



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

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Curtin University is Western Australia's largest university with more than 40,000 students within 16 Curtin locations including campuses in Sydney, Singapore and East Malaysia.

The views expressed here are my personal views and do not necessarily represent those of Curtin University.

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

***** Please refer to the attached document *****

2. How are your proposals financed over the short and longer term?

***** Please refer to the attached document where this has been integrated into the discussion rather than being treated separately *****

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.



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Statement of Reform Priorities – Professor Dale Pinto

1. OVERVIEW

- 1.1 Tax reform is a long-term undertaking that involves a careful balancing of competing priorities that must be accommodated within prevailing government policy considerations.
- 1.2 The current government in its 2010 AFTS review stated that the aim of tax reform should be to make the economy stronger, our society fairer and the tax system simpler (Stronger, Fairer, Simpler).
- 1.3 Against this stated aim, it is suggested that any proposed reforms should be considered in light of a robust framework that represents what a “good tax” should look like.
- 1.4 It is suggested that such a framework could set the SCENE for any reforms, via the principles of **Simplicity, Certainty, Efficiency, Neutrality and Equity** that are outlined below.

Simplicity

- It is accepted and acknowledged that given the complex business environment and different situations across Australia, there will always be some degree of complexity associated with the tax system if it is to adequately cover this diversity.
- At the same time, complexity costs time and money and can have a negative impact on compliance and also on productivity.
- Complexity can also disproportionately impact on people who are least able to deal with it and that leads to other issues including those related to fairness and equity in our current tax system.
- More specific measures that might be considered will be discussed under subsequent headings but two broad considerations that might be considered to ameliorate complexity include:
 - Minimising the use of narrow-based taxes except in situations where they improve social outcomes or result in market efficiencies (eg, through creating better price signals).
 - The tax transfer system should, as far as possible, be structurally separate from the tax system and it should be highly targeted. Ideally the tax system and the transfer system should be completely separate from each other.

Certainty

- I suggest that this is an issue of great significance for most business taxpayers in Australia. Certainty can have many dimensions, but in a traditional tax policy sense it includes certainty of incidence (ie, who will actually bear the burden of a tax); certainty of liability (the ease and accuracy with which liabilities may be ascertained. A major concern here involves tax measures that apply retrospectively); the evasion ratio and fiscal marksmanship.



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Efficiency

- Our tax system should be an enabler to facilitate productivity gains; it should not act as a disincentive or barrier to economic growth. Ensuring an efficient tax system will help expand the economy's productive capacity and boost our national output.
- The AFTS review recognised the inefficiency of our main taxes in Australia across all levels of government. Therefore changes that reform inefficient taxes, or those which have the effect of shifting burdens from inefficient taxes to more efficient ones, should be considered as they could help to improve the efficiency of the tax system and therefore the economy.
- The administration of the tax system also needs to be as efficient, responsive and transparent as it can be to assist taxpayers in complying with their tax obligations.

Neutrality

- Our tax system should not influence individual or business choices by distorting or altering the costs of alternative goods, different modes of investment or different activities. Engaging in activities merely to gain a tax advantage diverts people's money and time that could be more productively used to boost productivity in the economy, however, to do this reforms that improve incentives across the tax system need to be considered.
- Our tax system needs to ensure that we are internationally competitive while at the same time ensuring the system generates sufficient revenues required to deliver the quality of services the community requires.

Equity

- Also commonly referred to as 'fairness' and in a customary sense there are two aspects associated with equity, namely 'horizontal' and 'vertical' equity: the notions that it is equitable that persons in the same situation be equally treated, and those in different situations be treated differently with those with a greater ability to pay being required to pay more tax – eg by ensuring that the cost of delivering quality public services is spread fairly among those with the capacity to pay.

1.5 Though the principles noted in 1.4 provide a useful framework to consider tax reforms within, it is acknowledged that there are conflicts between the principles which mean that policy-makers often have to choose between simplicity and efficiency or fairness and simplicity or fairness and efficiency. These choices would ultimately need to be taken by the government in the context of its policy imperatives and priorities.

1.6 Also, apart from the principles noted above, it is suggested that three other principles need to be factored in when considering tax reforms:

International competitiveness

- In an increasingly globalised and integrated business environment which involves international competition for mobile capital and labour, Australia must maintain a competitive tax system.
- Australia needs to ensure it is seen as an attractive place to do business, not only because of its stable system of government but also because of its predictable regulatory framework and competitive tax system.



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- Achieving an internationally competitive tax system involves striking a balance between generating revenues sufficient to provide community services with making our system as internationally competitive as it can be.

Sustainability

- Australia needs to maintain its strong fiscal management and ensure that economic growth is promoted by its tax policies.

Flexibility and Adaptability

- In a constant and ever-changing world, our tax system needs to be flexible to adapt to changing circumstances.
- Flexibility could also mean that some taxes that are part of any system should have rates that can be easily raised or lowered to accommodate fluctuations in national and international economic conditions.
- The Asprey Report noted that flexibility also should mean that taxes should operate very quickly in altering revenue yields and influencing the behaviour of individuals and firms.
- Further, the Report notes that insofar as small rate changes might be politically more acceptable than large ones, the taxes available should have as large an impact as possible on the level of economic activity per dollar of revenue change.

1.7 In the context of these principles, what follows are some suggested priorities for consideration under the headings of personal tax, transfer payments, business tax, State taxes, environmental and social taxes and tax system governance.

2. Personal tax

2.1 Measures that simplify taxpayers' interactions with the personal tax system should be actively considered by the government. Such measures could include:

- deductions at source for some investment income (eg, interest),
- considering whether there continues to be a need for so many individuals to lodge income tax returns, and
- an expansion of the pre-filing initiative for individuals who may need to continue to lodge income tax returns.

2.2 Tax reforms to the personal tax system need to ensure that the system supports an increase in worker participation rather than acting as a barrier or disincentive.

2.3 Tax reforms should consider measures that ensure the consistent and neutral tax treatment of savings.



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3. Transfer payments

- 3.1 As high effective marginal tax rates (EMTRs) can act as a disincentive to work, measures need to be considered to ameliorate the effect of these high EMTRs which may result due to withdrawal rates of transfer payments as incomes rise.
- 3.2 The interaction between the tax and transfer system adds to the complexity of the tax system and it is suggested that consideration should be given to keeping the transfer provisions, as far as possible, structurally separate from the income tax laws.
- 3.3 Moreover, the existing interaction between the tax and transfer systems is not always transparent which can make it difficult for people to make informed choices about either entering the workforce and/or taking on additional work.
- 3.4 A better targeting of transfer payments should be considered to ensure those in need are appropriately and adequately assisted.

4. Business tax

- 4.1 Self-evidently, globalisation and the continued integration of world economies has significant implications for the way in which business income is taxed in Australia.
- 4.2 Our tax system should not impede the expansion of Australian business. As Australia heavily depends on foreign investment, it is important that Australia remains an attractive place for foreign investment.
- 4.3 It is also important for Australia to develop and maintain a competitive company tax regime as an internationally competitive company tax rate will promote investment in Australia, with 'knock-on' benefits – ie, intensified capital investment should in turn support labour productivity and higher wages, for example.
- 4.4 A reconsideration of Australia's depreciation (capital allowance) rules might be appropriate to ensure our regime properly considers assets' effective lives, especially for businesses involved in specialised industries and businesses that have long-term assets. Also, streamlining of the depreciation provisions for low value assets would assist in simplifying the tax system for many small businesses.
- 4.5 Ensuring certainty in the tax system is an important issue for businesses. As the AFTS review found, the tax system can discourage investment, particularly for projects with uncertain returns or long lead times and this might occur where businesses anticipate that they may not be able to get full tax benefits for their losses.
- 4.6 Uncertainty could also adversely affect financing decisions for many businesses.



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5. State taxes

- 5.1 Many state taxes are narrow-based and represent some of the most inefficient taxes levied in Australia.
- 5.2 Consideration could be given to whether there are opportunities for the States to replace stamp duties on property conveyances with reformed land taxes, given that land is often considered to be an economically efficient tax base.
- 5.3 ‘Nuisance’ taxes, including the raft of insurance taxes, should be considered for abolition by the States. Many of these taxes are prime examples of inefficient taxes and the revenue lost from these taxes should be replaced by revenue from more efficient and equitable taxes.
- 5.4 Payroll taxes increase business compliance costs, reduce productivity and with the number of exemptions, are not efficient taxes. Whether payroll taxes could be abolished and replaced by other measures (eg, a broad-based tax which captures the value add of labour) should be considered. At the very least, greater attention to harmonisation of payroll taxes should be actively pursued.
- 5.5 Given that States will need to find alternative sources of revenue to abolish inefficient taxes, consideration should be given to whether existing GST sharing arrangements create appropriate incentives for States to make their tax bases as efficient as they might be.
- 5.6 Also, consideration should be given to what responsibility the States should take for reforming the taxes they impose within our existing Constitutional framework in Australia.

6. Environmental and social taxes

- 6.1 While accepting that the environment will always be pivotal to maintaining our standard of living in Australia, any measures in this area should not result in our tax system becoming less internationally competitive or certain.
- 6.2 Tax measures in this area can be used to provide incentives for people to alter their behaviour, for example, in the area of road taxes.

7. Tax system governance

- 7.1 The tax administration system in Australia needs to be as efficient, responsive and transparent as it can be to assist taxpayers in complying with their tax obligations.
- 7.2 Measures to improve taxpayers’ experience with their tax obligations should continue to be explored. These measure could include further advancing the pre-filing of tax returns, greater use of technology for attending to tax obligations (eg, online tax and transfer client accounts) and enhanced institutional arrangements being used to improve taxpayers’ experience of the tax system (eg, by implementing more deductions at source).

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