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6 November 2013

Low income earners hurt as Abbott keeps tax hikes: IPA

Reports that the Abbott government has decided to retain the former Labor government's tobacco excise increase is a pre-Christmas blow to the budget of low income earners, according to free market think tank the Institute of Public Affairs.

"The Coalition has capitulated to the paternalism agenda by accepting the previous government's tax increase on cigarettes and other tobacco products, a massive jump in the excise rate by 60 per cent over the next four years," said IPA Senior Fellow Dr Julie Novak.

"It is well known that increases in commodity taxes are regressive, in that they hurt lower income smokers with less disposable income, more than they do the wealthy.

"Previous IPA research on the distribution of tax burdens across the income spectrum has shown that families on lower incomes pay up to three times as much in Nanny State taxes than wealthy families," Dr Novak said.

This comes amid reports that suggest the Abbott government will also retain Labor's controversial plan to seize inactive bank accounts, and to tax savers to fund possible future bank bailouts. Bank account seizures raised \$641 million from unsuspecting savers in the last financial year. The new tax on savings accounts to establish a 'financial stability fund' is expected to cost Australians \$733 million.

The tobacco excise increases, which are expected to raise the price of a packet of cigarettes to more than \$20 in 2016, are likely to be ineffective as illicit tobacco consumption is driven further underground.

"In recent days, studies have shown that higher tobacco excises have contributed to the proliferation of untaxed contraband cigarettes in the black market. To avoid the effect of higher taxes squeezing their budgets, there is a risk that more people on lower incomes will attempt to purchase counterfeit cigarettes."

With doubts over whether increasing tobacco excises will deliver expected revenue growth anticipated by tax authorities, the Abbott government should instead be looking to spending cuts to reduce the budget deficit.

"Burning a tax hole through the wallets of lower income earners and their bank accounts does not seem the most effective way to address a budget emergency. The new government should strive to cut government spending, standing its ground in the face of demands by Nanny State paternalists to eliminate personal choice through lifestyle taxes," Dr Novak said.

Copies of the IPA Occasional Paper, *Nanny State Taxes: Soaking the Poor in 2012*, by Dr Julie Novak, can be found at <http://www.ipa.org.au/sectors/nanny-state/publication/2016/nanny-state-taxes-soaking-the-poor-in-2012>

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