

Dr Ken Henry
Department of Treasury & Finance
Langton Crescent
PARKES ACT 2600

Dear Dr Henry,

BUSINESS TAX AND REGULATION REFERENCE GROUP

The Treasurer of the Tasmanian Government, the Hon Michael Aird MLC, established the Business Tax and Regulation Reference Group in 2008 to increase communication with the business sector on issues related to taxation and regulatory reform.


The Business Tax and Regulation Reference Group is a Government-sponsored forum with the principal aim of establishing two-way liaison with Government on business regulation and taxation reform issues. The Reference group considers that the Australian Government's review of a future tax system is an excellent opportunity to identify areas for structural tax reform.

Attached is a submission to the review prepared by the Reference Group.

It would be much appreciated if you could consider the recommendations and issues set out in this submission.

If you have any queries in regards to this matter, I can be contacted at keith.stacey@scotwork.com or phone (02) 9211 3999.

Yours sincerely,



Keith Stacey
Chairperson

Business Tax and Regulation Reference Group

Submission to the review of Australia's Future Tax System

June 2009

Business Tax and Regulation Reference Group

The Treasurer of the Tasmanian Government, the Hon Michael Aird MLC, established the Business Tax and Regulation Reference Group in 2008 to increase communication with the business sector on issues related to taxation and regulatory reform. The Business Tax and Regulation Reference Group is a Government-sponsored forum with the principal aim of establishing two-way liaison with Government on business regulation and taxation reform issues. The Tasmanian Government uses the Reference Group as the principal point of contact with the business community for consultation on business regulation and taxation reform measures. This includes referring any position or discussion papers from the Commonwealth and the Productivity Commission arising from reviews at the national level into the areas of taxation, market competition reform and the costs of regulation.

The Business Tax and Regulation Reference Group comprises senior business executives from a wide range of businesses in Tasmania, covering such industries as accounting, financial services, manufacturing and business services.

The Tasmanian Government sought the views of the Business Tax and Regulation Reference Group in relation to the current review of Australia's tax and transfer payments system. The Reference Group's comments in relation discussion questions posed in the Consultation Paper are set out below.

The Business Tax and Regulation Reference Group has submitted these views to the Tasmanian Government for consideration. However, these views do not necessarily reflect the Tasmanian Government's views on the future of the Australian tax and transfer payments system. Furthermore, these views do not necessarily represent the views and priorities of each member of the Reference Group.

General Comments

The Business Tax and Regulation Reference Group consider that the Henry Review is an excellent opportunity to identify areas for structural tax reform.

It is noted that the Terms of Reference for the Henry Review specifically excludes the Goods and Services Tax. The Reference Group considers that this is disappointing as the optimally designed tax and transfer payments system may involve changes of the GST arrangements.

Specifically, an increase in the GST rate, whether as a state-specific tax revenue source or under the existing arrangements, may be an effective mechanism to streamline Australia's tax system and remove some, if not all, of the inefficient state-based taxes currently in place.

01. Noting the overall structure of Australia's federal financial arrangements, what changes, if any, should be made to the assignment of revenue raising powers and intergovernmental transfers in Australia?

The Reference Group notes that Australia's federal financial arrangements currently contain revenue raising powers for states which are not used (for example, income tax).

The Reference Group does not consider that any changes need to be made to the assignment of revenue raising powers. Rather, it is considered that states should consider whether a future optimal tax system should include activation of the revenue raising powers they currently have, namely income tax, given the inefficiencies and inequities associated with current state-based taxes, notably transaction-based duties.

02. Given the widely held view in submissions that the current state tax arrangements need to be reformed, what changes should be made to state and local government own source revenue instruments? What scope is there for greater use of user charging to bring social, environmental or economic benefits?

The Reference Group has identified possible reform ideas to the states' tax arrangements, including:

- the introduction of a state-based income tax surcharge which could be administered by the Australian Tax Office in conjunction with the administration of Commonwealth income tax. This tax revenue would be very low cost to collect and could replace some, or all, current state taxes, depending on the rate at which the surcharge is applied;
- national agreement to broaden the base for land tax to include principal place of residence land; and
- the introduction of a property-based tax, to replace current land taxes. Such a tax would not be determined solely by the property value; that is, it would include a component that does not vary with property value but may vary with the number of adult residents.

The Reference Group considers that it is very important that any long term model for taxation reform should take into account how future household formation and settlement trends, and economic activity, will alter as a result of demographic change. In particular, it is important to assess how this may impact on the future tax base of the different levels of government.

03. What is the appropriate application of the roles of the Australian and state government in income redistribution?

The Reference Group considers that it is the role of the Australian Government to address equity issues through the transfer payments system. In particular, the Australian Government's transfer arrangements should address any equity issues that arise from the tax system, as well as from the charges imposed for essential services such as rental accommodation, electricity and water and sewerage.

That is, it should not be the responsibility of state and local governments to use taxes for the purposes of income redistribution. This can lead to 'double or even treble dipping' on the part of some recipients and lead to very high effective marginal tax rates, with the concomitant economic disincentives. It is particularly inappropriate if the revenue needed to redistribute income is collected through inefficient and inequitable taxes.

04. What opportunities could be pursued to deliver more seamless administrative arrangements of the tax-transfer system across the federation?

As mentioned above, the Reference Group considers that the introduction of a state-based income surcharge would simplify administrative arrangements for the tax-transfer system as the Australian Tax Office would administer the majority of state-based and Commonwealth taxes.