Tax reform in the roaring 20s: some ideas from The Tax Institute

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In this brief introductory note, some key issues around tax reform are raised, with more detailed consideration to follow in the articles by Andrew Mills and Robyn Jacobson.

The right tax system for Australia's future is one that is most likely to stimulate productivity and economic growth. To achieve this, complexity and impediments to growth need to be removed and a simpler, fairer and more efficient tax system needs to be designed.

The current tax system is very complex, with a variety of taxes applying to a range of different bases. Fixing one part only will not of itself give rise to the reform needed for real, structural change. As such, a package of reforms is required.

Particularly now in light of the dreadful consequences that flow from the pandemic that has gripped the world, we urge the federal government to undertake a thorough, considered review of the federal tax system and, in doing so, determine what should be the appropriate tax mix for Australia to provide a sustainable source of revenue to meet ongoing government spending requirements.

We urge the government to consider adopting a policy of shifting Australia's dependence on income tax for the bulk of revenue collections towards more simple and efficient consumption taxes (such as the GST). Such a shift will ease the heavy dependence that Australia's current tax system has on individual income tax, will create a simpler tax system to implement and regulate, and will provide the government with more sustainable revenue collections.

The Tax Institute endorses the pursuit of a tax system with "lower, simpler and fairer" taxes. We endorse both simplicity and fairness as objectives, though in practice a variety of ideas about "fairness" exist, not all of which are easy to accommodate with simplicity. The Tax Institute also supports in principle the aspiration for "lower" taxes.

Inevitably though, views on how low or high the total tax burden should be depend largely on views as to how much money governments should spend.

The Tax Institute does not comment on how much money is desirable for governments to take out of private ownership to fund government spending. However, if all levels of government are to continue to spend at anywhere near the levels to which we have become accustomed, and which the pandemic now necessitates, the tax system will have to deliver a large, reliable and sustainable flow of revenue for the foreseeable future.

In this context, we seek to identify ways in which the system can be improved as a vehicle for raising revenue in a simpler, fairer way, while recognising that achieving equity in the tax system can at times be at odds with the goal of simplicity. It will also be necessary to address the deadweight costs of compliance and enforcement, and distortions and disincentives in the system, all of which are inherently detrimental to our system. Less tax distortions mean higher productivity to fund higher living standards involving more private consumption of goods and services.

In 2015, The Tax Institute put a submission to the then federal government advocating for wide-ranging tax reform, the essential elements of which included the following key elements:

– shifting away from a disproportionate reliance on direct income taxation to a more balanced mix, with heavier reliance on fairer and simpler consumption taxes and with a reasonable compensation package for lower paid workers, pensioners etc. This would necessitate a comprehensive review of the present exemptions and special rules in the current GST law to determine their ongoing appropriateness and to ensure that the simplicity and efficiency that is sacrificed by the presence of these exceptions is still justified;
– adopting a transparent marginal tax rate system for individual taxpayers. Currently, tax rates do not reveal the full picture, with a separate Medicare levy, FBT regime and a myriad of income tax offsets all distorting the real picture. Consideration needs to be given to addressing these matters so as to make the system more transparent;
– adopting a standard deduction for work-related expenses, together with the option to claim actual expenses properly substantiated for employees with expenses above the standard deduction threshold. This would make it much simpler for employees to comply with their individual tax obligations;
– assess any change to negative gearing in light of any complexity likely to be created;
– address the inequity in the FBT system caused by the application of tax at a rate equivalent to the highest marginal tax rate and address the significant administration costs in the current system;
– make changes to the taxation of superannuation only with bipartisan support;
– maintain a single-tier system for the corporate tax rate and reduce the corporate tax rate for all corporate tax entities;

- evaluate the dividend imputation system against the backdrop that it encourages the payment of corporate tax and preserves integrity in the system. Any change to the dividend imputation system should not be at the expense of these benefits;
- introduce a simpler set of loss rules for companies and trusts;
- review and simplify the small business CGT concessions;
- address the significant regulatory burden for entities in the not-for-profit sector due to a lack of harmonisation between state/territory and federal administrative requirements, and review the policy settings for the provision of tax concessions for not-for-profits. The Tax Institute recommends that uniformity in state and territory legislation should be pursued, as well as simplification of the administrative burden from complying with these taxes by introducing a centralised collection agency;
- reduce the complexity in the Australian tax system by implementing improved processes around policy development and law design, including the development of an agreed procedure for tax law;
- seek opportunities to develop and adopt new technologies for use in improving administration; and
- complete the rewrite of the *Income Tax Assessment Act 1936* (Cth).

In the following two articles in this issue of the journal, my colleagues Andrew Mills and Robyn Jacobson will consider the extent to which any or all of these aspirations are still appropriate and the extent to which they have been achieved. They might also consider what other measures could be considered as part of the tax reform of the roaring 20s.

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