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Australia's Future Tax System

Dear Dr Henry and team

Thank you for your first paper *Architecture of Australian's Tax and Transfer System* and the opportunity to submit my concerns to this review.

I was relieved to see that the Carbon Pollution Reduction Scheme is within the Terms of Reference, as climate change will impose costs, both monetary and non-monetary on Australian society. However, pricing carbon is only one approach to addressing the problem and an expanded approach is necessary.

The tax system could provide much needed incentives for tax payers to invest in reducing emissions. In other words, support through the tax system for investment by households would increase the community's adaptive capacity for change. A taxation system which supports the reduction of household emissions is also important for building public confidence in government policy and administration generally, a necessity for the process of long-term change ahead. Consistency between professed commitments by government and reform of the infrastructure to allow such commitments to be enacted is critical.

This review offers a timely opportunity to examine how a comprehensive system of taxable deductions for investment in a range of efficiency and energy technologies for households and commuters could contribute to reducing greenhouse gas emissions. Investing in tax deductable improvements would allow individuals, families and landlords to invest in technologies to suit their housing stock, transport needs and income situation and to plan for such investments over time. It would go some way to reducing the financial barriers to the range of available, but often costly up front, investments to be matched rationally to individual circumstances, from retrofitting insulation in older homes, to the purchase of solar cells, more efficient lighting and more efficient cars. At the moment, old technologies are selected by default (with the assistance of builders, lighting shops, and car dealers often biased to the business-as-usual approaches) because there is inadequate promotion of the benefits of alternatives and inconsistent financial incentives to seek them out. The latter is most important because simply telling individuals that they are responsible for changing their lifestyles is a hollow message in the absence of a rational plan or support for achieving this transition. As discussion continues about how to remove barriers for business and industry to redirect investments into sustainable technologies, individual investment in domestic housing stock and the vehicle fleet should not be ignored. Even if households nationally are not responsible for the majority of emissions, the will is there to contribute to solutions and to hold other sectors to similar commitments.

Currently a mixture of contradictory policies are aimed at individuals which on one hand encourage over use of fossil fuels, and on the other hold out subsidies which are unobtainable for most people. In the first category are novated leases for cars which encourage their overuse in order to get a lower overall price in a purchase and operation package, and tax deductions for over-powered four-wheel drives which have replaced sedans for ferrying children to school in the suburbs. Other inadequate subsidies include programs which receive wide publicity for supporting the reduction of fossil fuels but are backed with token funding only. An ad hoc rebate scheme for solar cells which runs out of funds after 24 hours (as it did in Queensland a couple years ago) or which starts and stops according to the trickle of funding which is reassessed every few months, as in the Commonwealth scheme over the past few years, engenders cynicism on many levels. Firstly, it shows how governments underestimate interest in reducing emissions by householders, and secondly, it highlights the tokenistic commitment to funding support for such schemes, by placing arbitrary limitations on the total amount and who can apply for them. For example, domestic household rebates for solar cells are currently limited to the first 1 kw of installation and do not support the purchase of additional cells which would allow households to be more self-sufficient in electricity generation. This effectively punishes early adopters of alternative energy technologies twice over – first, when they installed the initial systems without the benefit of current rebates, and later when they cannot apply for support to expand their system. The benefits of early adopters acting as demonstrations to the rest of the community are ignored while the potential good will from government support for the transition to a carbon neutral society, is wasted. Most people have decided just to wait and see what hand-outs might come next, instead of planning their transition to more sustainable living. Finally, feed-in tariffs introduced by most State governments differ in detail between States, are based on net power production rather than gross, and in Queensland require costly change-over of meters from ones which were required just two years ago, in order to benefit from the feed-in tariff! These are just a few examples of the inefficiencies and inequities entailed in domestic investment in sustainable living which I have experienced recently. Clearly, a more systematic approach is needed which allows longer term, rational planning by household investors and commuters.

I recommend a recent paper by Gerald T.Gardner and Paul C. Stern, entitled ‘The Short List: the most effective actions U.S. households can take to curb climate change’ (*Environment, 50:5, 2008*) which rates measures commonly advocated for households in terms of their effectiveness for reducing greenhouse gas emissions. Such an evidenced based rating system for tax deductibility would go a long way to stimulating appropriate household investments in this country. It would also put the Australian Tax Office at the forefront of sustainability reforms.

Businesses have long had access to tax deductions for investing in planned economic activity which was assumed to benefit society as a whole. Now that diverse expert opinion, including the Garneau Review, admits that climate change is a result of market failure, is the Australian taxation system going to carry on ‘business as usual’? Following an unsustainable development path also constrains whole of government commitments to a transition to sustainability which requires, among other things, reducing greenhouse gas emissions. An opportunity exists with this review of the tax system to make changes which support investments in sustainability by every taxpayer as well as business operators. I sincerely hope for the sake of biodiversity, the economy and our society that the opportunity is taken.

Yours sincerely

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