

Australia's future tax system

Report to the Treasurer

December 2009

Part Two Detailed analysis

volume 1 of 2

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Part Two — Introduction

Part 1 of this Report outlined the emerging challenges faced by the tax and transfer system, and set out a broad overview of directions for reform. It identified the strengths of the current system and broad directions for improvement, expressed in the following overarching recommendation:

Recommendation 1:

- (a) Revenue raising should be concentrated on four robust and efficient broad-based taxes:
 - personal income, assessed on a more comprehensive base;
 - business income, designed to support economic growth;
 - economic rents from natural resources and land; and
 - private consumption.
- (b) Additional specific taxes should exist only where they improve social outcomes or market efficiency through better price signals. Such taxes would only be used where they are a better means to achieve the desired outcome than other policy instruments. The rate of tax would be set in accordance with the marginal spillover cost of the activity.
- (c) User charging should play a complementary role, as a mechanism for signalling the underlying resource cost of publicly provided goods and services.
- (d) With both specific taxes and user charges, revenue would be a by-product of the tax or charge, not the reason for it.
- (e) Other existing taxes should have no place in the future tax system and over time should be abolished.

The Review makes a further 137 recommendations — a consolidated list can be found in Part 1 of the report.

Part 2 of this Report is in two volumes (sections A to D and sections E to G) and sets out the detailed analysis that has led to these recommendations. For each tax base and component of the transfer system, it identifies design principles, presents findings on the operation of the current system, and recommends directions for reform.

Part 2 also applies the same analytical framework to the institutional arrangements that support the tax and transfer system, including arrangements for sharing tax revenue across the different levels of government.

Few, if any, of these topics can be satisfactorily dealt with in isolation. The directions for reform have been arrived at by looking at the system as a whole, and assessing how a change to one part of the system affects others. While the Report necessarily includes a set of tax- and issue-specific recommendations, they add up to an integrated blueprint for the future architecture of the Australian tax and transfer system, rather than a series of one-off tax policy measures.

Part Two: Detailed analysis
volume 1 of 2

