

# **REFORMING THE AUSTRALIAN TAXATION SYSTEM: A PRINCIPLED APPROACH**

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*by*

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## Challenges for would-be tax reformers

When Niccolò Machiavelli wrote, five hundred years ago, that “there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things – for the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order”<sup>1</sup>, he wasn’t referring specifically to tax reform.

But he might well have been. That’s because once a taxation system has been around for any length of time, as Australia’s has, it’s inevitable that some of its characteristics – most notably, the favourable treatments which it confers on particular forms of income or expenditure relative to others, on particular types of business organization relative to others, or on particular categories of investment or economic activity relative to others – will have become capitalized into prices, or will in some other way have become valuable in their own right. And those who have derived some benefit, relative to others, from those characteristics of the taxation system will be staunch and unremitting in their defence of them, including by issuing stern warnings of the dire consequences (for others) if that preferential treatment is altered in any way.

Of course, in an open democratic society such as ours people are perfectly entitled to advocate for policy changes that would benefit themselves, or interests which they represent, and to oppose changes which they believe would be to their detriment. One of the greatest challenges facing would-be tax reformers is that of calling out such self-interested advocacy for what it is – particularly in a culture such as ours which typically affords the losers from proposed policy changes a much louder voice than the prospective winners.

A second significant challenge for would-be tax reformers is that of persuading people – including those who are *not* motivated by self-interest – to think about proposed changes to the tax system holistically – that is, in the context of the tax system as a whole, and indeed in the context of the tax and social security or income transfer systems together, rather than in isolation from other proposed changes to different parts of the tax and transfer systems.

One well-known implication of this is that people who are concerned about the well-being of lower-income households shouldn’t reject an increase in the rate and/or a broadening of the base of the GST out of hands on the grounds that it would be regressive – even though, viewed in isolation, that would be true of most variants of this proposal – if it is part of a broader package of reforms that ‘compensate’ lower-income households for the impact on them of changes to the GST, or which include other changes to the tax system which leave it (viewed as a whole) no less progressive than it is in the absence of that broader package, or which fund additional government spending from which lower-income households disproportionately benefit.

A perhaps less-well-recognized corollary is that proponents of an increase in the rate and/or a broadening of the base of the GST, or of a reduction in the company tax rate, on the grounds that such changes would produce net benefits for the economy as a whole, need to be prepared to think about other changes to the tax and/or transfer systems that would address the legitimate concerns that other people have about the impact which such changes might have on the distribution of income and wealth.

I want to return to that theme in a bit more detail later on.

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<sup>1</sup> Niccolò Machiavelli, *The Prince and the Discourses* (The Modern Library, Random House, New York, 1950), p. 21.

A third major challenge for would-be tax reformers is that of explaining how the difference between the legal and economic incidence of particular taxes – that is, the fact that the economic cost of a particular tax is often not borne by the entity or individual legally obliged to pay it, but instead ultimately by someone else. People readily understand that the GST is ultimately borne by consumers of goods and services, in the form of higher prices, rather than by the businesses who are obliged to pay it to the Tax Office. But, despite what is now a considerable body of theoretical and empirical research by economists, it has proven much harder to persuade the general public that a large part of the burden of company tax falls on workers through lower real wages as a result of lower investment and lower productivity<sup>2</sup>; or that the main effect of payroll tax is to reduce real wages rather than to reduce employment<sup>3</sup>.

A final substantial challenge for would-be tax reformers arises from the fact that Australia's fiscal position is considerably weaker than it was when the Howard Government introduced the GST and the other changes which made up its 'New Tax System' in 2000, or than the Rudd Government expected to have when it commissioned the Henry Review in 2007. Australia faces, at best, the prospect of budgets in deficit for the rest of this decade – and possibly for longer if one thinks, as most economists do, that the medium-term economic growth assumptions used in the most recent federal budget are unduly optimistic.

As a result, it is now simply not possible to envisage a set of tax reforms in which, as the mid-1970s song by Hot Chocolate ran, "everyone's a winner, baby"<sup>4</sup>. There is no big honeypot which can be raided in order to ensure that there are no 'losers', at least in the short term – even though I think it is still reasonable to argue that well-designed tax reforms which reduce compliance costs and 'dead weight burdens' or which boost productivity and economic growth can ensure that everyone is a 'winner' in the long run<sup>5</sup>.

Indeed, given the size of Australia's budget deficit, and the evident political difficulties involved in reducing it solely through reductions in government spending, it may well be that tax reform needs to have as one of its objectives *increasing* revenue over time<sup>6</sup>; or, alternatively, that without tax reform, completing the task of budget repair may not be politically feasible.

For all of these reasons, tax reform entails a substantial amount of political risk – and as such requires a considerable expenditure of a considerable amount of political capital if it is to be accomplished. Unfortunately, political capital is in relatively short supply at the moment, as has been the willingness to risk whatever amount of it there might be.

One way of approaching the task is to seek to persuade the public at large that there are significant net benefits to be had – material and otherwise – from the pursuit of well-designed taxation reform, and complementary reforms to the social security system.

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<sup>2</sup> See, eg, Liangyue Cao, Amanda Hosking et al, 'Understanding the Economy-Wide Efficiency and Incidence of Major Australian Taxes', Treasury Working Paper 2015-01 (Canberra, April 2015), pp. 13-22.

<sup>3</sup> Ken Henry et al, *Australia's Future Tax System – Report to the Treasurer*, Part Two Volume 1 (Canberra, December 2009), pp. 294-297.

<sup>4</sup> See, eg, <http://www.metrolyrics.com/everyones-a-winner-lyrics-hot-chocolate.html>.

<sup>5</sup> As the Treasury implicitly does in *Re:think – Tax Discussion Paper* (Canberra, March 2015), p. 11 and pp. 23-28), and Deloitte Australia do more explicitly in *Mythbusting Tax Reform* (September 2015), pp. 6-7.

<sup>6</sup> See, for example, John Daley and Danielle Wood, *Fiscal Challenges for Australia* (Grattan Institute, Melbourne, July 2015), p. 20.

Different variants of that case have been made by successive governments, individuals, business groups, professional and community organizations and others, including at the summit hosted by KPMG, *The Australian* and *The Financial Review* last month and will be again at this gathering.

However, convincing as I find most of this, it so far hasn't been sufficient to persuade our political leaders to embrace the cause of wide-ranging tax reform. Hence, rather than recapitulate what others have said before, without adding much if anything new to it, I want to suggest that would-be tax reformers need to develop another line of argument in addition to the proposition that well-designed tax reform can produce net economic benefits. And my suggestion for such an additional line of argument is, to put it simply, that it is *the right and proper thing to do*.

### **The right and proper thing to do**

Way back in 1776 – twelve years before the European settlement of this country began – Adam Smith laid out four principles, or 'canons' as he called them, of good tax design:

- I. "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state,
- II. The tax which the individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person,
- III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it, and
- IV. Every tax ought to be so contrived as to take out of the pockets as little as possible, over and above that which it brings into the public treasury of the state"<sup>7</sup>.

That is, the taxation system should ideally be *equitable* as between taxpayers; *certain* in its impact on each of them; *simple* to comply with; and *parsimonious* in its costs of administration and collection. These principles have been endorsed and upheld by a succession of inquiries into and official pronouncements upon the Australian taxation system over the last forty years<sup>8</sup>.

I would add to Adam Smith's 'canons' two other principles which seem to me to make sense in today's times:

- V. the tax system should neither preference nor penalize particular types of income or expenditure, particular groups or categories of taxpayers, particular forms of business organization, or particular saving or investment vehicles, unless there is a clearly stated public policy rationale for doing so *and* a clearly stated reason why differential treatment via the tax system is the best way of achieving that public policy objective; and
- VI. the tax system should have regard to the possible consequences (including for investment, labour force participation and economic activity, and for the amount of revenue collected) of substantial differences between Australia's taxation system and that of other countries with which Australia has significant (or potentially significant) economic interactions.

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<sup>7</sup> Adam Smith, *The Wealth of Nations* (London, 1776), Book V, Chapter II, 'Of the Sources of the General or Public Revenue of the Society', Part II.

<sup>8</sup> Neil Warren, 'Tax 101: How to See Through the Fog to Future Reforms', Parliamentary Library Lecture (Canberra, September 2011) (available at [http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/Vis/vis112](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/Vis/vis112)), p. 8.

That is, the taxation system should also ideally be, as far as possible, *neutral* as between the choices which taxpayers make as to how they earn and spend their income, how they constitute their businesses, and how and where they choose to invest their capital – unless there is some clear public policy objective served by having the taxation system treat some particular category of spending, or form of economic activity favourably or unfavourably, as for example in the case of taxes on tobacco products, alcoholic beverages or gambling, or in the case of tax breaks for long-term savings for retirement.

And the tax system should have regard to considerations of *international competitiveness*, especially the possible effects of significant divergences between Australia's tax system and that of other countries on our capacity to attract or retain human or financial capital. That's not to say that there should be no such divergences: but simply that we should be aware of any possible consequences that such divergences may have, and sure that those consequences are outweighed by the benefits (as we see them) of those divergences.

The Australian taxation system departs – in some cases egregiously – from *all* of these principles of good tax design.

Australia's tax system imposes the highest rates on wage and salary income – that is, on income from *working* – and on income from the most common form of *saving* (interest on bank, building society or credit union deposits). By contrast, it taxes income from investments (other than interest-bearing deposits) at substantially lower rates than identical amounts of income derived from working<sup>9</sup>. And if those investments are funded wholly or partially by borrowing, the income produced by them are taxed at even lower rates<sup>10</sup>.

I find it hard to accept that the existence of such discrepancies in the tax treatment of different types of income serves any legitimate public policy purpose: and impossible to describe it as 'fair', or as 'neutral' in its impact on saving or investment decisions.

Similarly, a tax system with which over two-thirds of taxpayers feel they can't comply without the assistance of an agent – a higher proportion than in any other OECD country except Italy<sup>11</sup> – can hardly be considered 'simple' (or, for that matter, 'certain in its impact').

A tax system whose compliance costs are equivalent to almost 2¾% of GDP<sup>12</sup> can hardly be considered 'parsimonious in [its] cost of collection and administration'.

And a tax system which imposes the second-highest top personal income tax rate in the English-speaking world (after California) cutting in at the second-lowest top income tax threshold (after New Zealand), or one which ostensibly taxes company income at a rate 5 pc points above the OECD average, can hardly be characterized as being 'internationally competitive'. Nor, of course, can it be considered 'fair' when actually paying those rates is, for many individuals and corporations, a matter of choice.

So there is a strong principled case – a case based on wanting to do what is right, according to widely acceptable principles – for wide-ranging tax reform, in addition to the more commonly made one (especially in circles such as these) based on net economic benefits.

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<sup>9</sup> See, eg, Chart 4.1 in *Re:think*, p. 60.

<sup>10</sup> Henry Review, Part Two, Volume 1, Chart A1-20, p. 69.

<sup>11</sup> Henry Review, Part Two, Volume 1, Chart A1-2, p. 6.

<sup>12</sup> \$40bn according to a Tax Office estimate for 2011-12 (*Re:think*, p. 28).

## The case for broadening the base of personal income tax system

This ‘principled’ approach can be used to support both broadening the base and/or increasing the rate of the GST, with compensation for low-income households, and reducing the statutory company tax rate – for which there is also a reasonable argument on the basis of net economic benefit.

But the ‘principled’ approach also suggests, I think, that a tax reform package along these lines would do little to ameliorate the failings of the tax system which I’ve outlined. It would also, of course, be extremely difficult to portray as being ‘fair’ in the way that a large majority of the Australian people comprehend that term. As a result, it would be very difficult if not impossible to ‘sell’ politically.

Something which would do a lot to address many of the ways in which the Australian tax system departs from the principles of good tax design, and which would also make a reform package which included an increase in the rate or broadening of the base of the GST and a cut in the company tax rate ‘fairer’ and politically more saleable, would be to seek to broaden the base of the personal income tax system and, depending on the extent to which the additional revenue raised by so doing allowed, reducing personal income tax rates.

‘Broadening the base and lowering the rates’ was of course the philosophical principle underpinning the abolition of the wholesale sales tax and franchise fees and the introduction of the GST in 2000.

And it was a principle espoused ten years ago by a then newly-elected backbencher who, in a speech to the ‘Sustaining Prosperity’ Conference organized by *The Australian* and the Melbourne Institute that “the direction of [tax] reform should be towards lower rates and a broader base”<sup>13</sup>. Malcolm Turnbull is of course in a much stronger position to achieve the goal he advocated, now that he is Australia’s Prime Minister.

Australia’s personal income tax base is like a giant Swiss cheese, riddled with holes that allow people to pay less tax on particular types of income, earned in particular ways, and/or to pay it later, than they would pay on the same amount of income earned in the form of wages and salaries, or interest.

And these holes in the personal income tax system are disproportionately used by high income earners.

In the 2012-13 financial year, the latest for which detailed figures are available, taxpayers in the top personal income tax bracket (ie, with an income of more than \$180,000) accounted for 2.7% of the total number of taxpayers, 16.3% of the total amount of taxable income assessed, and 28.0% of the total amount of personal income tax paid.

But taxpayers in the top tax bracket are also much more likely to earn income in tax-privileged forms, and to earn more of it, than taxpayers in lower tax brackets:

- 97.4% of taxpayers in the top income tax bracket made personal superannuation contributions, compared with 69.5% of other taxpayers, and they accounted for 17.5% of the total value of such contributions;
- 21.4% of taxpayers in the top tax bracket earned income in the form of ‘reportable fringe benefits’, compared with 5.9% of other taxpayers, and they accounted for 11.9% of total taxable income earned in this way;

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<sup>13</sup> Malcolm Turnbull, “The Way Ahead”, Sustaining Prosperity Conference 2005: Speech Notes, (<http://www.melbourneinstitute.com/downloads/conferences/archive/s8/malcolm-turnbull.pdf>), p. 8.

- 29.1% of taxpayers in the top tax bracket claimed deductions for interest payments on rental property investments, compared with 12.0% of other taxpayers, and they accounted for 11.8% of the total amount of such deductions;
- 13.1% of taxpayers in the top tax bracket earned income in the form of capital gains, compared with 3.7% of other taxpayers, and they accounted for 53.3% of total capital gains income;
- 7.6% of taxpayers in the top tax bracket claimed the termination payment tax offset, compared with 2.5% of other taxpayers, and they accounted for 52.7% of the total value of such tax offset payments;
- 34.0% of taxpayers in the top tax bracket earned income from partnership and trust distributions, compared with 13.5% of other taxpayers, and they accounted for 35% of the total amount of income earned in this way.

**Table 1: Distribution of taxable income, tax paid and other items by taxable income, 2012-13**

	% of taxpayers in income group			% of total number of taxpayers			% of total \$		
	Up to \$180K	Over \$180K	Over \$500K	Up to \$180K	Over \$180K	Over \$500K	Up to \$180K	Over \$180K	Over \$500K
Taxable income				97.3	2.7	0.3	83.7	16.3	5.3
Gross tax paid				96.7	3.3	0.4	71.8	28.2	10.5
Net tax paid				96.4	3.6	0.4	72.0	28.0	10.5
Employer superannuation contributions	9.6	27.0	25.9	92.9	7.1	0.7	89.8	10.2	1.4
Personal superannuation contributions	69.5	97.4	97.5	96.3	3.7	0.4	82.5	17.5	5.8
Net distributions from partnerships & trusts	13.5	34.0	49.8	93.6	6.4	1.0	64.9	35.1	16.1
Income from capital gains	3.7	13.1	21.1	91.2	8.8	1.5	46.7	53.3	35.8
Rent interest deductions	12.0	29.1	30.0	93.8	6.2	0.7	88.2	11.8	2.3
Termination payment tax offset	2.5	7.6	5.3	92.3	7.7	0.6	47.3	52.7	8.9
Reportable fringe benefits	5.9	21.4	25.3	91.0	9.0	1.1	88.1	11.9	2.4
Cost of managing tax affairs deduction	48.1	64.8	66.6	96.5	3.5	0.4	84.1	15.9	6.3
Dividend franking credits	22.1	50.1	63.3	94.2	5.8	0.8	52.1	47.9	25.6

Source: Australian Taxation Office, *Taxation Statistics 2012-13*, Individuals Table 3; author's calculations.

And these calculations take no account of the use of the way in which taxpayers can use these and other forms of preferential treatment to keep themselves out of the top personal income tax bracket<sup>14</sup>.

Contrary to what Treasury asserted in *Re:think*<sup>15</sup>, the use of these various ways of reducing tax liabilities is 'disproportionately' higher among people on higher assessable incomes – in the senses that taxpayers in the top tax bracket are on average 2½ times more likely to make use of them than other taxpayers, and account for on average 12 percentage points higher a share of the total value of preferentially treated income or expenditure than they do of total taxable income – and it *isn't* difficult to draw conclusions as to the implications that this has for the progressivity of the overall tax system.

<sup>14</sup> Tax Office statistics show that there is a highly suggestive 'bunching' of taxpayers just below each of the second, third and top tax brackets: see *Re:think*, Chart 3.2, p. 40.

<sup>15</sup> On p. 49.

In many of these cases there is no compelling public policy rationale for any kind of preferential tax treatment: while in others there is no reason why the tax treatment needs to be as preferential as it is in order to achieve the stated public policy rationale.

For example, while I have no quarrel with the use of trusts to facilitate the orderly transfer of business assets from one generation of owners to the next, or to protect assets from vengeful ex-spouses or indigent offspring, I can't think of any legitimate public policy reason why trusts should also allow people to pay less tax than they would otherwise, by facilitating the transfer of pre-tax income earned by someone who would be in the top tax bracket to other people who are not.

Likewise, the long-standing availability of 'negative gearing' for investors in property (and other assets) has done very little (at very large cost in terms of revenue foregone) to increasing the supply of rental housing, as opposed to doing a great deal to inflate the price of the existing stock of both rental and owner-occupied housing. Having argued that case many times on other occasions<sup>16</sup>, I don't propose to repeat it here today: although I would note that it provides a prime illustration of Machiavelli's observation about the lengths to which defenders of the established order will go in order to defend their privileges which I quoted at the outset of these remarks.

There may be at least one reason for taxing capital gains at a lower rate than wage and salary income – so as to avoid unfairly taxing the component of capital gains that merely reflects the effects of inflation – although I don't see why a similar argument being extended to interest income. But I can't think of any reason why income from capital gains should be taxed at *half* the rate applicable to an equivalent amount of wage and salary income – especially when any interest incurred on borrowings undertaken to finance the acquisition of the asset which has generated the capital gains will have already been deducted at the rate at which wage and salary income is taxed.

Nor can I think of any compelling public policy reason why income earned by companies whose annual turnover is less than some arbitrarily chosen figure should pay a lower rate of tax than companies whose turnover is above that figure – as is now, once again, a feature of our company tax system.

Finally, while I acknowledge that there are a number of legitimate public policy reasons as to why income contributed to superannuation funds and income earned in superannuation funds should be taxed concessionally relative to wage and salary income, I don't think that those concessions need to be as generous as they are, especially to high income earners, in order to achieve those legitimate public policy objectives: and given that contributions to and earnings of superannuation funds are concessionally taxed, I can't think of any legitimate public policy reason as to why payments out of superannuation funds should be exempt from taxation altogether, as they have been since 2006.

What all of this leads to is the proposition that broadening of the personal income tax base – by way of eliminating altogether in some cases, or in others reducing the generosity, of the preferential treatment which the tax system currently affords to particular types of income or expenditure, to particular forms of business organization or to particular savings and investment vehicles relative to others – ought to be very much part of the conversation which the Government has sought to foster between now and the next election.

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<sup>16</sup> See, for example, my submission to the Senate Standing Committee on Economics Inquiry into Affordable Housing, *Australian Housing Policy: 50 Years of Failure* (December 2013), pp, 9-13 (available at [www.bettercallsaul.com.au/Topics/Housing/Australian%20Housing%20Policy%2050%20Years%20of%20Failure.html](http://www.bettercallsaul.com.au/Topics/Housing/Australian%20Housing%20Policy%2050%20Years%20of%20Failure.html))



And I would argue that it is incumbent on those in the business community and elsewhere who do favour an increase in the rate or broadening of the base of the GST and reductions in company or personal income tax rates to lead the conversation in this area as well.

I would much prefer to see a personal income tax system in which marginal rates of tax were lower than they are now, but one in which *all* income above each tax threshold was taxed at the rate applicable to income above that threshold – or, at least, more of it than is the case currently. It might also assist in reducing top personal rates if taxpayers in the top two income tax brackets didn't enjoy as large a tax-free threshold as they currently do.

But it's simply not right for people who want to broaden the base of indirect tax to resist broadening the base of personal income tax. And it's not going to wash with the general public either.

### **State Governments should look at base-broadening too**

While, as Australia's second Prime Minister Alfred Deakin predicted, Australia's Constitution and the way it has been interpreted by the High Court left the States "legally free, but financially bound to the chariot wheels of the Commonwealth"<sup>17</sup>, the States haven't helped themselves by the way in which they've managed the revenue sources they do have:

- in the case of payroll tax, their largest 'own' revenue source, they have, for most of the period since it was transferred to them by the McMahon Government in the early 1970s, narrowed the base (in order to curry favour with small business owners) and raised the rate (in order to offset the loss of revenue that would otherwise have resulted) – the opposite of what good tax reform should be all about;
- States and Territories have similarly narrowed the base of stamp duties and land tax (their second and third largest 'own' revenue sources) in order to curry favour with first-home buyers and home-owners more generally – thereby, I might add, adding to upward pressure on housing prices (since these tax breaks invariably get capitalized into the price of land) without doing anything to increase home ownership rates – and necessitating higher rates of tax on those not so favoured; and
- States and Territories 'gave away' death duties in the late 1970s and 1980s in order to curry favour with older voters, in what ultimately amounted to a 'zero sum game' as far as each State or Territory was concerned but deprived all States and Territories of a tax source that meets most of the afore-mentioned criteria except that of simplicity.

I don't have the same concern with payroll taxes as many others. Australian payroll taxes are lower than the payroll taxes or, as they're generally called in the United States and Europe, 'social security taxes' which typically fund all or part of their pension or health care systems. And I don't think there's any compelling empirical evidence to support the (admittedly widely-held) belief that the payroll taxes which are imposed by State and Territory Governments have had any material adverse effect on employment.

However I agree with the Henry Review, *Re:think* and many others that stamp duties and insurance taxes are very bad taxes. Although they are relatively simple and certain to collect, they offend all of the other principles of good tax design I mentioned earlier. Stamp duties, in particular, discourage the construction of new dwellings, and inhibit people from moving location in order to obtain new or better employment (and hence detract from the efficiency of the labour market).

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<sup>17</sup> John La Nauze, *Alfred Deakin: A Biography* (Oxford University Press, Melbourne, 1965), p. 347.

They are also inequitable, since they result in people with similar incomes and wealth paying different amounts of tax because they buy and sell a taxed good more or less frequently. Finally, because they are taxes on the volume of transactions, the revenue from them is highly volatile, and can lead State and Territory Governments into unsustainable fiscal positions.

I think there's a strong case, based on the principles of good tax design, for abolishing stamp duties entirely and replacing them with a more broadly-based land tax which includes owner-occupied properties, as the ACT Government is now doing (albeit using municipal rates rather than land tax, which it can do because it is also in effect the Canberra City Council), and as the South Australian Government is thinking of emulating.

Low-income owner-occupiers such as retirees could be catered for by allowing them to defer land taxes as a charge against their estates (as some local governments already do with municipal rates), although one can imagine the howls of protests from the would-be inheritors of otherwise unencumbered properties at this suggestion. And there would need to be appropriate transitional arrangements – such as providing a credit for land tax which became payable by owner-occupiers for any stamp duty they may have paid on their homes purchased in the last (say) seven years – in order to avoid 'double taxation'. But none of these are insuperable obstacles.

Likewise I think there's a strong case for State and Territory Governments to reform their payroll tax systems by imposing a lower rate across a much broader base, by removing the myriad of exemptions for smaller employers. A 2% universal payroll tax would represent a smaller impost on employers than the amount by which their employees' wages increase each year. And it could be readily collected by the Australian Tax Office along with PAYE income tax deductions which all employers, irrespective of their size, already have to make – so there would be no material increase in compliance costs (and some reduction in compliance costs for larger employers).

Indeed, if State and Territory Governments also abolished stamp duties in favour of a more broadly-based land tax and contracted out the responsibility for collecting land tax to local governments (who use the same valuation base to collect rates), and also abolished their insurance duties, they could probably abolish their State Revenue Offices<sup>18</sup>.

State and Territory Governments may need to consider options such as these not only in the interests of good tax design, but also because if there is to be an increase in the rate and/or broadening of the base of the GST – from which under current arrangements all of the additional revenue will accrue to the States and Territories – then the Commonwealth Government will almost inevitably seek to offset the cost of providing compensation to low-income households, and any reductions in personal or company income tax rates which form part of the overall reform package, by further reducing its specific purpose payments to the States and Territories.

## Conclusion

A month or so ago it seemed more probable than not that the 'national conversation' about Australia's taxation system which Joe Hockey sought to launch in March would end up being a 'dialogue of the deaf', if it hadn't become that already<sup>19</sup>. Too often, options which had been 'put on the table' were all too quickly taken off the table for the basest of political motivations.

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<sup>18</sup> State Governments would need to retain a mechanism for collecting gambling taxes, but since the number of entities upon whom such taxes are levied is quite small, that could almost certainly be handled by State Treasuries.

<sup>19</sup> And if I can use that phrase with no disrespect intended towards the hearing-impaired.

The dramatic political upheavals of the past fortnight have created an opportunity to revive the 'national conversation'. We have a Prime Minister who wants a nation "that is agile, that is innovative, that is creative" and who believes that "change is our friend if we are agile and smart enough to take advantage of it"<sup>20</sup>. There is, potentially, now a tide in our affairs which could "lead on to fortune", as opposed to the "shallows and miseries" which will surely be our lot if we fail to take it at the flood.

But if we are to succeed in that adventure, we all need to elevate the national interest, and the interests of those not well placed to speak for themselves, above our own personal pecuniary or political interests. That is the challenge that we need to overcome today.

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<sup>20</sup> Malcolm Turnbull MP, as reported in *The Age*, 15<sup>th</sup> September 2015.