

## What happened to the tax cuts?

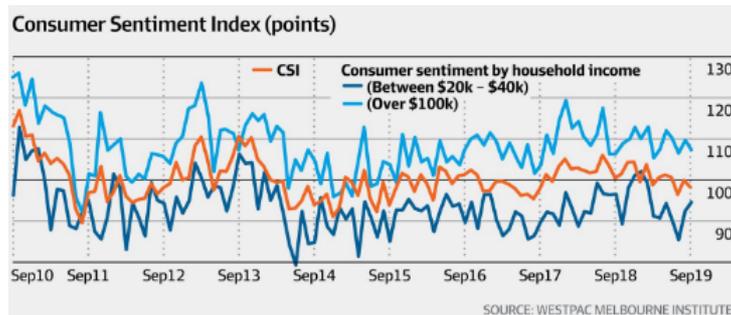
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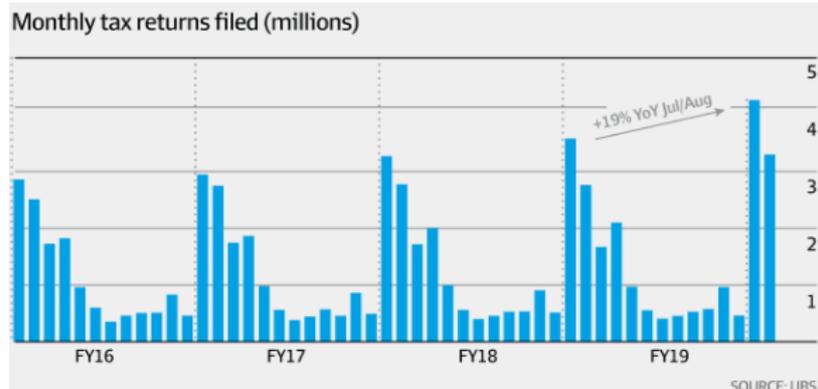
Tax cuts first announced by the Coalition Government in the 2018 Budget are now starting to flow through the economy, the question is whether the cuts are having the impact the Government had in mind. Given the RBA is also concerned with recent GDP growth, there has been some doubt as to whether the tax cuts are in fact having the effects first anticipated.

Recent data has showed that the tax cuts recently announced and implemented by Treasurer Josh Frydenberg have not yet achieved what was hoped for. The graph below shows the Consumer Sentiment Index fell 1.7% in September. Recent data has also showed that roughly half of tax cuts beneficiaries would actually only spend half of their payments, with individuals actually willing to save the bulk of their tax cuts.



The above can be said to be consistent with second quarter GDP, released at the start of September which showed that Australia's economy grew by 0.5% over the June quarter and by 1.4% over the year, equal to the worst recorded figure since the GFC.

When the Government announced the tax cuts, which increased the low-income tax offset from \$530 to \$1,080 annually, they were expected to boost the struggling Australian economy, confidence and stimulate the economy. As we approach the last quarter of the year, recent labour force figures suggest an apparent lack of progress. This must be of some concern to the Government and the Reserve Bank.



As per the above graph, there has been a sharp spike in tax returns in recent periods compared to the corresponding time period historically. Perhaps this year's spike is a sign that individuals are eager to obtain the extra tax offset sooner rather than later? Last month Treasurer Josh Frydenberg mentioned that the bulk of the tax relief would start showing in the September quarter.

Will the economy stagger along at the current low growth rates or will the tax cuts boost the economy and have the desired effect? Time will tell whether the policy, heavily promoted in the recent election, will provide the desired outcome. However, based on actions of the RBA in recent months, the Australian economy looks as if it will continue to slow. Why else would the RBA be cutting rates this year?