

Chapter 7

Australia needs genuine tax reform not lazy tax grabs

7.1 This inquiry has given detailed consideration to the development of the RSPT, the MRRT and expanded PRRT. The committee has found a significant number of shortcomings in the design of those new taxes. The government's proposed new national mining tax arrangements are more complex, less efficient and less fair than the status quo. The committee considers that the process for the development of the MRRT and expanded PRRT was inappropriately secretive and exclusive.

7.2 Genuine tax reform is best delivered through an open, transparent and inclusive process not by negotiation behind closed doors with a chosen few given the privileged opportunity to pursue their particular interests.

7.3 Taxation reform must be an ongoing process. It should not be targeted at one industry in isolation as is the case with the MRRT and expanded PRRT. Australia needs genuine taxation reform focused on delivering lower, simpler and fairer taxes. In order to achieve that more needs to be done including on the spending side of the budget. Australia needs tax reform aimed at improving our productivity and international competitiveness, to encourage increased workforce participation, enterprise and to attract investment. Future tax reforms must also focus on making the system more user friendly, efficient and on reducing red tape for households and business instead of increasing it. Finally, any genuine tax reform will include a focus on Federal-State financial relations.

7.4 Taxation is one of the most complex and delicate policy areas entrusted to lawmakers and administrators. One misaligned lever can cause chaos elsewhere in the system. Reform must occur in an ordered way that addresses known structural problems without creating unwanted or unforeseen new ones. This chapter outlines the committee's views on why a single, more strategic, coordinated and coherent framework for taxation reform is needed and how such reform should be conducted.

A lack of strategic, coordinated and coherent framework for tax reform

7.5 Since coming to office, the government has rapidly increased government spending and initiated four major reviews focussed on reforming Australia's taxation system. The first major review was the Henry Tax Review process. At the time this report was prepared the government had only taken on board a mere handful of the 138 recommendations. This process remains incomplete. The Henry Review still provides an important reform roadmap, but following through on genuine tax reform will require the kind of steely political resolve that is sorely lacking in this government.

7.6 While the Henry Tax Review was supposed to be a once in a generation opportunity for 'root and branch reform' of our tax system delivering simpler and

fairer taxes all the government is proposing is a massive new tax on a single industry which is manifestly more complex and less fair.

7.7 The Henry Review noted that ten out of Australia's 125 taxes raised 90 per cent of overall revenue. That means there are more than 100 taxes that are doing very little other than adding huge complexity. The Henry Tax Review suggested that reliance on fewer efficient taxes would be preferable. Yet, since that report was delivered to the government, they have proposed at least five ad hoc new taxes – the student tax, the flood tax, the minerals resource rent tax, the expanded petroleum resource rent tax and the carbon tax. In fact over the past four budgets the current government has introduced new or increased taxes to the tune of more than \$45 billion.

7.8 The government did not do the hard yards required for genuine tax reform. Genuine tax reform requires engagement through an open, transparent and inclusive process involving all stakeholders, in particular state and territory governments. Any genuine tax reform absolutely needs to be based on active engagement and negotiations with the states and territories – as was recommended incidentally by the Henry Tax Review. It is time the government embraced the Council of Australian Governments (COAG) process to achieve agreement on genuine tax reform.

7.9 In particular, proposals related to resource taxation should have involved state and territory governments in the process given the implications for their budgets and their capacity to fund ongoing services in areas like health, law and order, education and transport.

7.10 Treasury's 'Red Book' briefing to the incoming government described State taxes and levies as some of Australia's worst designed and inefficient taxes. That was pretty strong language by Treasury. However, the states do have an historical problem with raising their own revenue. In 1942, the Commonwealth established a national uniform income tax system, effectively stopping the states from continuing to raise their own income taxes. Under the Constitution, excise duties are the exclusive domain of the Commonwealth as well. So this leaves the states with a very limited ability to impose a variety of taxes to fund their responsibilities to the community. In Western Australia, revenue from mining royalties represents about 20 per cent of its own-source revenue. How can any federal government which asserts it is pursuing tax reform refuse to communicate with a state like Western Australia when its tax proposals seek to further restrict their capacity to raise their own revenue?

7.11 Since the Henry Tax Review, the government has announced a review of the distribution of revenue from the Goods and Services Tax to the states and territories. While this Review is welcome it is conducted in isolation and has some time to go.

7.12 Later in the year there will be a tax 'forum' (instead of a tax 'summit') which is supposed to consider personal tax, transfer payments, business tax, state taxes, environmental and social taxes and tax system governance. The time for that forum is about three months away, yet the Treasurer still has not released any discussion papers

to inform debate in the lead-up to the forum. Instead, what we have is a promise to allow reform ideas to be uploaded to a website ahead of the tax forum. This is pure window dressing without a thorough process to actively engage experts in a structured approach to reform.

7.13 Both the government's mining tax and the carbon tax have been excluded from consideration by the tax forum. These are significant tax changes with significant implications for the Australian economy, the federal budget, international competitiveness, investment and jobs. They should be on the table for consideration by the tax forum in late 2011.

A framework to get taxation reform right

7.14 At present, the current formulation of taxation policy is taking place in an environment of high government spending, through a series of uncoordinated and incoherent tax reviews. There is a serious need to streamline and improve the development of taxation policy. There is also an opportunity to better use the considerable work that has already been undertaken to formulate a more strategic taxation policy for the nation.

7.15 The government should scrap its mining tax and carbon tax proposals and start again by engaging in a genuine taxation reform agenda. The current ad-hoc nature of taxation reform should be consolidated into one single, coordinated and coherent strategic framework, and should also incorporate spending reform. Under that framework, the MRRT and the PRRT would be scrapped and reconsidered. The work of the Henry Tax Review would be re-considered and the framework would also include active engagement with state and territory governments about the related Federal-State financial relations implications.

Building on the Henry Tax Review

7.16 The foundation documents for the framework would draw upon the work of the Henry Tax Review and would be accompanied by the release of the data that underpinned the work of that project. Increased transparency surrounding tax policy and its development should provide the necessary stimulus to encourage more fully informed and considered tax arrangements for the nation.

Better transparency

7.17 The development of the RSPT, MRRT and the PRRT has highlighted the need for transparency in the development of policy. The development of the MRRT and the PRRT was characterised by a lack of transparency and an exclusive agreement amongst a select group of insiders. Chapters 2 and 3 outlined these matters in detail.

Better consultation

7.18 In addition to ensuring that sufficient information is disclosed to ensure an informed consideration of taxation options, a traditional model of consultation with

stakeholders would be adopted. This would entail the release of an initial discussion document, followed by a draft and then final set of recommendations for government. The policy development would entail the traditional White Paper and Green Paper process that accompanies the development of important policies. Chapter 3 provided an overview of the deficient consultation.

7.19 The committee calls for a genuine Australian Tax Summit to position Australia to meet its taxation challenges. A detailed and genuine discussion on developing a better taxation framework for Australia would be a precursor to obtaining the judgement of the Australian people on the need for reform. This approach to developing tax policy is more akin to the process that surrounded the design and implementation of A New Tax System, (which included the Goods and Services Tax) under the Howard Government.

The Importance of Spending Reform

7.20 An important goal of tax reform should be to reduce the overall tax burden for the Australian community. Tax reform should focus on both the level and mix of taxes as well as the design of individual tax arrangements and the tax system as a whole. Ideally, then, genuine tax reform should be accompanied by a serious effort to curtail the blow-out in government spending and waste that has taken place since the election of the current government.

The Importance of actively engaging with the States and Territories

7.21 There can be no genuine taxation reform in Australia without active engagement between the Commonwealth and state and territory governments. This is particularly true in the area of resource taxation given the implications for state and territory royalty and GST sharing arrangements.

Committee comment: Another missed opportunity

7.22 The committee is of the view that the government is unlikely to opt for a strategic, coordinated and coherent framework to review and address the challenges in taxation policy. While a genuine Tax Summit could provide a vehicle for addressing the shortcomings of the process that surrounded the development of the MRRT and the PRRT, the government appears unwilling to re-evaluate its policy.

7.23 The committee is disappointed that the government will not allow the Tax Forum to consider those Henry Tax Review recommendations relating to the introduction of the RSPT and its proposed successors the MRRT and expanded PRRT.

7.24 If the tax forum and the Henry Tax Review recommendations are to form the basis of future policy development and eventual implementation, the committee recommends that such proposals be based on an open, transparent and inclusive process.

Recommendation 9

7.25 The committee recommends that the current uncoordinated, incoherent and ad hoc taxation processes currently underway be replaced by one genuine tax reform process focused on delivering lower, simpler and fairer taxes, through an open, transparent and inclusive process.

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Chair