

MEET THE TAXPAYERS: COMPARING LABOR AND COALITION TAX PLATFORMS



Table of Contents

ABOUT PER CAPITA	3
ABOUT THE AUTHORS	3
INTRODUCTION	4
POLICY BACKGROUND	5
POLICY PLATFORMS	6
THE COALITION'S TAX PLAN	6
LABOR'S TAX PLAN	6
SNAPSHOTS	9
HUGH AND ANGELA	9
RUSSELL AND FIONA	11
SARA	12
ANDREW	12
METHODOLOGY	13
HUGH AND ANGELA	13
RUSSELL AND FIONA	14
SARA	15
ANDREW	15
SUMMARY OF REVENUE CHANGES	15
CONCLUSION	16

About Per Capita

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

Our audience is the interested public, not just experts and policy makers. We engage all Australians who want to see rigorous thinking and evidence-based analysis applied to the issues facing our future.

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Introduction

The competing tax policies of the Coalition and Labor Parties at the 2019 federal election present voters with the starkest choice on offer for decades. For the first time in a long time, the decision the Australian people make on 18 May will result in markedly different economic outcomes for the country in the decade ahead.

Yet tax remains an almost impossibly complicated and inaccessible topic for the average Australian voter. Understanding how the two very different approaches of the major parties will affect our society isn't as easy as it should be if voters are to make a genuinely informed choice.

This report attempts to shed some light on the different results that will occur depending on which party forms government after 18 May.

To do so, we have created two families of relatively high-income earners, and modelled their income under the tax measures that will apply in 2024 should the Coalition retain government, compared to those that will apply should Labor win the election and remain in government in 2024.

We have also compared the changes in tax paid by an individual earning just above the minimum wage, and one earning \$180,000 per annum (in the top 20% of earners), in 2024 under both scenarios.

The results are striking and point to a very different Australia ten years from now, depending on which party's policies are implemented over the next five years.

Policy background

Australia's tax and transfer system is amongst the most tightly targeted in the world. Our approach of means-testing welfare payments and redistributing wealth from those with higher incomes to those in need of support through progressive taxation is a bulwark against significant levels of inequality, such as those that have emerged in the USA over recent decades.

Nevertheless, there are numerous loopholes in our current tax system that allow high-income earners to reduce their taxable income and pay less tax than they otherwise would under the applicable marginal tax rates on their gross salaries. This reduces the revenue from personal income tax that goes to the government to fund public services such as health, education, aged care, and social security.

Going into the 2019 federal election on 18 May, the two major parties are proposing starkly different policy changes to our taxation system.

The Liberal and National Coalition is proposing a significant flattening of the progressive income tax scales, providing personal tax cuts to most income earners, with the largest cuts going to those with the highest incomes and, therefore, the biggest tax contributions.

This is largely achieved by reducing the 32.5% income tax bracket to 30%, and removing entirely the 37% tax bracket, so that everyone earning between \$45,000 and \$200,000 per annum will pay the same 30% marginal tax rate.

In contrast, the Australian Labor Party (ALP) is proposing to reduce tax concessions in a number of areas, including the use of family trusts, negative gearing and capital gains, and the cost of managing tax affairs, to raise additional revenue to fund increased spending on health, education and child care, among other issues.

The ALP is also providing tax cuts for individuals earning up to \$120,000 per annum, but intends to reverse the removal of the 37% tax bracket legislated in 2018, and will not reduce the 32.5% bracket to 30%, as announced in the 2019 - 2020 federal budget. It will also reinstate the so-called "budget repair levy", increasing the top marginal tax rate from 45% to 47%.

What follows is a detailed description of each party's tax platform, and then an analysis of four hypothetical taxpayer scenarios – two families, and two individuals – with the impact of the two competing tax policies of the major parties modelled for each.

Policy platforms

The Coalition's tax plan

Personal income tax rates

In a staged process from now until 2024/25, the Coalition will flatten the personal income tax scales by increasing the 19c top threshold, reducing the rate of the 32.5% tax bracket to 30%, and abolishing the 37c tax bracket altogether (see Table 1 and Figure 1).

Table 1. Coalition proposed marginal tax rates for 2024/25. These rates do not include the Medicare Levy, or the LITO.

Taxable Income	Tax On This Income
\$0 to \$18,200	Nil
\$18,201 to \$45,000	19c for each \$1 over \$18,200
\$45,001 to \$200,000	\$5,092 plus 30c for each \$1 over \$45,000
\$200,001 and over	\$51,592 plus 45c for each \$1 over \$200,000

The Low Income Tax Offset (LITO)

There are currently two income-based tax offsets, the Low Income Tax Offset (LITO) and the Low and Middle Income Tax Offset (LMITO). From July 2022, the Coalition will abolish the LMITO and increase the LITO from a maximum of \$445 to \$700 (Table 2).

Table 2. Coalition Low Income Tax Offset (LITO) proposal for 2022/23 and beyond.

Taxable Income	LITO Formula from 1 July 2022
\$0 to \$37,500	\$700
\$37,501 to \$45,000	$\$700 - [(\text{taxable income} - \$37,500) \times 5\%]$
\$45,001 to \$66,667	$\$325 - [(\text{taxable income} - \$45,000) \times 1.5\%]$
over \$66,667	nil

Labor's tax plan

Personal income tax rates

Labor will keep legislated tax cuts for those with a taxable income up to \$120,000 per annum, but will reverse the abolition of the 37% tax rate legislated in 2018, and will not match the further reduction in the 32.5% tax bracket to 30% announced by the Coalition in 2019. Labor will also reintroduce the temporary budget repair levy of 2% on the top marginal tax rate, lifting it to 47% (Table 3).

MEET THE TAXPAYERS

Labor will maintain both the LITO at current levels (Table 4) and will continue the LMITO but will raise the minimum rate for low income earners to \$350 (Table 5).

Table 3. ALP Personal income tax marginal rates for 2024/25. Note: these rates are those currently legislated for 2018/19. Medicare levy, LITO and LMITO not included.

Taxable Income	Tax On This Income
0 to \$18,200	Nil
\$18,201 to \$41,000	19c for each \$1 over \$18,200
\$41,001 to \$90,000	\$4,331 plus 32.5c for each \$1 over \$41,000
\$90,001 to \$180,000	\$20,257 plus 37c for each \$1 over \$90,000
\$180,001 and over	\$53,557 plus 47c for each \$1 over \$180,000

The Low Income Tax Offset (LITO)

Table 4. The Low Income Tax Offset (LITO) as currently legislated remains unchanged in the ALP tax plan for 2024/25.

Taxable Income	LITO Formula
\$0 – \$37,000	\$445
\$37,001 – \$66,667	\$445 – [(taxable income – \$37,000) x 1.5%]
\$66,667 +	Nil

Low and Middle Income Tax Offset (LMITO)

Table 5. The ALP intends to continue their recently announced Low and Middle Income Tax Offset (LMITO) into the future

Income	LMITO
up to \$37,000	\$350
\$37,001 to \$48,000	\$350 plus 6.6 cents for each dollar over \$37,000
\$48,001 to \$90,000	\$1,080
\$90,001 to \$126,000	\$1,080 less 3 cents for each dollar over \$90,000

Discretionary trusts

The ALP will introduce a minimum 30% tax rate for any discretionary trust distributions to adults. Discretionary trust distributions are currently taxed at the recipient's marginal tax rate, meaning that distributions to individuals who have no other taxable income can be tax free.

Negative gearing

The ALP will restrict negative gearing to newly constructed housing only. The changes will be grandfathered so that existing investments are not affected.

Capital gains tax concessions

The current 50% concession on the taxation of capital gains will be halved to 25% for new investments. Existing investments will be grandfathered and not affected by the changes.

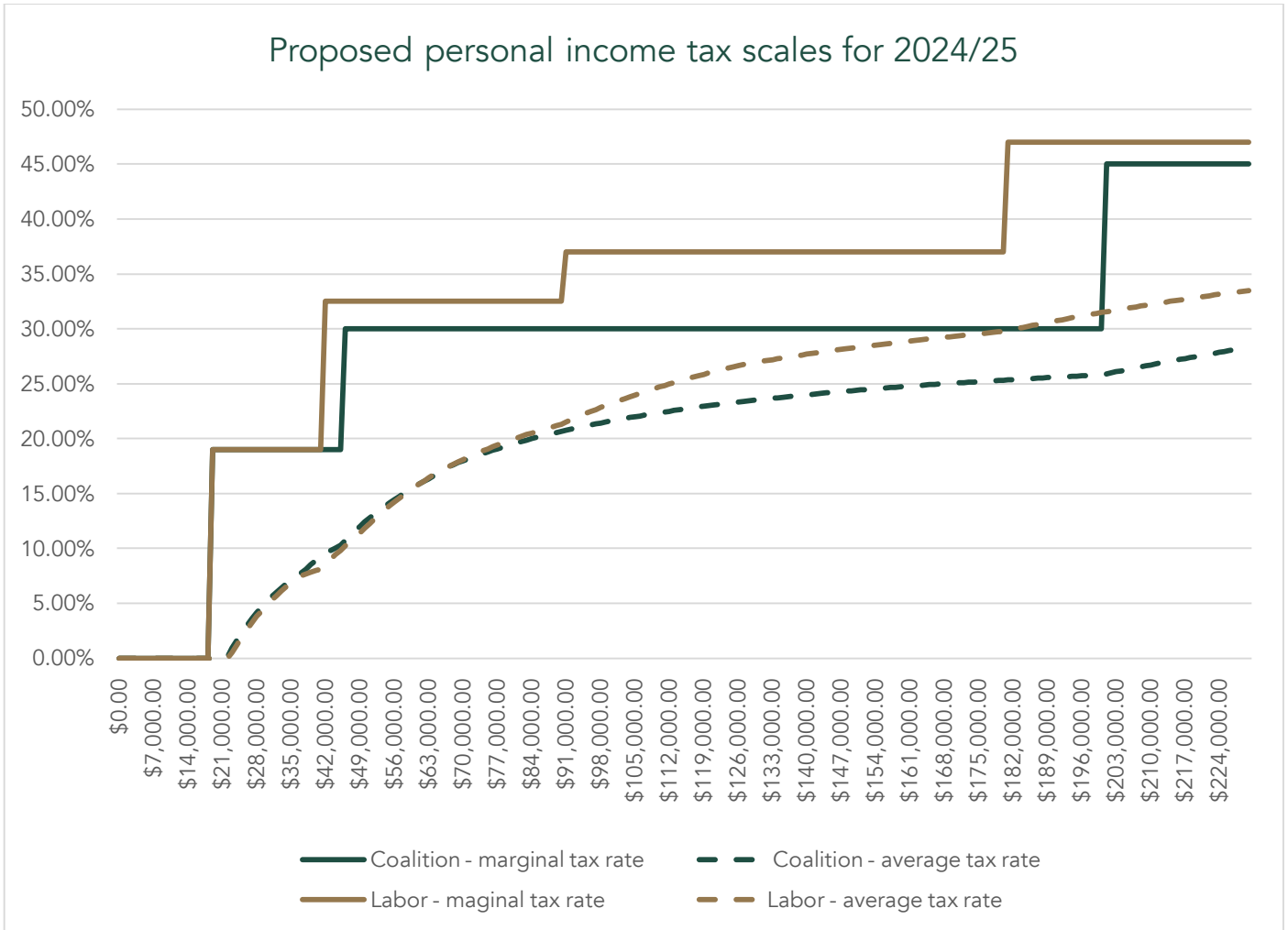


Figure 1. Proposed personal income tax marginal rates and average rates for 2024/25. N.B. The marginal rates above do not reflect the Low Income Tax Offset (LITO) or the Low and Middle Income Tax Offset (LMITO) but average rates include both the LITO and LMITO where relevant. The Medicare Levy is not included.

This analysis assumes that whichever party wins government is able to legislate the full suite of tax policies they have taken to the election, without amendment in either the House of Representatives or the Senate. It presents the outcomes of the competing policies as they would operate in the 2024 – 2025 financial year.

Snapshots

Hugh and Angela

In 2017/18

Hugh and Angela have two children, Will, aged 9 and Chloe, aged 7. They own their own home in an inner suburb of Sydney.

Hugh owns his own business, with a business profit of \$230,000 per annum. Angela doesn't work, but is listed as a Director of Hugh's company, primarily for tax purposes.

Both Hugh and Angela contribute the maximum \$25,000 pre-tax contributions to their superannuation accounts. They have two negatively geared investment properties, including a holiday house in Noosa which is rented privately for short-term holiday leases through a local real estate agent, and a three-bedroom house in Darlinghurst that is leased long-term to a tenant.



The family uses a discretionary trust to distribute income from the business, including \$54,500 annually to Angela and the maximum tax-free amount allowed for the children. Combined with Angela's \$10,000 Director's fee, this keeps her total income just inside the lowest marginal tax rate after she contributes \$25,000 of pre-tax income to her superannuation and deducts purchases of family items, such as their broadband service and mobile phones, through home office expenses.

Hugh and Angela each drive luxury vehicles purchased through novated leases through the family business costing \$19,414 each per year.

They use a tax accountant to manage their tax affairs and minimise their taxable income at a cost of \$6000 per annum. This cost is also tax deductible, saving them \$2700.

Although the business makes a profit of \$230,000 a year, by using all of these methods, Hugh reduces his taxable income to just \$52,340 and Angela's is \$37,000. Hugh and Angela therefore have combined family income after tax of \$211,036 per year, or \$4058 per week.

Together they pay a total of \$18,964 in tax, including \$7500 in superannuation contribution tax. In total, they claim tax concessions that reduce their tax by \$51,767.

Under Labor's tax plan

Labor's tax plan would crack down on the loopholes that Hugh and Angela use to avoid tax. This includes taxing discretionary trusts, restricting negative gearing, reducing capital gains tax concessions and capping the tax deduction for their accountant at \$3,000 per annum.

Under the 30% minimum tax on discretionary trust distributions, it would no longer make sense to distribute money through the trust that is then concessionally contributed to Angela's superannuation

MEET THE TAXPAYERS

account. Trust distributions to Angela would be reduced from \$54,500 to \$33,500, resulting in a trust tax payment of \$10,050. This trust distribution would still be worthwhile because the alternative is that Hugh pays 37% tax on the same income. The company now makes the \$25,000 concessional contribution directly for Angela as a paid director.

While Labor is halving the capital gains tax and removing negative gearing concessions on established dwellings, these changes won't apply to Hugh and Angela as the policy is "grandfathered", meaning people like them who already own investment properties won't be affected.

Labor is capping the maximum amount that can be deducted for managing tax affairs at \$3000. This reduces the tax saving for Hugh and Angela from \$2700 to \$1,410 (after taking into account Labor's higher top marginal tax rate).

Under Labor's plan, Hugh and Angela would pay \$23,928 in tax and reduce their tax by \$46,729 through concessions.

Labor's tax policy will return \$4,964 in forgone revenue to the budget by reducing tax concessions for Hugh and Angela in 2024.

However, a future family with exactly the same income and tax settings as Hugh and Angela, but who purchase established dwellings of the same value as investment properties *after* Labor legislates its policies, will see a significant reduction in their ability to minimise their taxable income.

Let's call this future family Adam and Nicole.

Halving the capital gains tax concession means that, after 10 years, when Adam and Nicole's investment properties are sold, an additional \$35,250 would be collected in capital gains tax than would have been collected under 2017/18 CGT taxation arrangements for Hugh and Angela.

And removing negative gearing concessions would increase Adam's taxable income by \$40,000 compared to Hugh's.

So, under Labor's plan, "future family" Adam and Nicole would pay \$37,253 in tax, reducing their tax bill by \$33,404 through concessions.

Labor's tax policy would therefore save \$18,289 in forgone revenue for the budget by reducing tax concessions for "future family" Adam and Nicole under this scenario after 2024, compared to how Hugh and Angela, with identical incomes and tax settings, are treated today.

The difference in the 2024 outcomes for these couples is due to the changes to Negative Gearing and Capital Gains Tax Concessions that will apply to investment properties bought after Labor legislates its policies.

Under the Coalition's tax plan

The Coalition's tax plan would keep the existing loopholes open, allowing Hugh and Angela to continue avoiding tax. The Coalition will also increase the upper limit of the 19% tax bracket to \$45,000, meaning

MEET THE TAXPAYERS

that more income can be distributed to Angela through the discretionary trust taking Hugh's taxable income also below \$45,000 so that both of them are now in the lowest tax bracket and paying a marginal rate of only 19%.

Under the Coalition's plan, Hugh and Angela would pay \$17,718 in tax. The concessions they claim would reduce their tax by \$41,374.

The Coalition's tax policy will remove another \$1,246 from the budget in 2024 and give it to Hugh and Angela.

Our "future family", Adam and Nicole, would get exactly the treatment as Hugh and Angela under the Coalition.

Russell and Fiona

In 2017/18

Russell and Fiona have two children, Imogen, aged 12 and Lachlan, aged 8. They paid off their mortgage two years ago and live in a four-bedroom house in a bayside suburb of Melbourne.

Russell is a divisional manager at National Australia Bank and earns \$450,000 per year. Fiona works 20 hours a week, during school hours, in the HR department of the same bank, where they met 15 years ago, and earns \$90,000 per year.

Fiona salary sacrifices \$16,450 into her superannuation account up to the \$25,000 concessional cap, reducing her taxable income to \$73,550.

Their combined family income after tax is \$346,352 per annum, or \$6,660 per week. Together they pay a total of \$193,648 in tax and claim \$5,346 in tax concessions.

Under Labor's tax plan

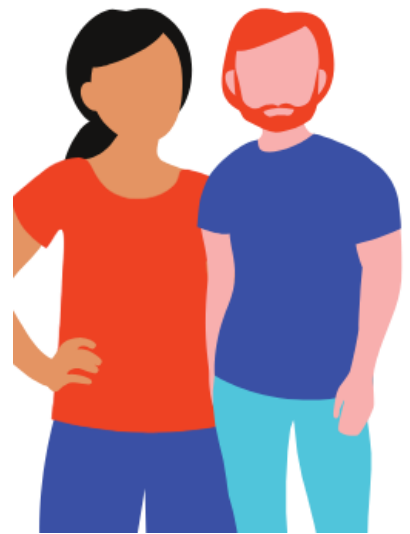
Russell and Fiona will pay \$198,196 in tax and get \$5,346 in concessions.

The extra tax from that paid in 2017/18 comes from the budget repair levy of 2% for every dollar over \$180,000. The difference between how much tax is paid under Labor and the Coalition in 2024 is driven by Labor not flattening the tax scales, the budget repair levy and reversing tax cuts for the wealthy.

Labor's policy will recover \$4,548 from Russell and Fiona, and return it to the budget in 2024.

Under the Coalition's tax plan

Russell and Fiona will pay \$180,216 in tax and get \$5,346 in concessions.



MEET THE TAXPAYERS

The reduced tax paid by Russell and Fiona are a direct result of the changes to the marginal tax brackets and the abolition of the 37% bracket (see Table 1).

This fall in tax collected is driven by the flattening of the personal income tax scales.

The Coalition's policy will give Russell and Fiona a tax cut of \$13,432 in 2024.

Sara

In 2017/2018

Sara is a disability support worker, providing personal care to adults with disabilities living in residential care. She lives alone in a rented one-bedroom apartment in Mooroolbark, in the outer suburbs of Melbourne.

She works part time, 30 hours a week, and is seeking more hours of work; she currently earns just above the minimum wage.

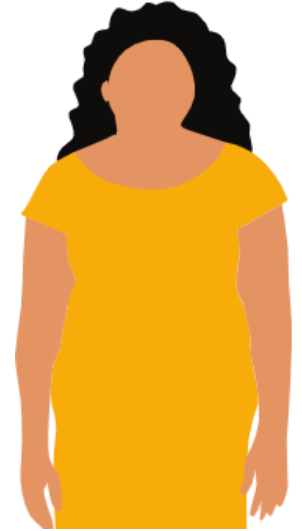
Sara earns \$38,000 a year and pays \$3,466 a year in income tax.

Under Labor's tax plan

Labor will give Sara a tax cut of \$551 per annum in 2024.

Under the Coalition's tax plan

The Coalition will give Sara a tax cut of \$379 per annum in 2024.



Andrew

In 2017/2018

Andrew is a team leader in the IT department of a telecommunications company in Brisbane. He lives alone in a two-bedroom apartment on which he has a \$350,000 mortgage.

He works full time, Monday to Friday, and is employed under an Enterprise Bargaining Agreement.

Andrew earns \$180,000 a year and pays \$54,231 in income tax.

Under Labor's tax plan

Labor will give Andrew a tax cut of \$674 per annum in 2024.

Under the Coalition's tax plan

The Coalition will give Andrew a tax cut of \$8,639 per annum in 2024.



Methodology

Both families consist of two parents and two school age children between the ages of eight and 12. All taxpayers in all scenarios are 45 years old.

For simplicity of the comparison we ignore inflation and potential future pay increases and express everything in 2017/18 dollars, under the tax system that applied for the last full financial year.

We do not include or model relatively minor, common tax deductions such as donations and work-related expenses.

The amount of tax paid is calculated by applying the personal income tax schedules in Tables 1 and 3 as well as LITO and LMITO schedules in Tables 2, 4 and 5. 2017/18 tax and LITO schedules were taken from the Australian Taxation Office web site.

The effect of concessions on taxes paid are calculated by comparing final tax outcomes with the tax that would have been paid if all income had simply been paid as regular salary plus super with no deductions.

Hugh and Angela

Profile and assumptions

- Father earning \$230k business income
- Mother not working but on the books as Director of Father's business primarily for tax purposes
- Both parents salary sacrificing to super up to the \$25,000 concessional cap
- They own their home outright in Sydney
- Two negatively geared investment properties
- Family discretionary trust for distributing business income
- Home office expenses used to deduct purchases of family items

Key calculations for baseline 2017/18 financial year

- Both parents contribute the maximum \$25,000 pre-tax contributions to superannuation.
- Two cars are purchased by the directors through novated leases through the company. Annual tax calculation was made using Fleet Partners novated lease calculator on two BMW 4 series coupes at \$19,414 each p.a.
- Home office expenses are a rough estimation of share of internet, phones, mobiles, IT equipment depreciation etc. The benefit assumption here is that these are all items that the family would have purchased anyway, without the business but are able to deduct from tax due to the inclusion of both parents on the payroll of the company.
- The discretionary trust allocates \$54,500 to the mother of the house and the maximum tax-free allowed for children (\$416 each). The amount allocated to the mother is sufficient, combined with her \$10,000 director's fee, that she falls into the lowest marginal tax rate after she makes her maximum pre-tax contribution of \$25k to super and deducts home office expenses (When the children are over 18 and are at university the trust will be able to assign them each \$18,200 with zero tax, thus reducing the taxable income of the father by an additional \$36k p.a.). She ends up paying 19c in the dollar for her income over the \$18,200 tax free threshold plus she pays 15% tax on her \$25k super contribution.

MEET THE TAXPAYERS

- Negative gearing calculations are made by assuming an \$8000 rental loss based on interest and repair costs plus \$12,000 depreciation for each property.
- The couple spend \$6000 managing their tax affairs and this is claimed as a full tax deduction for Hugh.

Differences between the baseline and Coalition and Labor calculations for 2024/25 financial year

Coalition

- The discretionary trust allocates \$62,500 to the mother of the house. The distribution to the mother is increased from the 2017/18 level because, under changes announced in the 2019 federal budget, the 19% tax bracket will be increased from \$37k to \$45k in 2022 so she can receive a greater income while remaining within the lowest marginal tax bracket.

Labor

For Hugh and Angela

- The discretionary trust allocates \$33,500 to the mother of the house. The distribution to the mother is increased by \$4000 from the 2017/18 level because, under changes currently legislated the 19% tax bracket will be increased from \$37k to \$41k in 2022 so she can receive a greater income while remaining within the lowest marginal tax bracket. The distribution is then decreased by \$25,000 because, under the 30% trust tax, it no longer makes sense for Angela's concessional superannuation contribution to go through the discretionary trust.
- Only \$3000 of the \$6000 spent managing tax affairs can be claimed as a deduction.

For "future family" Adam and Nicole

- The discretionary trust allocates \$33,500 to the mother of the house. The distribution to the mother is increased by \$4000 from the 2017/18 level because, under changes currently legislated the 19% tax bracket will be increased from \$37k to \$41k in 2022 so she can receive a greater income while remaining within the lowest marginal tax bracket. The distribution is then decreased by \$25,000 because, under the 30% trust tax, it no longer makes sense for Nicole's concessional superannuation contribution to go through the discretionary trust.
- There is no longer any negative gearing deduction from Adam's taxable income.
- Capital gains tax concessions are halved and capital gains are taxed at 47% instead of 45%.
- Only \$3000 of the \$6000 spent managing tax affairs can be claimed as a deduction.

Russell and Fiona

Profile and assumptions

- Father earns \$450,000 salary
- Mother working part time earning \$90,000
- Mother salary sacrificing to super up to the \$25,000 concessional cap
- They own their home outright in Melbourne

Key calculations

- Fiona tops up her compulsory super by \$16,450, to the full \$25k pre-tax cap, thus reducing her taxable income to \$73,550

Sara

Profile and assumptions

- Sara is a straightforward example of a PAYG taxpayer earner just above the minimum wage.

Key calculations

- No special assumptions were used to calculate Sara's tax beyond applying the personal income tax schedules as outlined in Tables 1 and 3, LITO and LMITO schedules in Tables 2, 4 and 5 and official tax schedules for the financial year 2017/18.

Andrew

Profile and assumptions

- Andrew is a straightforward example of a PAYG taxpayer earner just above the minimum wage.

Key calculations

- No special assumptions were used to calculate Andrew's tax beyond applying the personal income tax schedules as outlined in Tables 1 and 3 and official tax schedules for the financial year 2017/18.

Summary of revenue changes

The table below shows the loss or return to government revenue from each taxpayer scenario under the competing taxation policies of the Coalition and Labor.

	Hugh and Angela	Adam and Nicole	Russell and Fiona	Sara	Andrew
Labor policy	+\$4,694	+\$18,289	+\$4,548	-\$551	-\$674
Coalition policy	-\$1,246	-\$1,246	-\$13,432	-\$379	-\$8,639

Conclusion

The outcome of the 2019 federal election will have a profound impact on Australia's tax and transfer system.

The Per Capita Annual Tax Survey, which has been conducted since 2010, consistently shows that a majority of Australians want to see more spending on health, education and social services, and that they believe this should be funded by higher taxes on big business and wealthy individuals.

Under a future Coalition Government, revenue from personal income tax in 2024 will be significantly lower than it is today, resulting in less money to pay for government services. This is predominantly due to big tax cuts for people on high incomes: those in the top 20% of income earners in the country.

Under a future Labor Government, revenue from personal income tax in 2024 will be higher than it is today, resulting in more government revenue that could pay for services. This is predominantly due to the reduction in tax concessions used mainly by high income earners to minimise their tax contribution.

It is important to note that neither major party has a definite policy to increase the incomes of the most disadvantaged people in society – those living in poverty on Newstart and other income support payments.

Having said that, it is obvious that the Coalition's tax policies are likely to exacerbate income inequality in Australia, while the ALP's are likely to reduce it.

As we noted on the night of the 2018 federal budget address, the Coalition's plan to eliminate the 37% tax bracket is a radical attack on Australia's progressive taxation system. It will significantly reduce the redistributive nature of our tax and transfer system and see much less revenue collected from high income earners to pay for public services such as health care, education, aged care and social security.

If effected, these tax changes will entrench a fiscal policy that seeks to reorient the Australian condition from one of equal opportunity, in which public services are funded collectively and provided on the basis of need, to a low-taxing, small government society. The likely outcome is that Australians will have to rely even more heavily on the private, for-profit provision of essential services, and that the ability to pay will, more than ever, dictate people's access to health services, education and other essentials of life.

The Labor approach of closing tax loopholes is not, in fact, the imposition of new taxes; rather, it is an attempt to restore some integrity to a progressive taxation system that has been increasingly compromised over recent decades by the introduction of concessions that are overwhelmingly used by the richest Australians to reduce their contribution to our common wealth.

As we found in our 2018 report with Anglicare Australia, *The Cost of Privilege*, the amount of budget revenue forgone to support tax concessions for just the top 20% of income earners in Australia is around \$68billion per annum. Most of those concessions will remain in place under either of the major parties' tax policies, but Labor's approach will claw at least some of this money back to fund essential investments in social services and infrastructure for the greater good of all Australians.