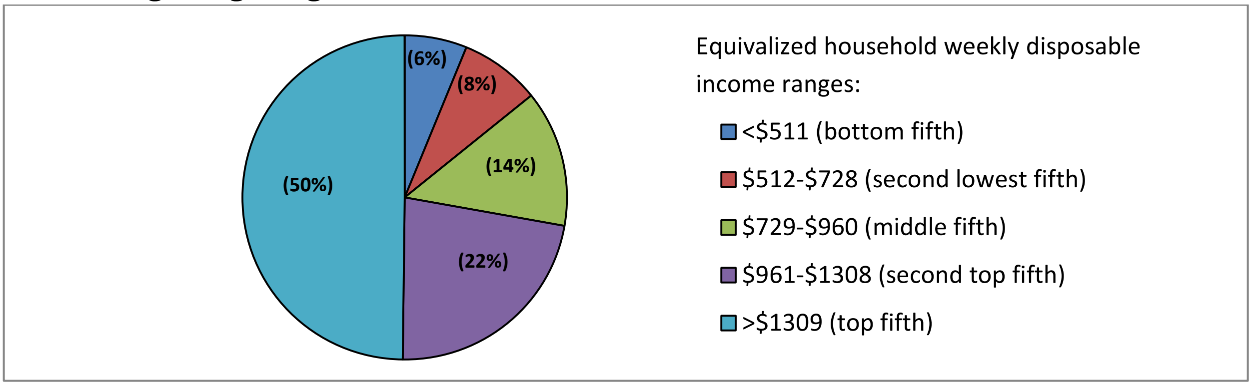
Rather than cut vital services, this budget should be based on a sustainable revenue base by closing these loopholes.

Negative gearing

Negative gearing concessions cost government revenue more than $3.7 billion each year. Negative gearing is highly regressive, with fifty per cent of negative gearing tax breaks go to the top 20% of households and only 6% to the lowest fifth. [27]

Negative gearing has contributed to higher housing prices and put house ownership increasingly out of reach for large sections of the population. It has also served to skew investment towards property and away from other productive activities.

Share of negative gearing tax benefits for households in each income fifth, estimates, 2013-14

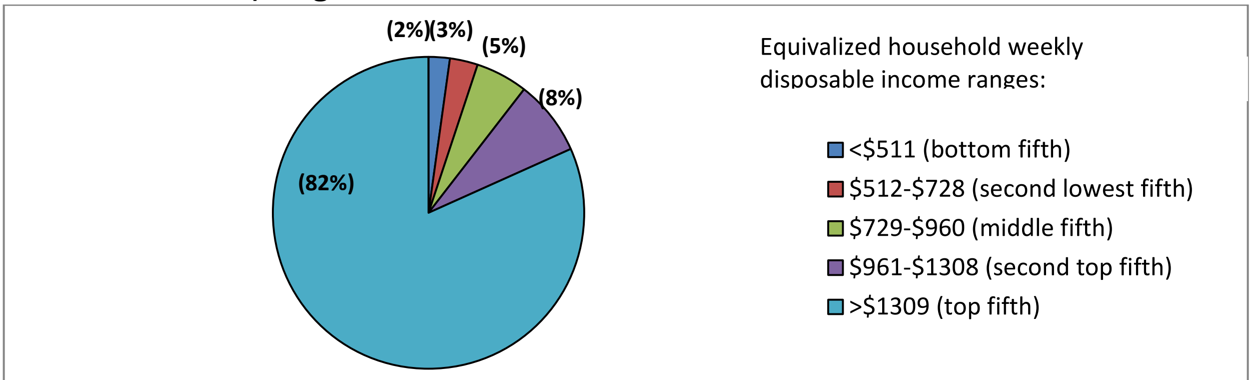


Source: derived NATSEM modelling for The Australia Institute and ABS Cat. 6523 2013-14. [28]

Capital gains

Capital Gains Tax (CGT) discounts which apply in Australia are much more generous than in most other high income countries and are estimated to cost government revenue between $4.0 - $5.7 billion per annum. CGT tax breaks are extremely regressive, benefiting mostly high income earners with almost three quarters of CGT breaks going to the top 10% of high income households[29].

Chart 8: Share of capital gains tax benefits for households in each income fifth, estimates, 2013-14



Source: derived from NATSEM modelling for TAI, and ABS Cat. 6523 2013-14. [30]

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[26] ATO (2014a) *Individual tax: Selected items, by total income and taxable income, 2011–12 income year* Source: ATO (2014a) TAI 2015 Closing the Tax loopholes: A Buffett rule for Australia, p5.
[27] The Australia Institute, Matt Grudnoff 2015 Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, April
[28] Note lowest quintile income average includes the lowest two income percentiles which are negative or close to zero due to reporting losses.
[29] The Australia Institute,Top Gears p. 5
[30] Note lowest quintile income average includes the lowest two income percentiles which are negative or close to zero due to reporting losses.

Superannuation

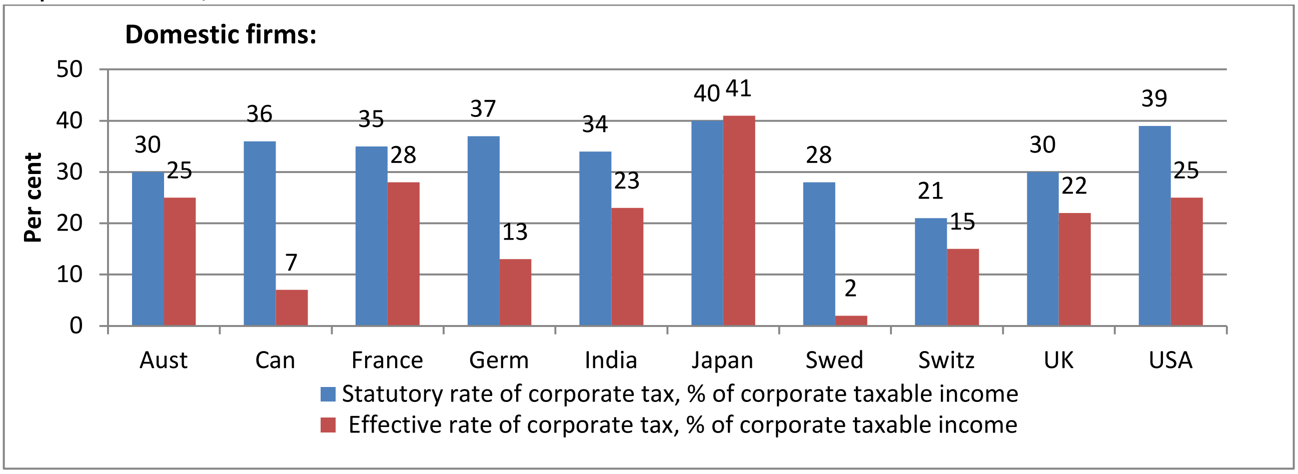
In Australia the top 10% of income earners are estimated to receive 32% of the value of superannuation tax concessions, with the bottom 60% receiving just 27%.[31] While a 15% tax rate for top income earners equals a tax discount of 30%, the lowest decile of income earners is actually out of pocket due to the 15% tax rate on super being greater than the zero tax rate on incomes less than $18,000.

As they currently stand, super tax concessions provide a tax minimisation mechanism for high income earners rather than support for ordinary Australians to save for retirement.

Corporations should pay their fair share of tax

The budget should incorporate tax revenue figures which are built around domestic and multinational businesses paying their way and contributing their fair share.
Business groups have consistently called for the corporate tax rate to be cut. But neither the statutory rate (30%) nor the *actual* rate corporations pay (23%)[32] is high internationally, for comparable countries.[33]

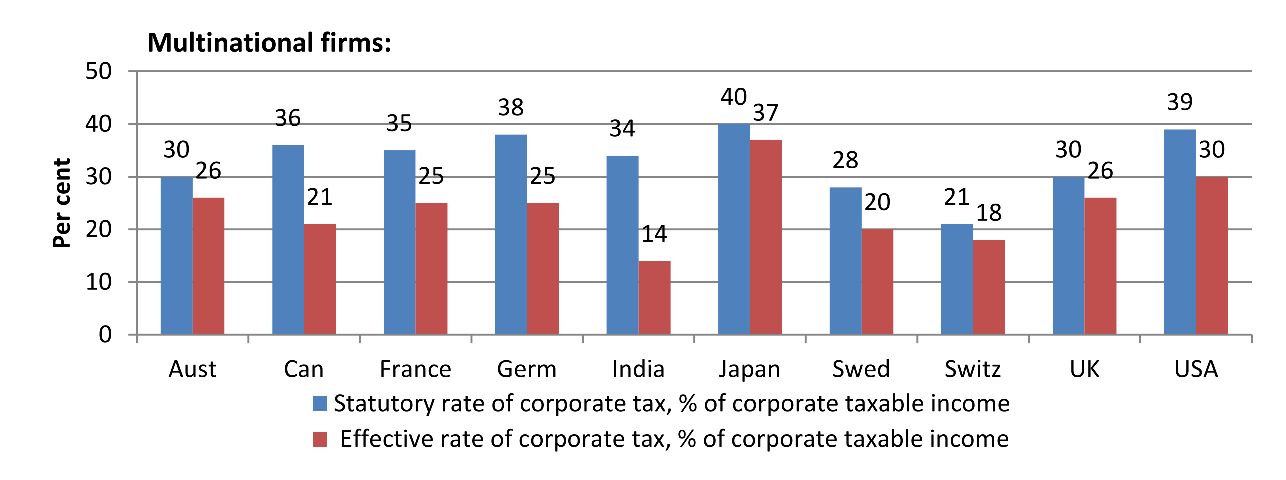
Chart: Domestic firms, statutory and effective corporate income tax rates, various countries, per cent of taxable corporate income, 2005-2009



Source: ACTU Submission to the Government's consultation on Tax White Paper 1 June 2015 p10 Table 1, and Table 1 in Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA).

[31] The Financial System- Final Report, November 2014
[32] Adapted from Table 1, Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA).
[33] ACTU Submission to the Government's consultation on Tax White Paper 1 June 2015 p10 Table 1, and Table 1 in Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA

Chart: Multinational firms, statutory and effective corporate income tax rates, various countries



Source: ACTU Submission to the Government's consultation on Tax White Paper 1 June 2015 and Table 1 in Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA).

Moreover, the current tax system allows many corporations to pay little or no tax. According to the Australian Tax Office (ATO) one in five of Australian owned private companies with over $100 million in revenue paid NO tax last year.[34] Of the top 200 ASX listed companies, 57% use subsidiaries in tax havens to avoid paying tax in Australia and nearly one third have an average effective tax rate of 10% or less.

If just the ASX 200 companies paid the full rate of company tax, it is estimated that the budget would gain $8.4 billion per year.[35] Over the past 10 years, the government has lost $80b through companies' complex tax-minimisation arrangements- the same amount as it has said it will cut from health and education over the next 10 years.[36]

Lower corporate taxes will not lead to more jobs

Despite constant calls from business groups to lower corporate tax rates, there is NO credible evidence that this will result in more jobs or economic growth. The job creation argument assumes that companies will channel profits generated by lower corporate tax rates into new capital investment. However, experience overseas corresponds with a recent study in Australia, which has shown that corporate tax cuts would not alter the investment or employment decisions of the top 15 ASX companies.[37] Rather than boosting jobs, corporate tax cuts in fact boost inequality further.

Nor is there any evidence corporate tax cuts will increase foreign investment, particularly of the sort which increases productive capacity in Australia. Analysis for instance by the US Congressional research Service shows NO credible evidence that international investment decisions are influenced by corporate tax rates.[38] Investment decisions are much more influenced by the quality of infrastructure, the skills of the labour force, links with researchers and innovators, political and legal stability. It is more than a little ironic that improving skills and infrastructure are made harder by a refusal to acknowledge a revenue rather than spending fiscal challenge.

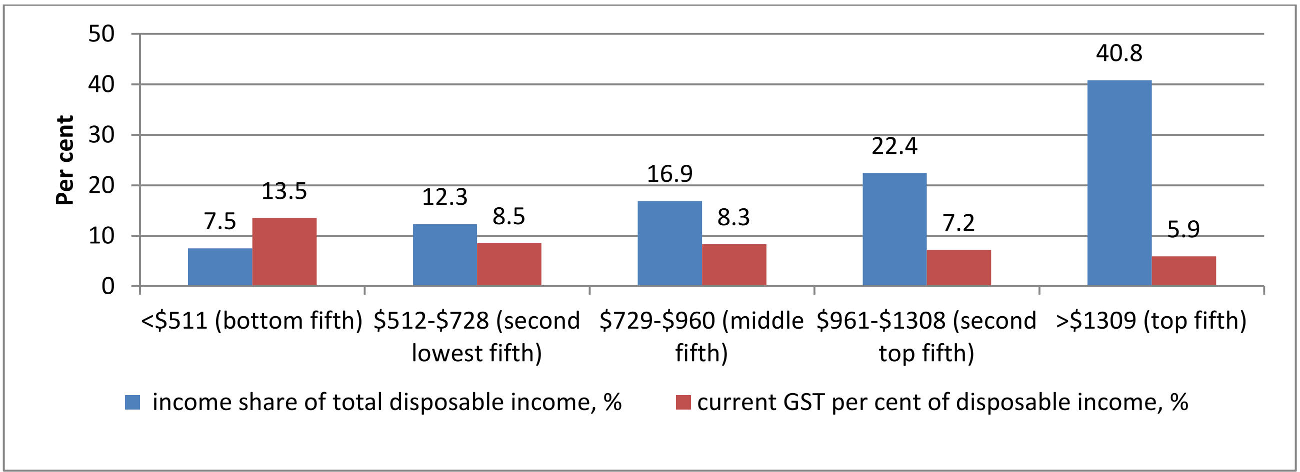
[34] (http://www.smh.com.au/federal-politics/political-news/one-in-five-large-private-companies-paid-no-tax-last-year-ato-20150923-gjsut6.html, http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/ca0cfcaf-ed36-4f85-a5f8-; Testimony of Michael Cranston, Deputy Commissioner of ATO Hearing of Senate Economics Legislation Committee Inquiry into Tax and Super Amendment (to exempt Australian private companies with over $100 million in income from publication of tax paid). p17).81953dccc1c6/toc_pdf/Economics%20Legislation%20Committee_2015_09_22_3822_Official.pdf;fileType=application%2Fpdf#search=%22 committees/commsen/ca0cfcaf-ed36-4f85-a5f8-81953dccc1c6/0003%22
[35] Tax Justice Network, United Voice ,2013 ,Who Pays for Our Common Wealth? Tax Practices of the ASX 200)
[36] 2014-15 Budget Papers
[37] **The Australia institute, Cutting the Company Tax Rate: Why Would You? ,** Dave Richardson, 30 November 2015
[38] Gravelle JG (2013) Tax havens: International Tax Avoidance and Evasion, CRS Report for Congress No R40623,23

TAX CUTS FUNDED BY GST INCREASES ARE REGRESSIVE AND DO NOT BOOST JOBS, ECONOMIC GROWTH OR REVENUE

Tax reform options promulgated by the business community include increasing the GST to fund cuts in personal tax for the top income earners and corporate tax cuts. Not only is there NO evidence these cuts will generate jobs or economic growth, these policies clearly favour the wealthiest individuals and companies.

As income increases, the cost of GST as a proportion of household income decreases,[39] with the lowest income households paying more than twice as much of their income on GST than higher income households which earn more than five times as much on average.[40]

Chart 10 Shares of income of households in total disposable income, and GST as a per cent of disposable income

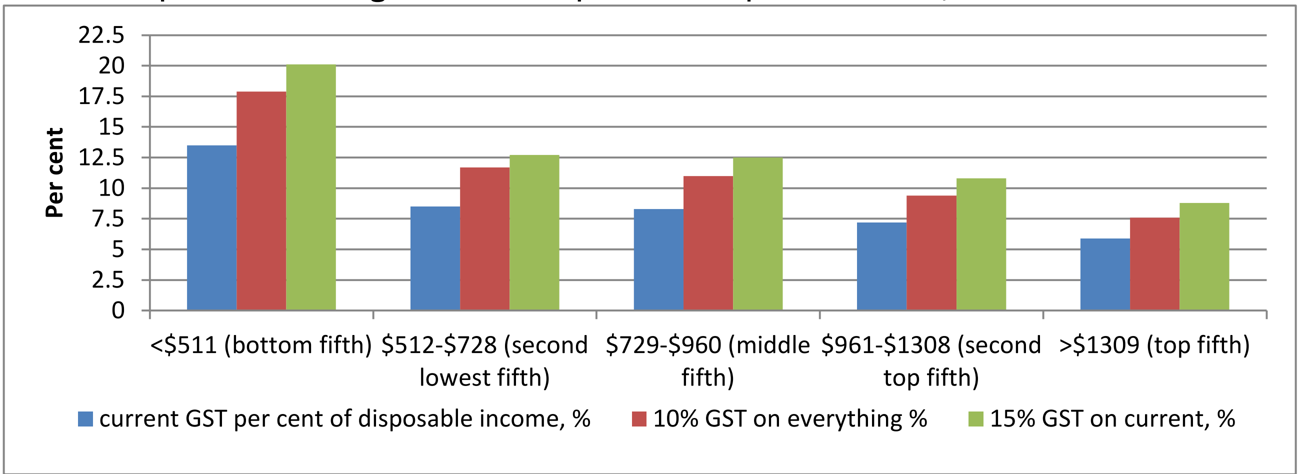


Sources: estimates derived from Phillips and Taylor 2015 The Distributional Impact of GST NATSEM, Oct., ABS Cat. 6523 2013-14, Census 2011. [41]

Increasing the GST is highly regressive

Any proposed increase in the GST exacerbates this inequity.

Chart 11: Impact of GST changes on GST as a percent of disposable income, estimates.



Sources: estimates derived from Phillips and Taylor 2015 The Distributional Impact of GST NATSEM, Oct., ABS Cat. 6523 2013-14, Census 2011. [42]

[39] ABS Cat 6523
[40] Ben Phillips and Matt Taylor, 2015 The Distributional Impact of GST NATSEM, for ACOSS, Oct 2015, ABS Cat. 6523 2013-14, Census 2011
[41] *Lowest quintile average includes the lowest two income percentiles which are negative or close to zero due to reporting losses.
[42] *Lowest quintile average includes the lowest two income percentiles which are negative or close to zero due to reporting losses.

If GST is increased to 15%, the proportion of disposable income spent on GST jumps by 6.6 percentage points of income at the bottom quintile but just three points in the top quintile.

GST and compensation

Any increase in GST accordingly would have to be compensated. When the GST was introduced, it was accompanied by $13 million in personal income tax cuts and $4.5 billion in increases to welfare benefits.[43] A further $25 billion in other taxes (wholesale sales tax and state indirect taxes), were abolished or promised to be abolished.

The package was sold on the basis that everyone would be better off, but in the following year inequality had increased. Incomes in the top 10 per cent increased markedly relative to the bottom 10%, with almost half (47.3 per cent) of the total increase in disposable income received by those in the top quintile. [44]

Personal income tax cuts do not address bracket creep and are regressive

A one off tax cut doesn't address bracket creep. Addressing bracket creep can best and most simply be done by indexing tax brackets to wage increases.

Funding personal tax cuts through increases to the GST benefits the wealthy. ACOSS NATSEM modelling shows that increasing the GST to 15% to fund a 5% cut across the board in personal tax rates would leave 64% of Australians worse off – with 86% of low and middle income households losing money, but 70% of the top income households gaining money. [45]

The ACOSS NATSEM modelling also shows that increasing GST to 15% would yield an extra $29.5 billion- which would be cancelled out entirely by 5% cuts to all personal tax rates. There would be no money left to pay for vital services like health and education.

[43] Grattan Institute, John Daley and Danielle Wood 2015 A GST Reform Package Grattan Institute Working Paper Draft only November, p13
[44] Saunders, 2004
[45] ACOSS 2015 Tax Talks 5: the effects of a higher GST on households: overview of NATSEM modelling for ACOSS, November, p6

CONCLUSION

This Budget represents an opportunity for the government to make real, lasting investments in Australia's competitiveness and future prosperity.

Short term tax cuts and expenditure cuts will not deliver the long term, sustainable growth dividends we need. Shifting tax contributions away from corporations and high income earners towards middle and low income earners will only increase inequality and undermine future growth and prosperity.

Instead, the government must address the declining revenue base by closing the gaping tax loop holes.

This Budget should invest in education, skills, job creation, industry development, infrastructure and innovation and a strong social safety net- the foundation stones of an economy equipped to transition to the jobs of the future.

In its first budget, the ACTU and its affiliates urge the Turnbull Government to reject the worn out and misguided narrative that we can either have prosperity or fairness and rise to the challenge of delivering both.

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