



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Hon C Christian Porter MLA, Treasurer of Western Australia

ORGANISATION

Western Australian Government

STATEMENT OF PRIORITIES

Western Australia welcomes the opportunity to contribute to this national tax forum.

We consider that reform of the tax and transfer system should aim to reduce impediments and disincentives to the free flow of resources across regions and sectors of the economy to where they will be most productive, while ensuring fair outcomes for all Australians.

Business and Environmental and Social Taxes

We are concerned that the Commonwealth Government has indicated that it is unwilling to reconsider its proposed mining and carbon taxes, which are key economic and fiscal issues for Western Australia and the nation.

Both taxes pose a significant threat to Australia's international competitiveness, especially in the current fragile global economic environment.

Significantly, a number of independent economic experts have queried the practical (as opposed to theoretical) merits of resource rent taxes. This Tax Forum represents a missed opportunity for the arguments to be openly debated.

The mining tax also undermines the sovereignty and fiscal autonomy of the States, who own the mineral resources on behalf of the community. Commonwealth undertakings to penalise States for pricing minerals appropriately through their royalties are unjustifiable.

The Commonwealth's own modelling indicates that the carbon tax will do little to reduce domestic greenhouse gas emissions. It assumes that businesses will purchase most of their emission permits from overseas, representing a large transfer of income to other countries.

On the other hand, if this key modelling assumption does not hold, the domestic cost of carbon abatement is likely to be much higher than the Commonwealth's estimates.

Development of Australia's resource endowment is also potentially constrained by biases in the tax system against small exploration companies. Combined with the impact of the proposed mining and



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carbon taxes, there is a high risk of exploration being driven offshore.

In this regard the Commonwealth should implement its 2007 election commitment of a flow-through shares scheme. Alternatively, it should consider an exploration tax credit for investors in explorers with no taxable income in a given year.

GST Distribution

The collection of the GST by the Commonwealth and distribution to the States according to the recommendations of the Commonwealth Grants Commission is currently a core component of the national tax and transfer system.

Western Australia welcomes the independent review of the distribution of the GST. The current system severely limits Western Australia's capacity to invest in growth-promoting infrastructure and services, and robs the State of capacity to reform its own taxes.

The current system also distorts sound fiscal decision making.

In this regard, Western Australia faces the remarkable threat of losing more in GST grants than it will gain in mining royalty revenue from removing a long standing royalty concession for iron ore 'fines' that has clearly become redundant in today's market environment.

The Commonwealth Treasurer has suggested that this amounts to the State kicking an own goal, and has undertaken to reduce our direct infrastructure grants to boot - because of royalties being a credit against the proposed resource rent tax.

However, reduced funding for infrastructure will impede economic growth nationally, flowing on to reduced Commonwealth tax revenue. Economic welfare will suffer.

Somewhat bizarrely, if Western Australia were to reduce its iron ore royalties, it could make a small net gain after allowing for the GST share impacts, but this would come at the expense of the other States and Territories.

Clearly the GST distribution system is broken. It encourages perverse policy decisions, and redirects money away from States that have sought to grow their economies to those that have allowed their economies to stagnate.

The redistributive outcomes are extreme, equivalent to a 100% tax rate on above average fiscal capacity for any State. This is not considered acceptable in other parts of the national tax and transfer system, and renders the equalisation system inequitable, divisive and unsustainable.

At a minimum, reform should include the introduction of a GST share floor of 75% of any State's population share.

State Taxes

State taxes help to fund essential State government services, including health, education, law and order and disabilities. As community demand and expectations for these services is ever-increasing,



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any reduction in State taxes needs to be matched by alternative revenue sources.

We recognise that State taxes include some of the more inefficient taxes collected in Australia, reflecting constitutional constraints and the Commonwealth's monopoly on income tax.

However, a key reform requirement should be that there is no further erosion of the States' autonomy. States are already excessively reliant on Commonwealth grants, reducing their flexibility to respond to (and the accountability of all governments for) local community needs.

The Commonwealth Government has a major stake in, and an important role to play in, the reform of State taxes - including because of the fiscal dividend it would reap from the associated national productivity benefits.

For example, the Commonwealth could consider 'making room' for States' to access its personal income tax base, in order for the States to fund the abolition of distorting taxes such as the various stamp duties.

Under either this reform approach, or an alternative approach of the States broadening their payroll and land tax bases to fund reductions in their inherently more distortionary taxes, there would be significant shifts in tax incidence, or 'winners and losers'.

Realistically, this makes reform hard to achieve, in the absence of costly compensation for those who lose out, and/or transitional arrangements. However, the boost to the Commonwealth's broad based taxes from the productivity gains means the Commonwealth would be well placed to assist.

Further harmonisation of State taxes has been advocated particularly by business groups as a relatively achievable, shorter term reform option to reduce the deadweight cost of compliance for firms operating across State borders.

However, Western Australia's position is that this should only be considered to the extent that it would not detract significantly from State budget flexibility, effectively ruling out harmonisation of tax rates, and where harmonisation benchmarks can be agreed as best practice for each State.

A common theme underpinning Western Australia's reform priorities is clearly the preservation of a robust federal system. In contrast to the creeping centralism witnessed in Australia since federation, this offers the benefits of responsiveness to local needs and dispersal of power.

Personal Tax

Western Australia's priorities for reform of existing Commonwealth taxes include the restoration of the current system of income tax zone rebates to a level that reflects the higher cost of living in remote regions. The current rebates have been allowed to waste away over a long period.

Whether by enhancing the current rebate scheme, or replacing it with an alternative grant-based scheme struck at realistic levels, this reform offers part of the solution to attracting and retaining a skilled labour force in regions of high productivity, including where resource endowments are high.



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It would complement reforms to the GST distribution, helping States like Western Australia to provide the services and infrastructure reasonably expected by a residential workforce in regions underpinned by a strong economic base.

LIST OF ATTACHMENTS