



FACT SHEET

Complexity and operating costs of the tax-transfer system

Outline

Section 11 of the 'Architecture of Australia's tax and transfer system' paper outlines the problem of complexity in the tax-transfer system. It explores the sources of this complexity and the costs it imposes on the community.

Key points

- There are no reliable estimates of the complexity or operating costs of the tax-transfer system but there is a strong sense in the community that they are too high.
- An excessive level of complexity impedes the ability of taxpayers and transfer recipients to make optimal decisions, diverts resources from more valuable uses, and gives rise to planning opportunities that undermine the fairness of the system. Its impact tends to be greatest on those with the least capacity to deal with it.
- A certain level of complexity and operating costs is required to implement the tax-transfer system in a manner that is efficient and equitable. However, at some point, equity or efficiency is likely to be compromised by increasing complexity.
- Current levels of complexity and operating costs are most likely above that which is optimal for society as a whole. One important reason for this is the incremental development of tax-transfer policy based on partial assessments of the associated benefits and costs of individual changes to policy settings. Another important influence is income maximising behaviour through the tax-transfer system. For example, taxpayers have an incentive to voluntarily incur compliance costs if they expect the reduction in tax to outweigh their additional compliance costs. This may include lobbying for tax concessions. Income maximising behaviour also tends to result in higher compliance monitoring and enforcement, as well as a wider use of integrity rules in the tax-transfer system.
- Broader reform provides an opportunity to take a systemic view of the trade-offs between simplicity and other policy objectives.

