



Australian Government

---

# Re:think

---

**Tax discussion paper**

March 2015

Better tax system, better Australia

© Commonwealth of Australia 2015

ISBN 978-1-925220-21-6

This publication is available for your use under a Creative Commons BY Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, the Treasury logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Treasury material under a Creative Commons BY Attribution 3.0 Australia licence requires you to attribute the work (but not in any way that suggests that the Treasury endorses you or your use of the work).

### **Treasury material used 'as supplied'**

Provided you have not modified or transformed Treasury material in any way including, for example, by changing the Treasury text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Treasury statistics — then Treasury prefers the following attribution:

*Source: The Australian Government the Treasury*

### **Derivative material**

If you have modified or transformed Treasury material, or derived new material from those of the Treasury in any way, then Treasury prefers the following attribution:

*Based on The Australian Government the Treasury data*

### **Use of the Coat of Arms**

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see [www.itsanhonour.gov.au](http://www.itsanhonour.gov.au)).

### **Other uses**

Enquiries regarding this licence and any other use of this document are welcome at:

Manager  
Publishing Unit  
The Treasury  
Langton Crescent  
Parkes ACT 2600  
Email: [medialiaison@treasury.gov.au](mailto:medialiaison@treasury.gov.au)

# Foreword

Australia has experienced nearly a quarter of a century of uninterrupted economic growth. As a result, Australians continue to have some of the highest living standards in the world.

Over the next few decades, the challenge for Australia is to maintain and improve standards of living through economic growth. The recent Intergenerational Report shows that continuing steps to boost productivity and encourage higher workforce participation will be critical to driving future economic growth.

Tax reform is a key part of the Government's policy agenda to build jobs, growth and opportunity.

Last year, the Government abolished the carbon and mining taxes, which were a drag on growth. We also announced changes to the taxation arrangements for employee share schemes to provide generous incentives for new start-ups.

This year, we will deliver a package for small business to expand opportunities for Australian businesses and workers.

The Government is committed to ensuring that everyone is paying their fair share of tax. This year, we are continuing to work with the G20 on the modernisation of international tax rules to address tax avoidance by multinational companies.

But that is just the start. We want to have an open and constructive conversation with the community on how we can create *a better tax system that delivers taxes that are lower, simpler, fairer.*

To deliver lasting, workable reforms, the community needs to be on board and engaged in the conversation. That's why the Government is committing to a comprehensive and inclusive process. Releasing this tax discussion paper marks the start of what we hope will be a broad conversation about the current tax system and the issues confronting it. All are encouraged to take part. This conversation will support the development of a tax system to build jobs, growth and opportunity — a better tax system to deliver taxes that are lower, simpler, fairer.



# CONTENTS

FOREWORD .....	iii
EXECUTIVE SUMMARY .....	1
JOINING THE NATIONAL CONVERSATION .....	5
1. CHALLENGES FOR AUSTRALIA’S TAX SYSTEM .....	7
2. AUSTRALIA’S TAX SYSTEM .....	13
3. INDIVIDUALS .....	35
4. SAVINGS .....	57
5. GENERAL BUSINESS TAX ISSUES .....	73
6. SMALL BUSINESS .....	105
7. NOT-FOR-PROFIT SECTOR .....	121
8. GST AND STATE TAXES .....	129
9. INDIRECT TAXES .....	157
10. COMPLEXITY AND ADMINISTRATION .....	167
11. TAX SYSTEM GOVERNANCE .....	181
ATTACHMENT A: TAX COMPLEXITY METRIC .....	189
SUMMARY OF DISCUSSION QUESTIONS .....	193



# Executive summary

Over the last 40 years Australian governments have initiated many reviews of the tax system. Those reviews have shaped the taxes we have today. But as the world continues to change, our tax system is confronted with new challenges. These challenges invite us to think creatively about the kind of tax system that will enable us to better realise the opportunities before us. In commencing this tax review, the Government will be considering every worthwhile idea, even if it does not fit neatly with the existing set of major taxes we now have. Through this tax review we will develop a better tax system that delivers taxes which are lower, simpler and fairer. A tax system that encourages productive endeavour.

---

## The Government wants to involve the Australian community in a national conversation on tax reform

---

**The time for a national conversation on tax reform is now.** This discussion paper begins our formal government process for considering future directions for Australia's tax system. It provides information about the challenges the tax system faces, the way it currently operates, identifies potential opportunities for reform and points to some of the trade-offs that would need to be considered.

**We need to keep the economy growing to safeguard our way of life.** Australia has experienced nearly a quarter of a century of uninterrupted economic growth. The challenge going forward is to keep the economy growing. The recent Intergenerational Report shows that continued steps to boost productivity and encourage higher workforce participation will be critical to driving future economic growth. Changes to our tax system could foster new opportunities for businesses and workers and promote economic growth. Indeed, some argue that comprehensive tax reform could promote economic growth more than any other area of government policy.

**Our tax system needs to support the modern economy.** The world economy has been dramatically transformed in recent decades. Financial deregulation, the growth of multinational companies using global supply chains and the increasing digitisation of global commerce have been overwhelmingly positive developments for Australia, but do pose substantial challenges to the tax system, including by driving global tax avoidance activities. Likewise, bracket creep, which pushes people on to higher tax rates with rising incomes over time, is a growing problem that impacts on workforce participation. The tax system needs to adapt to these challenges.

**The Government's review of roles and responsibilities across the Federation provides a once-in-a-generation opportunity to examine the whole of the tax system.** The White Paper on the Reform of the Federation is considering options to achieve a more efficient and effective federation, which supports Australia's growth and living standards. Any changes to roles and responsibilities of the Commonwealth and states and territories may have revenue and tax implications. The white paper processes on Australia's Federation and taxation are proceeding in tandem and, as such, provide a unique opportunity to inform a system-wide approach to taxation.

---

## **The Government is committed to a better tax system to deliver taxes that are lower, simpler, fairer**

---

**The tax system raises the revenue required to fund public services.** A good tax system achieves this purpose without imposing unnecessary costs on the economy and as simply and fairly as possible.

**There is evidence that the economic costs of revenue-raising in Australia are higher than they need to be.** Australia has a higher reliance on income taxes, including tax raised from company income, than most other comparable countries. State and territory governments rely considerably on taxes that impose high economic costs, like stamp duties. Treasury research estimates that each additional \$1 collected by way of company income tax reduces the living standards of Australian households by around 50 cents in the long run because of reduced investment. This impedes Australia's productivity and, in turn, reduces opportunities for better paying jobs.

**There are opportunities to simplify the tax system.** Our tax system is too complex, with significant resources spent on tax compliance and tax management activities. The reasons for this complexity are multifaceted. One reason is the prevalence of tax concessions aimed at assisting particular groups. Another reason is the regular 'patching' of the law to fix narrow problems or provide certainty for taxpayers and transactions without fully considering consequences for the system as a whole. Overly risk-averse attitudes from policy advisers and administrators, combined with complex legislative drafting styles, have also led to complexity. Governance arrangements should ensure tax design and administration practices minimise unnecessary complexity and support the implementation of sound tax policy.

**There are opportunities to improve the fairness of the tax system.** Our tax and social security (transfer) systems are already highly progressive, which is intended to contribute to fair outcomes. Nonetheless, interactions between the tax system and the transfer system can discourage workforce participation for some people. In addition, our relatively high top marginal tax rate and the gap between the top marginal tax rate and the company tax rate results in tax planning and avoidance. Tax concessions need to be well justified to ensure the fairness of the tax system.

**The tax treatment of savings is very complex and distorts savings choices.** Tax on savings should give people the incentive to save for the future. However, some savings are taxed at full marginal rates (for example, bank accounts) while others are not (for example, superannuation). This can affect people's choices about how to save without necessarily doing much to increase savings overall.

**Transitional arrangements are important.** While tax reform needs to be focused on the long term, the impacts of the transition process from existing policy to new policy needs to be understood and carefully addressed so that changes balance the interests of different groups. Tax changes can impact negatively on individuals and businesses, for instance, when they have made long-term decisions based on previous arrangements. Some tax changes can also have significant implications for system administration and government budgets.



# Joining the national conversation on tax reform

---

## Responding to the discussion paper

---

Effective tax reform requires a comprehensive and transparent national conversation between the community and the Government.

- In opening this conversation, the Government will:
  - Focus on ideas rather than prescribing solutions. Solutions can start to be considered as part of the options (green) paper in the second half of 2015.
  - Focus on *how* revenue is raised, not just how much. The Government's goal is to deliver lower, simpler, fairer taxes.
  - Rule nothing in or out. Options can start to be ruled in or out as part of the options (green) paper.

---

## Community engagement is critical for sustainable change

---

Who pays tax and how much of the burden they bear are fundamental questions for a community to consider. Meaningful tax reform can only occur if the community takes part in a genuine conversation — both directly and through our Parliament. This conversation needs to cover the challenges Australia's tax system faces, the opportunities for reform and the trade-offs to be considered.

---

## To build trust and ensure transparency this national conversation must be inclusive

---

There will be many opportunities for a reform debate, with many ways for you to participate. This discussion paper sets out how the tax system operates now and the opportunities and challenges it faces. You are urged to respond to its questions. The Government will incorporate those views in an options (green) paper, due in the second half of 2015. Again, you can respond, before the Government then sets out its reform proposals in a white paper, and takes them to the next election in 2016.

## How to join the conversation

---

To join the conversation, go to the 'better tax' website [www.bettertax.gov.au](http://www.bettertax.gov.au).

The formal submissions process for this discussion paper starts now. You have until Monday 1 June 2015 to lodge your formal submission at the website.

If you have any questions or comments, you are welcome to contact the Tax White Paper Task Force at [bettertax@treasury.gov.au](mailto:bettertax@treasury.gov.au) or at:

Tax White Paper Task Force  
The Treasury  
Langton Crescent  
PARKES ACT 2600

---

## Shaping your contribution

---

Some of you will have specific sector-based issues you wish to explore, while others may have interests and views that span a broader set of issues. Further, you should not be limited by the issues or questions contained in this discussion paper. The Government is keen to hear from all interested parties on any issues regarding the tax system, including views on tax matters raised in other review processes, such as the Financial System Inquiry, Productivity Commission inquiries, the Competition Policy Review and the White Papers on Federation, Agricultural Competitiveness and Northern Australia.