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Tax Forum
Treasury
Langton Crescent
PARKES ACT 2600

Submission to the Federal Government's Tax Forum

The NSW Business Chamber welcomes the opportunity to make a submission to the Tax Forum being held in Canberra on the 4th and 5th of October. The NSW Business Chamber represents the interests of around 30,000 companies across NSW and the ACT, ranging from owner-operators to corporations and from manufacturers to service providers.

Tax reform should continue to be an important priority for Federal and State governments around Australia. Excessively complicated tax systems create administrative burdens for small businesses and are economically inefficient to collect, while poorly considered taxes can distort business decision making in unintended or undesirable ways, further undermining economic efficiency. Given the low rate of Australian productivity growth in recent years, tax reform is particularly important as a means to contribute to productivity increases in the current economic environment.

While we have supported the concept of the tax forum, it will be important that this initiative doesn't act as a substitute for real action in this area. The NSW Business Chamber notes that the 2020 summit, hosted by the Government in 2008, brought together experts from a wide variety of fields to discuss their visions for Australia in 2020. While the summit came up with many welcome recommendations, now three years on very few of these recommendations have been taken up. It would be disappointing if the Tax Forum ended up resulting in a similarly disappointing outcome.

NSW Business Chamber's submission to the Tax Forum focuses on three key themes:

- Getting all the issues on the table;
- Eliminating inefficient State taxes; and
- Improving the efficiency of tax collection.

The NSW Business Chamber appreciates that tax reform is a politically challenging and complex issue, which has been further complicated by the Government's current fiscal position. However, when the system is considered as a whole, we believe that productivity-improving taxation reforms can be achieved in a fiscally responsible manner. For this reason, the recommendations made in this submission are all revenue neutral (or in some cases resulting in net savings to Government).

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Getting all the issues on the table

For tax reform to be effective, it is critical that the system be considered as a whole rather than a series of disconnected parts. For this reason, it would be beneficial for the Tax Forum to consider the entire tax system, and not limit the scope of discussion to particular types of taxes and their application.

It is therefore disappointing that the Tax Forum will not consider many important tax issues, including the GST. NSW Business Chamber believes that a broader discussion of all parts of the tax system is necessary if the Government is to develop a comprehensive picture of how tax reform can drive further improvements in the nation's productivity and international competitiveness.

The NSW Business Chamber supports efforts to pursue a broader tax reform agenda in Australia.

Eliminating inefficient State taxes

The Australian tax system is characterised by a small number of taxes that generate the bulk of Government revenue, coupled with a very large number of other taxes that raise very little money. The Australia's Future Tax System Review (the Henry Review) identified the existence of 125 different taxes across the three levels of government. Of these, the top 10 make up 90 per cent of government revenue, while the remaining 115 taxes account for only 10 per cent between them.

Such an arrangement is a highly inefficient way of raising revenue – many of these small taxes impose high regulatory and red tape burdens on businesses, their large number increases the administrative costs borne by governments through tax collection, and the complexity of the system also makes it more difficult for businesses and individuals to fully understand their tax obligations.

We note that the Henry Review made a number of recommendations in relation to the reform of state taxes, finding that “Many of the current State taxes are inherently of poor quality while other State taxes need to be reformed.”¹ The Review recommended the abolition of payroll taxes, insurance taxes and conveyance duties, and recommended reform of land tax, motor vehicle taxes, gambling taxes and resource royalties.² In relation to payroll tax in particular, it is worth noting that the Henry Review found that this was the third most inefficient Australian tax.³

The NSW Business Chamber is strongly supportive of these recommendations, but notes that the challenge for Federal and State Governments will be to progress implementation. The Henry Review provided less guidance in this regard.

The NSW Business Chamber acknowledges that State Governments need to raise revenue in order to provide the goods and services that the community expects, and that if the taxes identified by Henry were abolished, the revenue shortfall would need to be recovered by making changes elsewhere in the tax system. However, State Governments have no capacity to shift their tax collection towards more efficient taxes, as they are prohibited from collecting most of the more efficient forms of tax. The Henry Review noted this difficulty, and acknowledged the importance of providing States with better revenue sources to replace the current suite of inefficient taxes.

The challenge for the States is further compounded by the fact that the current process of Horizontal Fiscal Equalisation (HFE) undermines the incentive for States to unilaterally reform their own tax systems. For example, under existing arrangements, those States which maintain numerous taxes with narrow bases can

¹ Commonwealth of Australia, *Australia's Future Tax System – Final Report*, 2010, p680.

² *ibid.*

³ *ibid.*, p. 13.

expect to receive a greater share of untied grants than those States which streamline their tax systems.⁴ Professor Neil Warren has also noted that the HFE process undermines State tax reform, finding that "...most of the benefit arising from State policy reform will flow through to the other States (through its impact on HFE grants) and to the Commonwealth..."⁵

Given the framework within which State taxes are collected, it is therefore not surprising that the result is a tax system full of inefficient taxes which collect very little revenue for Government. While most groups acknowledge the need to reform a number of these taxes, it will be very difficult to achieve long-term improvements in this area without reforming the framework within which State taxes are collected. Comprehensive reform of inefficient state taxes will require reworking parts of the current Federal-State financial arrangements.

The Federal Government could play a more active role in encouraging the States to undertake these reforms. Financial incentives provided by the Federal Government could be used to encourage the States to progress these reforms, with the net result being a more efficient tax system and more effective financial relationships between Federal and State Governments.

The NSW Business Chamber has previously recommended the need for the Government to include the GST in its tax reform debate,⁶ and there could be merit in considering amending the GST as a substitute for inefficient State taxes. CPA Australia recently commissioned KPMG Econtech to investigate the overall economic impact of using changes to the GST to support the abolition of a range of inefficient State taxes. The research work found that these reforms would increase GDP by between 0.4 and 0.9 per cent, and deliver aggregate standard of living gains of between \$1.6 and \$4.7 billion per annum.⁷

Part of the solution to addressing inertia in State tax reform will also be to reform the process through which the Government distributes GST revenues to the States. The NSW Business Chamber welcomed the Government's decision to conduct a review into this issue, and will be making a submission to the GST Distribution Review, proposing a set of reforms that are designed to remove the systemic disincentives which currently undermine State tax reform.

Without leadership by the Federal Government in pursuing State tax reform there will continue to be limited incentive for the States to act unilaterally, and little prospect for improvement in this area.

Improving the efficiency of tax collection

NSW businesses pay tax to the ATO and the Office of State Revenue (OSR). These two bodies have different administrative arrangements, including collection dates and payment mechanisms. This results in additional compliance costs for businesses having to deal with multiple collection agencies, and is likely to also lead to excessive tax administration costs for the State and Federal Governments.

This issue is not contained to just NSW. All States operate their own revenue collection body and in effect duplicate many of the activities already being carried out by the ATO. For small businesses operating in one State, this means dealing with two separate bodies on tax issues, but for those businesses operating across multiple jurisdictions the requirement to deal with a different body in each State is even more onerous.

There is a real opportunity to implement reform of tax administration to achieve better outcomes for businesses and governments. State Governments should consider entering into an arrangement with the

⁴ IPART, *Review of State Taxation: Final Report to the Treasurer*, October 2008, p. 38.

⁵ Warren, *Fiscal equalisation and State incentive for policy reform*, September 2011, p. 7.

⁶ NSW Business Chamber, *2011-12 Federal Budget Priorities*, January 2011, p. 9.

⁷ CPA Australia, *Media release – CPA Australia sets its agenda in the lead-up to National Tax Forum*, 12 September 2011.

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ATO to collect State taxes on behalf of State Governments. Over time, this would allow the State and Federal Governments to streamline tax collection, resulting in efficiencies at multiple levels of government.

Reducing the number of agencies that businesses are required to interact with and making the interface between state and federal tax collection seamless will reduce compliance costs for NSW businesses. In the case of NSW, the use of one tax collection agency instead of two will cut costs to business and government, reduce red tape and improve the quality of tax administration for businesses and taxpayers throughout NSW.

Should you require further information or clarification on any of these matters, do not hesitate to contact Mr Micah Green, Senior Economist on (02) 9458 7259 or via e-mail at micah.green@nswbc.com.au.

Yours sincerely



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