

1 June 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600
By email: bettertax@treasury.gov.au

Dear Task Force

Submission to the national conversation on tax reform

Townsville Enterprise is the region's primary body for economic development, charged with leveraging the region's assets and strengths to drive jobs, growth, infrastructure, investment and improving quality of life. It is an organisation determined to deliver for the Townsville North Queensland region and its people. We represent over 350 businesses in the Townsville, Charters Towers, Hinchinbrook, Burdekin and Palm Island Shires.

Townsville is the 13th largest city in Australia, and by far the largest population base in Northern Australia. The region has one of the most diverse economies in regional Australia, is widely recognised as the commercial hub of Northern Australia and maintains an enviable lifestyle for residents with a stunning natural environment.

We write in response to the Federal Government's Tax Discussion Paper released for comment in March 2015.

Collectively, we endorse the policy agenda for tax reform to build jobs, growth and opportunity. We see this reform agenda as one essential to boosting Australia's economic performance. In short, we thoroughly endorse the goal of a tax system that encourages productive endeavour.

We commend the comprehensive and inclusive process for a national discussion and the overall priority for delivery of taxes that are lower, simpler and fairer.

We call for reform of the tax system to result in:

- An increase in the rate and broadened base of the GST;
- A decrease in the rate of both company and personal tax; and
- A streamlined and simplified system.

A number of eminent organisations in the Townsville North Queensland region are amongst the contributors to the high level position taken in this submission:

"There is a clear need for comprehensive tax reform – done the right way. The 'right way' means increasing those taxes that have the least effect on investment and employment, and at the same time reducing reliance on taxes that distort incentives to work, invest and transact business. It also means addressing those factors which increase the complexity of the tax system and the cost of compliance. All options for tax reform must remain on the table for consideration.

Comprehensive tax reform, covering Commonwealth, state and territory government taxes can contribute positively to productivity and economic growth, while stabilising our fiscal position. It is a key component of a broader reform agenda to improve the competitiveness and flexibility of the Australian economy, drive innovation and reduce inefficient expenditure growth.

Tax reform is not easy. To ensure its success, all governments, along with political, business and community leaders, will have to work together to help the community understand the need for change, what it means for them, and how a balanced and well considered reform package will support the prosperity of Australians today and into the future. There is scope for raising government revenues while maintaining, or even encouraging, continued economic growth and a fair and equitable approach to the vulnerable in our community.

The Townsville Region is ready for, and enthusiastic to engage in, the tax reform discussion and process to make our taxation system work better for us all and our future.”

Carl Valentine, Partner, PwC Townsville

On behalf of businesses, communities and individuals in Townsville North Queensland, we assert that:

- The existing taxation system requires reform;
- The goal needs to be to recover the funds needed to provide the nation's services at the lowest possible economic cost; and
- Australia requires a system which:
 - Incentivises effort, achievement and workforce participation;
 - Incentivises saving, investment and employment; and
 - Reduces complexity and compliance costs.

The current system requires significant reform to more fully achieve these high level priorities. We believe a fundamental change to the system is required, rather than incremental changes or refining of the existing system. The current compliance costs of \$40 billion per annum to the Australian economy are simply not efficient or optimal.¹

Please feel free to contact me on 0401 828 024 should you wish to discuss our enclosed submission further.

Yours sincerely



Tracey Lines
General Manager Economic Development

¹ Australian Government, Re:think, Tax Discussion Paper, March 2015

SUBMISSION TO THE TAX WHITE PAPER TASK FORCE TAX DISCUSSION PAPER MARCH 2015

Townsville Enterprise is the peak Regional Development Organisation and Regional Tourism Organisation for Townsville North Queensland. We represent over 350 businesses in the Townsville, Charters Towers, Hinchinbrook, Burdekin and Palm Island Shires.

This submission is prepared in response to the Federal Government's Tax Discussion Paper "Re:think" released for comment in March 2015. This submission outlines our position on behalf of businesses, communities and individuals in Townsville North Queensland, we assert that:

- The existing taxation system requires reform;
- The goal needs to be to recover the funds needed to provide the nation's services at the lowest possible economic cost;
- Australia requires a system which:
 - Incentivises effort, achievement and workforce participation;
 - Incentivises saving, investment and employment; and
 - Reduces complexity and compliance costs.

The current system requires fundamental reform to more fully achieve these high level priorities.

More specifically, we would strongly support a move to reform the existing tax system which would reduce company taxes, reduce personal income taxes and streamline the system. Such moves are considered essential to boost Australia's economic growth.

Such reductions to tax revenues must be recovered by GST at an increased rate across a broader base of goods and services. This will also require changes to the GST distribution mechanisms (or consequential changes to the spending responsibilities between Federal and State Governments).

Such a shift in the mix of taxation revenues would:

- reduce complexity;
- reduce the opportunity for simple or complex structuring that produces inequitable and unintended taxation outcomes,
- be efficient and fair; and,
- if communicated appropriately, be perceived to be both efficient and fair.

Strong collaboration with the Federal parliament and between Federal and State tiers of government will be essential to an improved taxation system. Another key ingredient to successful tax reform will be broad based business and community support and the careful management of special interest groups to avoid them derailing the process to maximise the outcomes for their members without due to consideration to the greater need.

Company Taxes

The trajectory for Australia must be towards a reduction in the corporate tax rate to increase the nation's global competitiveness and to encourage investment.

We suggest the implementation of an "Entity Tax Rate" – a matched rate for corporate and personal taxes at a rate comparative with international competitor and trading partners. We also support the notion of "entity taxation", whereby trusts would be taxed on the same or a more comparable basis to companies.

Personal Income Taxes

The impetus for Australia's personal income taxes must be to encourage participation. As in the case of company taxes, a reduction in personal income taxes is also essential to the nation's global competitiveness.

It must be simplified in terms of offsets with the transfer system but also in terms of compliance. Inconsistencies between the transfer system and tax system must be removed to support child care, low income and second income considerations. We suggest a move towards removing individual tax returns or at least reducing the predominance of completion. We also suggest that couples be taxed as a single economic unit, allowing spouses to file joint income tax returns.

In the short term a move to address bracket creep is also essential.

Streamline the System

Reducing the complexity of the existing Australian system should be a prime priority for tax reform. The current impost to the national economy of an estimated \$40 billion is a highly inefficient allocation of resources.

The vast majority of the existing 123 Federal and State Government taxes should be removed from the economy; especially the most inefficient such as stamp duties, payroll tax and luxury car tax; and the most complex such as alcohol and fuel taxes. "Corrective" taxes are an inefficient way to impact public behaviour and add to the complexity of the system. With only around 10% of the taxes levied collecting over 90% of taxation revenue the system is ripe for reform, simplification and reduction in the compliance burden.

Federal and State Government cooperation in this is imperative. The articulated intent of the Federal Government to consider Taxation Reform in conjunction with Federation Reform is supported.

Level Playing Fields

A complementary benefit of streamlining the system would be to allow level playing fields across sectors. For example Australians should be exposed to a similar level of tax burden across vehicles for savings whether in the form of the principal place of residence, finance or superannuation. Similarly, a similar level of tax burden across vehicles for investment whether in the form of business, property or finance.

We should also, as a nation, see lower taxes on factors of production, such as capital investment.

Goods and Services Tax

These reductions in revenues from removed taxes, reduced corporate and income taxes should be compensated to allow the Government to still achieve the required revenue streams from a GST with a broader rate and an amended rate.

The GST should cover a much broader base of goods and services, at the least more in line with the OECD average, and ideally closer to the New Zealand comparator. Correspondingly, a higher rate should be considered, more in line

with the OECD average. Appropriate mechanisms also need to be introduced to ensure lower income earners are not adversely impacted by such changes (for example, it may be necessary to increase the tax free threshold).

Such a move would simplify the system and move towards reducing the compliance burden. It is also a fairer option for Australia, with less impetus for complicated avoidance strategies.

The key to this move being successful is consultation and communication. To this end, we commend the commencement of the current conversation. A valuable method for communication may well be industry groups and peak bodies to assist this requirement.

Specific Recommendations

We strongly suggest:

- Making no adjustments to the dividend imputation system. Australia is considered a global frontrunner in this regard.
- Making no adjustments to the negative gearing system. Any perceived benefits would be outweighed by negative impacts to Australia's housing and construction markets.
- Any proposed changes to the system must hinge on engagement with State Governments to ensure an improved system across the nation.
- Bipartisan support within Federal Parliament is essential – our political leaders must come to a consensus on what is best for our country not merely their election or re-election prospects.
- Any proposed changes to the system must be based on clear, concise and thorough communication to the broader public, perhaps with the assistance of industry bodies.
- Any changes must be applied under a grandfather clause. Under no circumstances can retrospective changes be implemented. This is essential to fairness, consumer and business confidence and retaining Australia's reputation as an international investment destination.