

# **Australia's future tax system**

## **Report to the Treasurer**

December 2009

### **Part One Overview**

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23 December 2009

The Hon Wayne Swan MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

We are pleased to present the Report on Australia's Future Tax System.

The Report presents a vision of a future tax and transfer system that would position Australia to deal with the demographic, social, economic and environmental challenges of the 21<sup>st</sup> century and would enhance community wellbeing.

We note that the terms of reference call for a review of Australia's tax system, taking into account the relationships with the transfer payment system and other social support payments, rules and concessions. We considered these relationships to be of such importance that we have applied a systemic approach encompassing both transfers and taxes.

The Review has attracted wide public interest, evidenced by over 1,500 written submissions, many stakeholder meetings and around 30 speeches and presentations to a diverse audience, as well as the extensive coverage of the Review in the media since its announcement in the 2008-09 Budget. We thank everyone who has participated in this process.

It is evident from this level of interaction that the Review has raised the community's awareness of the tax and transfer system and its implications for the wellbeing of Australians. We hope this Report further contributes to that awareness and supports an informed debate about future tax and transfer policy.

We wish to record our appreciation for the help and support provided by the Review secretariat, other areas of the Treasury, the Department of Families, Housing, Community Services and Indigenous Affairs, the Australian Taxation Office, Centrelink and other agencies, including the State and Territory treasuries.

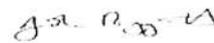
Yours sincerely



Ken Henry  
Chair



Jeff Harmer  
Member



John Piggott  
Member



Heather Ridout  
Member



Greg Smith  
Member

## Notes

- (a) Figures in tables and generally in the text have been rounded.
- (b) The following notations are used:
- |          |                  |
|----------|------------------|
| \$m      | \$ million       |
| \$b      | \$ billion       |
| cat. no. | catalogue number |
- (c) References to 'the States' or 'each State' include the Australian Capital Territory and the Northern Territory. The following abbreviations are used for the names of the States, where appropriate:
- |     |                              |
|-----|------------------------------|
| NSW | New South Wales              |
| VIC | Victoria                     |
| QLD | Queensland                   |
| WA  | Western Australia            |
| SA  | South Australia              |
| TAS | Tasmania                     |
| ACT | Australian Capital Territory |
| NT  | Northern Territory           |
- (d) The term 'Australian Government' is used when referring to the current government and the decisions and activities made by the current Government on behalf of the Commonwealth of Australia.
- (e) The term 'Australian government' is used when referring to a past government or governments and the decisions and activities made by past governments on behalf of the Commonwealth of Australia.
- (f) The term 'Commonwealth' refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

## Preface

In the 2008–09 Budget the Australian Government announced a comprehensive ‘root and branch’ review of Australia’s tax system. The aim is to create a tax structure that will position Australia to deal with its social, economic and environmental challenges and enhance economic, social and environmental wellbeing.

The terms of reference call for a review of Australia’s tax system that takes into account its relationships with the transfer payment system and other social support payments, rules and concessions. These relationships are of such importance that a systemic approach, encompassing the legal, economic and administrative structure of both transfers and taxes at all levels of government, has been adopted in this Review.

The perspective in this Report is necessarily long term. Economic, social and environmental change over the next 40 years is expected to have a profound impact on the tax and transfer system, but will evolve gradually. The significant reforms required to respond to these changes will take time to implement and will require further adaptation over time. This Report sets out the main reforms policy-makers should implement as they position the system for the future.

The recommendations in this report reflect a wide body of evidence. The two background papers, *Architecture of Australia’s tax and transfer system* and *Pension review background paper*, and an extensive process of community engagement, including in response to the Review’s *Consultation paper* and *Retirement income consultation paper*, have yielded a wealth of information about the strengths and weaknesses of the existing tax and transfer system and community perspectives on potential reform paths. A series of commissioned papers and a tax and transfer policy conference (June 2009) distilled important insights from recent economic theory, empirical research and experiences in other countries.

The findings and recommendations in this Report complement the initial findings and recommendations on the retirement income system in *The retirement income system: report on strategic issues*, released earlier this year.

The recommendations include specific policy changes, directions for policy change and areas for further investigation. In some areas guiding principles are articulated, against which specific tax settings could be reviewed. The general nature of many of the recommendations reflects both the longer-term nature of the Review and its limited capacity to comprehensively examine policy settings across the entire tax and transfer system.

For the same reason, not every aspect of the tax and transfer system has been reviewed. For example, industry policy, carbon pollution policy and most aspects of tax administration and legislative drafting have not been reviewed here. The scope of the income support system is very broad and the Review Panel has not undertaken a detailed review of adequacy or reviewed all individual payments. The Review has focused on the broad architecture of the transfer system – such as the relationships between payment categories – and its interactions with the personal tax system, rather than a detailed review of individual payments or adequacy. In considering payment adequacy, the Review has taken the policy

settings established by the Australian Government following the 2009 Pension Review as the benchmark for pensions.

This report is structured in two parts. Part One outlines the emerging challenges faced by the tax and transfer system, and sets out a broad overview of the findings and recommendations. Part Two provides detailed analysis for each area of the tax and transfer system.