



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Dr Ric Simes, Partner, Director of Deloitte Access Economics

ORGANISATION

Deloitte

STATEMENT OF PRIORITIES

Preamble

The Henry Review provides a framework to guide tax reform over the coming decade. To maintain the momentum for tax reform, the Forum should aim to (i) settle on a number of reforms that can be enacted either straight away or by next year's Commonwealth and State budgets; and (ii) establish processes whereby reforms requiring further analysis and testing of their likely practical consequences.

Maintaining the momentum for reform

Two areas for reform where early action should be feasible are

1. The removal of stamp duties on insurance and property:
 - The analysis showing that these are among the least efficient of all taxes is widely accepted.
 - There is scope for either the States or the Commonwealth to fund the move and thus what appears to be a stand-off between the two is disappointing.
 - One possible path would be for the Commonwealth to fund a set proportion of the total costs (in part, as a reflection of the efficiency dividend that would accrue to the Commonwealth's budget) and the States to fund the remainder through broadening their land and/or payroll tax bases.
2. The introduction of default tax returns for those whose predominant source of income is collected through the PAYE system (i.e. the pre-filling of returns).



TAX FORUM

4-5 October 2011

Long-run pressures

There are two main long-term trends that are relevant to the design of the tax system, namely the ageing of the population and the increasing integration into the global economy (driven in part by technology):

- Pressure will build on government budgets. Rather than be driven by tax considerations, decisions regarding the size of government should *largely* be determined by a thorough analysis of the best means of providing, inter alia, health and aged care services with a balance between public and private provision. Given that the pressures will build gradually over time, there is scope for the tax system to be tailored to meet varying dimensions of government spending within the likely range that an analysis of optimal spending frameworks would indicate.
- The increased integration of the economy globally means that future changes to the tax system will need to progressively reduce the reliance on taxation of capital, as well as being mindful of the top marginal tax rate for individuals – the locational decisions that are already having a bearing on parts of financial and business services sectors will gradually affect more of the economy over coming decades. This means, for example, that opportunities will need to be taken to (gradually) reduce the corporate tax rate.

The tax mix: efficiency considerations

As a general principle, taxes should be applied at relatively low rates to broad bases, taking into account where the final incidence sits. This implies a greater reliance on taxing land, consumption and economic rents:

- The Henry Review proposals regarding land tax are a sensible starting point.
- The GST base needs to be reviewed in light of the experience of the past decade. The rate could be increased a little – perhaps to 12½% – but there will be a limit on how much it can be increased without creating incentives to shift spending patterns (including offshore).
- The main inefficiencies in payroll taxes relate to the exemptions. The long-term impact of payroll taxes on jobs is akin to other taxes on labour incomes.
- EMTRs on personal incomes will inevitably be uncomfortably high at certain points on the income scale if the transfer system is to be well-targeted. Nevertheless, it is important to lower EMTRs when affordable, especially for those where the decision to join/stay in the workforce is marginal (eg married women with children, those approaching/in retirement).
- The tax system should have a neutral impact on risk taking. In the wake of the GFC, the impact of various tax measures (eg negative gearing, thin capitalisation rules) could be reviewed with practitioners.

Equity

The past few decades have seen market forces act to generally widen before-tax income distributions. The impact has been ameliorated to an extent through the tax/transfer system, and



TAX FORUM

4-5 October 2011

the case for this focus will not abate over coming decades.

Two aspects of the current system that stand out as being regressive are:

- The impact of land taxes which tend to hit (often low-income) renters more than owner-occupiers. This reinforces the case for a broadening of the land tax base.
- Superannuation and the taxation of incomes in retirement. While politically difficult, this issue should be subject to thorough review. Consideration should be given to a shift in the taxation of superannuation from taxing contributions and earnings to taxation at the point of withdrawals. While this would have an initial impact on the budget, and while grandfathering arrangements would be needed, this would enable a much simpler and equitable system to be established.

LIST OF ATTACHMENTS

No items attached.