



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Associate Professor Richard Eccleston

ORGANISATION

School of Government, University of Tasmania

STATEMENT OF PRIORITIES

Statement of Priorities, National Tax Forum, October 4-5th 2011

Associate Professor Richard Eccleston

Overview

Ongoing reform of the tax and transfer system is both necessary and inevitable given the ever changing nature of Australia's political economy. Yet the politics of taxation is notoriously difficult with the viability of reform dependent on three factors:

- A broad-based recognition that the policy *status quo* is undesirable or untenable and that policy change is necessary; and
- A consensus among policy makers and experts about the principles and objectives of reform and ideally the specifics of reform proposals; and, most critically
- A broad consensus among key stakeholders as to the desirability of reform as well as support for specific policy proposals. The last three decades of tax reform in Australia (and indeed other advanced democracies) indicates that such interest group/social support is essential for the political viability of reform proposals, especially in the absence of bipartisan support.

The Tax Forum ought to build on the technical policy work conducted by the AFTS Review, and focus on those elements of the Henry agenda which are deemed to be of high priority and which are most likely to enjoy broad-based political support among Forum participants. While there are a good number of significant and perhaps desirable reform proposals which are not on the Forum agenda (such as increasing the GST rate or broadening its base), the Forum should adopt a pragmatic and incremental approach if it is to achieve policy dividends.

In short, the Forum should be used to test support for reform proposals outlined in the AFTS Report, discussing its recommendations and hopefully building some consensus on the priorities and



TAX FORUM

4-5 October 2011

direction of tax reform.

Priorities for Reform

Having studied and written widely on the politics of tax reform in Australia and abroad I have strong views on most of the reform issues raised in the Forum Discussion Paper. However the highest priorities for reform concern State taxation and intergovernmental financial relations. As the AFTS Report rightly argues, State taxes are among the least efficient in the Australian tax system and, if reformed, would offer the greatest efficiency dividend. Moreover, the financial crisis and its aftermath has placed the finances of many Australian States and the broader regime of intergovernmental financial relations under unprecedented pressure. Addressing these challenges is not only essential to improve the efficiency of the national tax system but to ensure the sustainability of effectiveness of services provided by the States as well as the Australian federation itself.

Given this context the Forum should explore the following issues:

1) Goods and Services Tax Distribution (Discussion paper 27)

The reality of the current Grants Commission regime is that any discussion of State tax reform needs to be preceded by a detailed examination of the impact of the equalisation of revenue capacities on incentives for State governments to reform their tax systems. For example, a move towards a Canadian-style system of partial revenue equalisation would provide States with a greater incentive to increase own-source taxation (currently they have almost none) which may support greater financial autonomy. A carefully designed regime would still allow for net horizontal equalisation and could offer a political solution to the current political conflict between States and the Commonwealth over the resource tax base.

2) Stamp duties on property conveyances and land tax (Discussion paper p 25)

Given the constitutional and political constraints on State governments, the most significant unilateral reform which could be undertaken at a State level would be the abolition of conveyance duties on property transactions. This logically would be linked to expanding the land tax base (but not the rate) to include primary residences (with generous income-based exemptions). Such a tax-base shift would have numerous economic and financial benefits but would pose some difficult transition challenges. For example, would all properties be included in the tax base from the implementation date? If so, owner occupiers of recently purchased property may be aggrieved at having been subjected to double taxation having recently paid stamp duty and then acquiring an annual land tax liability. On the other hand, if the expanded land tax was not grandfathered to some extent (imposed on properties purchased prior to the implementation date) then this would have significant short to medium term revenue implications for the State governments. Clearly modelling, discussion and Commonwealth leadership and perhaps financial incentives are required. Despite these issues such a proposal warrants serious consideration.

3) Conducting a comprehensive post-Forum survey of participants



TAX FORUM

4-5 October 2011

As a political scientist I fully appreciate the political challenges of tax reform. As mentioned above, the political viability of reform is greatly increased if there is a broad-based support for policy change across stakeholders spanning business, unions and the community sector. Indeed, given Australia's increasingly adversarial political culture comprehensive tax reform will be extremely difficult without the support of and leadership from key interest groups. Certainly business and community sector leadership was an important ingredient for the successful reforms of the mid-1980s and late 1990s.

Reflecting this dynamic, I think it would be valuable to conduct a post-Forum survey of all participants to gauge both their priorities for reform and to establish which of the policy proposals discussed at the forum would enjoy their support. The aim of such a survey would be to establish proposals which enjoyed broad-based political support prior to specific proposals entering the party-political sphere. I would be more than happy to work with Treasury and the Forum Secretariat to design, administer and analyse such a survey.

Richard Eccleston, 9th September 2011

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.