



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Andrew Barr MLA, Treasurer

ORGANISATION

ACT Government

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

The ACT welcomes a coordinated approach to Federal and State tax reform and acknowledges there is room to reform some State taxes.

The ACT also welcomes the taxation initiatives by the Commonwealth Government for fair and equitable distribution of taxation, including pricing carbon pollution.

State and Territory budgets are under increasing pressures due to ageing populations, higher demand for services and services of higher quality, and increasing unit costs due to skill shortages. Taxation reform can provide certainty and stability in revenues, ensuring that high-quality services continue. More broadly, reform can engender economic growth and provide capacity to meet the emerging challenges.

Pursuing reform has its challenges however.

A number of State taxes have been highlighted as inefficient revenue sources which hinder economic growth or distort market outcomes. States resort to these taxes because of the mismatch between expenditure responsibilities and revenue raising capacity. Reform must have regard to expenditure needs of States and Territories, either through taxation or transfer mechanisms.

The central proposition of the *Australia's Future Tax System* with regards to the State and Territory taxation is to utilise land and private consumption as the primary bases for taxation – and transfer transaction taxes to these bases.

A robust taxation system should not be singularly reliant on a particular base. Noting the benefits of taxing land, the ACT has a preference for a somewhat diversified revenue base. Moving towards a single revenue source can create significant risk.

Any shift in economic incidence of a tax creates winners and losers. Transitional impacts should be



TAX FORUM

4-5 October 2011

understood as much as possible. Not only the tax system being pursued should be fair, the transition should be as fair and as equitable as possible.

The current Federal financial arrangements do not provide adequate incentives for reform, as the benefits of reform are redistributed. This should be revised.

Creating a framework that facilitates State reform is crucial. Such a framework must ensure:

- reforms provide an adequately broad and diversified tax base that provides sufficient ongoing revenues for States to meet growing demand and unit costs for services;
- reform options do not reduce the flexibility and autonomy of States to determine priority programs, nor limit the ability to take advantage of particular competitive strengths;
- the benefits of reforms are retained by the State or States pursuing the reform. This includes examining the impediments that horizontal fiscal equalisation may generate, but at the same time, avoiding an equalisation regime that directly penalises States which choose not to participate in reform; and
- informed transition arrangements are developed for reform options. Arrangements should provide assistance for those willing but unable to meet the costs of reform.

2. How are your proposals financed over the short and longer term?

In principle, reform should pay for itself over time. Economic benefits of reform can, however, accrue differently across the population. Ideally, costs should be apportioned commensurate with benefits across the community.

The ACT notes the benefits of improved economic efficiency from State tax reform as proposed in the *Australia's Future Tax System* will accrue to both levels of government. The benefits for the Commonwealth are demonstrable and measurable. However, States are solely responsible for addressing the distributional effects and financial costs of reform.

The ACT proposes the Commonwealth agree to reinvest its gains to support State tax reform, possibly through direct unconditional transfers. The transition period during which this support may be necessary may extend to well over a decade.

The *Australia's Future Tax System* Review outlined the desired future architecture of a taxation system. It suggested States focus on taxing land, and abolish inefficient transaction taxes, substituting foregone revenues with centrally administered taxes, for example, a cash flow tax.

The ACT acknowledges the efficiency benefits that central administration can provide, and is willing to examine such proposals. The ACT is mindful however, that recent reform agendas have demonstrated the fragility of arrangements underpinning untied revenues centrally administered on behalf of the States. A system with greater state revenue and expenditure autonomy in exchange for greater accountability should be considered in the first instance.