

# **Secretary to the Treasury, Dr Ken Henry**

## **Australia's Future Tax System Review**

**Submission by Terje Petersen.**  
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There are two fundamental reforms to Australia's tax system that I would like the review panel to give consideration to.

### REFORMING CORPORATE TAX

Australia should follow the lead of nations such as Estonia and switch from taxing company profits at the time they accrue on the books to taxing profits at the time that they are realised to the shareholders as dividends. So for example instead of taxing profits at 30% and creating a franking credit that can be distributed to individual taxpayers Australia should simply levy a tax on dividends received by individuals at the time of receipt. Alternatively the tax liability could remain with the companies concerned and the dividend tax levied at a rate of 30/70 on gross dividend payments to individuals and dividend income received by individuals could be granted concessional income tax status in light of the tax already paid by the company.

Moving from taxing profits as they accrue on the books to taxing profits as they are actually realised by shareholders would achieve several things.

- It would create a far greater incentive as well as a far greater capacity for Australian businesses to reinvest in them selves via retained earnings instead of via less flexible and risk tolerant means such as debt or external equity. Such a boost to reinvestment would spur innovation and create Australian jobs and improved wage rates.
- The headline corporate tax rate of 0% would make Australia an attractive destination for inbound investment.
- There would be some reduction in compliance complexity in association with managing franking credits.

Some consideration would need to be given towards the treatment of foreign shareholders. Ideally they would be exempt from Australian corporate tax entirely so as to attract the maximum amount of foreign capital. However if there were concerns about tax avoidance schemes or the impact on revenue then as mentioned above the tax liability could remain with the company distributing the dividends and a relatively simple tax concession could be granted for Australian companies redistributing dividends received.

## MANAGING THE GROWTH OF GOVERNMENT

The cost of government to Australian taxpayers, as represented by real revenue per capita figures, continues to rise in Australia. Whilst much is made of the rising cost of groceries and petrol, and whilst dedicated bureaucracies are put in place to monitor these private sector prices, there is comparatively very little official attention given to the rising absolute cost of government. (Some official attention is given to revenue as a percentage of GDP).

To combat this effect at the federal government level the tax free income threshold should be automatically indexed each year so as to keep the total real per capita federal tax revenue at a neutral growth setting relative to a specific base year. So for example if the base year was 2007 and the per capita federal revenue in that year was \$X then if in any given year where the tax revenue per capita was found to be greater than \$X (in real terms) then the tax free income threshold would be automatically indexed upwards by inflation plus 10%. If the revenue was found to be lower than \$X then the income tax free threshold would not be altered in that year and the revenue growth associated with general economic growth would prevail.

As elected government are ultimately accountable for their expenditure there would of course be scope to override this neutral bias setting via either a complete repeal of the relevant indexing clause (undesirable) or via an adjustment to the base year figure. A one off temporary measure such as the latter would of course be preferable because it would leave in place the self-adjusting spending discipline imposed by such a system. It would also entail a quite deliberate and transparent increase in the cost of government instead of the almost accidental increases that occur at present.

Australian taxpayers should not be expected to automatically and without discussion pay every higher price for government. The natural scheme of things ought to be for the price of government to remain relatively fixed unless specific circumstances warrant otherwise.

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