



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

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### ORGANISATION

The Grattan Institute is a non-aligned public policy ‘think tank’ affiliated with the University of Melbourne and supported financially by the Australian and Victorian Governments, the University of Melbourne, BHP Billiton, National Australia Bank and Wesfarmers.

### STATEMENT OF PRIORITIES

Australia’s taxation system offends all of the principles of good tax design laid down 237 years ago by Adam Smith – which were that the taxation system should ideally be *equitable* as between taxpayers, and *certain* in its impact on each of them; *simple* to comply with; and *parsimonious* in its costs of administration and collection. In addition, the Australian taxation system is a long way from being *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. And it pays insufficient regard to considerations of *international competitiveness*, that is, the 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.

Australia’s taxation system seems almost designed to penalize the accumulation of wealth through working and saving, and to reward the accumulation of wealth through borrowing and speculating. It favours different groups of taxpayers over others (for example, the old over the young), different types of income over others (for example, capital gains over wages and salaries), different categories of expenditure over others (for example, unprocessed food compared with clothing), different forms of business organization over others (for example, those who conduct their businesses through trusts compared with companies, partnerships and sole proprietorships), and different investment vehicles over others (for example, superannuation funds as against bank deposits) – and often without any legitimate public policy rationale.

And Australia’s taxation system doesn’t provide governments with revenue-raising powers commensurate with their expenditure responsibilities.

So I will support tax reforms which will make the Australian tax system *simpler* and *fairer*; which will make it *more neutral* and *less discriminatory* as between different groups of taxpayers, types of income, categories of expenditure, forms of business organization or saving and investment vehicles; which will *enhance the international competitiveness of Australian businesses*; which will *encourage higher levels of participation in employment*; and which will *ensure that governments have sufficient revenue to meet their responsibilities*.



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As a general proposition, that means that I will support reforms that entail *broadening the base* to which taxes apply and (where possible) *lowering the rates* at which taxes are levied.

In the current context – where the Australian Government is still running large budget deficits – and given that I expect that Australia’s economic circumstances in the latter part of the current decade and into the 2020s will require the Government to run large budget surpluses – I won’t support tax reforms that entail significant net reductions in revenues, unless matched by offsetting reductions in government outlays.

## LIST OF ATTACHMENTS

My views, and the principles on which they are based, are set out in more detail in the attached talk which I gave as part of the Parliamentary Library Lecture Series on 21<sup>st</sup> September 2011.