

# Submission to the tax white paper process

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Australia needs to resolve its budget balance problem. As the Business Council of Australia has pointed out this does not need to be rushed, although steps in the right direction need to be taken now. They recommend a ten year time frame given the need to have community support and no negative impact on economic growth.<sup>1</sup>

The Grattan Institute also argues for a medium term plan which involves: explaining the problems to the community, balancing the budget, prioritising the large reforms, tackling both spending and taxation, and resisting the temptation to delay.<sup>2</sup>

There are **three steps the government needs to take to improve the taxation system and ensure that it effectively contributes to balancing the budget.**

## 1. Increase and stabilise total revenue

In the 2015 Intergenerational Report the Government proposes allowing taxation to increase, largely through income tax bracket creep, to a maximum of 23.9% of GDP by 2020-21 and that total revenue (including interest, sale of goods and services etc) would reach around 25.5% in the medium term. This compares with an average of 24.7% of GDP in total payments in the 40 years to 2013-14 (p49).<sup>3</sup>

This is a fundamentally unrealistic plan as it does not take account of the following expenditure needs:

- The current underfunding of health and education in the forward estimates after removing \$80bn in projected funding.
- Increased demand for health and aged care services as the population ages.
- The full implementation of the NDIS.
- The Government's plan to increase defence expenditure to 2% of GDP.
- Australia's commitment to lift overseas aid to 0.7% of GNI.

**Total government revenue is currently insufficient to meet the expectations for services and support of the Australian community, Australia's international commitments and the likely increases in demand due to the aging population.**

Increased efficiency in spending can help to balance the budget, but it will not be sufficient.

In the 2014-15 budget the Government sought to balance the budget largely by cutting benefits, services and overseas development assistance. However the Australian people clearly did not agree that this was the solution to budget balance. The 2015-16 budget reflects this reality and shows that **the best way forward is a balance between fair cuts in future expenditure growth AND increases in taxation revenue.**

As the Government's taxation discussion paper states, **Australia is relatively low taxed compared to other developed countries.**<sup>4</sup> Only Switzerland and the US have lower taxation levels amongst the rich OECD countries.<sup>5</sup> The Australian model, with low taxes similar to the United States, but with public services and community support much more like higher taxing European states, is a great achievement which we should make sure we maintain and further improve. Our harmonious nation, efficient

governance and relatively well targeted tax and social services systems have allowed us to achieve a dynamic and compassionate society.

**However our current levels of revenue are too low to meet our expenditure needs, even with further improvements in expenditure efficiency.** During the mining boom Australians received eight cuts to personal income tax rates as well as a number of very generous tax deductions and rebates that were not means tested.

We now need to resolve the structural deficit that was created and wind back these measures.

**The Government needs to ensure sufficient, stable revenue to meet its commitments and the expectations of the Australian people, and to ensure budget balance.** Total taxation should be increased beyond the current 23.9% of GDP ceiling until the structural deficit is repaired. It is not clear what the specific level of taxation should be at this stage but **it is likely that total revenues of around 26.5% of GDP (or 25% taxation revenue) will be required to meet Australian government commitments while maintain our low tax model.**

To lift revenue the Government should focus on three areas.

1. **Reducing tax deductions and rebates, especially those largely accruing to the wealthy** – priorities include:
  - 1.1. Limiting superannuation savings tax concessions (approx. \$9.6 bn savings per year<sup>6</sup>)
  - 1.2. Restrictions on negative gearing of real estate (approx. \$3.5 bn per year<sup>7</sup>)
  - 1.3. Restricting FBT concessions on meals and entertainment (approx. \$0.8bn a year<sup>8</sup>)
  - 1.4. Abolishing the statutory formula for valuing car fringe benefits (approx.\$0.8bn a year<sup>9</sup>)
  - 1.5. Abolishing the diesel fuel rebate (approx. \$6bn a year<sup>10</sup>).
2. **Introducing more efficient and broader based taxes** that reduce volatility in total revenue and promote an environmentally sustainable economy – priorities include:
  - 2.1. Taxing high superannuation income streams (approx. \$1.4bn a year<sup>11</sup>)
  - 2.2. Expanding tax on land ownership (could be very significant)
  - 2.3. Wider coverage of internet commerce (at least \$0.3bn a year and growing<sup>12</sup>)
  - 2.4. Fuel excise indexation (around \$1 bn a year<sup>13</sup>)
  - 2.5. A tax on carbon (at least \$7bn a year<sup>14</sup>).
3. **Lifting taxation compliance** – priorities include:
  - 3.1. Multinational payments of tax on income from activities in Australia (at least \$0.7 bn a year, but likely to be higher<sup>15</sup>)
  - 3.2. A minimum tax rate for wealthy individuals – “a Buffet rule” (\$2.5 bn a year<sup>16</sup>)

**Recommendation 1: Continue to increase taxation revenue beyond the planned 23.9% of GDP ceiling to the point where the Australian Government can meet its commitments without borrowing. To do this reduce tax deductions for the wealthy, introduce more efficient and broader based taxes and lift taxation compliance.**

## 2. Improve the efficiency of expenditures

**The Australian Government is relatively efficient in comparison with OECD peers** – we manage to ensure high levels of education, health welfare and community stability with relatively low total government expenditure. **However there is room for improvement** and as pressures increase for spending on health, education and the aged it is very important that efficiencies be maximised.

There are four primary areas for improved efficiency.

1. **Better targeting of services and benefits to those who need them** – priorities include:
  - 1.1. Tighter means testing of the aged pension, including taking account of the primary residence
  - 1.2. Tighter means testing of family support payments
  - 1.3. Tighter means testing of child care support.
2. **Reducing duplication in federal-state service provision and coordination.**
3. **Holding defence expenditure at 1.8% of GNI** – given the poor record of effective spending on capital equipment by the defence department and the unproven need to lift defence spending to 2% of GDP, the defence budget should be held at 1.8% in the medium term and kept under review.
4. **Applying innovations in health, education and social welfare strategies** – priorities include:
  - 4.1. Much greater focus on preventative health
  - 4.2. More efficient and effective support of people with chronic illness
  - 4.3. Greater use of eLearning especially at tertiary level
  - 4.4. Improving the impact and targeting of welfare interventions.

**Recommendation 2: Improve the efficiency of expenditures through better targeting of benefits to those who need them, through reductions in federal-state duplication, by better management of defence expenditure and through innovative health, education and social welfare strategies.**

### 3. Reduce the unplanned drift in budget aggregates

**There is a clear mismatch between revenue and expenditure and a high degree of unplanned volatility in revenue.** Also both major parties have shown a willingness to increase expenditure without matched savings or revenue increases.

Each five years there should be an independent review of the trends in government expenditure and revenue, with public hearings to discuss these and the scope and effectiveness of government, resulting in a set of published recommendations to ensure better budget balance and maximum efficiency of government expenditure over the subsequent five years.

**Recommendation 3: Reduce the unplanned drift in budget aggregates - each five years independently review the levels, effectiveness and efficiency of federal budget revenue and expenditure and report publicly on these.**

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<sup>1</sup> BCA 2015 *Budget Submission 2015-16: A ten-year plan for growth*

<sup>2</sup> The Grattan Institute 2014 *Budget Pressures on Australian Governments*

<sup>3</sup> Treasury 2015 *Intergenerational Report Australia in 2055* p113, p115 and p49

<sup>4</sup> Treasury 2015 *Rethink – tax discussion paper* p16

<sup>5</sup> OECD 2014 *Revenue Statistics 1965-2013* Table A

<sup>6</sup> The Australia Institute 2015 *It's the revenue stupid: ideas for a brighter budget* p19

<sup>7</sup> Ibid. p13

<sup>8</sup> <http://www.news.com.au/finance/economy/budget-to-tighten-charities-fbt-cap/story-fn84fgcm-1227343873842> taking account of the recent change in the 2015-16 budget

<sup>9</sup> Treasury 2014 *Tax Expenditures Statement 2014* p76

<sup>10</sup> <https://theconversation.com/viewpoints-should-fuel-tax-credits-be-cut-in-the-budget-25988>

<sup>11</sup> [http://www.alp.org.au/fairer\\_super\\_plan](http://www.alp.org.au/fairer_super_plan)

<sup>12</sup> <http://www.abc.net.au/news/2013-12-12/mike-baird-online-gst-claim-uncertain/5134960>

<sup>13</sup> [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/BudgetReview201415/FuelExcise](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201415/FuelExcise)

<sup>14</sup> <http://www.afr.com/news/76bnayear-budget-cost-to-chop-carbon-tax-20140214-ixsf6>

<sup>15</sup> <http://www.abc.net.au/pm/content/2015/s4233510.htm>

<sup>16</sup> The Australia Institute 2015 *It's the revenue stupid: ideas for a brighter budget* p8