

The Hon Scott Morrison MP
Treasurer of the Commonwealth of Australia

26 April 2018

[Speech](#)

“Lower taxes for a stronger economy”, Address to the Australian Business Economists, Sydney

Check against delivery

Our economy is continuing to strengthen.

All Australians do and must share in the benefits of a stronger economy.

The benefits of a job, an income, a wage, reward for effort, investment and making sacrifices. The benefits of essential services like Medicare, Hospitals, Schools, aged care and the pension.

All of this is reliant on a strong economy.

Without focusing on doing the things that build a stronger economy, you are putting these benefits and these services at risk.

In twelve days I will deliver my third budget. It comes at another pivotal moment for our economy where opportunity and risk abound in equal measure.

[Chart 1]

Jobs growth remains strong and has been at record levels under the Turnbull Government.

More than 1000 Australians have been getting jobs every single day over the past year, with the vast bulk of these jobs full-time positions. This has led to a tightening in the labour market which is building pressure for better wage growth.

As noted by RBA Governor Philip Lowe earlier this month: "The latest data suggest that the rate of wages growth has now troughed, with a pick-up evident in the most recent quarter. A further lift is expected."

[Chart 2]

Business conditions are also strong, prompting a welcome surge in investment in the non-mining sector, increasing by 12.4 per cent through the 12 months to December 2017 - the largest rise in a decade.

Last week the IMF provided a further endorsement of the government's economic outlook that underpins our numbers, upgrading its forecast for 2018 to bring them broadly in line with our own forecasts and that of the RBA.

Our economy is finally shaking off the dulling effects of the downturn in the mining investment boom.

Now is the time to build upon growth, to create even more jobs and ensure as a government that we can continue to guarantee the essential services Australians rely on.

That is what this year's Budget will be about - a stronger economy, to create more jobs and guarantee the essential services Australians rely on.

And, as always, ensuring that the Government continues to live within its means.

A weakened economy erodes all of these vital things.

The Turnbull Government's national economic plan is delivering a stronger economy and we need to stick to this plan.

Our legislated tax cuts have given small and medium businesses a welcome shot in the arm, providing them with the ability to invest, grow and hire more Australians.

We are building Australia through our \$75 billion infrastructure plan, to bust congestion in our cities and make our rural and regional roads safer.

Our plan now includes a \$5 billion commitment to build the long-awaited Tulla Rail in Melbourne; a nationally-significant project decades in the waiting. So many of us have sat idle in traffic on the Tullamarine Freeway, pining for a fast train.

We have delivered record investment in our defence industry, creating jobs and supporting new high-tech companies. We have opened the doors to an array of opportunities for our businesses courtesy of new trade deals across the globe.

We have invested in science and technology, new business start ups, backing entrepreneurs with new tax incentives, supporting our manufacturing industries transition and taking action in our banking and financial services sector to ensure it is more accountable, more competitive and doing the right thing by customers.

Naturally, a stronger economy provides for a stronger budget.

[Chart 3]

Company profits that were savaged in the prolonged come down from the mining investment boom, with private company profits in the National Accounts decreasing on average by around one per cent every year in the five years to September 2016, took a heavy toll, including on Government revenues.

During this time, businesses put their hands in their own pockets to keep their employees in jobs and provide the modest wage increases they could.

Since then, the clouds have been lifting. The tangible evidence of this is found in the increased tax receipts to the Commonwealth.

Tax receipts up until February were running \$4.8 billion higher than we estimated at MYEFO in December, including \$1.2 billion in higher individual tax receipts and \$3 billion in higher company tax receipts.

This has been preceded by the Government taking action to get spending under control, employing a strict budget policy on each department: Want to spend money? Find taxpayers some equivalent savings to offset it.

[Chart 4]

This has brought a consistent discipline to our budgetary process that has kept us on track. Real expenditure growth remains below two per cent – the lowest of any government in at least the last 50 years.

As a Government we have also not relied on commodity price assumptions to prop up our budget. Hence where there have been improvements they have supported the bottom line, rather than being spent on the hope they will be sustained, as predecessors have done.

This will be another responsible budget that sticks to our plan that has been keeping us steadfastly on track over the past five budget statements to bring the budget back into balance by 2020-21, shoring up our AAA credit rating in the process.

Australians are not easing off, and nor do they expect the Government to.

That is why this will be another Coalition Budget that sees the Government living within its means.

But it will also be another Coalition Budget that continues to focus on strengthening our economy as our priority.

[Chart 5]

Our actions to turn around investment in this country and get jobs growth moving again, the majority being full time permanent jobs, and reducing welfare dependency for working age Australians to the lowest level in 25 years, is also why we've been able to stay on track to bring the budget back to balance.

A stronger economy means a stronger budget.

In this year's budget, we will act again to build a stronger economy that enable us to shore up the nation's finances and guarantee the essential services that Australians rely on both now and into the future.

Only a stronger economy, backed up by a Government that knows how to live within its means, can provide a real guarantee on these essential services - Medicare, schools, hospitals, aged care and disability services

[Chart 6]

In last year's Budget, we asked Australians to fill the \$57 billion shortfall in funding for the National Disability Insurance Scheme that we inherited when we came to Government through a 0.5 per cent increase in the Medicare Levy, each according to their means.

Labor put forward the same proposal to part fund the NDIS when they were in Government, which was supported by the Coalition on a bipartisan basis in opposition. It was the right thing to do.

The plan we outlined last year has been well supported by Australians but, disappointingly, this time it did not receive bipartisan support from Bill Shorten and the Labor Party in the Parliament.

Australians agreed it would provide certainty to the hundreds of thousands of Australians who live with a disability, and help support their families and carers.

We have appreciated that support as I am sure those with disabilities and their carers and families have also appreciated.

As my brother-in-law Gary, who has MS, explained to me last year about living with a disability and I recounted to the Press Club:

"People are enormously generous, not just happy to help, but keen to help. It's not flash being disabled. But if there's anything good about it, it's that you're disabled in Australia".

We did not put forward this proposal in last year's budget lightly, as we knew it would cost Australians more, but we had faith in the big heartedness of Australians. It was about helping your mates.

Julia Gillard put it well when she said "everyone puts in because everyone takes out".

Labor have clearly asked away from this view in Opposition.

A year later, our fiscal position has improved. The conservative estimates we had prepared at the time, proved to be conservative.

It is always the right thing to do be on the cautious side of the line when it comes to managing your finances.

Our economy is now stronger and it is continuing to strengthen under the Turnbull Government's national economic plan. This has created more and better options.

That is why we are now in a position to give our guarantee to Australians living with a disability and their families and carers that all planned expenditure on the NDIS will be able to be met in this year's Budget and beyond without any longer having to increase the Medicare levy.

Fiscal details of this decision will be set out in the budget. The decision is also taken without impacting on the Government's plan and timetable to return the budget to balance.

This is the benefit that comes from a stronger economy.

It remains the case that Labor did not fully fund the NDIS when they were in Government. What I have announced today is that this gap can now be made up over time by continuing to deliver a stronger economy and by ensuring the Government lives within its means.

The Turnbull Government has a plan to do this and can be trusted to deliver both.

The task we now have to focus on is delivering the NDIS in the most efficient and effective way possible. It still has a long way to go and there is still a lot of work to do to get it right. That is what we will be focusing on.

The reason we proposed to increase the Medicare Levy was only to fully fund the gap left behind by Labor on the NDIS.

By their own admission, however, Labor's proposal to increase the Medicare levy for those earning more than \$87,000 and to increase the top marginal tax rate had nothing to do with funding the NDIS. Their proposal was just another Labor tax increase on working Australians.

So why now have Labor dropped their Medicare levy increase, but kept their permanent increase in the top marginal rate.

This is in addition to Labor already boasting of and getting ready to hike more than \$200 billion in additional new taxes on Australians if they win power at the next election.

Taxes on small businesses, taxes on retirees and pensioners, taxes on family trusts, taxes on mums and dads who negatively gear their investment properties and taxes on workers. The list grows by the month.

Labor's plans for higher taxes will make our economy weaker, not stronger, putting at risk the benefits, the jobs, the wages, the incomes and the essential services that depend on a stronger economy. And we all know Labor can never live within their means.

As economists, you are more than aware of the intrinsic link between tax and economic growth, and how creating an unnecessary tax burden squashes incentive and aspiration, and chokes demand.

Tax can go too far.

The Turnbull Government fundamentally believes that one of the ways you build a stronger economy - to create jobs and allow you to guarantee the essential services Australians rely on - is by ensuring the tax system does not act as a sheet anchor on growth and aspiration.

The bigger the tax burden gets on the shoulders of Australians and our army of business owners, the greater the risk that it will cost jobs and restrain economic growth.

This is why it is important that when you put a budget together, you set clear ground rules on the level of tax you are prepared to ask Australians to pay. And you stick to those rules.

One of those rules that we have set is a speed limit on taxes, so we don't get into the fools scenario where you let your taxes chase your spending.

[Chart 7]

We have imposed a speed limit on taxes in our Budgets, that requires that taxes do not grow beyond 23.9 per cent of our economy.

It's easy to keep spending more money if you think you can endlessly keep raising taxes. That's what Labor thinks. But this thinking forgets that if you tax your economy too heavily it begins to eat itself, like a snake eating itself from the tail. That is what Labor's tax policies will do to our economy.

In the last forty years taxes as a share of our economy have only been above 23.9 per cent of our economy on just five occasions, including the one off spike from the introduction of the GST, rising only as high as 24.3 per cent.

Labor have abandoned their previous commitment to a speed limit on taxes. They do not want to be constrained.

At the last election Labor's proposed tax increases were going to take taxes as a share of our economy to 25.7 percent. Even Whitlam did not dream of taxes at those levels. At that level, Labor will impose \$50 billion a year more in taxes than our Government's tax speed limit at the end of the medium term.

And now they have extra new taxes on family businesses, retirees and pensioners adding to those on Small businesses, housing, investment, wage earners, and the list goes on.

Under Labor, Australians will pay more in higher taxes, as they take your money and just spend it and whatever pops into their head.

Our tax speed limit is not just a discipline to protect against uncontrolled spending, it's also an indicator of when tax relief is most urgent for the economy. It's a warning light.

In 2016-17, tax-to-GDP was 21.6 per cent, with tax receipts having grown by 4.7 per cent from the previous year. This year as company profits have moved out of their lull, Treasury predicts a 7.9 per cent rise in tax receipts, with the tax-to-GDP ratio to rise to 22.5 per cent before reaching 23.8 per cent in 2020-21 when the budget is projected to return to balance.

Clearly, tax relief will be required to stay under our cap on current projections over the forward estimates and across the medium term.

[Chart 8]

But it will also be required to prevent too many Australians moving into a higher tax bracket. The Parliamentary Budget Office predicts bracket creep will see Australians paying an extra \$52 billion in tax by 2021-22 if our tax thresholds remain the same.

So in light of these figures, it is important to define who actually does pay tax in this country. Who shoulders the burden, and is our system (and the perception of our system) fair?

Because there are plenty of myths being put about by those who just want to increase your taxes.

A regular refrain from the high tax club is that our companies don't pay tax.

Well there is \$68 billion in corporate tax receipts from 2016-17 that says otherwise. As a percentage of GDP, that collection represents 4.4 per cent; that is twice what it is in the US at 2.2 percent and significantly higher than the UK at 2.5 per cent.

In the latest tax statistics to be released tomorrow, the top 10 companies paid 27 per cent of total corporate tax - more than the amount paid by almost one million small companies across Australia.

The top 50 companies paid 38 per cent of all corporate tax collected.

[Chart 9]

But not only are these companies paying a significant share in taxes, they are also paying one of the highest corporate tax rates in the OECD at 30 per cent.

When Peter Costello slashed the company tax rate from 34 percent to 30 per cent in 2001, there were 19 OECD countries that had a higher rate than Australia's new setting.

Now that President Trump's substantial tax cuts have taken effect, there are only two. And in 2020 there will be one after France's already legislated rate cut takes effect, leaving our companies at a significant disadvantage compared to our competitors who are benefiting from a 19 per cent rate in the UK, a 17 per cent rate in Singapore and on average a

combined federal and state rate of around 25 per cent in the US.

We have already delivered a five percentage point reduction in tax rates to businesses with a turnover under \$50 million, and it remains our mission to extend those cuts to all businesses, to give them the incentive to invest, hire more Australians and create a stronger economy.

We also see the same picture on personal income tax.

This burden is also carried by the few, not the many, despite the claims of the high tax club.

[Chart 10]

A massive 17 percent of the \$186 billion collected in personal income tax for 2015-16 was paid by the top one percent of taxpayers.

One percent of taxpayers, paying seventeen percent of the personal income tax collected!

Extend that out further and you find that the top 10 percent of taxpayers pay 45 per cent of total personal income tax paid to the Commonwealth.

Twenty years ago, the top 10 per cent paid 36 percent.

The latest 2015-16 tax stats also show the 416,000 Australians who were in the top tax bracket paid \$56 billion in that year - that is 4.1 percent of taxpayers paying 30 per cent of the personal income tax raised.

When you combine the top two tax brackets, you get 2.4 million Australians, 23 per cent of taxpayers, paying 65 percent of personal income tax.

Less than a quarter paying almost two thirds.

These are the people that Labor believe need to pay more tax and they are happy to hit. These are people earning more than \$87,000 per year. These are Labor's fat cats.

It is also important to note that in 2015-16, 3.6 million Australian households received more in Government payments than they paid in income taxes. This reflects around 40 per cent of households.

Four out of every ten households not paying any net tax after benefits.

The income tax burden is already falling on a smaller group of Australians who also play a critical role in creating and building the stronger economy that all Australians rely on.

[Chart 11]

And if Labor get their way, they will send Australia's top marginal tax rate to 49 per cent, compared to 47 per cent under the Coalition, not only well ahead of most of our fellow OECD nations, but with a vastly lower threshold where that top rate kicks in.

Being successful in Australia is not something we should sneer at, nor something we should seek to punish, discourage or demonise.

We must always resist the temptation to play class warfare in Australia. We are not the United States or the United Kingdom. We have a very different economic history.

Do we really think the country and our economy is going to grow by adopting the politics of envy rather than the economics of opportunity? It has never worked before.

Success should be nurtured and celebrated, instead of having a target on its back from Labor.

Successful Australians do not begrudge paying the larger share of tax, including proportional to their income. We have a progressive tax system in Australia. It is what makes us a fair society. It is what enables us to provide a strong and reliable social safety net.

But we cannot push this to breaking point, where you only end up committing economic self harm.

I want a tax and welfare system that rewards effort and fosters aspiration; a system that is fair and balanced for all Australians. One that doesn't seek retribution but instead sets out to lift the living standards of all.

For you to do better, someone else does not have to do worse, or be held back. This is poverty thinking that seems to have completely captured the Labor party and its leader, Bill Shorten, who has decided to embrace the extremes of politics, rather than pursue a sensible middle ground economic path.

When it comes to tax we must also be mindful to protect our tax base. While the Turnbull Government strongly believes that taxes should be lower, simpler and fairer, we also believe they must be paid.

To protect our tax base, we have demonstrated our diligence in ensuring all Australians, businesses and multinationals pay their fair share of tax.

Since the 2016-17 Budget, the Government has announced tax integrity measures that raise more than \$5 billion over the period to 2019-20.

Our Multinational Anti-Avoidance Law alone is clawing back into the tax net \$7 billion a year in sales from foreign companies operating in Australia.

We have also improved the integrity of the GST, a major revenue source for the States and Territories, by making sure foreign companies pay GST for online sales to Australians.

This not only provides extra GST revenue, it levels the playing field for Australian retailers.

And since July 1, foreign companies have been paying GST on digital products and services they provide to Australian customers. Within the first two quarters alone, revenue collections are almost what we had budgeted for the whole financial year.

The loopholes are being shut.

Earlier this month I announced the GST funding pool that is divided between the States and Territories had increased by \$3.2 billion in the last year.

More than half of that increase - \$1.85 billion - can be attributed to our tax integrity measures. These are funds, clawed back from foreign companies that are now going towards hospitals, schools, and housing and homelessness programs.

While we have had some significant wins by broadening the GST base to include more foreign companies, taxing the digital economy as a whole remains more of a conundrum.

We are seeing a big part of our tax base being ripped out of our country by the business models of global digital and social media companies.

Our international tax system was simply designed for a different time and a different economy.

This is increasingly acknowledged by the companies themselves.

Earlier this year I met with a handful of digital companies in Seattle and Silicon Valley including Google and Amazon, and there is an understanding that the current system that has benefited them greatly is simply not sustainable, nor palatable to the public.

Thankfully, Australia is not a pariah on this issue.

At the March G20 meeting of finance ministers in Buenos Aires, there was a deep understanding of the need to work collaboratively, not just with each other, but with the architects of the new economy.

We need their involvement, rather than their active resistance, to ensure our tax and regulatory systems are calibrated for the new economy.

So there are some big decisions being made in this area and we continue to work with other countries, and I will have more to say about this in the Budget.

In closing let me confirm that in this year's Budget we will be delivering tax relief to put more money back in the pockets of middle to lower income Australians to deal with their own household and family budget pressures.

We acknowledge that as our economy continues to strengthen and as our budget position is improving, many Australians have been doing it tough and many are yet to experience the benefits of that growth.

This is why it is important that when we consider any plan for tax relief, middle to lower income families will come first as part of any broader plan.

By prioritising these households with tax relief and not hitting those who are already carrying a significant tax burden, we believe we are getting the balance right.

As promised, we will do it in a way that is both affordable and responsible.

We will do it and stay on track to bring the budget responsibly back into balance which has been consistently projected for 2020-21 for five consecutive budgets and budget updates.

As a result, nor should this compromise our AAA credit rating. We are one of only ten countries that boast a AAA rating with all three rating agencies and we are not about to jeopardise that advantage.

We will be targeted and we will be measured. Action taken will be part of a broader plan. And we will deliver tax relief in the most efficient and affordable way. So expectations should be conditioned to these parameters.

It's simple, we believe the tax that you pay is your money. You earned it.

You're paying us, not the other way around.

A tax cut is not a welfare payment. It is not a give away as Labor and the high tax club seem to think. It is not the Government spending money. That is how Labor describe tax cuts, as expenditure. It tells you a lot about what they really think about your money.

Consistent with Liberal and National Party values, the Turnbull Government is for lowering taxes, Bill Shorten and the Labor Party are for increasing taxes. The choice now could not be more clear.

You will pay more under Labor.

We believe you should should keep the rewards of your hard work. This is an important principle upon which to build a stronger economy.

Lower taxes will further strengthen our economy to create more jobs and guarantee the essential services you rely on.

And that is primarily what this year's Budget will be about.

Downloads:

- "Lower taxes for a stronger economy" slide pack [[398KB](#)]