

Tax

Developments since Congress 2009

The *Australia's Future Tax System Report* (or 'AFTS', also known as the Henry Review) was publicly released in May 2010, along with the first tranche of policy reforms arising from the recommendations. Some of these announcements have later been modified or abandoned.

Recent tax reforms include:

- The Clean Energy Future plan to put a price on carbon;
- The household compensation component of the Clean Energy Future package, which includes a tripling of the tax-free threshold and tax cuts for low- and middle-income earners;
- The Minerals Resource Rent Tax;
- The effective abolition of tax on the super contributions of low income earners, and the reduction of super tax concessions for very high income earners; and
- Changes to allow businesses to 'carry back' tax losses to help them endure periods of difficulty and sustain employment.

Overall, these and other reforms (like reducing the tax concessions on 'golden handshakes' for executives) have made the tax system more progressive.

The Government also held a two day Tax Forum in November 2011 at which the ACTU and a number of unions were represented. The Treasurer announced at the conclusion of the Forum that he would convene a Business Tax Working Group to examine potential reforms to the business tax system. The ACTU is represented on the Group; its first recommendation was the loss carry back initiative that was included in the 2012-13 Budget.

Key issues

Leaving fairness solely to the market to determine should be unacceptable to a civilised society...The tax-transfer system is the principal means of expressing societal choices about equity. The tax-transfer system is a reflection of the kind of society we aspire to be.

-Dr Ken Henry, Address to the 2009 ACOSS Conference

The principal goal of the tax system is to raise sufficient revenue to fund the provision of high-quality public services and the social security system (the 'social wage'). If current levels of social provision continue, Australia will need to raise more tax (as a proportion of GDP), in order to fund the costs associated with the ageing population. Other areas of social need, such as the National Disability Insurance Scheme, will also require increases in tax revenue if they are not to come at the expense of other areas of public spending.

The tax system should raise its revenue in a way that ensures that the amount of tax that individuals pay rises with their income (this is known as 'vertical equity'). It should also ensure that people with the same incomes, in the same circumstances, pay the same amount, without the opportunity to evade or avoid their responsibilities ('horizontal equity'). The design of the tax system is also important for its role in supporting economic growth and employment, as well as shaping the incentives that individuals face (such as the incentive to seek employment or seek increased hours of work). Taxes can be a relatively efficient way of discouraging harmful behaviour (like smoking or carbon emissions) or encouraging beneficial behaviour (like R&D expenditure).

Some key facts about the Australian tax system are:

- Australia is one of the lowest taxing advanced economies. In 2009, Australia's total tax revenues (including all levels of government) accounted for 25.9% of GDP. The OECD average was 33.8%. Australia's tax/GDP ratio was the sixth lowest of the 34 OECD countries, well below the ratios in the UK, New Zealand, and Canada, and only just above the United States.
- In each year of the current Labor Government, the tax/GDP ratio has been below the levels recorded in every year of the previous Coalition Government.
- In the 2000s, personal income tax changes delivered larger tax cuts to high-income and very low income earners than to workers on average earnings. The household compensation package associated with the Clean Energy Future package delivered tax cuts to low and middle income households, targeting tax relief to those who need it most.
- The effective tax free threshold has risen significantly in recent years as a result of the increases in the Low Income Tax Offset. It will rise further when the statutory threshold is tripled from 1 July 2012. In real terms, the effective threshold in 2012-13 will be more than double the level it was in 2005-06.
- Some workers (and potential workers) still face barriers to workforce participation in the form of high effective marginal tax rates (EMTRs).
- Super contributions have been subject to a 'flat tax' of 15%. The Labor Government is making this more progressive, by effectively abolishing tax on super contributions for low income earners and reducing the concession for very high income earners.
- The tax system provides incentives and opportunities for individuals to disguise their labour income as business income, including through 'sham contracting' arrangements.

- Aspects of the tax system that relate to housing are arguably inequitable and inefficient. Negative gearing, it is often argued, increases the cost of housing without expanding its supply. Stamp duties can provide a barrier to people moving for work. A broad-based land tax with a high threshold could be both progressive and efficient, yet we do not have one.
- Australia is unique among advanced economies in that we do not tax bequests.

Union agenda 2012-2015

Unions have long called for a fairer tax system. The current government has taken steps towards this goal, including through its changes to super contributions tax, its increases in the tax-free threshold, and through tightening loopholes like the tax concessions for 'golden handshakes' and executives' Living Away from Home Allowance.

This policy calls on the Government to build on this solid record. Future reforms should include:

- Further increases in the tax-free threshold, but not as part of a 'flattening' of the personal income tax system;
- Changes to make super contributions tax even more progressive, by having the super tax rate rise in line with an individual's marginal rate (as recommended by the *Australia's Future Tax System Report*);
- Reductions in the barriers to workforce participation faced by low-income earners, including through changes to the withdrawal rates for social security payments;
- A Housing Tax Forum to comprehensively evaluate the effectiveness of current arrangements and examine the proposals put forward by *Australia's Future Tax System Report*;
- Changes to the business tax system that support jobs and growth, while ensuring that business continues to pay its fair share;
- Reforms to prevent 'sham contracting' and other tax avoidance activities;
- The adoption of the *Australia's Future Tax System Report* recommendations on the taxation of savings income. This would see capital gains tax rise, but would see taxes on other forms of savings income (like bank interest) fall;
- The adoption of a version of the 'Buffett Rule', that would ensure that millionaires who principally derive their income from capital gains pay at least as much in tax (as a proportion of their incomes) as ordinary working Australians.