The tax forum should consider the following points:

The government must not let the Reserve Bank work against the national interest.

The Rudd tax cuts increased the amount of money in the private sector. This had two effects: a sharp decrease in unemployment as it became easier for businesses to profitably employ more people, and an increase in inflation, because with more money around, sellers could get away with charging more. Unfortunately the Reserve Bank concluded that the drop in unemployment had caused the rise in inflation, and more recently they have tried to keep unemployment high by increasing interest rates. As well as making it harder for businesses to invest profitably, they have encouraged the carry trade to make the dollar very high, making our exports less competitive.

In reality the high number of underemployed and discouraged workers leaves the Reserve Bank's working hypothesis with virtually no credibility, and a much more likely explanation of why the unemployment drop came before the spending rise is that business investment tries to anticipate the effects of economic changes, while consumer spending tends merely to react to it. But the Reserve Bank seemed not to notice, and persisted in trying to wreck the economy until the prospect of a double dip recession in Europe threatened to do it for them.

This situation should NEVER be allowed to happen again! Either the Reserve Bank's independence should be revoked or they should be instructed to assume a drop in unemployment should not be regarded as a sign of rising inflation.

It should be obvious that there are ample opportunities to balance the tax system to more efficient revenue bases.

Though I am suspicious of some of the figures in Chart 1 of the Tax Reform Discussion Paper, it is still very useful because it highlights big differences in the marginal welfare loss of different taxes of the same type. Often the tax that is theoretically more efficient is the one that causes the bigger welfare loss due to the way they are implemented.

Personal taxation and transfer payments should use the same criteria

If family income is used to determine transfer payment eligibility, it should also be used to determine income tax rates.

Paid parental leave must not be implemented in a way that penalizes parents for not having a job.

More attention should be paid to the opportunity costs of cutting corporate income tax

Chart 1 of the Tax Reform Discussion Paper shows a high marginal welfare loss for corporate income tax, but there are good reasons why it could be wrong. While it is true that the tax system can discourage investments, high interest rates are a much bigger disincentive to investment. All other things being equal, cutting corporate income tax could leave the government with a bigger deficit or smaller surplus, which would result in high interest rates for the same inflationary impact. And even if interest rates are already low, improvements in infrastructure and education are likely to benefit businesses more than cutting their tax rates.

Another way of looking at it is that we don't have infinite resources, so there has to be some factor that limits the amount of economic activity. Corporate taxes reduce incentive, but a lack of incentive is better than a lack of opportunity, as determination can always overcome the former, but often not the latter.

Reducing the effects of payroll tax

The complexity of payroll tax regulations in different Australian states is one factor making payroll tax inefficient, but it is not the main one. A bigger problem is the abruptness of the threshold, so taking on one extra employee can impose thousands of dollars of payroll tax on a business that otherwise wouldn't have to pay any. The transition should be much more gradual so that it's never a significant disincentive for businesses to expand.

Replacing payroll tax with a broader based tax is overkill, but simplification and harmonization between states is desirable.

GST effect underestimated

Chart 1 of the TRDP shows the marginal welfare loss of from the GST as being relatively small, but there is good reason to doubt this. Retailers are already complaining about the unfairness of the GST making it more difficult to compete with online sellers based overseas. The GST makes Australian businesses less efficient, and probably results in increased CO_2 emissions due to more goods coming to Australia by air instead of by sea.

GST v Land taxes

Chart 1 shows land taxes as having as big a marginal welfare loss as the GST, and municipal rates a much smaller loss. Yet municipal rates are a form of land tax, so it is obvious that better designed land taxes should have an impact as low as, or lower than, municipal rates. Ricardo's Theory of Land Rent suggests that the long term impact of a broad based land tax could even be zero. The problem is the short term effects.

With hindsight it would have been better to introduce a land value tax instead of the GST, as it would have prevented land prices rising as much as they have. It would also make inflation more self correcting, as an increase in the price of land (which tends to increase by more than the inflation rate) would automatically mean more tax is paid.

Unfortunately we're now in the situation where the benefits all flowed to the landowners, land prices are very high and some people are already heavily indebted as a result. This means that a large scale transition to land value taxation to replace stamp duties and the GST is likely to take decades if we want to avoid the negative effects. But the long term benefits would be enormous, so the sooner we start, the better.

There should not be an automatic exemption for land with a low value per square metre, but basing the tax on the unimproved land value (which would be the only sensible way to do it) would ensure that it would be taxed at a low rate. There should be an exemption for land used for conservation purposes. Agricultural land should not get an automatic exemption, but family farms should not have to pay during the times when when adverse conditions prevent the farm being profitable, even if a natural disaster has not been declared. There should be no such exemption for corporate farms.

Ensuring farms pay land tax is likely to address a lot of the concerns people have about foreign owned farms not benefitting Australia.

SUMMARY OF RECOMMENDATIONS

• If the Reserve Bank is to remain independent, it must be instructed not to assume a drop in the unemployment rate is a sign of rising inflation.
• If family income is used to determine transfer payment eligibility, it should also be used to determine income tax rates.
• Paid parental leave should not be implemented in a way that penalizes parents for not having a job.
• The opportunity cost of cutting corporate income tax should not be ignored.
• Payroll tax eligibility should start gradually rather than abruptly.
• Replacing payroll tax with a broader based tax is overkill, but simplification and harmonization between states is desirable.
• Broad based taxes on unimproved land value should be phased in slowly.
• Conservation land should be exempt from land taxes. There should also be a partial exemption for family farms during adverse conditions.
• Stamp duty should be phased out
• The GST should be slowly phased out by gradually increasing the categories of goods which are zero rated.

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