Labor’s tax grab will hurt our economy

By JOSH FRYDENBERG

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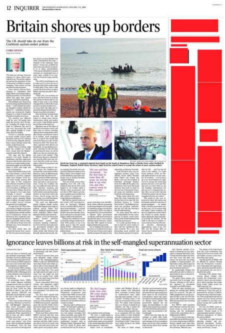
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Labor’s tax grab will hurt our economy

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The damaging impact from the plan to raise the capital gains tax by 50pc will be significant

When voters go to the ballot box this year, they will face a clear choice. It will be between a government that has delivered lower taxes, lower spending and more than 1.2 million new jobs and a Labor Party that has promised $200 billion in new taxes to fund reckless spending promises.

While much of the focus has been on changes to negative gearing and franking credits, Labor’s plan to increase capital gains tax by 50 per cent has gone largely under the radar. This is despite the fact Labor’s CGT changes will raise more than $12bn, around two-thirds of what Labor is expecting to raise from its changes to negative gearing.

Again, Labor is walking away from more than two decades of bipartisan tax policy, with the current CGT arrangements introduced by the Howard government in 1999 with Labor’s support. Until then, capital gains tax was levied on the asset cost base after deductions for inflation. In the parliamentary debate at the time, Labor members were enthusiastically in support of the Coalition’s CGT changes, with current frontbencher Joel Fitzgibbon saying, “I give a tick to the measures of the 50 per cent reduction in CGT. I have no argument with that,” and Labor senator Joe Ludwig saying, “This should improve our overall international competitiveness.”

Now, however, in a desperate grab for revenue, Labor’s attitude has changed. If Labor is successful in legislating a 50 per cent increase, it will see Australians subject to a capital gains tax rate that is higher than any comparable country. This includes the US, Britain, Canada, New Zealand, Japan, Germany, France, Ireland and South Africa.

The consequential and damaging impact on the economy from the CGT increase will be significant. The independent Centre for International Economics has estimated that the capital gains tax hike will lower GDP by $3.7bn a year; reduce real wages by 0.7 per cent, equivalent to about $600 a year for someone on average full-time earnings; reduce construction activity by more than 3000 dwellings a year, leading to higher rents; and damage state balance sheets with reduced GST distribution and property tax collections by about $1bn a year. This would put state governments, in the words of the CIE, under “severe pressure”.

The overall contraction in the economy that follows Labor’s CGT changes also will have a negative impact on the federal government’s coffers. The CIE report says that while CGT receipts may increase, there will be a fall of more than $2bn in other tax receipts as the economy slows. The net revenue increase therefore from the CGT changes may be less than $500m, a fraction of what Labor is counting on. This creates the invidious but not unprecedented scenario for Labor (think mining tax) where it commits to new spending on the assumption of a tax revenue windfall that never eventuates.

Initially, Labor framed its justification for a capital gains tax increase around the issue of rising housing prices. However, three years later, the housing market is very different. Prices in capital cities have been falling, not rising.

Labor’s initial justification no longer holds, yet it sticks to its policy. This is because, philosophically, Labor has abandoned the aspirational class. The would-be investor, who through their thriftiness and personal responsibility, saves for their own retirement is now a target for Labor.

It was Paul Keating who not long ago said of Bill Shorten’s Labor Party that “it has lost the ability to speak aspirationally to people and to fashion policies to meet those aspirations”.

Shorten believes it is only “the very wealthy” who are trying to “turn their income into capital”. But the reality is different. Tax data shows that in the 2015-16 year, nearly 900,000 individuals had a capital gain on their tax return. These are not necessarily high-income individuals. Just as the tax data on negative gearing showed two-thirds of the people using this concession had a taxable income of under $80,000 a year, so too with the capital gains tax discount there will be many teachers, nurses and emergency services personnel who are making modest investments to build their nest egg.

You have to look no further than Labor’s national conference for evidence that the modern Labor Party is all about redistributing the pie and not growing it. Labor’s focus is solely on the equality of outcomes in contrast to the Coalition, which is focused on equality of opportunity.

You have to wonder about the motivations of a shadow treasurer and Labor Party that believes a 50 per cent tax increase is an example of “perfectly designed and calibrated policy”. It reveals their unashamed determination to increase taxes regardless of the adverse effect it will have on investment, jobs and the economy.

Wealth creation for Labor is a dirty word, despite it being the means by which all Australians aspire to a better life. This is what the Coalition believes in and this will be at the heart of the contest at the next election.

Josh Frydenberg is the federal Treasurer.

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