Nexia Australia

# Tax Reform Discussion Paper

October 2021

Nexia Australia's response to an invitation from
The Hon Ben Morton MP
Assistant Minister to the Prime Minister

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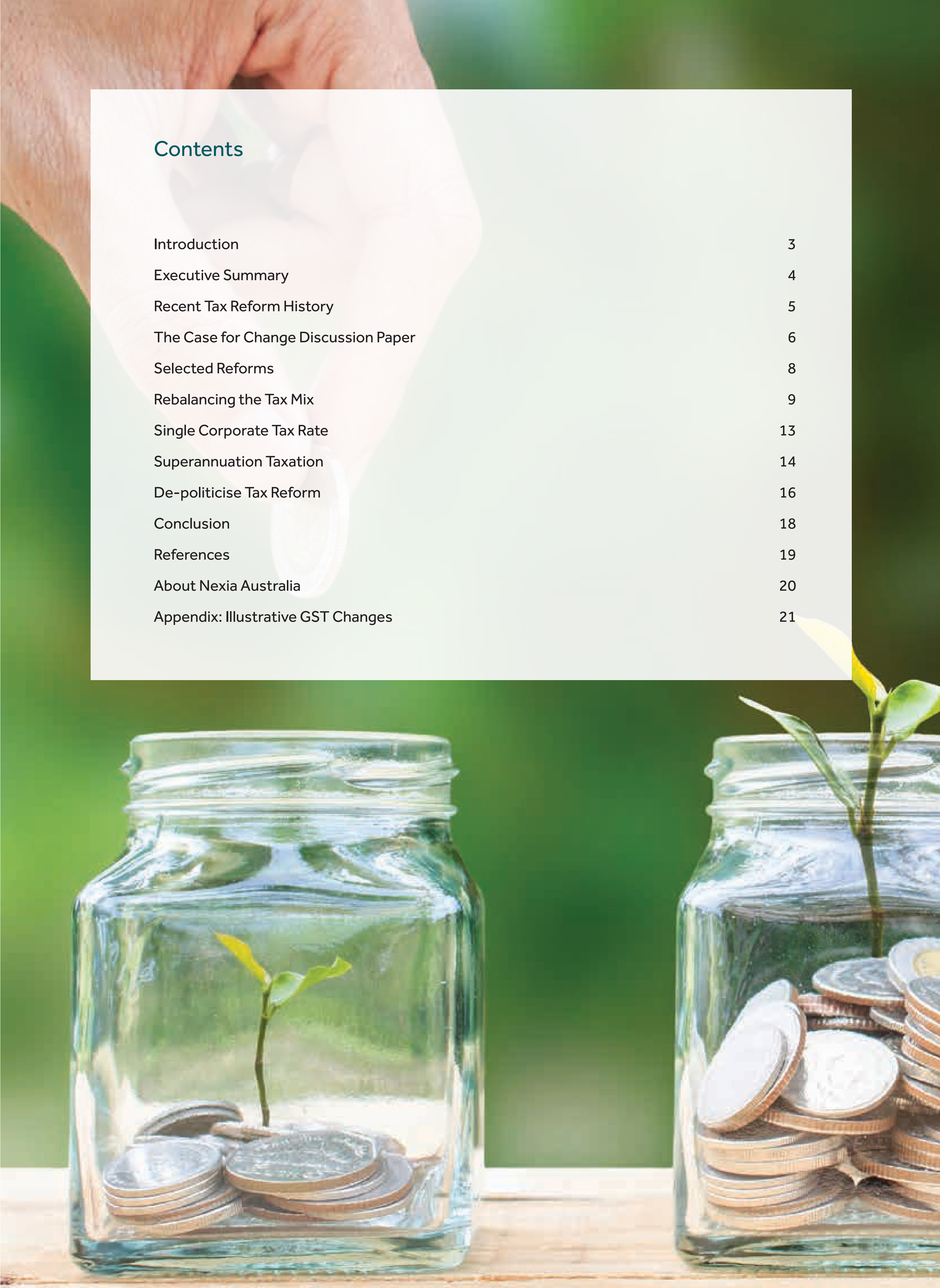


# Introduction

1 October 2021

The Hon Ben Morton MP
Assistant Minister to the Prime Minister and Cabinet,
Assistant Minister for Electoral Matters,
Assistant Minister to the Minister for the Public Service

Dear Minister

We thank you for your invitation to selectively highlight some tax reform initiatives set out in The Tax Institute's mammoth *The Case for Change* discussion paper released in July 2021. We also thank you for your offer to provide this to the Assistant Treasurer, The Hon Michael Sukkar MP.

A robust, equitable and efficient tax system is essential for a society to be the best it can be. However, our tax system does not meet this standard. Accordingly, it hinders not only sustainable development and wealth creation, but also our ability to look after our most vulnerable.

In short, our tax system is preventing our society from reaching its full potential.

This paper broadly sets out a selection of fundamental reforms that would bring our tax system much closer to the abovementioned standard. We have drawn largely from the contributions made by hundreds of tax experts to The Tax Institute's *The Case for Change* discussion paper.

We would welcome the opportunity to discuss further anything in this paper.

Yours sincerely,

**Nexia Australia**

# Executive Summary

- A good tax system is fundamental to the success of our economy, and supporting a social safety net. This is more important than ever in the era of post-COVID-19 economic recovery, to drive productivity growth and real-wages growth.
- Australia has a chequered history of tax reform, producing a tax system that in many respects works against us, not for us.
- The Tax Institute's 287-page discussion paper *The Case for Change* lays out many of the issues confronting our tax system, and possible reforms on a holistic basis. It is the culmination of contributions from hundreds of taxation experts.
- This paper briefly sets out the following selection of possible reforms:
    - Rebalance the tax mix to shift away from heavy reliance on income and corporate tax towards greater reliance on GST
    - Single corporate tax rate of no more than 25%
    - Review overly generous superannuation taxation
    - De-politicise tax reform by establishing a non-partisan, independent tax policy and reform commission
- This paper also sets out illustrative numbers for changes to the GST and rebalancing the tax mix.
- There is a willingness to accept winding back overly generous taxation laws, provided that is part of a holistic reform package.
- The relative absence of expert voices in public discourse on tax reform has allowed vested interests to spread misinformation over many years. However, there is now a groundswell amongst experts to vocalise support for fundamental tax reform.
- De-politicising tax reform, combined with vocalised support from experts, can win over public support, and provide a pathway to achieving much-needed reform.

## Call to action

Establish the above-mentioned non-partisan, independent tax policy and reform commission. An independent statutory body, without political influence, is perhaps the first step needed to give any hope of commencing this much-needed reform journey.

# 1 Recent Tax Reform History

## 1.1 Australia's chequered history

Australia has a chequered history of tax reform over the last 40 years, comprising a mix of substantial advancements and missed opportunities.

The reforms enacted in the mid-1980s by the Hawke Government and those at the turn of the century by the Howard Government stand out as the high points. The reason for this is that these reforms addressed the fundamental structure of our tax system, including tax-mix, base and avoidance. Yet, both reform eras were constrained due to populist opposition, misinformation and poor explanation.

Other countries have managed to reform their tax systems on a genuinely holistic basis with a much lesser degree of these constraints holding them back. (New Zealand in the mid-1980s is the stand-out example.)

Reforms to taxation have of course been implemented at other times, but these have been limited to second- or third-order matters, addressed in isolation.

## 1.2 Tax system faltering

It has been over twenty years since Australia has implemented any kind of truly structural reform to our tax system. And it shows. Our tax system distorts decision-making, pushes the wrong "incentive buttons", and does not provide a secure basis for funding a social safety net.

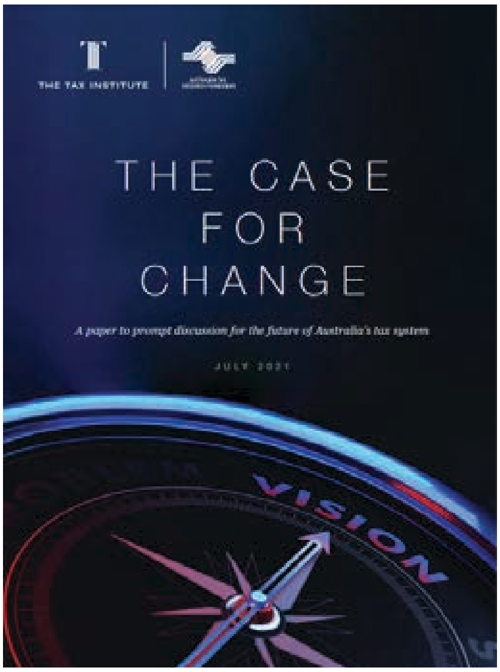
The economic difficulties wrought by the COVID-19 pandemic have merely exacerbated the continuing dire state of our unreformed tax system. Even more so than ever, we need to holistically reform our tax system so that it stops working against us, and starts working for us to drive productivity growth and real-wages growth.

## 1.3 Role of tax experts

Another element in our tax reform history that stands out is the relatively limited involvement of experts in public discourse. This has allowed false and misleading claims by all sides of politics to reside unchallenged in many people's minds, giving them false plausibility.

The Tax Institute's *Case for Change* discussion paper marks a turning point. It not only carries the enormous weight of hundreds of experts, but signals the preparedness of those experts to engage with politicians, the public and other interested parties in an open-minded, evidence-based discussion.

# 2 The Case for Change Discussion Paper




## 2.1 The Tax Institute

The Tax Institute was established in 1943 with the aim of improving the position of tax agents, tax law and administration. It is the leading forum for the tax community in Australia, with a membership of around 12,000, including tax professionals from commerce and industry, academia, government and public practice throughout Australia.

The Tax Institute's community reach extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the provision of specialist, practical and accurate knowledge and learning.

## 2.2 The Tax Summit: Project Reform

Last year, The Tax Institute embarked on an ambitious program gathering input from hundreds of members and volunteers as well as from other stakeholders. From July to November 2020, members had the opportunity to observe or be involved in discussions, webinars, presentations, idea generation and paper preparation. This process of getting input from as many people as possible led to the second stage of taking these various ideas for reform and sifting them down to the "what's possible?" category. While there can be a variety of ideas for reform, the options put forward must be credible.

Economists have agreed, ever since the economic philosopher Adam Smith first expressed the concept in the 18th century, that a good tax system should be efficient, fair and simple. Our tax system is failing us on these measures. That means that it is getting in the way of good investment, positive and growth-focused business activity; it is getting in the way of greater job creation; and it is getting in the way of better workforce participation. Our roads, medical and education services, our defence, our social safety net and our future should not be at risk by the very means by which we raise the funding for them.

## 2.3 The Case for Change

The Tax Institute has been incredibly well served by the hundreds of volunteers who eagerly played their part in contributing to the idea generation through the forums mentioned above. The task of bringing all those contributions together in a way that will present a coherent set of options for reform has been enormous.

*The Case for Change* discussion paper is designed to provide some structure for future and further debate on the options the report contains. *The Case for Change* does not provide a simple set of answers to tax reform; tax reform is more complex than that. Rather, the document is designed to be returned to again and again by policymakers and others interested in creating a more effective, fairer, efficient and simpler tax system for Australia.

Importantly, *The Case for Change* is not meant to be cherry-picked and have individual parts praised or criticised. Tax reform must be undertaken on a holistic basis. A piecemeal approach has resulted in the mess of a tax system that we have now. It is like changing one piece of a jigsaw puzzle, but leaving all other pieces as they are – the result doesn't fit. Genuine holistic reform changes all the pieces such that they fit together, forming a coherent picture.

The best reform examples we have are those that have at least tried to cover a broad range — a package — of changes that build to a net improvement in the system.

***The Case for Change* discussion paper is available here.**

## 2.4 Inspiration for reform, backed by experts

It is hoped that, at a minimum, politicians will draw on *The Case for Change* as inspiration for furthering the policy debate and developing a better tax system. Better still if one or all of the various parties take the next step and announce a comprehensive tax reform process.

# 3 Selected Reforms

## 3.1 Selection of key reforms

*The Case for Change* comprises 287 pages of open-minded, evidence-based discussion for reforming our tax system. It is divided into the following sections:

- The case for reform
- Business Taxation
- Personal Tax and Transfer
- Superannuation and Retirement
- Indirect Tax
- Policy and Administration

The Tax Institute has taken the approach that everything is on the table, and holistic reform is required, that is, addressing all components of our tax system and how they interact.

There are numerous matters in need of reform as set out in the discussion paper. However, the approach we have taken for this paper is to set out a selection of what we consider the key first-order elements of holistic tax reform. We have selected the following:

- Rebalancing the tax mix
- Single corporate tax rate
- Superannuation taxation
- Establish a non-partisan, independent tax policy and reform commission

Again, these are not for consideration in isolation, but rather they are a good starting point that gives wide and interactive coverage of our tax system. Each is considered in Parts 4, 5, 6 and 7 respectively.

## 3.2 Other matters for reform

*The Case for Change* discussion paper considers many other first-order elements and beyond in need of reform. These are not addressed in this paper, but include:

- Other corporate tax matters
- Small business taxation
- International taxation
- Fringe Benefits Tax
- Stamp duties and property taxes
- Inheritance taxes
- Incentives for innovation and infrastructure
- Charities and not-for-profits

# 4 Rebalancing the Tax Mix

## 4.1 Introduction

Our tax system comprises a number of different taxes. There is a cost to collect taxes, and taxes influence behaviour. However, some taxes are more costly to collect than others are, some distort behaviour and decision-making in undesirable ways, and others have high compliance costs.

Re-balancing the tax mix means moving away from taxes that have these negative traits.

## 4.2 Distortion/efficiency spectrum

Individual taxes sit along a distortion/efficiency spectrum. At one end of the spectrum are the most efficient and least distortive taxes, such as the GST and land taxes. These taxes, when imposed on a broad base, are cost-effective to collect, difficult to avoid, and generally do not impact decision-making.[1]

At the other end of the spectrum are the relatively inefficient and distortive taxes, such as income tax, corporate tax and stamp duties.[2] These taxes have a greater tendency to distort behaviour, are more costly to collect, require substantially more anti-avoidance resources, and inhibit the free-flowing exchange of assets necessary for a vibrant economy.

### 4.2.1 Over-reliance on inefficient, distortive taxes

Australia is in the bottom-half of OECD countries for overall tax revenue as a percentage of GDP. That is, we are not a high-taxing country. However, our *tax mix* is out of step due to our over-reliance on income tax compared to consumption taxes.[3] This holds back our economy – and post-pandemic economic recovery – by pushing the wrong "incentive buttons". This is exacerbated by high effective marginal tax rates as income support measures taper off. This is a disincentive to move from welfare to work, thus restricting workforce participation. [4]

## *4.3 Option posed* [5]

*Rebalance the tax mix with a shift away from heavy reliance on income tax towards a greater reliance on GST. This might manifest as follows:*

- *Increase the GST rate and/or broaden the base (i.e. abolish exemptions).*
- *Reduce overall income tax.*

The OECD has continuously recommended over the years that Australia rebalance our tax mix in this way, including as recently as a few weeks ago. [6] A comprehensive review of the GST must be part of any serious tax reform agenda. [7] *The Case for Change* sets out a comprehensive discussion of Australia's GST and its many, albeit fixable, flaws. [8] Those flaws are not inherent to a GST itself, but rather are self-inflicted via our particular version of it. We have a GST system of low resilience as the source of funding for important social goods like hospitals and schools.

## 4.4 Increase GST rate

At 10%, Australia's GST rate is amongst the lowest in the OECD. In fact, the European Union not only mandates that member countries must have a GST/VAT, but also a minimum standard rate of 15%. The average GST rate amongst OECD countries is 19.3%. [11]

## 4.5 Broaden GST base

*The Case for Change* sets out the flaws and inefficiencies of the widening gaps in the GST base, and the false rationales for their existence. The inherent nature of exemptions are such that they are poorly targeted, and engagement with the transfer system would be far more effective. [13]

Changes in consumption patterns have eroded the GST base, as people spend more on GST-free items such as health and education. When first introduced, the GST covered about 60% of domestic consumption. It is now down to around 50%, and the decline continues. This can be contrasted with New Zealand's GST system, which has almost no exemptions for domestic consumption. [14] Accordingly, New Zealand's GST base has suffered virtually no erosion over 35 years since its introduction in 1986.

## 4.6 Tourist consumption

In the discussion about the GST's coverage of consumption (or lack thereof), tourist consumption is often overlooked. When travelling overseas, Australians usually pay a higher GST rate than Australia's 10%, and on a broader range of goods and services. We can obtain the same additional revenue. [15] In fact, recent modelling shows that, under current policy settings, we would collect about $250 million in tax from international visitors to the 2032 Brisbane Olympic Games. However, with a higher GST rate and broader base, that could be $750 million. [16]

## 4.7 Shielding for low-income households

GST is regarded as a regressive tax on the basis it takes a greater proportion of low-income households' income. [17] This is a fairness or equity issue. However, this is readily addressed through a number of shielding measures, most particularly through the transfer system (eg, increasing pensions, Family Tax Benefit, other income support). [18]

It almost goes without saying that such measures would accompany any rebalancing of the tax mix as per the option posed at paragraph 4.3. This was done in 2000 when GST was introduced, and again in 2012 when the Carbon Tax was introduced. These are precisely targeted shielding measures, and thus are for more effective than exemptions from the GST.

The Grattan Institute has noted that designing such shielding measures is not particularly difficult,[19] and this has borne out in the past as noted above. However, they also note that, where politically contested, the political imperatives essentially require overcompensating. [20]

## 4.8 Broaden income tax base

The second bullet point in paragraph 4.3 would enable desirable changes to broaden the income tax base, such as reducing the 50% discount percentage for capital gains, [21] and simplifying (or abolishing) work-related deductions. [22]

It is noted that reducing the capital gain discount percentage was Opposition policy until recently. This policy suffered from being an isolated change, not part of any broader reform package. However, if it were merely one component of a holistic reform package, such a change suddenly becomes entirely appropriate.

## 4.9 Funding essential services

The GST funds essential services provided the by the States/Territories, such as hospitals, education and police. However, our sub-standard tax system undermines the funding for these life-saving and other essential services, and is only getting worse. Although this was always the case, it has only become more acute that tax-mix reform to better secure that funding is about saving people's lives.

## 4.10 Illustrative GST changes

The Appendix to this paper illustrates how the overall taxation numbers might look from rebalancing the tax mix. These are illustrative numbers only – there is no modelling behind them, and there are other elements that of course would come into play. However, they provide perspective on how the pieces of this jigsaw puzzle fit together.

### 4.10.1 Current situation

The first column in the Appendix reflects the current situation of GST raising about $70 billion per year, 100% of which goes to the States/Territories.

### 4.10.2 Option 1 – Increase GST rate or broaden base

The first option reflects a moderate reform encompassing either increasing the GST rate or broadening the base. The amount of GST raised increases from $70 billion per year to $100 billion. However, Federal-State arrangements are amended such that the States/Territories' share of the (larger) GST pool is set at 70%. Therefore, they continue to receive $70 billion of GST per year, just like now.

This leaves $30 billion of GST retained by the Federal government. $29 billion of this is applied largely for the benefit of the domestic population through the following compensatory measures:

1. Shielding measures for low-income households as discussed at paragraph 4.7
2. Reduction in overall income tax

Note that the Federal government keeps $1 billion of the retained GST. This reflects additional GST collected from tourist consumption

**Neutral outcomes (bar one exception)**

It can be seen that the position of all domestic participant sectors essentially remains neutral compared to the current situation in the first column:

- The States/Territories still receive $70 billion of GST revenue.
- The Federal government has an additional $30 billion at its disposal, but $29 billion of this is spent on the above two measures.
  - This is the one exception to neutral domestic outcomes. The Federal government is $1 billion per year better off due to collecting additional GST from tourist consumption.
- The domestic population pay $29 billion out of the additional $30 billion in GST revenue (the rest paid by tourists), but receive back $29 billion through the above compensatory measures. Specifically:
  - Low-income households' cost of living increases due to the GST, but this is offset by the abovementioned shielding measures (e.g., higher grocery bill, but receive more income support money).
  - The cost of living rises for everyone else as well, but this is offset by the reduction in income tax. (e.g., higher grocery bill, but more after-tax money in your pay packet).

### 4.10.3 Option 2 – Increase GST rate and broaden base; abolish Payroll tax

Option 2 reflects a broader reform by increasing the GST rate as well as broadening the base (i.e., abolishing exemptions). Accordingly, the amount of GST raised further increases from $100 billion per year to $150 billion.

**GST replaces payroll tax**

The States/Territories' share of the (even larger) GST pool is set at 60%. This results in the amount of GST going to the States/Territories increasing by $20 billion, to $90 billion. This enables the States/Territories to abolish payroll tax, which currently raises about $20 billion as well.

### Federal government

The Federal government is left with $60 billion of remainder GST. $58 billion of that is spent on those two compensatory measures per paragraph 4.10.2 above. The Federal government keeps $2 billion, reflecting additional GST collected from tourist consumption.

### Neutral outcome for consumers

At first glance, it might seem that Option 2 has an anomaly compared to Option 1. The domestic population pay additional GST of $49 billion (out of the total additional $50 billion; the balance is that further $1 billion paid by tourists, i.e. $2b, up from $1b). However, the Federal government's expenditure on compensatory measures increases from $29 billion to $58 billion. That is, the compensating measures increase by only $29 billion. So, domestic consumers pay additional GST of $49 billion, but get back additional compensation of only $29 billion. Are they worse off by the gap of $20 billion?

The answer is no. The reason is the $20 billion downward impact on prices from the abolition of payroll tax of that same amount.

Payroll tax is not the job-killer it is often accused of being. [23] At Nexia, as an employer group with over 600 employees, we can attest that it has limited influence on employment decisions. The reality is that payroll tax acts more like a GST, in that it is passed on to consumers in the prices charged for goods and services. [24] It follows that the $20 billion in payroll tax businesses are no longer paying – and therefore no longer having to pass on to consumers – ought to be reflected in reduced prices charged for goods and services. In other words, prices overall should increase by something less than the GST rate increase, to reflect that $20 billion worth of payroll tax cost is no longer being passed on.

Accordingly, domestic consumers overall will be in a neutral position.

### Ensuring appropriate price outcomes

Competition will go a long way to ensure price changes appropriately reflect the increase in the GST rate, abolition of GST exemptions, and payroll tax no longer being passed on. However, just like in 2000 when GST was introduced, the Australian Competition and Consumer Commission would have a key role to play here.

## 4.11 Short-term winners and losers

Although all domestic participant sectors can be in a neutral or better position, there will inevitably be short-term winners and losers within any sector. This has always been the case with any reform. However, we refer to Roger Douglas, former New Zealand Finance Minister and architect and driver of his government's tax-mix reforms in the 1980s, who wrote:

> *"Winning public acceptance depends on demonstrating that you are improving opportunities for the nation as a whole, while protecting the most vulnerable groups in the community... The public will take short-term pain, if the gains are spelt out convincingly and the costs and benefits have been shared with obvious fairness across the community as a whole."* [25]

## 4.12 Conclusion

Rebalancing the tax mix, with appropriate shielding, can be achieved with domestic consumers, States/Territory governments and the Federal government in an overall neutral or better position.

This reform would benefit the economy overall due to the tax system being more robust, simpler, less distortive, cheaper to administer and comply with, and pushing the right "incentive buttons". It is integral to any holistic reform of our tax system, which is needed more than ever to assist with the post-pandemic recovery.

# 5 Single Corporate Tax Rate

## 5.1 Introduction

Australia has operated a dual-rate corporate tax rate system since 2015-16. Presently, the headline rate is 30%, with a 25% rate applying to Base Rate Entities (80% or less passive income, and group-wide annual turnover below $50 million).

## 5.2 Over-reliance on corporate tax

Corporate tax affects businesses' investment and spending decisions, and sits towards the more distortive and inefficient end of the spectrum discussed in paragraph 4.2. The headline rate of 30% is high by international standards, being the fifth highest out of the 37 OECD countries. [26] Our relatively high rate reduces capital investment, which leads to lower levels of productivity. [27] It also makes it relatively difficult for Australia to attract foreign investment, and diminishes our standing as a place to do business.

## 5.3 Dual-rate system

The dual-rate system causes a number of compliance anomalies. This not only includes that a company's tax rate can oscillate between the two rates from one year to the next, but it also creates tax traps and additional compliance costs with franking dividends paid by companies.[28]

## 5.4 Ultimate tax impost on profits

Whilst a lower corporate tax rate will provide the abovementioned benefits from businesses having more after-tax profit to reinvest, the rate has no impact on the ultimate tax impost on those profits for resident shareholders.

For example, take a resident shareholder who is on the top personal tax rate of 47 cents. With the current headline rate of 30%, let's say that shareholder receives a fully franked dividend of $70 with a $30 imputation credit. They will pay "top-up" tax of $17 (being the gap between 47 cents and 30 cents), leaving them with $53.

Alternatively, with a corporate rate of 25%, they might instead receive a fully franked dividend of $75 with a $25 imputation credit. They will now pay "top-up" tax of $22 (being the gap between 47 cents and 25 cents), again leaving them with $53.

It can be seen that, no matter what the corporate tax rate is, the business's profits will ultimately bear tax at resident shareholders' personal tax rates. Where a reduced corporate tax rate does make a difference in this respect is on business profits that are ultimately paid to foreign shareholders, on which the Australian tax is generally limited to the corporate tax rate.

## *5.5 Option posed* [29]

*Single corporate tax rate of no more than 25%.*

25% would still place Australia around the middle of OECD countries, [30] but nonetheless would be a significant improvement.

## 5.6 Conclusion

The dual rate system is complex and anomalous. The high headline rate is a drag on the economy and especially so for the post-pandemic recovery.

# 6 Superannuation Taxation

## 6.1 Introduction

In the simplest of terms, the purpose of our superannuation system is to encourage people to save for their retirement, so that they won't be dependant on the age pension. The main motivation to save is the concessional tax treatment afforded to superannuation funds. However, the tax system for superannuation funds is complex, frequently changing, and concessions possibly over-extended.

## 6.2 Current system

Broadly, there are three components to the taxing of superannuation savings:

### 15% tax on contributions

Individuals can contribute up to $27,500 per year to a superannuation fund (voluntarily and/or through compulsory employer contributions) that is tax deductible. The superannuation fund pays 15% [31] tax on the contributions. In other words, the government collects 15% tax instead of the individual's marginal tax rate of up to 47%.

Individuals can further contribute up to $110,000 per year (or $330,000 under a 3-year "bring-forward" rule) that is not tax deductible. The superannuation fund pays no tax on these contributions, which is appropriate as they come from already taxed monies.

### 15% tax on earnings

The superannuation fund's earnings on the invested funds are taxed at 15%. If an individual did not contribute to a superannuation fund, and instead invested those monies in their personal name, instead of 15%, the government would collect tax on the individual's marginal rate of up to 47%.

### Tax-free income stream

Up to $1.7 million accumulated in a person's superannuation account can be set aside for the earnings to fund paying an income stream. Where the individual is over 60, the earnings to the superannuation fund and the income stream paid to the individual are tax-free. In addition, upon reaching age 60, the individual can withdraw the balance of accumulated funds from superannuation as a tax-free lump sum.

### Franking credits

Superannuation funds hold a significant proportion of shares in Australian listed companies. Most dividends received are franked, meaning they come with a 30% or 25% tax (franking) credit. Where the franking credits exceed the superannuation fund's tax liability, the excess is refundable.

Self-managed superannuation funds in particular benefit significantly from the gap between the 15% tax rate and refundable franking credits at 30% or 25%. Franking credits on divided income funding the abovementioned tax-free income stream are refunded in full.

## 6.3 Concessional taxation accelerates wealth growth

As noted above, the purpose of our superannuation system is to encourage people to save for their retirement, so that they won't be dependant on the age pension. The 15% or 30% tax rate on contributions means 70 to 85 cents in the dollar is being invested for growth. This is considerably higher than as little as 53 cents in the dollar that an individual on the top personal tax rate of 47% could invest in their personal name.

The 15% tax rate on earnings, including on funds invested from non-deductible contributions, means 85 cents in the dollar of earnings are being reinvested.

The above concessional taxation, leaving more after-tax funds for investment, significantly contributes to greater wealth accumulation in superannuation over the long-term. Again, this is the whole point, so that fewer people are dependant on the age pension.

## 6.4 Further concessional taxation

The point being made is that, once concessional taxation of contributions and earnings has done its job per above, there is again further concessional taxation on the extraction of the wealth from the superannuation fund, whether in the form of an income stream or lump sum.

Many professionals agree that the current settings on withdrawals are too generous, even those who benefit from these settings. [32]

## 6.5 Inflexible contribution limits

The annual $27,500 across-the-board limit on deductible contributions fails to acknowledge when individuals are best placed to contribute to superannuation. [33] For example, it's not realistic to expect a 22-year-old worker to contribute $27,500 annually to superannuation. In contrast, older workers, with their mortgages paid off, perhaps empty nesters, usually have higher disposable incomes and thus are better placed to contribute to superannuation.

## *6.6 Option posed*

- *Reform the deductible contribution limit to better target the period in life when people are better placed to contribute to superannuation.* [34]
- *Reduce the concessional tax treatment of superannuation, whether appropriately targeted at the withdrawal phase, or the contribution or earnings phases.* [35]

## 6.7 Palatability of decreasing concessions

It might be surprising to discover that many professionals agree that the taxation of superannuation is too generous. Recent experience in Australia shows that political difficulties can arise when proposing to abolish or reduce a concessional tax treatment. However, a significant contributing factor to this has been that these proposals were put forward as a stand-alone policy, not supported by a broader reform program.

In contrast, The Tax Institute compiled *The Case for Change* based on putting forward ideas that would form part of a holistic reform vision. That is, no idea is put forward as a stand-alone, but rather on the basis it would be a component of a much bigger, coherent reform program. [36] By adopting this approach, people are more accepting of some components that disadvantage them (or, in this case, reduce acknowledged overgenerousness) if they are part of a holistic reform vision that will bring other advantages.

## 6.8 Conclusion

Concessional tax treatment for superannuation has a wealth-boosting effect that incentivises people to save for their own retirement and become financially independent retirees. However, once that concessional treatment has done its job throughout the accumulation phase, the current settings for concessional tax treatment during the withdrawal phase seem unnecessarily generous.

# 7 De-politicise Tax Reform

## 7.1 Introduction

In their own words...

> *"The policy should be based on the expert advice."* [37]
> *"We've always acted on the basis of the expert advice."* [38]
>
> **Scott Morrison, Prime Minister**

> *"...we need to listen to the experts... Politicians should be giving that support to the experts to say, 'You tell us what is necessary'"* [39]
>
> **Anthony Albanese, Leader of the Opposition**

> *"We need to ensure that Australia's recovery is fair, effective, and guided by expert advice."* [40]
>
> **Senator Larissa Waters, The Greens**

These words were spoken in relation to handling the COVID-19 pandemic. However, no reasonable person would think they don't apply elsewhere, especially in a crisis situation. Handling the pandemic is a continuing crisis, and so is the consequent economic crisis. We have long been in need of holistic tax reform – the pandemic has merely exacerbated this need.

## 7.2 Renewed value of experts

The pandemic has reminded people of the crucial role of experts. Popular views can be tempered by expert institutions, and the public tend to trust experts more than politicians. [41]

## 7.3 De-politicise tax reform

Over the last 30 years, tax reform in Australia has become deeply partisan. This has resulted in views held by politicians across all major and minor political parties that are more akin to dogma. The continual rounds of claim and counter-claim by politicians has left the public with little confidence in what any politician says on the subject of taxation. On the other hand, the last 30 years has proved time and again the aphorism that a simple lie can defeat a complex truth.

The Tax Institute wisely states that it is time to de-politicise tax reform, and the GST debate in particular. [42]

## *7.4 Option posed* [43]

*Establish a non-partisan, independent tax policy and reform commission.*

The Tax Institute has put forward this option to enable experts to provide the public with credible information on what constitutes good (and bad) tax policy, and to promote reform, without political influence. The idea is to place experts at the forefront of public discourse, instead of politicians, in a de-politicised environment.

The team comprising any such commission should be of such independent and professional standing such that they come to be viewed similarly to our Chief Health Officers and their staff who have been crucial to our handling the COVID-19 pandemic.

## 7.5 Combatting misinformation

There are good prospects that a wide range of tax professionals would publicly advocate for the kinds of proposals one might expect to arise from a genuine process of devising holistic tax reform. Backed by evidence, this improves the chances of achieving reform. [44]

Vocalised support from expert voices external to the government would also help combat misinformation, whether from vested interests or uninformed commentary. A recent example of this is vaccination. Much of any public concern has been allayed thanks to numerous medical experts publicly calling out false or misleading anti-vaxxer claims. Tax reform is no different.

## 7.6 Key reform obstacle: Federalism

It has been noted that federalism has been a key blocker to reforming the GST.[45] However, this has been the case where the debate has largely been left to politicians arguing about the GST as a stand-alone. Here, the Sate/Territory governments are who would directly benefit the most, yet the Federal government is who takes the political pain.

As we have discussed, talking about reforming only one element of our tax system in isolation has always been a largely pointless exercise. Implementing the above recommendation, with a focus on holistic reform, and with a renewed willingness for experts to be involved in public discourse, changes the discussion markedly. It can open a pathway for meaningful reform with public support.

## 7.7 Conclusion

The extreme politicisation of tax reform in Australia has significantly constrained reform efforts, and has largely eroded any political appetite for reform. Establishing a non-partisan, independent tax policy and reform commission could act as a much-needed circuit breaker. It would be staffed by experts without political patronage or influence, to comprehensively review Australia's tax system and recommend reforms. It would go a long way to de-politicise the debate, and instil public confidence in the reform process as well as the recommended reforms.

# Conclusion

Our tax system in many respects works against us, not for us. A good tax system is fundamental to the sustainable success of our economy, and supporting a social safety net. However, as we struggle with our post-COVID-19 economic recovery, more than ever Australia sorely needs fundamental tax reform.

The Tax Institute has taken the initiative, culminating in the mammoth discussion paper *The Case for Change*, drawn from contributions by hundreds of taxation experts. The paper is not a blueprint for a redesign of our tax system, but rather evidence that we are in dire need of one. It also highlights that there is a willingness to accept winding back instances of overly generous taxation as part of holistic reform.

This paper by Nexia Australia briefly sets out a selection of the many reforms canvassed in *The Case for Change*, with additional commentary, to give a sense of what is possible.

*Call to action*

*Establish a non-partisan, independent tax policy and reform commission. An independent statutory body, without political influence, is perhaps the first step needed to give any hope of commencing this much-needed reform journey.*

Coupled with a renewed fervour by taxation experts to advocate publicly in a de-politicised environment, there is a pathway to achieving much-needed tax reform.

# References


[1] *The Case for Change*, pgs 4, 11.

[2] Above, pg 5.

[3] Above, pgs 3-6.

[4] Above, pg 134.

[5] Above, pg 42, 1st bullet point; pg 242, 2nd bullet point.

[6] *OECD Economic Surveys*: *Australia*, September 2021, pgs 3, 33-38 (see here).

[7] *The Case for Change*, pg 226.

[8] Above, pgs 226 – 242.

[9] Above, pg 238.

[10] Above, pg 236.

[11] Above, pg 237.

[12] Above, pg 229.

[13] Above, pg 228.

[14] Above, pg 236.

[15] Above, pg 229.

[16] Tax Institute media release, 22 July 2021.

[17] However, there is evidence which casts doubt on the extent of its believed regressiveness. See *The Case for Change*, pg 7.

[18] Above, pg 234.

[19] The Grattan Institute, *Gridlock: Removing barriers to policy reform*, pg 21.

[20] Above, pg 33.

[21] *The Case for Change*, pgs 128, 136, 147.

[22] Above, pg 146.

[23] Above, pg 7.

[24] Above, pg 89.

[25] Roger Douglas, *Unfinished Business*, 1993, pg 222.

[26] *The Case for Change*, pg 19, Figure 2.

[27] Above, pg 16.

[28] Above, pg 18.

[29] Above, pg 42, 4th bullet point.

[30] Above, pg 19, Figure 2.

[31] 30% where the individual's modified income exceeds $250,000.

[32] *The Case for Change*, pg 173.

[33] Above, pg 176.

[34] Above, pg 189, 7th bullet point.

[35] Above, pg 189, 1st and 6th bullet points.

[36] Above, pg 242.

[37] https://www.pm.gov.au/media/interview-alan-jones-2gb-010520

[38] https://www.pm.gov.au/media/press-conference-australian-parliament-house-08may20

[39] https://anthonyalbanese.com.au/anthony-albanese-jim-chalmers-transcript-press-conference-brisbane-friday-13-march-2020

[40] https://greensmps.org.au/articles/greens-call-federal-parliament-sit-june

[41] The Grattan Institute, *Gridlock: Removing barriers to policy reform*, pg 17.

[42] *The Case for Change*, pg 230.

[43] Above, pg 242, 1st bullet point.

[44] The Grattan Institute, *Gridlock: Removing barriers to policy reform*, pg 27.

[45] Above, *Gridlock: Removing barriers to policy reform*, pg 37.

# About Nexia Australia

The Nexia Australia network services clients from small to medium enterprises, large private company groups, not-for-profit entities, subsidiaries of international companies, publicly listed companies and high net worth individuals, and includes market leaders in many sectors of Australian business.

With over 90 partners and 600 staff, Nexia Australia is one of Australia's leading chartered accountancy networks, with offices in Adelaide, Brisbane, Canberra, Darwin, Melbourne, Perth and Sydney.

We offer a comprehensive range of services in the areas of:

- Audit & Assurance
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- Corporate Advisory
- Family Office
- Finance & Lending Services
- Financial Services
- Forensic Accounting
- Management Consulting
- Superannuation Solutions
- Taxation Consulting

We pride ourselves on having the skills and experience to deliver effective solutions to all our clients. We make our advice easy to understand and back it up with one-to-one contact, with partners always accessible.

Nexia Australia is continually evolving to find the next solution, building on over 50 years of experience to focus on fresh ideas and perspectives that make the difference.  Our objective is to assist our clients grow their businesses through strategic and proactive thinking, and utilising the strength of our global Network.

# Appendix: Illustrative GST Changes

| | Current | Option 1 | Option 2 | |
|---|---|---|---|---|
| | | Increase rate or broaden base | Increase rate and broaden base; abolish payroll tax | |
| | **$ 'billion** | **$ 'billion** | **$ 'billion** | |
| GST raised (a) | $70 | $100 | $150 | |
| Proportion to States/Territories | 100% | *70%* | *60%* | |
| GST paid to States/Territories (b) | $70 | $70 | $90 | Additional $20b replaces payroll tax revenue |
| GST retained by Federal Government (a - b) | nil | $30 | $60 | |
| Apply this amount of above retained GST for the benefit of domestic population:<br>1. Sheilding for low-income households through transfer system &<br>2. Reduce overall income tax | N/A | ($29) | ($58) | |
| Balance of retained GST kept by Federal Government: Reflects tourist consumption | | $1 | $2 | |

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