

10. Institutions, governance and administration

A 21st century tax and transfer system should deliver services in a way that meets the needs and preferences of clients. This requires a new approach, one that gives far greater weight to users' experience of the system. Reducing the number of taxes and transfers and improving the effectiveness of those that remain is necessary but not sufficient to achieve this goal.

Policy design needs to place a premium on outcomes that enhance the user experience, including through the use of client-centred information technology, potentially at the cost of achieving other policy objectives.

The system has to respond to the needs and expectations of the community. It should help people make informed decisions that are in their best interests. People will be more willing to engage with a system that they understand. Technological advances are likely to make it easier for people to navigate complexity, while also improving the transparency of the system. Increased monitoring and reporting on the system will also enhance transparency and lead to greater trust in its operation.

Ultimately, Australians care about how taxes affect their lives, not about which level of government is responsible for them. While the nature of our federation means that taxes will continue to be raised at different levels of government, tax policy and administration needs to be coordinated.

10.1 A responsive and accountable tax system

Australia needs modern and sophisticated tax policy and administration processes that can deliver a tax system to meet the demands of the 21st century. The tax system will face a range of challenges over the next few decades that will affect how tax policies are developed and administered. It is imperative that the tax system can meet these challenges and respond to the needs of the community.

The operation of Australia's tax system is fundamentally sound and there is general confidence in the system. The level of voluntary compliance is high, reflecting positive perceptions about the fairness and integrity of the system and how it is administered. Many of the current institutional arrangements will continue to perform well. However, a number of reforms would make the system more robust in the face of future changes in Australia's policy context.

The nature of any tax system means there will always be some tension between taxpayers and tax authorities. The tax law is complex and there are inevitable uncertainties in its application to complex commercial arrangements or in novel situations. This can create tension about the authorities' interpretation of the law and efforts to improve certainty through amendments to the law. A more transparent and accountable system has the potential to ease some of these concerns.

Governments should further develop open and inclusive processes by which the community can raise issues and have them considered by government. Building on its existing strengths,

the Board of Taxation could act as a 'circuit breaker' in the system — to quickly identify problems, particularly those that arise at the boundary between policy and administration.

Enhanced governance mechanisms would improve the accountability of the system and bring other perspectives to tax administration issues. An advisory board could contribute further external views into the management of the Australian Taxation Office (ATO). These external views would help the ATO meet the considerable demands of the coming decades. Other changes would improve the effectiveness of external scrutiny of the system.

10.2 State tax reform

The tax system spans the three levels of government in Australia — Australian, State and local. Individual governments separately administer their own taxes, but there is much interaction between the policy objectives and the administration of taxes levied by different governments.

Improving the structure of the tax system should begin with recognising that the wellbeing of the Australian people is affected by the taxes of the entire federation. A tax affects people in the same way irrespective of which government is responsible for it. People also make choices in response to the totality of taxes and transfers they face.

For as long as the States have significant expenditure responsibilities, they should have access to significant and sustainable tax revenue. Furthermore, the States should also have some autonomy over the amount of tax revenue they raise, so they are accountable for their expenditure decisions.

Although the States currently have access to significant taxes, there are problems with the quality of these taxes or the way they are levied. Increasing the rates of existing State taxes would not be an efficient or sustainable way of funding services in the future. Assuming no change in expenditure responsibilities between levels of government, the States will need better access to sustainable tax revenues to deal with these cost pressures.

The capacity to phase-out existing narrow-based taxes depends on the States having access to an alternative, more efficient revenue source. This could be a reformed land tax, revenue from a cash flow tax and/or a tax base sharing arrangement for personal income tax.

Achieving many of the reforms listed in this report will require cooperation between the Australian government and the States. Changes are required to taxes, transfers and other types of expenditures across levels of government. Reforms would also need to be sequenced in a way that allows people to understand the reason for change and how they will be affected. One way to coordinate and implement reforms over time would be through an intergovernmental agreement between the Australian government and the States. A well-managed process would not only allow for poorly performing taxes to be replaced by more sustainable ones, it could also be a mechanism to deliver better policy outcomes across the federation on an enduring basis.

Local governments are generally established under State legislation and have access to one tax — local government rates levied on properties within their municipality. Unlike State governments, local governments fund the majority of their expenditures through own-source

revenue (83 per cent in 2005–06), with local government rates making up around 45 per cent of this.

The immobility of land makes rates based on land value an appropriate tax base for local governments. States should allow local governments a substantial degree of autonomy to set the tax rate applicable to property within their municipality.

Over time, state land tax and local government rates should be more integrated. Taxpayers could receive one tax assessment that identifies local government rates and State government land tax in a transparent manner.

10.3 The client experience of the tax and transfer system

Currently, people's interactions with the tax and transfer system tend to be complex and fragmented. Among other things, this is due to the complex objectives of the tax and transfer system, the world in which it operates, and the desire to tailor the system to the diversity of people's lives. A person's experience in interacting with the tax and transfer system can increase or reduce their costs and risks.

While initiatives to improve people's experiences of the system by delivery agencies have been pursued, to date most have been primarily organisational or portfolio specific. At the same time, policy and program complexity has continued to increase.

A significant improvement in people's experience of the system requires a new approach to policy design. A 21st century tax and transfer system should allow individuals to engage with it in ways that meet their needs and preferences – a citizen-centric design. It should help people make informed decisions that are in their best interests. It should be transparent and trusted in its operation, and aligned with the 'natural systems' of individuals and businesses (the things they do anyway).

Such a new approach, that brings together policy design and implementation across agencies and portfolios, is needed to achieve the transformation in the client experience summarised in the table following (Table 10.1).

Greater use of technology, improved coordination and management of information, plus better design and integration of processes will enable such a transformation of the client experience. This will not just enhance the experience of individuals, but also equally enhance and improve the business experience of the system. Providing people with their own online tax and transfer client account, and sending people default pre-filled tax returns, are key initiatives that will enhance people's experience of the system.

Current government strategies, such as the Standard Business Reporting Program, will improve businesses' experience of the system, including through a reduction in the compliance costs of interacting with government. Extending these strategies to other business interactions has the potential to further improve outcomes.

Table 10.1: Transforming the client experience

Old system	New system
Limited range of transactions can be performed online	All transactions (except those that need to be conducted in person due to a policy requirement) can be performed online.
Information has to be reported multiple times, sometimes in different ways.	Information such as a change in address or new employment details will be provided once and used across the system.
Account balance information for tax and transfers is not easy to access.	Totality of financial relationship with government will be accessible online with clients able to see historical data as well as real time information.
Difficult to calculate how a change in income or circumstances such as having a child or retiring will affect a client's tax liability and transfer entitlements.	Clients will be able to see how their tax and transfer situation will change if their income or circumstances change.
Different processes for benefits and transfers administered by different policy departments.	Common processes so clients have a similar experience when transitioning between payments.
Many rebates, offsets and deductions providing welfare-type assistance in the tax system.	Greater use of standard deductions and outlays.
Information from third parties such as financial institutions and employers is pre-filled in electronic tax returns where available; other information is manually entered.	Tax and transfers reporting is designed so that most information can be pre-filled automatically.
Many clients get assistance to manage their tax and transfer affairs.	Most clients will feel confident to manage their own affairs because the process is simpler and more automated.
Clients use face-to-face and call centre services to make queries or provide information when they would be willing and able to use self-service applications if they were available.	Extensive self-service options are complemented by personalised assistance for those needing more intensive assistance.

10.4 Monitoring and reporting on the system

Monitoring the tax and transfer system is essential to its long-term performance. Without government action, too little information will be collected about the operation of the system. This information is necessary to identify areas where particular transfers or taxes are not meeting their policy objectives. It can also support research that improves community understanding of the effects of the system and guide policy responses to emerging problems.

High standards of transparency and accountability should apply to all taxes, transfers and spending programs. However, despite their similarities, tax expenditures and spending programs are not created, maintained, reviewed or reported in the same way. This means that there is often less transparency and accountability in the use of tax expenditures. While this situation continues, programs should not be delivered as tax expenditures unless there is a clear countervailing benefit in terms of efficiency, equity, complexity, sustainability and policy consistency.