

Introduction

In the 2008-09 Budget, the Australian Government announced a comprehensive review of Australia's tax system. The review will examine the current tax system and make recommendations to create a tax structure to help Australia deal with the social, economic and environmental challenges of the 21st century. The review will consider the relationships between Australia's tax systems and its transfer systems and other concessions (hereafter referred to as the 'tax-transfer system').

The review is being conducted by Dr Ken Henry AC (chair), Dr Jeff Harmer, Professor John Piggott, Ms Heather Ridout and Mr Greg Smith.

The Review Panel is supported by a working group from the Treasury, and is drawing on other Australian government and state agencies. The review will engage with the States and draw on external expertise where appropriate.

The scope of the review is broad, covering most aspects of the Australian government and state and territory (hereafter referred to as state) tax-transfer systems. However, the review is required to reflect the Australian Government's policies: not to increase the rate or broaden the base of the goods and services tax (GST); to preserve tax-free superannuation payments for the over 60s; and to take account of the Australian Government's announced aspirational personal income tax goals. The terms of reference for the review are at Appendix A.

The Review Panel will consult widely to allow community and business input. To assist this process, the terms of reference require the Treasury to release this paper on the architecture of the current system, including an examination of the existing tax rates and bases. This paper contains both a factual and an analytical description of Australia's tax-transfer system. It does not include any recommendations, as these must await the Review Panel's consultative processes and deliberations.

Under its terms of reference, the Review Panel is to make recommendations (due by the end of 2009) to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

- workforce participation and skill formation;
- individuals to save and provide for their future, including access to affordable housing;
- investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and
- reducing tax system complexity and compliance costs.

As part of the review, the Minister for Families, Housing, Community Services and Indigenous Affairs, the Hon Jenny Macklin MP, announced that Dr Harmer is to investigate

measures to strengthen the financial security of carers and seniors. Dr Harmer, who is the Secretary of FaHCSIA, will report by 28 February 2009 on:

- the appropriate levels of income support and allowances, including the base rate of the pension, with reference to the stated purpose of the payments;
- the frequency of payments, including the efficacy of lump sum versus ongoing support; and
- the structure and payment of concessions or other entitlements that would improve the financial circumstances and security of carers and older Australians.

A reference group, drawn from representatives of relevant groups, will support the carers and seniors component of the wider review. Submissions for Dr Harmer's review will be invited in August 2008, and consultations will be held across Australia later in the year.

Structure of this paper

The first two sections of this paper set the context for the review and provide a description of Australia's tax-transfer system.

The remaining 10 sections explore a range of topics relevant to the architecture of the system and the terms of reference, including:

- an economic perspective of the structure of the system;
- a historical perspective;
- some relevant international comparisons;
- the mix of taxes on work, investment and consumption;
- the personal tax-transfer system;
- the taxation of savings and investment;
- the taxation of consumption;
- state taxation;
- the complexity of the tax-transfer system; and
- assistance for the Carbon Pollution Reduction Scheme.

As noted in the Foreword, while the paper provides a comprehensive coverage, it is not intended to be exhaustive, nor is it intended to limit discussion to those issues canvassed in the paper.

A separate companion document prepared by FaHCSIA will be issued shortly, which looks in more detail at elements of the transfer system, including assistance for seniors, people with a disability and carers. This document will provide a background paper for the work to be pursued by Dr Harmer, supported by the reference group.