

Media release

Budget blow out a legacy of tax cuts to the rich

Tonight's Federal Budget would more than likely have returned a surplus, if the raft of income tax cuts introduced by the Howard/Costello Government had not been pushed through, a new analysis by The Australia Institute reveals.

The Institute used NATSEM modelling to calculate the full extent of the structural changes that those tax cuts have made to the budget.

The Australia Institute's Senior Economist Matt Grudnoff found that income tax cuts between 2005-06 and 2011-12 have taken a massive \$169 billion out of the Federal Budget, meaning the deficit announced by Prime Minister Gillard might not have eventuated.

"The impact of the Howard/Costello income tax cuts on the Federal Budget has been huge. They were delivered at a time of strong economic growth, ignoring what would happen when that growth slowed," Mr Grudnoff said.

"Mr Costello chose to take the windfall generated by the mining boom to fund large and permanent cuts to income tax. What he didn't say at the time was that he was funding a structural change to the budget with a cyclical boom. This was simply unsustainable," Mr Grudnoff said.

On top of these changes, during the 2007 election campaign both parties put forward additional income tax cuts. These were passed by the Rudd/Swan Government.

"Our analysis shows that the benefits of the income tax cuts were not evenly spread. They predominantly favoured higher income earners. By 2011-12, only 2.7 per cent of taxpayers faced the top tax rate," Mr Grudnoff said.

"Had the tax cuts not taken place, the 2011-12 budget would have been \$38 billion better off. Instead, the top 10 per cent of income earners gained \$16 billion. This was more than the total benefit to the bottom 80 per cent of income earners.

"This sheds an entirely new light on the current debate about whether we can afford the Gonski reforms, and whether we need to strip hundreds of millions from the public service.

"If the budget is in deficit because of income tax cuts that primarily benefited the highest income earners and that is being used as a reason not to give more money or support to the poor and disadvantaged, then political debate in Australia has reached a new low," Mr Grudnoff said.

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