

National Press Club Address - 31st January 2024

Australia's Tax dilemma: the case for real reform



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Andrew Probyn:

Now, thanks guys. We at the National Press Club like lively debates. So, let's go to an early point of distinction between you two at whether Australia is a low or high taxing jurisdiction. Now, Allegra, you said before that Australia relies more on income tax than most OECD countries. And backing that up is actually Richard Dennis here with this document which shows that when it comes to income tax, Australia is well this New Zealand, Iceland, Denmark that collect more. So that sort of seems to contradict your argument, Richard, but first to you.

Allegra Spender:

Look, I think let's look at our tax system and then look at income tax in particular. So, Australia, I've seen the stats. Australia in relative terms is not a high taxing country and that's a decision that we've made. We have looked at the US and how they do things and we're like, you know what? We don't want to be like them. But we have also looked at Nordic countries and those models and we're not saying, well, we necessarily want to be like them either. Australia has walked different courses and I think we should be proud of that and say, look, we have made deliberate choices that are different to other countries. But what Australia is distinctive is we rely a lot on taxing working age population. And the problem I have with this and the thing that really concerns me is when you're working and I'm looking at my young you're trying to raise your kids and pay all those expenses, those are the taxes that really, it's when you actually need your money.

Most to be honest is when there's those early mid-year and I think that's my concern with our tax system is that we rely a lot on working aged people, which puts a lot of pressure when there are a lot of other financial pressures at the same time. And plus, we're going to have fewer and fewer working age people than we have in the past. And so, I think our tax policies as they now are set with the focus on income tax that we have in this country has meant that we really push it on working age people and where particularly the young ones, they're being left behind.

Richard Denniss:

Look, to be clear with the stage three tax cuts, everyone earning under a hundred thousand dollars is going to be a lot better off in saving for their house too and saving and paying their rent too. So yes, I can imagine a high income earner who wishes they were getting an even bigger tax cut and I can imagine a high income earner who thinks if only they got that tax cut, they'd be closer to getting their house, but they'd be beating someone at the auction who didn't get that tax cut. So, we need to be really clear here that we're talking about how if at all, and we don't have to fix any problems. It's a democracy. We've ignored climate change for long enough. We can ignore inequality if we'd like to. If we want to reduce inequality, there's only one way to do it. The people at the bottom, their incomes have to rise faster than the people at the top. But

Andrew Probyn:

Richard, back to the question, it's about composition as you say, but it's correct to say that when it comes to income taxed only New Zealand, Iceland, United States are higher. No, you're defining it in particular way.

Richard Denniss:

Everyone's defining everything in a particular way.

Andrew Probyn:

It doesn't help.

Richard Denniss:

Well,

That's why we put it in here. Let's be clear. Australia has a dishonest debate about tax. Most Australians think we're high tax. This is not true. Most Australians think our income tax are high. This is not true. The reason I included that number in this is that's the one number, that's the one number that Inni Willocks and the business community love to rely on. That's why it's there. I'm not trying to hide it. I'm trying to explain it. So let me explain it. Australia doesn't collect much tax but of the little bit of tax we do collect, a lot of it comes from personal income tax.

Allegra Spender:

You and I agree. No,

Richard Denniss:

You've got to explain it. We're having a tax reform debate. We don't collect much tax, but of the little bit of tax we collect, a lot of it comes from personal income tax. If we had a carbon tax, our reliance on personal income tax would look lower. If we had a mining tax, our reliance on personal income tax would look lower. Now a lot of people can't do statistics in their head. The reason I put that number there, I'm glad you've asked me about it, is because we've had people cherry picking numbers like that for years and until it stops, we're going to get.

Andrew Probyn:

Nowhere. Okay, let's go straight to a guy who can actually do statistics in his head. Andrew Tillett.

Andrew Tillett:

Thanks probes. I think I was going to raise about taxation being legalized theft, but I don't think we'll go there. So no, my question, Andrew Tillett from the financial review and also board member here at the Press Club, Allegra, believe it or not, in 12 months' time we could be on the campaign trail. If we end up with the situation with a hung parliament, would you make genuine tax reform a condition of your support for either Prime Minister Anthony Albanese, opposition leader Peter Dutton to become Prime Minister?

Allegra Spender:

I think wow, we are talking about Hung Parliament already,

Andrew Tillet:

Joy over three years.

Allegra Spender:

For me, to be honest, I hope that we don't get to that phase, I'll be honest because I think that both the government and the opposition will be under significant political pressure to real tax reform to the next election. I don't see how the government can get away with having, let's be honest, they have said broken a promise on what they were going to do. They said they were going to make any changes to tax. They have made substantial changes to tax. I don't think they can go to the next election and say, you know what? We're not going to make any changes to tax. They will not be believed. So, this is their choice now. This is the opportunity the government has to say, okay, there are some really significant issues with our tax system. This is the time to change it, to look that in the face and to go do the election with that and ditto from an opposition point of view. They can say, no, no, no, they can criticize all they like, but until they're serious about putting a policy forward, I think a lot of people will say, well, what's your plan instead? And so, I hope very much that we won't get to that pace. If it comes to that. I would certainly say that should be a negotiation point if we come to a high parliament.

Andrew Tillet:

Thank you.

Andrew Probyn:

Okay, Rhianna Down

Rhianna Down:

Hello, Rhianna Down from the Australian newspaper. Thank you for your speeches. Allegra the teal independents have talked about bringing integrity back into politics. Do you think some of your fellow Teal MPs are being hypocritical by endorsing a broken election promise?

Allegra Spender:

I'm sorry, can you repeat that second half of that?

Rhianna Down:

Do you think some of your TMPs are being hypocritical by endorsing a broken election promise on stage three tax cuts?

Allegra Spender:

I think the government made their choice about taking stage three tax cuts to the election and they have made their choice to abandon it. That is the government's broken promise. I don't think that's up to the MPs. For me, my job right now is to go to my community and say, okay, what do you think? Because this is a fundamental change and I think this is also going to be the most significant cost of living relief package that I think the government is going to be offering this year. And so, I think that's what we're trying to do or that's certainly what I'm doing. I'm going to my community and saying, okay, this is a fundamental change. This is going to make a big difference to different people. What do you think? And that's where I'm seeing today. There's a mix of views in the community.

There are a lot of people who say, this makes a really big difference. Right now, I'm having a hard time. It's really important to me. There are people who are saying, you know what, I'm losing out, but I think that's okay because I want to help other people. I think this is tough. And then there is that third group that I mentioned who said they relied on it. And I think that comes to the issue. I don't think the government had to take stage three to the election, but once they did, people relied on it. And you can't blame them to say, okay, when they were doing their budget, I'm going to save this money for putting this to mortgage, I'm putting this to rent. And that is the part that really hurts people is because they were relying on it. So that's why I think it's really tough.

Andrew Probyn:

Richard, you've already told us you don't mind some broken promises, but how much damage does it do on the way through?

Richard Denniss:

It does do damage. And I regret that I broke a promise to be here today. I had promised to be at another event and when the press club rang me last week and asked me to come, I rang the event organizers and I said, I lied. I broke a promise. And they said, I understand the context in which you broke that promise, Richard. And I think that's a great opportunity and you should take it. That's what grownups do.

Andrew Probyn:

Okay, next.

Richard Denniss:

Question. No, no. Let me put it into economic context. In the lead up to the last election, the reserve bank governor said that he didn't expect to increase interest rates until 2024. You know what he did 13 times, and everyone's mortgages went up while they were waiting for the tax cuts and people's rents went up. Promises are contextual. I don't think labor should have gone to the last election promising to support the stage three tax cuts because they were a bad idea. But even if they'd promised to do them, and I thought they were a good idea at the time even if I'd had supported them at the time. And then interest rates went up 13 times and energy prices went up and real wages fell, and they turned around and said, I think we should break our promise. I'd still be sitting here today saying good call. That's what grownups do.

Andrew Probyn:

Ben Westcott

Ben Westcott:

Ben Westcott from Bloomberg. And just on your last point, Richard Philo did lose his job over what he said around that. Anyway, Andrew Tillett stole my questions. Here's a different one. The cost-of-living crisis is temporary, but these tax cut changes are for presumably at least a decade, a long time at least. What's your response to the argument that this is a permanent solution to what is essentially a temporary crisis?

Richard Denniss:

There are no permanent solutions. Can we all just get over that? What we need governments to do every term of office is change policies to help achieve their stated objectives and to cope with circumstances as they come along. The coalition was in power for 10 years and never ever increased the tax bracket. Now they're talking about what will happen to middle income earners if labor never changes tax cuts ever again for the next 10 years. There's the problem. So, the question is right now in the middle of a cost of living crisis when real wages are falling and cost of living is rising, and if we don't change these tax rates, we are going to give nothing to people earning below \$45,000, not a cent. So, if we don't give them support through changes stage three, the only options are do nothing to help them or spend billions, tens of billions of dollars to help them.

Can you imagine if the government stuck with the stage three tax cards and said, but here's 10 billion in income support for low-income Australians. People would be buying about, oh, you're going to cause inflation. So, the option available to us today is change stage three to help low-income earners do nothing and say to low-income earners bad time to be poor or shovel money onto the problem and get criticized for causing inflation. None of those, that's why the Prime Minister put it off for two years. That's a tough decision. And he's waited to see how things have worked out because these tax cuts kick in July one. So, is it a permanent thing that he's done? Well, it's a permanent thing that he's going to introduce this bill and you know what we can do next year or the year after or the year after that, introduce some other legislation. The question is do we do something or not? And of all the somethings, which one hurts the least? That's why I support the change have made.

Andrew Probyn:

Esther Linda.

Esther Linda:

Hello, Esther Linda from Australian Associated Press. My question is to Allegra, a common refrain from the Teal MPs during this debate is that you've all been canvassing your communities in order to understand how they feel about the changes. Is Wentworth able to fairly weigh up the competing interests in the stage three changes given it's the wealthiest electorate in Australia?

Allegra Spender:

Yeah, I think it is. And to be honest, if you look at the stats, 66% of Wentworth will benefit from these changes. So, I know everyone has a view on Wentworth, but it is much more diverse than most of the country would expect. So, there are 66% of Wentworth who are already saying what in broad terms for most people are saying this is a good thing. But I think we are also the biggest electorate, the electorate with the biggest proportion of people who are going to lose out. And so, I think it is fair to ask them, you were promised something, the government didn't have to make that promise. They did make that promise. And people do take governments on their word to say, well, how do you feel about that? And that's why I think it's really important to ask the community about that. And I said there is this sense of this split and I do think on the results we've had so far, there is majority of support out there for this change. And I think there's actually a really significant group of people who would've benefited who were also saying, you know what? We want to help other people. This is a really hard time right now.

Richard Dennis:

Sorry, just quickly, in the 2019 election when labor opposed all of stage three and proposed changes to negative gearing, changes to franking credits and changes to capital gains tax, the seat of Ong Josh Frydenberg seats swung 7% to labor. All of the teal seats swung to labor in 2019 when labor was

opposed to all of stage three and to a lot of much more ambitious tax reform on wealth. So, let's look at the scoreboard. When labor in 2019 put up a progressive radical tax agenda, high income electorates voted for it. Bass and Braddon in northern Tasmania swung against them and that's why they lost office. But high-income voters supported the 29 changes

Andrew Probyn:

Allegra to borrow from John Lennon, your electorate's more likely to shake its jewelry than applause, such as its demography. If that's the case, then you've already got your answer when you've said 66% are going to benefit. So, where's your vote?

Allegra Spender:

Look, I'm still working on working that out because I don't think really.

Andrew Probyn:

You're really working it out.

Allegra Spender:

Yeah, I am and I'm serious. And I think that's important because I want to make sure that the broad aspect of the electorate is behind it. Otherwise, we will get into purely this idea that mob rule. If you're a minority, it doesn't matter what you think. And I do think that as I want to have a conversation with the community, I said I would represent my community and that means really understanding what they think. And I'm really proud to do that. Paul

Andrew Probyn:

Paul Karp.

Paul Karp:

Paul Karp from the Guardian. Thanks very much. The coalition has said that their principle is that nobody should get less than stage three. Could I ask both of you, but starting with Allegra please, what do you think of a possible amendment to make the labor package even more generous by not taking from high income earners to pay for the tax cuts for the low- and middle-income earners?

Allegra Spender:

Look, I think, so my position is actually I support cutting income tax for lower income earners. I think it's actually that is a really positive part of this. But I also support reducing basically taxes on labor across on people who are working across the board. But I think you need tax reform to pay for this. I don't think you can just say, well, we just cut, cut, cut. And that is the problem. I think with the original tax policy, as I said before, it was all sugar. It's all like here have the money, but we're not dealing with that reform. And the point on the reform reason why I keep on going on about this is because there are bigger issues at play that have longer term, that have a long-term impact on people right now. And so, this intergenerational equity that is a really big issue.

The fact that we have low productivity, which is a big issue. The fact that we can't are choosing the expensive path down for our climate action, which is also an issue. And so, I think if you're going, they're looking at any of those sorts of reforms, they have to work out how they're going to pay for it. And I don't think that's simply cutting tax. I think that's actually rebalancing and reforming the tax system. And

I frankly think we haven't had the conversation yet as a country around this because both the major parties won't have those conversations. And again, that's what I'm trying to do.

Richard Dennis:

Look what the coalition are proposing if they want no one to be worse off, but low- and middle-income earners to be better off is much bigger, more expensive tax cuts. I'm not quite sure which other of the Liberals' principles that fits with, but it certainly wouldn't be good for the budget deficit. And in this climate, it probably would be inflationary. So again, we have to look at how hard the choices on the table are. What labor's done is recast within an existing spending bubble they've taken from one group and given to another group. I think that makes a lot of sense in this crisis. For the liberals to say everybody leaves with a prize, what they're really saying is we don't care about the budget deficit, we don't care about inflation. That's interesting. I hope they own that relatedly. Well, I think a hard question for the coalition is will they support these tax cuts for low- and middle-income earners before the Dunkley by election or after?

I think reality reality's going to bite. And the only thing Peter Dutton's in control of at the moment is the timing of that. So relatedly, you talk about the coalition. Where are the National Party MPs on this? The National Party represent the lowest income electorates in the country. We've had National Party MPs out saying that \$190,000 isn't a lot of money. I've referred people to this top-secret thing called the OECD website. I'd encourage maybe some MPs to have a look at something called the census because they tell you there aren't a lot of people in most national party seats earning anything like \$190,000. So, the coalition between the liberal party and the National Party, you might be able to understand why once upon a time they were trying to win inner city seats, both throwing large tax cuts at high income earners. Maybe that's what Scott Morrison was trying to do in 2018. But what is the National party trying to do in 2024?

Andrew Probyn:

Pablo Vinales

Pablo Vinales:

Pablo Vinales, SBS. Thank you. Australia's reliance on personal income taxes, obviously not alleviated by these changes. And Allegra, you mentioned some of the areas where you'd like to see changes more broadly in the tax system. I wanted to get your views on unwinding, negative gearing in particular, and do you think constituents in your electorate that are beneficiaries of this concession would be in favour?

Allegra Spender:

That's why what I've said from the beginning is I think we need to take packages of reforms to the people and to deal with, I think the big issues in relation to intergenerational equity, in relation to productivity and to climate action. Now, I've seen the rule in rule out this week on negative gearing, and I think that frankly is so destructive to what we're trying to do right now. The opportunity we have, which is actually have a profound conversation about tax. We should be looking at how do we make sure that we reduce our reliance on income taxes and sure negative gearing, savings, taxes, capital gains, taxes, they should be on the table. And those are the trade-offs that I'm trying to put forward in green paper and that's what I'm going to be taking to the community. So, I think we should consider those sorts of changes and I think my community's open to considering those sorts of changes, but they also need to see, well, what's the benefit? If we constantly just look at changes in isolation without trade-offs and actually putting together real packages, then I think you won't get the support. But I think

if we can build consensus around a package of changes that have winners and losers and balance, then I think you will get consensus and that's really what is up for me to try and deliver.

Andrew Probyn:

Nick Stuart.

Nick Stuart:

Two fantastic speeches. You've both agreed that we really need to shuffle the tax system but isn't the reason that this has come to the fore. The problem with housing shelter is such a critical element for everybody, no matter who they are. What answer can we find that will either shift the tax system but give us more houses so that people can actually live in Australia?

Allegra Spender:

I might jump in there. Look, I think you're absolutely right. I have to say, I think economically housing is the hardest issue for many Australians right now. We are a rich country, but we don't feel rich and families are under pressure because our housing is so expensive and that it is a fundamental problem that we have and that is also why the younger generation is slipping behind. A significant part of that is due to housing. So that's why stamp duty should be on the table and land tax, that shift is really important to increasing. Basically 350,000 more people in New South Wales alone would own a home if we made that split. We also need to look at other tax implications such as capital gains tax and negative gearing. They should definitely be on the table, but let's be honest, the biggest driver of housing costs in this country have also a significant, the most significant driver has been supplied. And so, I think the government has recognized this is doing things on this needs to do more, and we need to really be pushing this. This is going to take 10, 20 years to get right. It's taken 20 years of absolutely failed policy at every level of government to get into the crisis that we are in right now.

Richard Denniss:

Look, again, maybe if we were serious about fixing this, we could look at maybe any other country in the world and see how are they going? Because as Allegra said, Sydney that's got negative gearing and got capital gains tax concessions has the second most expensive housing in the world and it's getting more expensive. So, guess what? Negative gearing and capital gains concessions haven't helped. Maybe they're not big enough. Well, that's logically one possibility, isn't it? Or maybe they don't help at all. So, what other countries do, and stick with me, this gets a bit complicated is,

Andrew Probyn:

And you might have to be quick here because it be quick, try to squeeze in another question. It

Richard Denniss:

It's really complicated. In other countries, what a lot of governments do is borrow money and build houses and rent them to people.

Andrew Probyn:

Okay? And the last question we have today is from Daniel Holmes.

Daniel Holmes:

Hey, thanks very much. Are tax cuts like these just another way of shrinking the size of government, really? I mean, we know that government spending is going to need to go up in the future and we've got a shrinking tax base. So how do you present a tax cut like this without shrinking the size of government?

Richard Denniss:

Well, in the short term, that's exactly right. And that's the point I made in the speech that we're already a hundred billion behind the OECD average and we just dropped another 20 billion. But we should do that right now because we are in a cost of living crisis and there's no other available option to help millions of Australians. But in the long run, we need to broaden the tax base. I agree with that part of the tax reform. We need to broaden the tax base. We need to tax pollution, we need to tax the resources industry. We need to close loopholes. I don't mind if we tax land, but to be clear here in Canberra, we've shifted from stamp duty to land tax. And guess what? We've got expensive housing too. So we're going to have to collect more tax, we're going to have to spend more money. But there's a difference between what we need to do right now and where we need to get to

Allegra Spender:

Look. So the taxes that are being handed back, they are mainly or significantly due to bracket creep. There's a significant amount of tax that is due to income taxes, people just paying more. And at the moment, while you're right that Australia is a low taxing country compared to many other countries, our tax take from income tax is actually really high right now by historical standards. So I think that the choice is not whether government gets, it's also about whether it stays in people's pockets. And I think in the moment right now when people are facing really difficult circumstances, the question is, well, I liked that money to be in my pocket right now so I can pay for my rent so I can pay for my mortgage and my electricity bill. So that is, I think really the question why I think it is appropriate that we are giving people money back. And frankly, I think how I see it is I would support, I'd love to see more low and medium income people get more tax back. I think that's really important because then they can make the choices about the things that they want to spend money on. And I think that is the system that we are trying to create.

Andrew Probyn:

And with that thought, we will have to wrap up. I'm not sure if we solved anything today except for a couple of things. Tax is good and we have a search for consensus. So can you join me in thanking Allegra Spender and Richard Denniss.