



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

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ORGANISATION

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STATEMENT OF PRIORITIES

Tax Forum Priorities

1. Personal income taxation. An approximate aggregate revenue neutral package involving
 - Removing current tax expenditures, such as Henry Review
 - i. All labour remuneration taxed as if wages
 - ii. Move to more neutral tax treatment of income received on different savings and investment options (current housing; move super to housing, i.e. personal tax on entry and no tax on earnings or withdrawal; Henry Review 40% discount on interest, all non-home residential property expenses and income, dividends and capital gains)
 - A single simplified and transparent progressive tax rate schedule. Replace all offsets and Medicare levy with lower rates. Automatic indexation of thresholds to wages

2. Social security payments. An approximate aggregate revenue neutral package of simplification, such as Henry Review
 - Consolidate all payments into one for each category: aged; disadvantaged, and maybe go for Productivity Commission proposal for a National Disability Insurance Scheme; unemployed; families
 - Consolidate child care support into one payment
 - Common automatic indexation for wages
 - All payments tax exempt



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- Amalgamate assets test into a single income test

3. Business income

Explore the option of shifting to an allowance for corporate equity (ACE) model

- Advantages include
 - i. Recognises that Australia is a small country net capital importer. In this context, most of the final economic incidence of tax of capital is passed back to labour (via a reduced net capital inflow, a lower K/L ratio, lower productivity and lower wages). Optimal tax theory for efficiency says tax the more elastic in supply factor at a relatively low rate.
 - ii. But, at the same time collects tax on economic and monopoly rents. Ultimately could replace the current mess of special taxation of minerals and energy. A higher ACE rate than 30%.
 - iii. Neutrality of tax treatment of debt and equity
- Issues to be further analysed and discussed include:
 - i. Revenue effects
 - ii. Distributional effects, including withholding taxes on overseas funds
 - iii. Transition strategy
 - iv. Whether to retain imputation system with ACE as a withholding tax
- Maintain the current comprehensive broad business income tax base, including economic depreciation

4. Transaction taxes, namely stamp duties on conveyances and insurance

- High priority for removal
- For conveyance duties, part funded by a more comprehensive and higher land tax. Likely need some funds from a broader base and/or higher rate GST, or Henry Review cash flow tax.
- For stamp duties on insurance, replace revenue with enhanced GST or cash flow



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options.

5. Potential broad based state taxes

- Land tax
 - i. Broaden the tax base and simplify the rate as proposed by Henry Review
 - ii. Investigate common administration of state land tax and local government rates
- Payroll tax
 - i. In a longer run context, payroll tax is no more a deterrent to employment than is personal income tax on labour. Both place a wedge between employer labour costs and what an employee can purchase from a period of work
 - ii. Efficiency and simplicity by removing current exemptions
 - iii. Simplicity and lower costs if use workers' compensation or commonwealth PAYG tax bases
- Broader bases earning more revenue for both should provide the opportunity for states to have some autonomy of own funding over their own spending programs at the margin, and even reducing VFI.

6. Special taxes to internalise external costs. Roughly revenue neutral packages for each of:

- Alcohol. A flat rate per litre of alcohol across all beverages
- Tobacco. OK
- Pollution. Need a broader base for carbon price to minimise overall cost
- Motor vehicles and roads. Replace current revenue of fuel excise and state motor vehicle taxes with an approximate aggregate revenue and coherent package involving
 - i. A user fee charge for government provided road services
 - ii. Explicit charges set at marginal external costs for the pollution costs of fuel combustion, accidents



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iii. Explore a congestion cost fee to reflect external costs of road congestion by road and time of day. Sydney Harbour charge is a start

7. A broader base and higher rate GST. Adopt NZ reforms

- A comprehensive base for efficiency and simplicity gains of less distortions to expenditure decisions
- A way of funding removal of transaction taxes
- Fund a tax mix change, much as NZ and UK and building on the 2000 ANTS good story

8. Administration

Henry Review has many good ideas worthy of adoption.

LIST OF ATTACHMENTS

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