



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

Malcolm Osborne, Chairperson (the views expressed in this document are mine, and are not necessarily those endorsed by the Board of the RDAGE)

### ORGANISATION

Regional Development Australia Goldfields Esperance (RDAGE), Western Australia. The RDAGE is one of the 55 RDA network that acts as the “eyes and ears” for the Australian Government in terms of policy and programme delivery successes and shortcomings, as well as identifying gaps in service delivery and infrastructure. The Boards of the RDA network are all made up of volunteers who represent their communities and regions with passion and commitment.

### STATEMENT OF PRIORITIES

Thank you for the opportunity to address some priorities for the reform of taxation in Australia.

The Tax Forum should continue to develop the work already undertaken through the AFTS Review (the Henry Review). Recommendations from the AFTS Review that provide simplification of the Tax System, remove ambiguity, provide economic and social development and improve the productive capacity of Australia’s labour force and capital markets should be the highest priority for implementation.

Similarly, Australia will benefit from a Tax System that promotes entrepreneurship and smart (innovative), efficient business, places Australia into the most advantageous international competitive position possible, and that removes unnecessary regulatory compliance effort and resources.

Regional, rural and remote Australia would especially benefit from a review of the Zone Rebate system, the revised application of FBT on regional housing and improved infrastructure to deal with transport, economic development and community capacity building.

In summary, the Tax System needs to be “re-calibrated” in order to allow for the provision of adequate infrastructure to support the nation’s economy, to provide and deliver “better practice” public and social programmes, to encourage the highest workforce participation rates possible, whilst keeping regulation and compliance to acceptably low levels.

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

a. GST reform is a necessity. Additional revenue raised through a higher GST rate should be used for the greater benefit of Australia and could, perhaps have a widened revenue base that



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removes inefficient taxes and is constructed so that it is less expensive to collect than the current arrangements. Any increase in the GST revenue should not be solely used to increase government revenue to fund higher government expenditure. I understand that the cost of collecting GST under the relatively narrow current base, is significantly higher than the collection costs of all other taxes on a \$ for \$ basis. A “win-win” situation would occur with a higher GST rate, a wider collection base and a lower collection cost, therefore returning significantly more GST \$ back to the States for their infrastructure and programme delivery needs. Have the boundaries set for a reduction of inefficient State taxes, and subject to compliance by the States in that regard, redistribute the GST to the States based on the share of the individual State’s consumption, thus removing claims of unfair funding.

**b.** A proportion of any increased tax revenue is to be redistributed to LGA’s to effectively manage infrastructure renewal across communities, especially through the Financial Assistance Grants (FAG’s) distribution, because the FAG’s as a percentage of taxation revenue, has fallen considerably.

**c.** Reconsider Fringe Benefits Taxation (FBT) arrangements for remote and regional housing as a further incentive to have people move to regional areas, especially as there are numerous jobs available in the current resources led economy.

**d.** Undertake a long-overdue review of Taxation Zone Rebates to better account for the cost of living in regional and remote areas. Any review should only apply to those persons legitimately residing in rural and remote areas, not for “fly in-fly out” employees.

**e.** Continue with the simplification of the tax and transfer system. FBT, CGT, Superannuation and a host of other legislation continues to become increasingly complex and with so many adjustments/amendments over the years, can only be dealt with by a few. The Medicare levy and private health insurance rebates are a classic example of taxes and rebates that could be removed and structured into the marginal taxation rates, thereby removing a host of assessment and calculation/processing work activities within the ATO. The personal income tax system is in need of the application of the “KISS” principle as well as having the burden of compliance reduced to a level commensurate with the risk/return. A reduction in personal income tax, together with a reduction in allowable deductions for work related expenses would allow taxpayers to access their earned money as they earn it, compared to waiting for an annual tax return, and would surely reduce the ATO’s workload in this area.

**f.** Payroll Tax continues to be a thorn in the side of business and industry and is commonly seen as a major determinant of employer’s decisions as to whether or not expansion of their business and therefore wages is undertaken. Any increase being considered as part of the GST system should be tied to the removal of payroll tax across all States and Territories.

**g.** Future company tax rate reductions have been supported in some areas. Whilst this can have the benefit of increasing investments into companies, it has to be also considered that a large number of businesses are not operated under a company structure and their taxation is then structured on individual marginal rates. Small business would possibly be disadvantaged if the company tax rate was reduced and the individual marginal rates remained static. One



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would naturally assume that a great amount of effort and resources are then applied by businesses not operating under a company structure to tax planning and tax minimisation, which adds very little to the overall benefit derived from the tax system.

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

**a.** Make FAG's a percentage of the taxation revenue and, if necessary, increase revenue capacity through GST. This would need to be undertaken with a possible expansion of the GST revenue base and would also require the removal of other inefficient State taxes. This could provide a "growth tax" to local governments – to be used solely for the renewal of infrastructure (as an example, a highly successful programme is the Roads to Recovery model where funding provided by the Australian Government must be expended by the LGA in addition to current expenditure levels, therefore not allowing the redistribution of existing expenditure and ensuring extra funds are committed to asset renewal.)

**b.** Additional housing purchases and housing construction in regional areas will add to taxation revenue. A redistribution of population into regional areas could potentially see some "deferred expenditure" on assets and infrastructure in cities and concentrated urban areas. See attachment on FBT prepared by Mr Ron Mosby.

**c.** The review could remove access to the Taxation Zone Rebates to communities of <100,000 population as they would have the critical mass to create competition in retail, construction and service delivery etc that is not otherwise available at the same level in smaller communities. This Rebate has not been indexed nor increased since 1993/94 and the real value of the rebate has been severely eroded by inflation.

## LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.

1. Fringe Benefits Remote Areas prepared by Mr Ron Mosby, Kalgoorlie