



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

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ORGANISATION

The Tax Institute

The Tax Institute is Australia's leading professional association in tax, with more than 13,000 tax professional members. The Tax Institute sets the benchmark for the most up-to-date tax professional development events and education programs in the country. This means that members of The Tax Institute are best placed to have the highest level of expertise in the field.

The growing membership base includes tax professionals from commerce and industry, academia, government and public practice throughout Australia.

The Tax Institute's reach now extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the numerous specialist, practical and accurate tax publications – all of which ensure that the latest information is available at their fingertips.

Established in 1943, the purpose of The Tax Institute was to provide education and information products and services to the tax profession as well as support improvements in the tax law and its administration. That core purpose remains.

Today we lead the tax profession with a strong and authoritative voice in supporting a fair and equitable tax system in Australia, whilst at the same time providing a full suite of education and information products that keep today's tax professional up-to-date and build the capacity of the next generation of tax professionals.

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STATEMENT OF PRIORITIES

This position statement outlines some of The Tax Institute's key tax reform priorities. This is not an exhaustive list, but serves to highlight some of the areas in which the Government must commit to tax reform.

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

Context

The Tax Institute has long called for the Government to give a sustained commitment to tax reform for the benefit of all Australians. This requires a measured and structured approach to reform, that includes a timeline and a process for advancing priority issues. This must be in place to ensure continued work on tax reform beyond the October tax forum.

Despite global economic uncertainty and its possible flow-on effects for the Australian economy, it is crucial that our economic and budgetary situation is not used as an excuse to delay the hard work on policy formulation that is required to improve our tax system. To ensure that Australia is well positioned for the challenges of the next 40 years, we must do the heavy-lifting now, to ensure the tax reform debate continues and that there is a medium-term plan for reform in the coming years as the nation's balance sheet improves.

The benefits of tax reform will flow to all Australians in the form of a stronger economy. The tax system should be efficient, equitable and simple. It should encourage savings and investment and make Australia an attractive destination for foreign investment.

Building on the Henry Review platform

It is now more than three years since the commissioning of the Henry Tax Review; the 'once in a generation ... root and branch review' of Australia's tax system.

The Henry Review looks forward over the next 40 years and foresees:

- a new world economic order based on ever-deepening international integration;
- the transformation of business, commerce and personal lives by technological advances;
- the ageing of the population, reducing some tax bases and raising the costs of health, aged care and dependency;
- strong growth and cultural diversification of our population, with high demands for economic infrastructure, education and social infrastructure spending;
- deepening stresses between human activities and wider ecosystems, globally and locally; and
- further stresses on housing affordability and pressure on urban amenity.



TAX FORUM

4-5 October 2011

The Henry Review found that much of the existing architecture of our tax system 'reflects sound policy frameworks and Australian social values and will still serve us well'. However, it set out to define a tax and transfer system that better anticipates and responds to these challenges over the coming years.

Taxation revenue collections in Australia are currently greatly dependent on taxes that have an adverse effect on investment and workforce participation. The Henry Review's vision was to concentrate on four robust and efficient broad-based taxes: personal income; business income; economic rents from natural resources and land; and private consumption. Other revenue taxes (mainly State taxes) should be abolished, with more reliance on taxes on rents and consumption, rather than business income.

State tax reform

Consideration of these matters will also require leadership on the issue of Commonwealth-State relations, including on the issue of State taxes and revenues. We urge the Commonwealth Government to take the reins on this issue and bring the States on board with a unified vision for tax reform in Australia. State taxes are increasingly irregular, inconsistent, inefficient and an impediment to investment and growth. The Commonwealth Government must work with the States to ensure their revenues are protected as inefficient state taxes (such as stamp duties) are abolished.

The GST will generate \$50 billion this year and represents an increasing revenue source. The significant role that the GST will play in tax policy and revenue collection over the next decade cannot be underestimated. As a result, it is imperative that the Government consider the scope for reform to our existing GST laws as a part of a robust debate on tax reform.

Despite the Henry Review being prevented from exploring options for GST reform, the Review Panel noted that "[a] simple cash flow tax designed to tax private consumption as broadly as possible could be an important element of Australia's tax system into the 21st century."

Since the introduction of the GST more than 10 years ago, piecemeal reforms have been made to these laws mostly to clarify the existing policy position. However, the GST has not enjoyed the type of whole scale review to which the rest of the tax system has been subjected by the Henry Review Panel. In order to create a certain, simple and equitable environment for business and individuals, it is essential that options for reform of the GST be considered fully, from a taxation and economic viewpoint.

The Tax Institute urges the Government to consider adopting a policy of shifting Australia's dependence on income tax for the bulk of revenue collections towards more simple and stable consumption taxes such as the GST over the coming decade. Such a shift will ease the presently adverse effect of Australia's current tax rates on individuals and corporate entities; will create a simpler tax system to implement and regulate; and will provide the Government with more stable revenue collections.



TAX FORUM

4-5 October 2011

The Government should consider the impact of such reforms on taxpayers in lower income tax brackets to ensure that such taxpayers do not suffer adverse tax consequences.

The Henry Review noted that 90% of Australia's tax revenue is generated by only 10 taxes. There are 115 other taxes that stand in the way of a simpler tax system.

The States impose some of the least efficient and worst designed taxes in Australia. Stamp duty is a standout. Why is there a disincentive for people to move homes and locations for work purposes for example, with huge sums being payable as stamp duty on property conveyances? Insurance duties create a perverse situation where people who are doing the right thing and insuring against risk are penalised with a duty on their insurance contracts.

Across States, even where the same type of tax is levied (such as payroll tax), the applicable thresholds, rates and exemptions differ between States, significantly increasing compliance costs for individuals or businesses that invest or operate in more than one State. Significant State resources are drained in resolving issues of implementation and compliance with respect to this inefficient and often archaic collection of taxes.

The Tax Institute urges the Government to seize the opportunity to set a national vision for tax reform that includes the repeal of inefficient State taxes. In order to achieve this goal, we encourage the Government to set a new tone for inter-governmental relations by working with State Governments within the Council of Australian Governments framework to assist States in replacing lost revenue as appropriate.

Increased co-operation between the Federal and State Governments on this issue will result in significant benefits for Australians, including making Australia a simpler place to do business (thereby encouraging investment); decreasing compliance costs and increasing efficiency within State Governments; and allowing funding to be directed to States according to each State's needs.

A more effective and simplified transfer system

Reform of the income tax and transfer system would be achieved via a simplified structure with a new delivery platform with complementary means tests. This would combine with a new retirement income policy to better address equity, longevity, aged care and disability and carer needs.

By embracing the vision contained within the Henry Review and committing to a blueprint and a process for tax reform, the Government will ensure that the Australian economy is placed on a more sustainable basis.

There are about 40 cash transfers paid to Australians by the federal government in the form of welfare payments, family benefits and the like, and they turn over about \$70 billion. This churn represents more than one-quarter of government spending. The Henry Review examined this system in detail. Although the administrative cost could not be precisely determined, savings through simplification were flagged.



TAX FORUM

4-5 October 2011

Tax reform does not have to equate to cutting welfare. A more targeted and efficient tax system can deliver benefits to the poor, disadvantaged, elderly and unemployed. The Henry Review found that the cost of a complex and inefficient tax transfer system was disproportionately borne by the most vulnerable. Therefore, a more efficient and simpler system can be easier for participants to navigate, which should in turn reduce their compliance burden.

Road-user charges

Road-user charges (or congestion taxes) impose a surcharge on users of a road transport network in periods of peak demand.

The Henry Review suggested this was a way to not only help meet Australia's future transport challenges but do substantial social and economic good. The differential tolls on the Sydney Harbour Bridge already operate as a quasi-congestion tax - higher tolls during peak times encourage motorists to travel at other times. In Melbourne, CityLink applies higher tolls on heavy vehicles using its toll roads during the day.

A similar system of congestion pricing would apply to all registered vehicles on designated roads Australia-wide, according to the time of day. The proceeds would directly fund transport improvements and new infrastructure projects, as well as enable tax cuts in other areas. Under a simplified system, future State-specific charges would go. Individual trucking operators would pay their own specific costs. Couriers travelling short distances would stop cross-subsidising long-haul operators.

The Henry Review visualised motor vehicle stamp duties being abolished, compulsory third party insurance becoming more fairly priced and taxi licence quantity restrictions (which push up fares) being axed. "City roads would be less congested during peak periods, with higher travel speeds and shorter travel times saving time for road users, reducing vehicle costs and reducing greenhouse emissions."

A commitment to reform and further detailed work

It is crucial that there is a Government commitment to tax reform and continued work on implementation options beyond the Tax Forum.

The Tax Institute urges the Government to establish an independent body that is solely tasked with examining implementation blueprints for various tax reform options. The Henry Review vision needs to be developed into detailed, workable and affordable reform strategies that can then be implemented over an appropriate timeframe. The work of such a body would feed directly into Government decision-making processes, so that tax reform remains a serious consideration with a clear roadmap for reaching a realistic reform destination.



TAX FORUM

4-5 October 2011

An independent body such as a Tax Reform Commission would have a membership base reflecting the potential impacts on community, individuals, businesses and federal, state and local governments. The Commission would consult widely and have a clear remit to conduct modelling and provide advice to government on implementation options across a range of reform priorities (initially emanating from the Tax Forum).

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

The Tax Institute is not in a position to be able to perform costings. However, the Government is in the best position to undertake thorough modelling of reform proposals.

As discussed above, given the significant role that the GST will play in tax policy and revenue collection over the coming years, it is imperative that the Government consider the scope for reform to our existing GST laws as a part of a robust debate on tax reform.