TAX FORUM 4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Robert Carling, Senior Fellow

ORGANISATION

The Centre for Independent Studies

STATEMENT OF PRIORITIES

The broad objectives of reform should be to:

- Maximise productivity growth by promoting efficient resource allocation.
- Have tax rates and structures that do not stifle enterprise and innovation or over-tax saving and capital income.
- Achieve legitimate redistribution primarily through the transfer system rather than the tax system.
- Make the tax system as simple and transparent as possible.
- Strengthen federalism by restoring revenue autonomy to the states commensurate with their expenditure responsibilities.

Specific reform priorities:

- Lower, flatten and simplify the personal income tax scale with:
  - A tax-free threshold similar to that proposed by the government.
  - A maximum marginal rate of 40% in the medium term and 35% in the long term.
  - No low income tax offset.
  - No Medicare or other levies.
  - A discount for capital income.
  - Automatic indexation of thresholds.
- In the context of the current company income tax system, reduce the tax rate to 25%. In the longer term, adopt a simpler business tax system.
- Make state taxation simpler, more efficient and commensurate with states' expenditure responsibilities by:
  - Ensuring that the states' tax reform obligations under the Intergovernmental

Agreement are completed.
  - Eliminating transaction-based duties on insurance, motor vehicles and real property.
  - Allowing states to tax personal income on the same base as the Commonwealth, offset by an initially equivalent reduction in Commonwealth personal tax rates and in Commonwealth specific purpose payments to the states. GST revenue should continue to be distributed to the states, but under a simpler and more limited method of horizontal equalisation.
  - Abolish nuisance taxes that raise little revenue.

These reforms could be financed over the long term by:

- Eliminating most personal income tax offsets, deductions, rebates and credits, except those needed to avoid over-taxation of saving and capital income.
- Broadening the base of state payroll tax.
- Applying road user charges more broadly.
- Broadening state land value tax and administer it in conjunction with local government rates.

A reform program as described above could only be phased in over a long period, consistent with maintaining fiscal sustainability. The fact that it could not be implemented fully in the near future should not be an obstacle to adopting it as a long-term goal. In this long-term context, an important part of the financing of reform would need to come from a much lower rate of growth in real government outlays than the historical trend rate of growth.

LIST OF ATTACHMENTS

Peter Saunders (ed), Taxploitation - The Case for Income Tax Reform, CIS Readings 11 (Sydney, The Centre for Independent Studies, 2006)

Robert Carling (ed), Taxploitation II – Tax Reform for Incentive, Productivity and Economic Growth, CIS Readings 12, (Sydney, The Centre for Independent Studies, 2011)