Australian Government

A tax plan for our future
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TAX FORUM 4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

Financial Services Council

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advisory networks. The Council has over 130 members who are responsible for investing $1.8 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Stock Exchange and is the fourth largest pool of managed funds in the world. The Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance notes to assist in operational efficiency.

STATEMENT OF PRIORITIES

The Financial Services Council has two main priorities for the Tax Forum:

1. Reform of state taxes; and
2. Changes to the tax treatment of retirement incomes.

Priority: Abolish State Taxes and increase/ broaden the GST

Abolishing inefficient state taxes and replacing the foregone revenue with a more efficient source is a priority reform for the Financial Services Council.

Abolishing inefficient state taxes will:

- Remove distortions which affect investment decisions – such as how assets are purchased, how long they are held and how they are structured;
- Improve the returns of shareholders by increasing the efficiency of business, which will no longer be required to comply with different tax regimes across eight jurisdictions; and
- Increase economic growth.

The Finance Industry Council of Australia (FICA) commissioned Deloitte Access Economics to investigate the economic benefits of abolishing state taxes and replacing the foregone revenue with other sources.

Abolishing all state based transactions taxes and replacing them with a higher level of GST would have the following outcomes:

- Consumers in Australia would be better off by $12 billion, or 1.74 per cent;
- The first round impact to state revenue would be a cost of $16.1 billion; and
- Due to the economic benefits of abolishing the taxes there would be second-round benefits to state revenue of $5.6 billion.

The Financial Services Council is aware that the following organisations have also recommended the replacement of state taxes with a higher or broader GST: the Business Council of Australia; the OECD in its 2010 Economic Survey of Australia; the IMF in its 2010 review of Australia; and CPA Australia.

Financing the priority

The net effect of abolishing state transaction taxes would be a reduction in revenue to all state governments of $10.4 billion.

Increasing the GST by 3.2 percentage points would provide sufficient funding to cover the foregone revenue.

Post-accumulation/Retirement phase

The Henry Review clearly outlines a case for reform of retirement incomes and identifies the issue of longevity as being distinct from adequacy.

The 2010 Intergenerational Report (IGR) highlights the cost of our ageing population and the pressures on intergenerational public finances. It demonstrates that self-sufficiency in retirement will become an increasingly important factor as the Commonwealth Government's Budget will be under increasing strain over the next half century.

Specifically, intergenerational public finances will be pressured by the ratio of working aged people relative to retired people almost halving, from around 5 today to just 2.7 by 2050.

The most recent IGR predicts that between 2010 and 2050, the proportion of Australians aged 65-84 will double, whilst the proportion of people aged 85 and over will quadruple. Concurrently, the proportion of Australians of working age will fall by seven percentage points to 60 per cent of the total populace in 2050.

The problem of a shrinking tax base will be compounded by increased spending on health and pension costs. Health costs will almost double by 2050 to 27 per cent of GDP while pension costs are expected to rise from 2.7 per cent to 3.9 per cent of GDP over the next 40 years.

These significant projected stresses on public finances mean that increasing individual provision of retirement income, as opposed to public provision, will become increasingly important.

In order to meet this public policy imperative, the FSC has previously noted that tax, superannuation and pension policy settings are hampering the development of retirement income products and strategies which could assist to alleviate these budgetary pressures.

Accordingly, the FSC continues to advocate for the development of a principles-based regulatory framework for longevity risk, income stream and hybrid products which does not stifle innovation or dissuade individuals from adopting appropriate strategies to best manage their retirement income needs.

While many of these issues were considered as part of the Henry review, we do not believe there was sufficient opportunity to consult on specific measures which may be needed in order to enable the effective provision of these products and retirement income strategies.

Additionally, as many of the areas that should be subject to such a review extend beyond the tax system, we believe a separate process needs to be undertaken that can carefully examine a wider range of policy settings which may be impeding innovation. These policy areas include the application of means testing, minimum draw-down requirements and the 'work test', to list a few.

The FSC therefore supports a Treasury-led consultation process on these matters, including a detailed assessment of the relevant recommendations contained in the Henry review and a wider examination of the inefficiencies and impediments across the tax, transfer, SIS and pension systems.

Recommendations from this process should also outline a clear implementation timetable.

Financing the priority

It is not possible to estimate a cost to revenue from policy responses in this area until specific proposals have been agreed. Nevertheless, the FSC accepts that there may be a short-term cost to revenue from reforms in this area. However, if viewed over the longer term, reforms in this area are likely to provide a significant reduction in future Government pension outlays as less retirees fall back on the pension (full or part).

LIST OF ATTACHMENTS

Access Economics Finance Industry Council of Australia State Taxes Report 2011.