How to achieve tax reform
by Andrew Bragg

The Turnbull government must focus on tax reform to establish its economic narrative.

The National Reform Summit recently confirmed that Australia has an archaic tax system from the 1950s.

Thankfully, the summit recognised that achieving tax reform will be a seismic challenge for our policy makers.

Fixing our tax system must be the number one priority for the Turnbull administration because, in its current form, it limits investment and job creation. It is unsustainable and it damages our competiveness.

While reforming the tax system appears politically and practically daunting, it is too important to put in the too hard basket.

To carry community support and achieve reform, three things will be necessary.

First, “tilling the ground" for reform by explaining there are problems which must be fixed. To use a medical analogy, you don't cure the patient before you diagnose the illness.

The second critical step is deftly packaging the changes.

The third is selling and gaining support for the changes. The second determines the likely success of the third.

The new administration should reboot the Tax and Federation White Paper processes with a view to fundamentally rebalance the tax system.

Increasing the GST in isolation and spending the proceeds would be slothful.

The community has shown that it is prepared to back or at least accept packaged changes even where the payoff is not instantaneous.

Tax reform can even be done in a partisan environment–it happened in the 1980s and 1990s.

Paul Keating introduced capital gains and fringe benefits tax whilst undertaking enormous cuts in personal tax from 60 to 47 per cent, and company tax from 46 to 33 per cent.

This happened against the will of the Liberals just as the introduction of the GST under John Howard and Peter Costello occurred against the ALP's bitter opposition.

The packaging of the GST removed a series of complicated taxes such as stamp duties on shares and wholesale sales tax.

The formula must be replicated.

Forthcoming reforms must reduce our heavy reliance on comparatively high rates of personal and company taxes, get rid of distorting stamp duties on property and insurance and replace the revenue streams with a broader, higher GST.

A further layer for this package to be effective is to reform the federation as each of the following changes requires the states' support.

To start tilling the ground, we will need to explain why a heavy reliance on personal and company taxes is unsustainable and uncompetitive.

Personal income taxes currently provide 50 per cent of the Commonwealth revenue base.

Australia relies more heavily on income taxes on personal and company income than OCED countries with 58 per cent of total tax revenue compared to the OECD average 33 per cent.

Our top personal income tax rates are comparatively high at 47 per cent compared with New Zealand’s top rate of 33 per cent.

By mid-Century, this will significantly diminish when there will be around half as many working-aged, taxpayers as we have today. Our revenues will never meet our expenses. The books simply will not balance.

Company tax also needs to be addressed. Our company tax rate of 30 per cent compares unfavourably to the Asian average of 22 per cent. The average includes Asian nations with comparable living standards such as Singapore, South Korea, Japan and New Zealand.

Our trading partners such as Japan and New Zealand are reforming their tax systems to attract new investment and job creation. Making no change is not an option in an era where capital and labour is globally mobile.

Competiveness matters now more than ever. The Global Competiveness Index now ranks Australia 22nd behind New Zealand, the UK and Malaysia. This is down from 16th just five years ago.
ANZ chief Mike Smith said recently that Australia was losing jobs offshore because of our “19th Century” tax system.

A high company tax rate is deeply damaging. Martin Parkinson said at the Reform Summit: “about half the benefit (of cutting company tax) ends up in hand of workers because it stimulates growth and… jobs.”

Without lower company and personal taxes, we will see investment, jobs and skills move to superior environments like Singapore and New Zealand.

We also have to talk about stamp duties, particularly on property and insurance which exacerbate housing affordability problems and mobility.

Stamp duties also create disincentives to take out insurance to protect homes and lives.

This makes it harder for older people to downsize, harder for young people to buy a first home and both groups less likely to insure adequately.

These unpopular, distorting duties must be eliminated.

Finally, the package will come together by increasing and broadening the GST. That's how we pay for eliminating and reducing taxes.

The package will be easier to sell because there has been a start on the sales job by unpacking these problems.

The debate on changing the GST can be won if people understand that despised taxes such as stamp duty on property will be abolished and income taxes will be reduced.

But we must explain the problems to allow the salesperson to win the day. History tells us the sell will generally work with credibility and repetition. This is where Turnbull should start.

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