Community and Public Sector Union
Michael Tull – Assistant National Secretary

5 June 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
Parkes ACT 2600

Email: bettertax@treasury.gov.ay

Dear Sir/Madam

Tax White Paper

The CPSU believes that government has a crucial role to play in the nation. It is our view that, at present, the government does not collect sufficient revenue to meet the needs of the Australian people.

The CPSU is committed to providing a strong voice for members in the big public policy and political debates. As the key union representing Australian Public Service (APS) employees, our members have a strong interest in the tax reform debate. Political and public policy decisions around reform of the tax system are central to our members' interests as the tax system raises the revenue required to fund public services.

Given the importance of tax reform, the CPSU recommends that the final Tax White Paper:

1. oppose any cap on Commonwealth taxation of a proportion of GDP;
2. focus on tackling tax avoidance to increase revenue;
3. support reform of negative gearing and the capital gains discount;
4. support the reintroduction of a carbon price and resource rent tax;
5. oppose a cut in the corporate tax rate unless accompanied by closing loopholes whereby the net effect would be increased revenue;
6. oppose an increase in the GST;
7. support introducing a Buffett rule; and
8. support greater resourcing for the Australian Taxation Office.

The CPSU welcomes the opportunity to make a submission to this White Paper process into tax. For further information please contact Dr Kristin van Barneveld, Director of Research via email kristin.vanbarneveld@cpsu.org.au or 0420 316 825.

Yours sincerely

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CPSU (PSU Group) Submission

Tax White Paper

June 2015

Why tax reform is necessary

> "Taxes are the price we pay for a civilized society" - Oliver Wendell Holmes, Jr.

The community wants investment in services

The work of government impacts the lives of *all* Australians: whether they are individuals accessing Medicare services, seniors seeking information on pension entitlements, or a family needing assistance following an emergency such as a bushfire or flood. Beyond direct human services, government provides fundamental information, often taken for granted, that helps facilitate daily life – from weather forecasts that assist Australian food producers, grants to small businesses and funds to develop innovative new technology, to protecting the community through work including biosecurity and food and pharmaceutical regulation.

Research has shown that Australians place a high importance on the breadth of work undertaken by government.[1] Two thirds (67%) of Australians believe that an active Government is necessary to provide important public services, and to protect Australians from unfair policies and practices.[2]

Revenue has to increase

The debate about tax reform is occurring at a time where it has become increasingly clear to the community that:

- The policy approach of successive governments to achieve a surplus through spending cuts has been unsuccessful;
- There are substantial community, economic and strategic costs from these spending cuts; and
- There is a fundamental mismatch between the community expectations of the role of government and what governments will be able to deliver while attempting to achieve a surplus through spending cuts.

It is broadly accepted that future demands on government will grow rather than shrink with the increase in the scope and volume of health services, long-term commitments including the NDIS and additional welfare costs.[3] Australians are, however, not supportive of cutting programs to meet these future demands with four in five Australians (81%) supporting maintaining government programs.[4]

The public response to the 2014-15 Budget confirms that Australians will not entertain cuts to services and our standard of living.[5] To maintain these services and meet the future demands on government, broad tax reform is urgently needed to increase revenue to ensure we can continue to meet the growing demands on government.

Australia is a low taxing nation

Contrary to public perceptions, Australia does not have a spending problem, it has a revenue problem.

Australia is a low-taxing nation. With taxes at 27.3 percent of GDP, Australia's taxes are clearly well below the Organisation for Economic Co-operation and Development (OECD) average of 33.7 percent (Chart 1). Almost all other developed nations' governments both spend and raise more, as a share of GDP, than Australian governments.[6]

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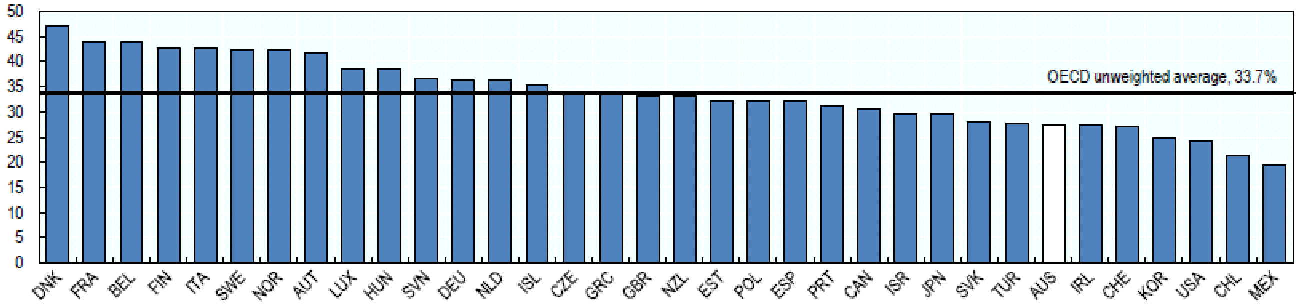
[1] Australian Council of Trade Unions, 'Myths and realities: The tax system & attitudes to taxation', ACTU Working Australia Tax Paper No. 1, Melbourne, 2011.
[2] EMC, 'Type of Government', Essential Report, 2 April 2012, viewed 22 January 2015, http://essentialvision.com.au/type-of-government
[3] J Daley and C McGannon, 'Budget pressures on Australian Government: 2014 Edition', Grattan Institute, Melbourne, May 2014, p.6
[4] I McAllister, 'Public Priorities for Government Expenditure, Report No .15', ANUpoll, January 2014, p.6
[5] EMC, The Essential Report, 3 June 2014, viewed 17 January 2015, http://essentialvision.com.au/documents/essential_report_140603.pdf, p.7
[6] Australian Council of Trade Unions, 2011, p.10-12

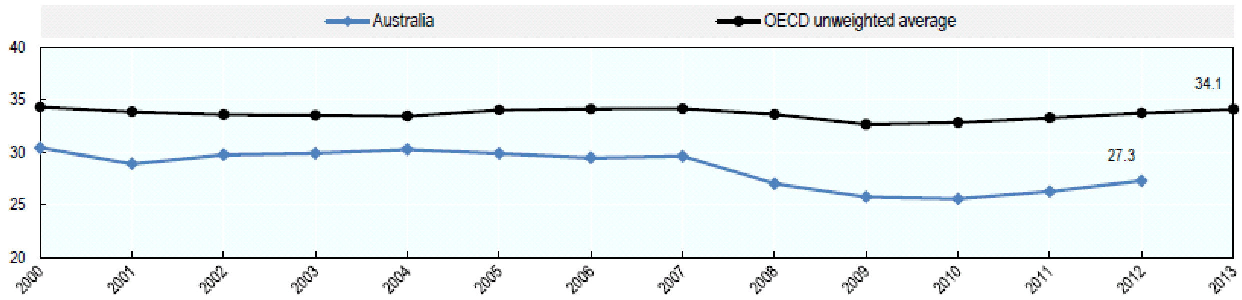
The Tax White Paper acknowledges this, stating that Australia's aggregate tax burden is relatively low compared with other developed countries with a smaller overall size of government compared to many developed counterparts.[7]

Chart 1. Taxation as a proportion of GDP compared to the OECD[8]



Additionally, Australia's taxation revenue as a proportion of GDP has declined significantly over the last decade (Chart 2), from 30.4 per cent in the year 2000 to 27.3 per cent in 2012. Over the same period, the OECD average has remained relatively steady, dropping only slightly from 34.3 per cent to 33.7 per cent.

Chart 2. Taxation as proportion of GDP (2000-2013)[9]



At a federal level, tax as a proportion of GDP is estimated to be 22.3 per cent in 2015-16,[10] well below the average of 23.4 per cent per annum collected during the Howard Government – with the Howard Government average a figure still not sufficient to meet government payments. [11] Indeed, the forward estimates project that receipts will only rise slightly to 23.4 per cent in 2018-19 and will continue to remain below projected government payments.[12]

During the decade 2002-2012 the revenue problems that would ordinarily arise from being a low taxing nation with high living standards were masked by the business cycle and the minerals boom. The business cycle boosted the budget position until 2008, peaking at over 1 per cent of nominal GDP, while the strengthening terms of trade, due to the minerals boom, boosted the budget over the decade, peaking at just under 2.5 per cent of GDP. The dramatic rise in the terms of trade over the past decade over 2002-3 levels alone provided about $190 billion to accumulated budgets.[13]

While the cash budget position improved between 2002-03 and 2011-12, the structural level of Commonwealth receipts fell by around 5 percentage points of GDP while the structural level of

[7] Australian Government, Tax Discussion Paper, March 2015, p.16
[8] Organisation of Economic Co-operation and Development, 'OECD Revenue Statistics 2014', 8 December 2014, viewed 15 January 2015, http://www.oecd.org/ctp/consumption/revenue-statistics-and-consumption-tax-trends-2014-australia.pdf
[9] ibid
[10] Australian Government, 2015-16 Budget Paper 1: Budget Strategy and Outlook – Statement 10, 12 May 2015, viewed 21 May 2015, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs10-03.htm
[11] Stephen Koukolas, The Kouk Writes: the issues with Hockey's methodology, Per Capita, viewed 21 May 2015, http://percapita.org.au/media/the-kouk-writes/
[12] Australian Government, 2015-16 Budget Paper 1: Budget Strategy and Outlook – Statement 10, 12 May 2015, viewed 21 May 2015, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs10-03.htm
[13] Parliamentary Budget Office, 'Estimates of the structural budget balance 2001-02 to 2016-17', 22 May 2013, p.3

payments (excluding GST) rose by around 1 percentage point of GDP.[14] The end of the boom and change in the business cycle revealed these underlying revenue problems.

A return to surplus is unlikely to be achieved through growth alone. For the budget to return to surplus through growth alone, without spending cuts or tax increases, the economy would need to expand by 5.25 per cent a year to return to surplus within five years.[15] The Reserve Bank has said that it expects growth to be 2.5 to 3.5 per cent in the year to June 2016.[16]

The CPSU is also concerned that the Commonwealth is locking Australia into a low revenue future. The Tax White Paper states that budget projections incorporate a cap on Commonwealth taxation at 23.9 per cent. This would be lower than the tax to GDP ratio 2000-01, 2002-03, 2004-05 and 2005-06.[17] The CPSU does not support arbitrary caps on taxation as governments should have the flexibility to fund the public services that the community wants and respond to changing economic circumstances.

If Australia remains committed to a return to surplus in the medium-term, a much stronger revenue base is needed. Attempts to cut government programs and public services to return to surplus will only cause damage that will be costly in the long-term.

Key principles for tax reform

Reform of the tax system must be underpinned by some key principles. These principles should take a holistic approach and consider what kind of society we want rather than have a narrow focus solely on economic costs.

The CPSU supports the principles for tax reform that are outlined in the Australian Council of Trade Union's submission to this White Paper process.[18] Tax reform proposals in Australia should be developed in accordance with the following principles:

- Policy settings must secure sufficient revenues to enable all levels of government to fund the type of society that Australians want, need and deserve, including universal access to public goods such as health, education and welfare, and a decent social wage;
- Policy must act to fairly distribute public resources and provide a decent social support safety net to achieve equal opportunity and alleviate poverty and disadvantage;
- Policy should promote levels of investment, savings and consumption across the economy that will support employment, job security, wage growth, environmental sustainability and Australia's social goals;
- Individuals and companies must make a fair and progressive contribution to our tax base based on their different levels of income, regardless of the source of that income;
- The efficient and equitable collection of public revenues requires a system of public tax administration with sufficient resources, capacity and skills; and,
- Tax rates are one among many factors that determine levels of investment and growth; reduction of the overall tax base will not secure the prosperity, jobs and fairness our community needs.

Tax reforms we could support

Tax is incredibly complex and overall reform requires consideration of impacts between the various levels of government as well as the impact on individuals and corporations. There are, however, some tax reforms that the CPSU could give in-principle support to, based on the principles outlined above. These reforms include:

[14] Parliamentary Budget Office, 'Estimates of the structural budget balance of the Australian Government', 22 May 2013, p.2
[15] Jacob Greber, Lift the GST,-cut-income tax says Martin Parkinson, Australian Financial Review, 2 April 2014, viewed 1 June 2015, http://www.afr.com/p/national/lift_the_gst_cut_income_tax_says_jAfGS2aJCx9jSGnxqeYtQM
[16] Reserve Bank of Australia's May statement shows it's open to more interest rate cuts, Sydney Morning Herald, 8 May 2015, viewed 22 May 2015, http://www.smh.com.au/business/the-economy/reserve-bank-of-australias-may-statement-shows-its-open-to-more-interest-rate-cuts-20150508-ggx0zl.html
[17] Australian Government, 2015-16 Budget Paper 1: Budget Strategy and Outlook – Statement 10, 12 May 2015, viewed 21 May 2015, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs10-03.htm
[18] Australian Council of Trade Unions, ACTU submission to the Government's consultation on the Tax White Paper, 1 June 2015, p.5

- Tackling corporate tax avoidance;
- Curbing income tax evasion and avoidance;
- Carbon pricing;
- Resource rent taxation;
- Reforming negative gearing;
- Reforming capital gains tax discount; and
- Introducing a Buffett Rule.

Tackling Corporate tax avoidance

Tax reform must reduce the opportunities for businesses to avoid their tax obligations. Some of the largest and most profitable companies in the world benefit from being able to sell to Australian consumers, and from the public institutions and infrastructures that our government provides, and yet do not pay their fair share in tax. The Tax Justice Network report *'Who Pays for Our Common Wealth?'* found that while Australia's corporate tax rate is 30 per cent, the effective tax rate paid by ASX 200 companies over the last decade has been 23 per cent.[19] Furthermore, nearly one third of ASX 200 companies have an average effective tax rate of 10 per cent or less.[20]

Given the structural deficit, the CPSU would support reforms that increased revenue from corporations, primarily through the elimination of loopholes that allow tax avoidance. Companies should pay their fair share toward helping to fund the services, infrastructures and legal privileges they benefit from. The Tax Justice Network's report suggests that if all ASX 200 companies paid the full rate of company tax, the Commonwealth Budget would gain approximately $8.4 billion in revenue a year.[21]

Private Discretionary Trusts: Curbing income tax evasion and avoidance

Tax avoidance is not restricted to businesses. Private discretionary trusts can be used to avoid income tax by splitting income with a family member, delaying or avoiding payment of Capital Gains Tax, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries. [22]

Private companies can also be used by individuals with high incomes to reduce their personal income tax. This is achieved by retaining income within the company for a number of years where it is typically taxed at 30 per cent or less compared with the 6.5 per cent rate that would otherwise apply. Company income is eventually brought to tax through dividends or wages paid to the owner, but tax can be avoided until that time.[23]

The CPSU would support reforms that curb income tax avoidance through the use of trusts and private companies. ACOSS has estimated savings of $2 billion by curbing the use of trusts and private companies to reduce income tax liabilities.[24]

Carbon pricing

A price on carbon is the most efficient and cost effective way to tackle climate change and can also raise revenue. Before its abolition, Australia's carbon price raised $7.2 billion in 2013-14[25] and led to the largest annual decrease in carbon emissions in a decade.[26]

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[19] Tax Justice Network Australia, 'Who Pays for Our Common Wealth? Tax Practices of the ASX 200', Sydney, October 2014, p.8
[20] ibid
[21] ibid
[22] Australian Council of Social Services, Budget Priorities Statement 2015-16, February 2015, viewed 21 May 2015, http://acoss.org.au/images/uploads/ACOSS_2015_Budget_Priorities_Statement_FINAL.pdf, p.16
[23] ibid, p.16
[24] ibid, p.11
[25] Australian Government, 2014-15 Budget Paper No. 1: Statement 5 - Variations in receipts estimates, 13 May 2014, viewed 22 May 2015, http://www.budget.gov.au/2014-15/content/bp1/html/bp1_bst5-03.htm
[26] O Milman, Australia records biggest emissions drop in a decade as carbon tax kicks in, Guardian Australia, 24 December 2014, viewed 1 June 2015, http://www.theguardian.com/environment/2014/dec/24/australia-records-biggest-emissions-drop-in-a-decade-as-carbon-tax-kicks-in

Currently, 73 countries and 22 states, provinces and cities, together responsible for over half of global emissions and 52% of global GDP have a price on carbon.[27] Pricing carbon is inevitable if nations are to produce a package of effective and cost-efficient policies to tackling climate change[28] and Australia would benefit from reintroducing a carbon price

The CPSU has previously outlined its support for action in climate change and would support the reintroduction of a price on carbon.

Resource rents

Australia has abundant non-renewable resources such as petroleum and minerals which are a significant asset of the Australian community. Australia has not, however, received a fair return on these assets.

During the mining boom, royalties were a declining share of returns as the resources sector significantly increased its profitability. In response to this, the Henry Tax Review advocated a uniform resource rent tax of 40% with an allowance for expenses and losses.

While the Minerals Resource Rent Tax (MRRT) that eventuated from this process was repealed in September 2014, the principle of resource rent taxation is sound. Australia has successfully operated a resource rent tax on petroleum for some years now with the Petroleum Resource Rent Tax (PRRT) expected to collect $1.9 billion in 2014-15.[29]

Extending resource rent taxation to a wider scope of resources beyond petroleum should be considered and would be supported by the CPSU.

Negative gearing

Negative gearing allows investors to deduct losses made on rental properties from their other income, thereby reducing their overall annual tax liability. Negative gearing costs the federal government an estimated $2.4 billion a year, with the majority of that benefit accruing to high wealth households.[30]

There is growing public debate about negative gearing. The Australia Institute, for example, argues that "*the combination of negative gearing and the capital gains tax (CGT) discount is distorting the Australian residential property market, encouraging speculative behaviour and being used by predominately high income households as a tax shelter.*"[31]

Addressing these concerns has been seen as a difficult policy challenge. That view is under increasing challenge as the community become increasingly aware of, and concerned about, equality and housing affordability.

There is a growing crisis of affordable decent housing across Australia. In the decade to 2012, average house prices increased by 92 per cent.[32] Those for flats rose by 40 per cent.[33] Home ownership rates are falling among younger workers and families. There is a national shortage of over 500,000 affordable properties for low income renters.[34]

[27] J Grant, Why putting a price on carbon is becoming a business and economic reality, PricewaterhouseCoopers, 26 September 2014, viewed 1 June 2015, http://pwc.blogs.com/sustainability/2014/09/why-putting-a-price-on-carbon-is-becoming-a-business-and-economic-reality.html
[28] World Bank, Putting a Price on Carbon, 3 June 2014, viewed 22 May 2015, http://www.worldbank.org/content/dam/Worldbank/document/Carbon-Pricing-Statement-060314.pdf
[29] Australian Government, 2015-16 Budget Paper No. 1: Statement 4, 12 May 2015, viewed 22 May 2015, http://budget.gov.au/2015-16/content/bp1/html/bp1_bs4-06_online.htm
[30] G Hutchens, House prices: Negative gearing 'a bigger problem' than Chinese investment, Sydney Morning Herald, 30 September 2014, viewed 21 May 2015, http://www.smh.com.au/federal-politics/political-news/house-prices-negative-gearing-a-bigger-problem-than-chinese-investment-20140930-10o8e0.html
[31] M Grudnoff, Top Gears – How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, The Australia Institute, April 2015, p.3
[32] Australian Council of Trade Unions, A Fair Share: Tax and Revenue, 2015 ACTU Congress Policy, http://www.actu.org.au/media/753741/9-a-fair-share-tax-and-revenue-final-formatted-policy.pdf, viewed 4 June 2015
[33] ibid
[34] ibid

The CPSU believes that there is community support for policy options that make the tax system fairer, provide governments with the revenue needed to deliver public services, and which will also address issues of housing affordability. The CPSU would support, in-principle, reforms to negative gearing to achieve those objectives.

A recent Australia Institute report argued that reform to negative gearing and capital gains tax discount would be beneficial to the affordability of housing stock.[35]

Policy options include option a limit on the number of investors accessing negative gearing, by restricting the tax benefit to new housing[36] and/or reducing the percentage of losses that can be claimed.[37] ACOSS has recommended limiting deductions for expenses to income earned from the same assets, saving $500m in 2015-16 and $1 billion in 2016-17.[38]

CPSU argues that any new rules in this policy area should be prospective and not disadvantage people who have made investments in good faith under the current rules.

Capital gains tax discount

Changes were made to capital gains tax in 1999 by the Howard Government. As a result, individuals and trusts only pay capital gains on 50 per cent of capital gains. High income earners have been the main beneficiary of this capital gains tax concession, with around half of all net capital gains income reported by those earning above $180,000.[39] The loss of tax revenue to the government is estimated to be $5 billion a year.[40]

The interaction between the capital gains discount and negative gearing creates the opportunity for tax minimisation, and an incentive for property speculation. So long as property prices keep rising, investors can stand to make a lot more from the low-taxed capital gains than they lose from their taxpayer-subsidised interest payments to the bank.[41]

The CPSU would support, in-principle, reforms to capital gains tax discount that ensure it is not used as a means to minimise taxation by wealthy households, and which may also address issues of property speculation and housing affordability.

A Buffet Rule

Income tax is the largest single tax in Australia and is estimated to make up 47 per cent of the Commonwealth's tax revenue in 2015-16.[42] Australia's income tax is fundamentally designed to be progressive. As a taxpayer's income increases, the proportion of their income paid as tax should also increase.

Taxpayers can reduce the tax they are required to pay by claiming 'deductions'. Deductions are expenses that have been incurred in the course of earning income. Deductions operate by reducing the amount of income against which tax is determined.

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[35] M Grudnoff, Top Gears – How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, The Australia Institute, April 2015, p.3
[36] ibid
[37] ibid
[38] Australian Council of Social Services, Budget must chart a fairer path back to surplus: ACOSS, 29 January 2015, viewed 21 May 2015, http://acoss.org.au/media/release/budget_must_chart_a_fairer_path_back_to_surplus_acoss
[39] J Clark, Capital gains: historical trends and forecasting frameworks, in 'Economic roundup Issue 2, 2014', The Treasury, 25 May 2014, viewed 1 June 2015, http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2014/Economic%20Roundup%20Issue%202%202014/Documents/PDF/03Clark.ashx
[40] T Allard, Negative gearing not biggest culprit in rising house prices, Sydney Morning Herald, 2 January 2014, viewed 1 June 2015, http://www.smh.com.au/federal-politics/political-opinion/negative-gearing-not-biggest-culprit-in-rising-house-prices-20140101-3063w.html
[41] M Janda, Few positives to be found in negative gearing, The Drum, 7 July 2014, viewed 1 June 2015, http://www.abc.net.au/news/2014-07-07/janda-few-positives-to-be-found-in-negative-gearing/5576662
[42] Australian Government, 2015-16 Budget Paper 1: Budget Strategy and Outlook – Statement 9: Notes to the general government sector financial statements, 12 May 2015, viewed 21 May 2015, http://www.budget.gov.au/2015-16/content/bp1/html/bp1_bs9-01.htm

Income tax deductions are predominately claimed by high income earners. In 2011-12, the top one per cent of income earners, those with total income of $300,000 or more per year, claimed over $2 billion in deductions.[43] Comparatively, the bottom 16 per cent of income earners claimed the same amount in deductions.[44]

In 2011-12, 75 individuals who each earned more than $1 million in total income used deductions to reduce their combined total income of $195 million to combined taxable income of just $82. The average cost of tax management expenses incurred by these individuals was almost $860,000.[45]

American billionaire Warren Buffett has publically stated that he considers it unfair that high income earners in the United States pay a smaller proportion of their income as tax than lower income earners.[46] Mr Buffett's statements provided support for a 2011 proposal advanced by President Barack Obama to prevent high income earners paying any less than a designated proportion of their income as tax, referred to as the "Buffet Rule".[47] The Buffet Rule has not been implemented in the United States as yet.

The Australia Institute has proposed a Buffett Rule for Australia. The proposed rule would apply to any taxpayer with total income of $300,000 or more, who, through deductions, reduced their average tax rate to below 35 per cent.[48] The taxpayer would be required to pay a minimum of 35 per cent of their total income in tax. The rule would set a minimum floor of income tax for high income earners. A Buffet Rule rate of 35 per cent is proposed because a person earning total income of exactly $300,000 would pay an average tax rate of 36 per cent.[49]

Modelling by the National Centre for Social and Economic Modelling (NATSEM) estimates that the revenue raised from the proposed rule would be $2.492 billion per annum, and would affect 31,524 households who would on average pay an additional $79,053 per annum in income tax.[50]

The CPSU supports the introduction of a Buffett rule as proposed by the Australia Institute to ensure the progressivity of our income tax system.

Tax reforms we do not support

There are a number of changes to the tax system that the CPSU would not support. The proposed changes would be regressive and increase the tax burden on average Australians. These include:

- Cutting the rate of corporate tax; and
- Increasing or broadening the GST.

Cutting the rate of corporate tax

Australia currently has a corporate tax rate of 30%. While our corporate tax rate is higher than some other countries in our region and higher than the OECD average of 25.3 per cent, it is average compared to G7 countries.[51] Mexico, Spain, Germany, Portugal, Belgium, France, Japan and the United States all have higher corporate tax rates.

The Tax Justice Network report *'Who Pays for Our Common Wealth?'* also found that while Australia's headline corporate tax rate may be 30 per cent, the effective tax rate paid by ASX 200 companies over the last decade has been 23 per cent.[52] – which is lower than the OECD average and lower than the proposed headline rate advocated by the Henry Tax Review and the Business Council of Australia (BCA). Furthermore, according to the KPMG Competitive Alternative Report, Australia has good tax

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[43] M Grudnoff, A Buffett Rule for Australia, The Australia Institute, April 2015, p.5
[44] ibid
[45] ibid
[46] Ibid, p.6
[47] ibid
[48] Ibid, p.7
[49] ibid
[50] Ibid
[51] W Smith and K Davis, FactCheck: is Australia's corporate tax rate not competitive with the rest of the region?, The Conversation, 10 February 2015, viewed 1 June 2015, http://theconversation.com/factcheck-is-australias-corporate-tax-rate-not-competitive-with-the-rest-of-the-region-37226
[52] Tax Justice Network Australia, Who Pays for Our Common Wealth? Tax Practices of the ASX 200, p.8

competitiveness. Tax costs in Australia are only slightly higher than in the United States and lower than Germany, Japan, Italy and France.[53]

Despite this, there is pressure to further reduce our corporate tax rates. The Henry Tax Review recommended a reduction of corporate tax to 25 per cent over the short to medium term with the timing subject to economic and fiscal circumstances.[54] The BCA has also called on the government to commit to lowering the company tax rate to 25 per cent.[55]

The determinants of investment and growth are complex, and depend on a range of factors such as consumer demand, the legal and regulatory environment, and the availability of skilled labour. It remains unclear whether corporate tax cuts will actually lead to greater investment and jobs or increase revenue.[56] Evidence from Canada suggests that corporate tax rates have had no direct, statistically significant impact on investment.[57] It is also worth noting that Business Tax Working Group[58] stated that *'the economic benefits from a reduction in the company tax rate from the current rate are likely to be smaller than when the rate was much higher in the 1980s and 1990s, notwithstanding that capital may have become more mobile since.'*[59]

Given the need for more, not less revenue, and the principle of not reducing the proportion of tax revenue that is paid by business, the CPSU would oppose any further cuts to the corporate tax rate unless a reduction in the headline rate is accompanied by closing loopholes – whereby the net effect would be increased revenue from corporations.

Increasing or Broadening the GST

Currently, Australia has a low reliance on consumption taxes compared to the rest of the OECD. Australia's 10 per cent GST rate is well below the OECD average rate of 19.5 per cent. GST revenues in Australia accounted for 12.1 per cent of total tax revenue in 2012, the second lowest proportion in the OECD after Japan.[60]

Broadening the GST by removing exclusions or increasing the base rate has been suggested as means to increase revenue. Proponents argue that consumption taxes such as the GST are efficient and sustainable. Consumption is far less mobile than income, indeed total household consumption as a percentage of GDP has been relatively stable, and it is argued that consumption taxes do not distort economic behaviour.[61]

Consumption taxes are, however, regressive as high income earners spend proportionately less of their income on goods and services which attract them, while lower income families tend to spend proportionately much more. The regressive nature of the GST was partially addressed by limiting the scope of the tax when it was first introduced.

[53] KPMG, Competitive Alternatives, Focus on Tax 2014, 26 March2014, viewed 2 June 2015, http://www.competitivealternatives.com/reports/2014_compalt_report_tax_en.pdf

[54] Commonwealth Government, Australia's Future Tax System: Final Report, December 2009, viewed 21 May 2015, http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_12.htm

[55] Business Council of Australia, Action Plan for Enduring Prosperity, July 2013, p.50

[56] Company tax cuts won't lift investment and jobs or increase tax revenue, Crikey, 7 August 2013, viewed 1 June 2015, http://www.crikey.com.au/2013/08/07/company-tax-cuts-wont-lift-investment-and-jobs-or-increase-tax-revenue/?wpmp_switcher=mobile&wpmp_tp=1

[57] J Stanford, Having Their Cake and Eating It Too: Business Profits, Taxes and Investment in Canada 1961 Through 2010, Canadian Centre for Policy Alternatives, April 2011, viewed 2 June 2015, http://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2011/04/Having%20Their%20Cake%20and%20Eating%20It.pdf

[58] The Business Tax Working Group was formed in 2011 and is required to make recommendations on how the Australian business tax system can be improved. Members include representatives from BCA, Ernst and Young, ACTU and AI Group.

[59] Final Report, Business Tax Working Group, November 2012, viewed 1 June 2015, http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2012/BTWG%20Final%20Report/Downloads/PDF/BTWG-Final-Report.ashx

[60] N Khadem, OECD report builds case for GST rise but with personal tax cuts, Sydney Morning Herald, 10 December 2014, viewed 21 May 2015, http://www.smh.com.au/business/oecd-report-builds-case-for-gst-rise-but-with-personal-tax-cuts-20141210-123uxw.html#ixzz3RCzzgDN5

[61] Commonwealth Government, Australia's Future Tax System: Final Report, December 2009, viewed 21 May 2015, http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_d.htm

Broadening the base to include fresh food, education, health, water and sewerage or increasing the rate would raise additional revenue but it would be far more regressive than it currently is. Proponents have suggested the regressive nature could be offset to some degree by compensation, however, ACOSS has argued that such compensatory measures are an inadequate remedy to a regressive tax.[62]

It is worth noting that most countries applying a consumption tax exempt certain economic activities from their consumption tax. Most OECD nations exempt health, education and financial services and many have a reduced rate for food.[63]

Furthermore, any compensation for any GST increase is likely to take the form of income targeted payments or tax credits. The effect will be a shift of the tax burden away from top income earners and onto wage earners in the middle of the distribution, and in particular to second earners, who are typically working mothers.[64]

The CPSU does not support an increase or broadening of the GST. Individuals should make a progressive contribution to our tax base based on their different levels of income and increases to the GST would only shift the tax burden onto low and middle income Australians.

Administration of the taxation system

A fair and effective system of taxation also requires an Australian Taxation Office (ATO) with the skills and capacity to keep pace with tax avoidance strategies and to ensure compliance. Any discussion about tax reform must consider greater investment in the ATO.

Since the election of the Abbott Government, the ATO has experienced massive job cuts with the loss of 4,400 staff in 19 months.[65] Members at the ATO work hard and are proud of the job they do, but there are limits to what they can achieve with shrinking resources and fewer staff.

The CPSU has surveyed ATO staff about the impact on cuts on the Tax Office. Staff report the corporate knowledge the agency has left is "debilitating" and that some of the remaining staff are "inexperienced and fatigued". Job cuts have hit particularly hard as there is often very little formal training for auditors and staff rely on on-the job training by mentors.[66]

The audit team, for example, has been hit particularly hard by job losses. The ATO Assistant Commissioner Geoff Leeper told a Senate estimates hearing that nearly a quarter of the redundancies so far had come from the audit area.[67]

CPSU members report that this has significantly impacted the ability of the ATO to investigate matters. Quite simply, they report that fewer audits are being conducted (impacting negatively on revenue), and there is reluctance to review and/or audit larger and more complex entities.

For the tax system to be administered effectively, the Australian Taxation Office must be adequately resourced to fully administer taxation laws and that administration of all aspects of taxation laws should only be undertaken by qualified, ongoing public servants.[68]

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[62] D Hurst, Poor people could be compensated if GST base broadened, says Liberal MP, Guardian Australia, 5 January 2015, viewed 22 May 2015, http://www.theguardian.com/australia-news/2015/jan/05/poor-people-could-be-compensated-if-gst-base-broadened-says-liberal-mp

[63] L Nielson, Who exempts what from consumption taxes, Parliamentary Library, 19 January 2015, viewed 1 June 2015, http://parlinfo.aph.gov.au/parlInfo/download/library/prspub/3610808/upload_binary/3610808.pdf;fileType=application%2Fpdf#search=%22library/prspub/3610808%22

[64] P Apps and R Rees, Raise Top Tax Rates, Not the GST, Centre for Economic Policy Research, Australian National University, June 2013, viewed 2 June 2015, http://rse.anu.edu.au/media/43012%5C684.pdf

[65] P Thomson, Australian Taxation Office axes 4400 jobs in 19 months, Sydney Morning Herald, 9 April 2015, viewed 1 June 2015, http://www.smh.com.au/national/public-service/australian-taxation-office-axes-4400-jobs-in-19-months-20150409-1mhhgq.touch.html

[66] N Khadem and N Towell, Tax cheats to win from ATO cuts, insiders say, Sydney Morning Herald, 16 January 2015, viewed 22 May 2015, http://www.smh.com.au/business/tax-cheats-to-win-from-ato-cuts-insiders-say-20150116-12nt1o.html

[67] G Wilkins, 'Tax Office reels after staff losses', Sydney Morning Herald, 15 November 2014, viewed 15 January 2015, http://www.smh.com.au/business/tax-office-reels-after-staff-losses-20141114-11mh50.html#ixzz3KgaxEIFR

[68] Australian Council of Trade Unions, A Fair Share: Tax and Revenue, 2015 ACTU Congress Policy, http://www.actu.org.au/media/753741/9-a-fair-share-tax-and-revenue-final-formatted-policy.pdf, viewed 4 June 2015

Recommendations

To maintain our standard of living and meet future demands on government, Australia urgently needs tax reform to increase revenue. While the CPSU has given in-principle support to a number of tax reforms, support for specific proposals will depend on the details. Tax reform is necessary but any changes must be fair, progressive and support Australia's social goals.

To this end, the CPSU recommends that the final Tax White Paper should:

1. oppose any cap on Commonwealth taxation of a proportion of GDP;
2. focus on tackling tax avoidance to increase revenue;
3. support reform of negative gearing and the capital gains discount;
4. support the reintroduction of a carbon price and resource rent tax;
5. oppose a cut in the corporate tax rate unless accompanied by closing loopholes whereby the net effect would be increased revenue;
6. oppose an increase in the GST;
7. support introducing a Buffett rule; and
8. support greater resourcing for the Australian Taxation Office.