australian council of trade unions

ACTU Post Budget Submission

Annual Wage Review 2018

ACTU Submission, 11 May 2018
ACTU D. No 87/2018

Contents

Comment on Budget initiatives

1. The initiatives announced in the Federal Budget do not change our position in relation to the increases we seek to the National Minimum Wage or Modern Award Minimum Wages.

2. Whilst some of the initiatives announced have some prospect of improving the relative living standards of low paid workers, implementation of many of them would require changes to legislation and some in any event are not scheduled to commence until after the next Annual Wage Review:

    a. Increasing the Medicare levy thresholds for singles and families represents a small benefit to single income earners who pay tax of $325 or $715 for families (plus an extra $50 per child or dependent). Whilst these are scheduled to commence for the 2017/18 financial year, they would require amendment to the *Medicare Levy Act 1986*.

    b. The low and middle income tax offset of up to $530 for incomes of $48,000 is scheduled to commence via a refund after tax returns for the 2018/19 year have been processed. Whilst this might put it beyond the period of consideration in the current review, it any event would require amendment to the *Income Tax Assessment Act 1936* (likely 159N) and the *Income Tax Assessment Act 1997* (likely section 63.10). It is not entirely clear from the budget papers whether the initiative is an addition to or substitution for the maximum $445 low income offset already available to taxable incomes of $37,000 or less, although the discussion of other measures suggests it is an addition.[1]

    c. The government has proposed substantial changes to personal income tax levels, which would see the 32.5% personal income tax bracket apply to taxable incomes between $37,001 to $90,000 (rather than the present top threshold of $87,000). Based on the distribution of earnings of award dependent workers set out in Figure 91 of our initial submission, the initiative would impact few if any of the workers impacted by the Panel's decision. This

1 See Budget Paper No.2 at p 33.

initiative is planned to take effect from 1 July 2018, with further changes benefiting higher income earners in following years. All of the proposed changes would require legislative change.

d. Part pensioners who work will be able to retain an additional $50 of the income they earn through work per fortnight, without impacting their pension rate. However, this change is not scheduled to commence until 1 July 2019 and would require amendment to section 1073AA(4C) of the *Social Security Act 1991*.

3. Other changes announced in the Budget may have some negative impact on the incomes of some workers affected by the Panel's decision:

   a. From 1 January 2019, as yet undisclosed fees will be applied to higher education providers to recover the cost of administering the HECS-HELP and FEE-HELP schemes. In addition, an as yet undisclosed application fee will be applied to higher education providers seeking approval to offer FEE-HELP loans. A consultation process is proposed, which suggests that legislative change is not required to implement these charges. Neither Budget Paper 2[2] or the Department's explanatory material[3] provides any prohibition on such fees being passed on to students.

   b. The National Skills Quality Authority is to continue to move toward a cost recovery model, with fee increases to start from the 2018-19 financial year.[4] Fees are to be determined by the Minister under the *National Vocational Education and Training Regulator Act 2012* and do not require further legislation. We are unaware of whether increased compliance costs will be passed on to students.

   c. Similarly, the Tertiary Education Quality and Standards Agency will impose a new undisclosed levy on tertiary education providers "to recover the costs of TEQSA's risk monitoring and oversight activities".[5] The Agency can, with

2 At p 10.
3 See: https://www.education.gov.au/HERI-Budget-Overview-18-19.
4 Budget Paper No. 2 at p.85.
5 Budget Paper No2 at p95.

ministerial approval, fix such fees by legislative instrument under s. 158 of the *Tertiary Education Quality and Standards Agency Act 2011*.

d. An initiative entitled "Encouraging Lawful Behaviour of Income Support Recipients" will see welfare payments deducted from welfare recipients who have outstanding unpaid fines or suspended or cancelled where they have outstanding arrest warrants. The initiative is subject to consultation with the States and Territories (and potentially legislation) and the commencement date is not ascertainable.[6]

4. Initiatives announced in this budget which are favourable to business and do not require legislation to implement include:

   a. Businesses with less than $10million in turnover will continue to be able to deduct asset purchases of up to $20,000 for an additional year up until 30 June 2019.[7] The measure is asserted to "improve cash flow for small businesses, provide a boost to small business activity and investment for another year".[8]

   b. Business may benefit from an increased pool of re-skilled and more productive mature workers, including with wage subsidies, from the various initiatives announced as part of the "More Choices for a Longer Life-jobs and skills for mature age workers" package, each of which are slated to commence over the 2018-19 financial year.[9]

It is important to recall that these changes are additional to the move to single touch payroll (for employers of 20 employees or more[10]) which commences on 1 July 2018 (announced in last year/s budget) which may be expected to introduce administrative efficiencies for business. It is also in addition to the "small" business company tax changes which will see the turnover threshold for the 27.5% company tax rate increase to $50 million next financial year (up from $25 million in the current financial year).

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6 Budget Paper No. 2 at 172.
7 Budget Paper No. 2 at p20.
8 Ibid.
9 Budget Paper No. 2 at p157.
10 See further: https://www.ato.gov.au/Business/Single-Touch-Payroll/.

Comment on Budget forecasts

5. Table 1 compares the Budget 2018-19 forecasts with the previous year's Budget forecasts for the corresponding years. These are compared with the RBA forecasts in its *Statement on Monetary Policy* for May 2018. The wage growth rate forecasts are particularly optimistic and it is not at all clear where they are expected to come from.

6. The employment increases of the last year need to be viewed in the context of the high volatility of employment that occurs from year to year. For instance, over a decade, on trend employment increases at rates similar to population growth rates. When considered in the context of the high and increasing proportion of people in part time and insecure work, and the sustained high unemployment rate, it is difficult to see where workers' bargaining power would yield higher wage increases either.

Table 1: Various macroeconomic forecasts from Budgets and the Reserve Bank of Australia

		Actual	Forecasts		
		2016-17	2017-18	2018-19	2019-20
GDP growth, %	Budget 2018-19	2.1	2 ¾	3.0	3.0
	Budget 2017-18	1 ¾ forecast	2.75	3.0	-
	RBA SMP May 2018	2.3	2 ¾	3 ½	3.0
unemployment, %	Budget 2018-19 (June qtr seas adj)	5.6	5 ½	5 ¼	5 ¼
	Budget 2017-18 (June qtr seas adj)	5.75 forecast	5.75	5.5	-
	RBA SMP May 2018,	5.6	5 ½	5 ¼	5 ¼
CPI, %	Budget 2018-19	1.9	2	2 ¼	2 ½
	Budget 2017-18	2.0 forecast	2.0	2.25	
	RBA SMP May 2018	1.9	2.0	2 ¼	2 ¼
Wage rate growth, %	Budget 2018-19 WPI	1.9	2 ¼	2 ¾	3 ¼
	Budget 2017-18 WPI	2 forecast	2.5	3	-
	RBA SMP May 2018 WPI	na	na	na	
Employment growth, %	Budget 2018-19	1.9	2 ¾	1 ½	1 ½
	Budget 2017-18	1 forecast	1.5	1.5	
Non-mining investment growth,%	Budget 2018-19	6.1	10 ½	5 ½	5
	Budget 2017-18	1.5 forecast	2.25	2.5	

Sources: The Treasury, Budget 2018-19, Paper 1, Statement 2, p. 2-6, Table 1, Budget 2017-18 Paper 1, Statement 2, p. 2-6; RBA SMP May 2018, pp. 57-58 Graph 5.1, Table 5.1, p. 21.

7. Wage growth has been barely matching CPI increases, hence real wage increases have stalled, if not fallen. The most recent annual Wage Price Index increase at the December

quarter 2017 was 2.1%, compared with a CPI of 1.9% for the year to March 2018. The private sector WPI annual for the year to December 2017 was 1.9% compared with 2.4% for the public sector. The government's reluctance to grant wage increases to the large public sector workforce segment are not consistent with the Budget forecasts which move up to 3 ¼ % for 2019-20. The WPI itself tends to exaggerate wage rate increases that are faced by the large and increasing proportion of the workforce who are not full time and are in lower waged areas such as those on the minimum wage and the lower awards rates.

8. Moreover, the greater increases in the costs of essential items and services and the bigger share of these paid by those on lower incomes is not reflected in these headline WPI increases.

Comment on new data

CPI

9. The ABS release of 24 April puts the CPI increase of 1.9% for the year to March 2018 (seasonally adjusted) barely ahead of the most recent wage price index of 2.1% increase in the year to December 2017.

10. There were big increases in the necessary expenditures which form a bigger and less discretionary part of lower income households' outlays, consistent with the observations we made previously on this issue. Gas rose 6.0% in the March quarter 2018 alone compared with 0.5% for total CPI, and 10% for the year. Electricity rose 11.7% for the year. Childcare rose 1.6% in the March quarter 2018, and 5.9% for the year. Pharmaceuticals rose 5.6% in the March quarter 2018.

11. A bigger increase in the minimum wage would help improve relative living standards and meet the needs of the low paid given the CPI increase.

Retail Trade

12. Slow wages growth may be impacting on retail sales which were unchanged in the March quarter, seasonally adjusted.[11] However, food retailing increased 0.7% while other categories fell. It is possible that households are substituting towards food spending rather than discretionary spending as their incomes stall.

13. The demand generating impacts of raising the minimum wage and award wages may assist in stimulating retail turnover over the next financial year.

[11] ABS 8501.

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