

Average tax rate to hit 20-year high

John Kehoe

The average tax rate paid by workers will continue to rise over coming years and hit a two-decade high of 20 per cent, pressuring both major political parties to dangle larger personal income tax cuts at next year's election.

Analysis by Deloitte Access Economics shows wage and salary earners will lose on average 20¢ in every dollar to the taxman by 2021-22. That would be the second-highest personal tax slug in the economy's history, only behind the 1999-2000 financial year just before the Howard government delivered big personal income tax cuts to compensate for the introduction of the 10 per cent goods and services tax.

Corporate and superannuation tax revenue is also gushing into government coffers to put the government on track to reach its goal of a small surplus in 2019-20, before corporate tax gains are tipped to slow in the medium term.

The Morrison government and Labor opposition have pledged tax cuts over the next few years, with Labor tilting its offering to low-to-middle-income earners and refusing to support most of the government's tax cuts for middle-to-higher earners.

Despite the Coalition's seven-year \$144 billion income tax cut package, part of which Labor has vowed to repeal, so-called bracket creep since 2010 will more than eat up the trimming of marginal tax rates and income tax thresholds.

"Inflation pushes people into higher tax brackets, and that's an ungainly and unfair way to raise taxes," Deloitte Access Economics partner Chris Richardson said in the firm's latest budget monitor. "So even though weak wage growth means bracket creep is only creeping along, it is still enough to mean the taxman will grab a bigger slice of paypackets."

If income tax thresholds had been indexed to inflation since 2014, pay-as-you-go income tax collections would be an estimated \$1.9 billion lower this fiscal year. Bracket creep rises to \$4.6 billion in 2019-20, \$7.8 billion in 2020-21 and \$11.2 billion by 2021-22, Deloitte forecasts. "And the later stages

of the tax cuts – which are substantial – don't arrive until a few years from now, which is why the punters would be paying less tax had we merely indexed 2014-15 thresholds to inflation," Mr Richardson said.

Mr Richardson, a former Treasury official, said the ongoing rise in the personal tax take meant we probably "haven't heard the last of tax cuts ahead of the coming federal election".

The government intends to unveil a series of big spending promises before calling the election and has pencilled in plans for a federal budget in late March or early April, *The Australian Financial Review* reported on Monday.

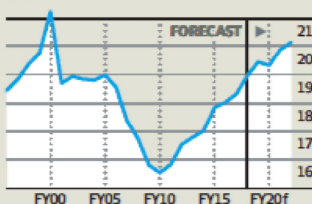
Despite the slug on personal tax payers, Mr Richardson expressed concern that personal tax cuts were unaffordable because they were predicated on a temporary lift in corporate tax revenue from a strong economy and China's demand for Australia's iron ore and coal.

The average personal income tax rate fell to almost a 50-year low of 15.6 per cent in 2009-10, due to John Howard's big proposed income tax cuts being largely matched by then-opposition leader Kevin Rudd at the 2007 election and less tax being paid in the aftermath of the global financial crisis.

The first phase of the Coalition government's three-stage tax plan began in July this year and is worth about \$530 a year to low-and-middle-income earners and will cost the budget about \$20 billion. Stage two is scheduled to begin in July 2022 and stage three is due to begin in July 2024.

Going up

Average rate of personal income tax (%)



SOURCE: DELOITTE