

# Tax bills to surge for the middle-class: PBO



The research confirms the Howard-era tax cuts have been almost completely wiped out for almost 80 per cent of taxpayers. **Paul Jones**



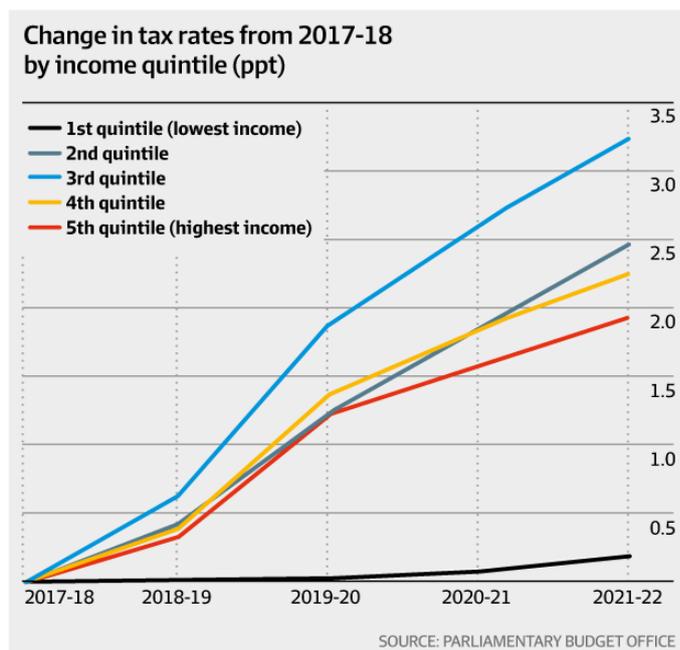
by **Jacob Greber**

Australia's middle classes – already battered by rising energy costs and [debt burdens](#) – will be heavily hit by the Senate's failure to wrestle control of spending, with around 1.6 million taxpayers confronting surging tax bills in the next four years.

With both sides of politics locked into [reversing the nation's entrenched budget deficits](#) primarily by collecting a growing share of income taxes, research by the independent Parliamentary Budget Office underscores the growing political temptation for Canberra to slug the nation's top 20 per cent of income earners more heavily.

The research confirms the Howard-era tax cuts have been almost completely wiped out for almost 80 per cent of taxpayers, with the top 40 per cent now paying almost 3 percentage points more than when the Coalition lost office in 2007.

"Let's not be surprised by this. If you're not doing something about spending, it has to be taxes," said Deloitte Access Economics budget expert Chris Richardson.



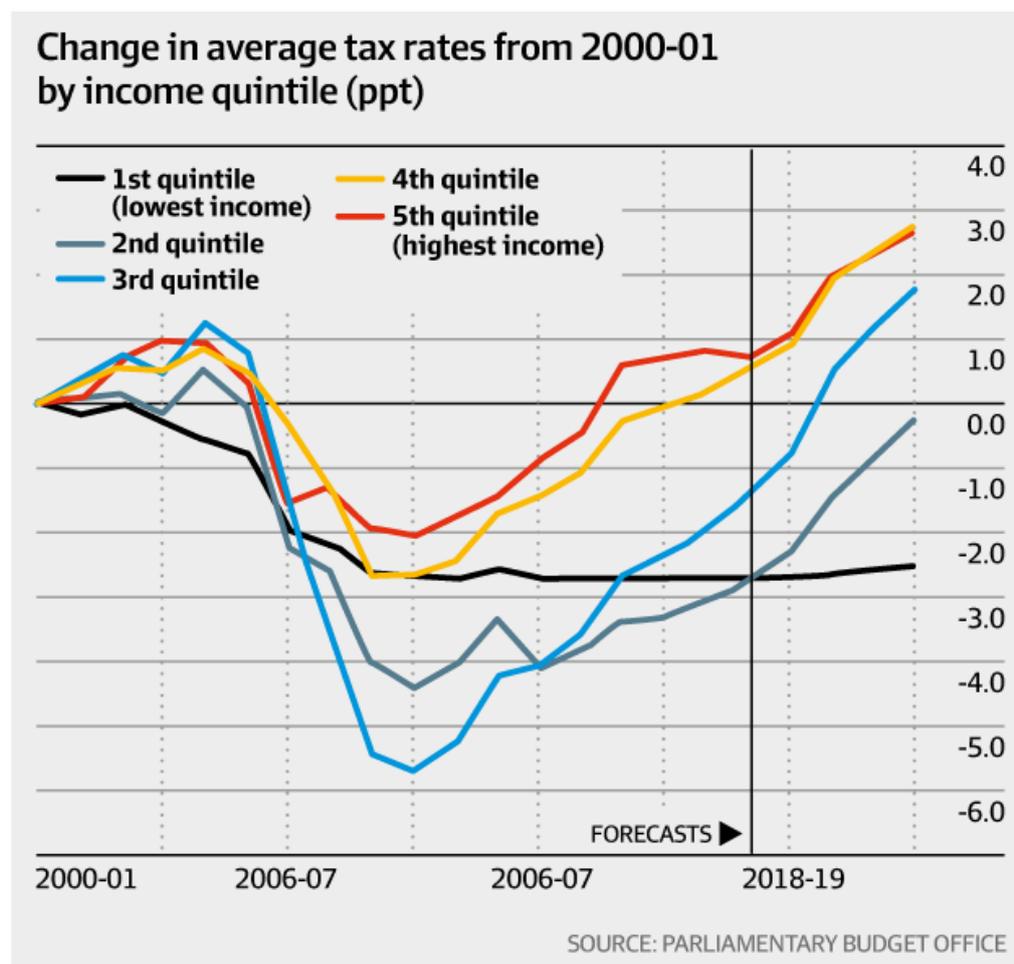
"If we're going to have a National Disability Insurance Scheme, and we should, and we don't cut other spending, we have to get it elsewhere."

Between 2017-18 and 2021-22, 6.3 per cent of taxpayers – or some 900,000 people – will shift from a marginal tax rate of 32.5 per cent to 37 per cent, the budget office said.

Another 5 per cent, or 700,000 people, will move from a marginal tax rate of 19 per cent to 32.5 per cent.

The modelling – which is based on the [widely disputed assumption](#) that wages growth will average around 3 per cent a year – 14 per cent over four years – shows that 26 per cent of the increase in incomes for the middle 40 per cent of taxpayers will be taken away in the form of income taxes.

The study highlights the automatic impact of so-called bracket creep or fiscal drag – whereby wage gains push taxpayers into higher fixed tax brackets. But it also provides obvious clues as to where the Coalition government is likely to be pressured into delivering tax relief if an improving budget provides any spare cash.



With Treasurer Scott Morrison pushing hard to ensure the Coalition's business tax cuts are extended to firms with turnover above \$50 million, Labor will use the pending hit on low to middle-income families to justify shifting the burden onto higher-income earners.

Budget office figures show that under a "do-nothing" scenario – as the budget papers imply – the biggest increase is expected to be faced by individuals in the middle-income quintile, whose taxable income is expected to average \$46,000 in 2017-18.

This group will see their average tax rates jump 3.2 percentage points by 2021-22, as their average tax rate jumps to 18.2 per cent from 14.9 per cent.

For households in the second, fourth and fifth quintiles, average tax rates are set to grow between 1.9 and 2.5 percentage points.



Acting Treasurer Kelly O'Dwyer said the Turnbull government had cut taxes for 500,000 average taxpayers. **Alex Ellinghausen**

Only the lowest 20 per cent of households – who have effectively been removed from the tax system altogether because of effective tax-free threshold – will be almost entirely shielded from the rising income tax bill.

The budget office analysis uses the government's assumption that the tax-to-gross domestic product rate will not rise above 23.9 per cent – which the PBO says implies there will need to be some kind of adjustment to tax policy from 2022-23 onwards, which is also when the bulk of company tax cuts would take effect.

Acting Treasurer Kelly O'Dwyer noted the Turnbull government has already cut taxes for 500,000 average taxpayers by raising the middle-income tax bracket from \$80,000 to \$87,000.

Ms O'Dwyer rebutted concerns over the government's plan to shift the burden away from company taxes and onto income taxes, saying that a lower corporate tax rate would mean more money in the pockets of workers.



Shadow treasurer Chris Bowen said the research showed middle-income Australians would fall further behind under the Coalition. **Andrew Meares**

By contrast, she said: "Labor will blow our tax to GDP cap out of the water, massively slugging Australian families to pay for their wasteful spending. This would be a tax tsunami scenario for Australians and our economy."

Shadow treasurer Chris Bowen blamed the coming hit on low to middle-income households on the government's [decision to increase the Medicare Levy from 2019-20](#) for everyone earning more than \$21,000.

Labor proposes putting more of the Medicare burden on higher-income earners.

"This work released by the PBO today vindicates Labor's position and shows that middle-income Australians are set to fall further behind under this government," Mr Bowen said.

"It also demonstrates the government's priorities when it comes to tax – a \$65 billion unaffordable tax cut for big business at a time while middle-income Australians will see their average tax rates rise to 20-year highs.

"When wages are growing at record lows and households are facing a cost of living crunch due to record levels of debt and rising energy costs, now is not the time to be hitting middle Australia with increases in personal income tax rates."

Read more: <http://www.afr.com/news/economy/tax-bills-to-surge-for-middleclass-australians-in-next-four-years-pbo-20171011-gyymmu#ixzz4vF7oQstD>

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