AUSTRALIA'S FUTURE TAX SYSTEM

A preliminary submission to the Review Panel

Australian Council of Trade Unions
365 Queen St
Melbourne VIC 3000

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About us

The Australian Council of Trade Unions is the nation's peak council for organized labour, representing 45 unions with approximately 1.8 million members.

Taxation and social security arrangements are central to the living standards of Australian workers, their families, and their communities. The ACTU's close interest in and involvement in taxation policy issues is long-standing, deep and enduring. We believe:

- The impact of Australia's tax and transfer system on economic efficiency matters insofar as it impacts on the current and prospective living standards of the Australian people.

- The ultimate test of tax system reforms is not whether they benefit the economy (or some sections of it) but whether they promote a better society.

- Distributional fairness is at the heart of a robust tax and transfer system.

We welcome this review of Australia's future tax system and look forward to assisting in providing feedback and comment from labour and community organizations throughout the course of the Review and responding to material produced by the Panel (including the consultation paper to be released by year's end).

To this end, the ACTU and the Australian Council of Social Services have convened the ***Community Tax Forum*** chaired by Professor Julian Disney as a standing forum for the duration of the Review. Further information about the Forum is at Appendix 1 to this submission.

The Tax Review takes place at a time of significant turmoil and uncertainty across the world economy. The most severe financial crisis for 70 years is acting to push many of the globe's biggest economies into recession. Fundamental assumptions held by policy makers for the past 30 years about the structure and regulation of the world economy will have to be re-thought. It is clear the era of naïve faith in the supremacy of free-markets is over. States must act to ensure those institutions, such as banks, that play a vital role in our economy are never again allowed to act in ways that endanger the jobs and livelihoods of millions of workers and their families. In the context of a likely world recession all governments, including our own, must act to protect as many jobs and homes as possible.

Greater state regulation and control, combined with sufficient public spending to support those most vulnerable to recession, will require a government with the capacity and resources to act. Understanding this global context, and bringing its implications to bear on our tax policy, will be a vital task for the Tax Review Panel. We discuss some of those implications later in this submission.

At Appendix 2 is a copy of the policy on tax adopted by the ACTU Congress in 2003. The aspirations and policy recommendations contained in this document remain relevant today. In particular, part 4 sets out a list of recommendations we would wish the current tax review to consider. In the run up to our 2009 Congress the ACTU will be consulting with affiliates with a view to reviewing and updating our policies on tax and related issues. We would wish to have the opportunity to advise the Review Panel of the decisions of our 2009 Congress at a future date.

The content of this submission is intended as complementary to Appendix 2, as well as making some additional recommendations in light of recent national and international developments.

General Principles

Australia's taxation arrangements reflect both high-level systematic design features and ad hoc responses to particular issues and events.

Technological advances and behavioral responses (especially to tax law changes) mean that regular review and periodic overhaul of taxation arrangements are required to maintain the integrity of any taxation system.

A nation's tax system shapes and is shaped by its society. It embodies, albeit in partial and mediated form, the values and expectations held by that society. The tax system is not the sole determinant of social outcomes and mores, but it is a prime force.

It is therefore not possible to conduct a sensible debate about the elements of desirable tax reform in the absence of a clear view of what kind of society we wish to live in. Government, in collaboration with unions and other representative organizations, has a key role to play in articulating that view and mobilizing support for it across Australian society. Such a view is an essential foundation for the work of the Tax Review Panel.

There is significant evidence that most Australians wish to live in a fairer and more equal society. Many are unhappy with attempts by past governments to promote a culture of asocial individualism founded on the increased utilization of market mechanisms amid underinvestment in our communities and public services. They are concerned that despite a record of strong economic growth in recent years they continue to live in a deeply unequal society. A recent ranking of the 30 OECD countries in terms of inequality placed Mexico first. Australia came sixth[1].

It is therefore not surprising that the most recent Australian Survey of Social Attitudes found over 80 per cent of respondents agreed that the 'gap between high incomes and low incomes is too large'. In addition, over 60 per cent agreed that 'ordinary working people do not get a fair share of the nation's wealth'. In terms of the ten political and economic issues of most concern to Australians the survey found that 'income inequality' ranked fourth - above issues such as crime and terrorism[2].

Despite attempts by the previous government to deepen and legitimize economic, social and cultural divisions, among a large majority of Australians there remains a strong desire for a fairer, more equal and more cohesive society. The present government now has a valuable opportunity to respond to and build upon those aspirations, in part by means of a reformed tax and transfer system that places redistribution at its core.

More concretely the ACTU believes there is widespread support and strong attachment amongst Australians to basic tenets of behaviour and thinking such as:

- Reasonable opportunities to gainful employment for everyone seeking work;

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[1] Stillwell, F. and K. Jordan (2007) *Who Gets What? Analysing Economic Inequality in Australia*. CUP: Melbourne, p. 42.

[2] Denemark, D. et al (2007) *Australian Social Attitudes 2*. UNSW Press: Sydney, p. 21.

- Fair access by all in the community to good minimum standards of education, health, housing, and community services;
- Decent income safety nets to assist and protect groups at times of need – including the elderly, sick, disabled, low paid, and unemployed individuals and their dependents - coupled with active labour market and social programs to encourage participation and social inclusion;
- Fair treatment before the law, including before tax and other government administrators;
- An equitable sharing of the costs and benefits of continuing structural change;
- A safe and healthy working environment and a clean living environment;
- A reasonable balance between justice for present generations and justice for posterity.

A growing and prosperous economy is essential to realizing aspirations such as these, but alone is not sufficient for their achievement.

There is a balance to be struck between reliance on individualism and market forces on the one hand, and government intervention and shared endeavour on the other.

For working Australians and their dependents, living standards are set by the combination of *direct wages* from employment and the *social wage* delivered out of tax revenue.

Market forces are powerful and ubiquitous. They can and do help to resolve many problems. However a fundamentalist 'hands off' approach to market forces produces a market society in which 'trickle down' and philanthropy are the only avenues for assisting those (individuals and their dependents) in the community with low incomes, little wealth, and other disadvantages.

The ACTU rejects market fundamentalism as inconsistent with Australian values and incapable of meeting community needs.

To meet the challenges of population ageing, of climate change, of building a competent and compassionate Australia, requires a strong and proactive role for government – in the promotion of knowledge, skills and creativity, in the provision of public infrastructure including health, education, transportation, communication, in the establishment and maintenance of social safety nets. This entails explicit concern for the promotion of national interests, social values and cohesion.

None of this is capable of being delivered through market mechanisms alone. And government cannot deliver on the social wage without a robust tax and transfer system capable of raising sufficient revenues fairly and efficiently.

- *Tax culture and 'fairness'*

Of particular concern here is the continuing erosion of the culture of compliance surrounding the payment of taxes. 'Tax minimization' strategies utilized by some individuals shift the burden of taxation onto others in a regressive redistribution of the social load. The more successful these strategies are, and the wider they spread, the greater is the attrition of the tax base. A culture of avoidance blossoms which acts to undermine respect for and confidence in the tax system as a whole.

Of course, there will always be some who seek to reap where they have never sowed. For this reason periodic review and repair will always be needed to protect the integrity of the tax system and the culture of compliance on which it rests.

This Review must set its sights squarely on protecting and improving the fairness, consistency and transparency of the nation's taxation arrangements.

- *Revenue adequacy*

The tax system must generate sufficient revenue for government to deliver services expected by the community over time. Population ageing, emissions reduction imperatives, and consequent structural change in the economy, all point to revenue needs rising over coming decades.

In recent years some in politics and the media have been quick to assert that contemporary trends in globalization mean nation states have little choice today but to reduce tax rates, especially those that apply to capital. In the strong version of this argument, sometimes labeled the 'hyper-globalist' view, national governments are presented as increasingly powerless in the face of mobile capital, new sources of low-wage labor, and heightened global tax competition. If they wish to attract foreign investment governments must cut taxes on capital and those whose skills facilitate mobility, reduce the value and scope of public provision, and reduce the expectations of their electorates in terms of what they can expect the state to do for them.

The assumption that there exists a linear causal relationship between tax rates (and the size of the state) on the one hand and levels of growth on the other is simplistic and not supported by the evidence. While globalization has entailed a growth in the volume and geographical distribution of FDI the large majority of such investment remains made by and within the relatively high-tax nations. In 2006/07 the countries that received the largest positive net inflows of FDI included 'high-tax' Denmark, France and the Netherlands. Among those who experienced the biggest net reductions of FDI were relatively low-tax countries such as Hungary, Poland and the Slovak Republic[3].

That the relationship between taxes and growth is a complex and non-linear one is further illustrated by Table 1 (below). A number of relevant conclusions can be drawn. Real tax burden levels have been and remain uneven between countries and in terms of their change over time. This reflects the continuing capacity of developed states to exercise choice in terms of how they organize their tax affairs according to their particular economic systems and domestic political priorities. This is also evident in relation to the real tax burden on corporate income. Here the burden varies significantly across

[3] OECD (June 2008) *Investment News*. OECD: Paris.

countries. Most countries appear to have had a lower burden than Australia in 2005. However, these figures do not reflect the fact that unlike many comparable OECD countries Australia does not have a separate social security tax. Table 1 shows that despite an apparently higher burden most countries experienced lower average real GDP growth than Australia over the 2003-07 period. Some, such as Japan, the USA and Ireland, who have lower apparent burdens, also experienced lower average FDI inflows over the same period.

Table 1: Taxes, growth & investment in selected OECD countries[4]

Country	Total tax receipts 1985 (% GDP)	Total tax receipts 2005 (% GDP)	Taxes on corporate income 2005 (% GDP)	Average real GDP growth 2003-07	Average FDI inflows 2003-07 (% GDP)
Australia	28.3	30.9	5.9	3.3	1.7
Canada	32.5	33.4	3.5	2.7	3.1
France	42.8	44.1	2.8	1.9	3.4
Germany	36.1	34.8	1.7	1.4	1.2
Ireland	34.6	30.6	3.4	5.1	-0.8
Japan	27.4	27.4	4.3	2.1	0.1
New Zealand	31.1	37.8	6.3	3.4	3.4
Netherlands	42.6	39.1	3.8	2.3	5.3
Spain	27.2	35.8	3.9	2.9	2.7
Switzerland	26.1	29.7	2.6	2.2	4.4
United Kingdom	37.6	36.5	3.4	2.8	5.3
United States	25.6	27.3	3.1	2.9	1.0

Source: Data compiled from the Economist Intelligence Unit

Furthermore, company profitability in Australia has remained high by international standards. The most recent Bank of England study of international comparisons of company profitability found that out of the 23 leading economies in their sample the profitability of all Australian companies (manufacturing and services) ranked seventh – above those in countries such as Canada, Japan, the USA and Germany[5].

In much day-to-day political and journalistic discourse tax structures and levels are sometimes accorded magical causal powers – usually by those who wish to see them restructured and cut for the benefit of a very wealthy few. The factors that shape economic decision-making and outcomes are more complex. Government has a key role to play in ensuring public debate about our new tax system reflects this complexity.

One reason why FDI flows remain concentrated within relatively high-tax jurisdictions is the quality and quantity of the political, social and legal infrastructure that high tax yields help to build and sustain. In the words of OECD Secretary-General Gurria:

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[4] A further relevant comparative measure is net public debt as a percentage of GDP. In Australia this has been reduced to zero. Most comparable OECD countries sustain a debt of up to 40 per cent or more.

[5] Citron, L. and R. Walton (2002) *International Comparisons of Company Profitability*. Bank of England: London.

"Companies look at long-term profitability in making decisions where to locate. And this, in turn, depends on access to markets, availability of qualified labour, political stability and costs. Tax is one of these costs and business will, other things being equal, prefer a low tax to a high tax jurisdiction. But as we know, other things aren't equal. A relatively high tax country which uses its revenues to provide a first class infrastructure, a well-educated and flexible labour force, a well-functioning health and pension system will be more attractive than a low tax country which has none of these productivity enhancing features."

The ACTU believes that a reformed tax and transfers system has the potential to make an important contribution to facilitating a progressive policy agenda geared to greater equality of opportunities and outcomes for all Australians. It is therefore important that simplistic ideological assertions about the alleged necessity of reducing the size of government do not railroad community interests and informed public debate about these matters.

Pragmatic assessments are required regarding the size and urgency of gaps between community expectations and public provision of investment:

- in *social infrastructure* to alleviate poverty and combat entrenched disadvantage, including education, research and development, health and other community services;
- in *physical infrastructure* to improve Australia's productivity and international competitiveness and deliver on climate change goals;
- in providing more effective *government regulation* where this is warranted, to modify market outcomes to better accord with community expectations and national interests.

- *Promoting stability*

In the period from the mid-1990s until very recently many of the developed industrial economies enjoyed high and stable rates of growth. During such periods arguments for less tax, less regulation and less government can gain a wide appeal. National and global markets appear to be delivering the jobs, incomes and stability that many desire. To some, government can appear to be an increasingly irrelevant and expensive obstacle to getting on with their lives.

The experience of the global economy over the past year has contributed to challenging such views. As a result of deregulated financial markets, massive movements of speculative capital into high-risk financial investments, and 'irrational exuberance' about the capacity of borrowers to accumulate and repay ever greater amounts of debt the sub-prime crisis in the USA has snowballed into a global credit-crunch. Markets around the world have failed to adjust smoothly to some mythical equilibrium point. In leading economies such as the USA and UK levels of consumer demand and corporate profitability are presently stagnating or falling. Governments have had to step in to engage in an ongoing attempt to stabilize global markets and bail-out a growing number of financial institutions. The full extent of the current crisis and its impact on jobs, living standards and the housing market remains to be seen.

Deregulation combined with tax measures that incentivize short-term and high-risk speculative behavior by businesses and consumers has contributed to generating significant asset price instability and an unsustainable rate of debt accumulation. In recent years public policy has too often encouraged and indulged an evermore risk-laden search for a 'quick buck'.

In Australia one consequence of these deregulatory and speculative trends has been a massive growth in private debt to 156 per cent of GDP. National private debt now accounts for more than 16 per cent of Australian GDP[6]. While the quality of that debt is generally higher than that which sparked the current credit crisis, our rate of debt increase has been much higher than that of the USA. Many Australians are now extremely vulnerable to international debt deflation as the world economy adjusts to lower and more costly long-term levels of credit liquidity.

To avoid a deepening and repetition of the current crisis governments of the advanced industrialized countries, including our own, should take the lead in developing rigorous global and national regulatory frameworks and financial incentives that act to discourage the accumulation of unsustainable levels of debt and unproductive speculation. The aim should be to promote stability, saving and long-term productive investment in strategically important industries, services and forms of infrastructure. The ACTU believes domestic tax policy can play an important role in this process.

Furthermore, as a result of the recent wave of international bank nationalizations amid collective attempts by the leading economic powers to stabilize the world economy, states now have an ideal opportunity to utilize their greater influence over global financial institutions to implement much needed reform. In particular, an appropriately designed tax on international currency transactions (modeled on the so-called 'Tobin Tax' proposals) would serve to generate additional public funds and act to counter destabilizing movements of speculative capital. Rarely has the political legitimacy of global finance been so weak and the public appetite for substantive reform so strong. The Australian government could play a key role in helping to make these potentially valuable reforms a reality.

- *Efficiency*

The taxation system is one amongst many influences which bear on production and consumption decisions. In this respect the shape of a nation's tax system can affect its overall rate of economic growth and the composition of that growth.

The argument in favour of tax arrangements that will not 'distort' financial incentives to produce or consume emanates from this perspective and is put strongly by those who

[6] Keen, S. (2007) *Deeper in Debt: Australia's Addiction to Borrowed Money*. Centre for Policy Development: Sydney.

believe in the pre-eminence of market forces and financial incentives in shaping behaviour.

It is difficult in practice to separate and quantify the influence of tax and transfer arrangements from other influences. The impact of tax structures on incentives warrants careful consideration; so too do model-based estimates of the size of such influences, which typically reveal more about the models than about the effects they are trying to measure.

Moreover, it is entirely appropriate to use the tax system to change behaviour – for example, to reduce smoking, to reduce harmful environmental impacts of economic activity, and to counteract widening income inequalities.

Similarly, as OECD Secretary General Gurria notes, it is misleading to compare taxation rates and levels between countries in arguing business competitiveness, without simultaneously bringing the counterpart social wage arrangements into the equation.

- *Simplicity, transparency, sound administration*

These are all attractive and desirable features of a fair and robust tax system that generates sufficient revenue to meet community needs.

The existence and resilience of a 'tax minimization industry' means that simplicity will always face tensions with system integrity and administrative requirements will be greater than would otherwise be the case.

<u>A comment on the 'first installment' – the *Architecture* paper</u>

The Architecture of Australia's tax and transfer system [AATTS] paper claims that it 'describes Australia's tax and transfer systems from a factual and analytical perspective to inform public discussion.' (p iii)

The paper includes a great volume of useful data and information. We welcome this material. That said, a factual and analytical perspective can not deliver a value-free product.

AATTS:

- notes that the tax-transfer system is a fundamental piece of social and economic infrastructure: one which redistributes income, shapes the distribution of opportunity, affects individuals' behaviour, and influences the mix between public and private provision of goods and services (p xi)

- highlights climate change, globalization, population ageing, and federation/coordination issues as substantial interacting challenges providing context for the Review (p xi)

- identifies present fortuitous economic times as 'an ideal opportunity for reform' and asserts that, given the challenges that lie ahead, 'it is important to have a tax-transfer system that enhances incentives and rewards effort' (p xii)

- stresses the need for any reforms to be durable through tough economic times as well as the present (p xii)

But it does not paint a broad canvass picture of a caring and compassionate society; it outlines no social foundation on which a Review such as this must be grounded.

In an exercise of this kind it is important 'to step back from the day-to-day processes and historical events that have shaped the tax-transfer system'; it is also important to 'consider how it might best be shaped to complement, even facilitate, the reforms needed to address the challenges facing Australia as we move through the 21st century' (pxii).

Australia has a (mixed) market economy; it is under no imperative whatsoever to become (ever more of) a market society.

A key focus of the Review ought be 'to secure expanded opportunities for those who remain disadvantaged' (p xii), but to the extent that this is the sole constraint on market precepts driving this Review it is manifestly inadequate and incapable of drawing wide community support.

The challenges of this century – of climate change, ageing, globalization and coordination - lie ahead, alongside the enduring challenges from last century and before - of universal access to health and education services, and affordable housing; of full employment; of active labour market and social inclusion programs to encourage participation and social cohesion; of basic precepts of fairness and equity.

We vehemently and emphatically reject any proposition that financial incentives and/or economic criteria should be the fundamental, over-riding or pre-eminent considerations in this Review. In redrawing the parameters for our tax and transfer system to meet tomorrow's challenges, we must acknowledge and build upon those abiding precepts and values that have shaped the system that history has given us.

Further matters

Appendix 2 to this submission sets out a number of specific tax policy recommendations adopted by our 2003 Congress which remain relevant today. We would wish to expand on these, the additional recommendations contained in this submission, and the relevant decisions of the 2009 ACTU Congress at a later date. However, given recent policy developments we believe it important to highlight here how we believe the tax and transfer system should interact.

Income Support Transfers and the interaction of the Tax and Transfers systems.

As previously stated, the ACTU believes that a reformed tax and transfer system has the potential to make an important contribution to facilitating a progressive policy agenda geared to greater equality of opportunities and outcomes for all Australians.

There is a strong and proactive role for government in establishing and maintaining social safety nets.

As stated, one of the general principles of the tax transfer system is decent income safety nets to assist and protect groups at times of need, including the elderly, sick, people with disability, low paid, and unemployed individuals and their dependents – coupled with active labour market and social programs to encourage participation and social inclusion.

The view, that wages are for working people and welfare is for older people and transient for unemployed people, no longer holds. Because of the expanded role of transfers (including tax measures such as the Low Income Tax Offset (LITO) and Family Tax Benefits), as well as the need to encourage continuing workforce participation amongst older people, this is an outmoded approach which does not have a place as an organising principle for tomorrow's Australia.

The periodic review of the transfer system is warranted.

Adequacy

The Tax Review Architecture Paper notes:

> *A central issue for the personal tax-transfer system is the level of support that it should provide to people with lower resources. This is usually expressed in terms of the 'adequacy' of the rate of assistance.*[7]

The SPRC has stated:

> *Although it is not possible to provide a simple and comprehensive definition of the concept of adequacy, its general meaning refers to the ability of social security*

[7] op cit., p 233

(and other) cash payments to meet the needs of those who must rely upon them as their main – often their only – source of income.[8]

The ACTU believes the social security system should be a bulwark against poverty, combining income support and active measures targeting social inclusion. The ACTU believes a standard of living consistent with human dignity is a fundamental right of all Australians. Poverty (absolute and relative) is an unacceptable feature of Australian society. We believe the income support system should provide decent safety nets that guard against this.

The ACTU submission to the Harmer Review – the Pension Review, argued that the adequacy of the single pension rate needed review. The ACTU submitted that, assessed against a range of adequacy measures, the single rate of pension should be lifted to 66 per cent of the combined couple rate of pension.

An important component of ensuring adequacy is maintenance of the real value of pensions and allowances (indexation), and improvements in real levels of provision, over time, to reflect improvements in community living standards (benchmarking).

In our submission to the Harmer Review, the ACTU submitted that 25 per cent of Male Total Average Weekly Earnings (MTAWE) is no longer relevant as a benchmark of community living standards for pensions, and should be replaced by a benchmark that reflects the increased role of women in the workforce, eliminates the influence of changing shares of full time and part time jobs, and of the business cycle on earnings. The ACTU submitted that a benchmark of full time adult ordinary time earnings better meets the test of reflecting community living standards.

While the Harmer Review is considering the financial security of Age Pensioners, Disability Support Pensioners and Carers, it is also important to regularly review the adequacy of other government benefits.

Incentives

In any concerted effort to boost labour supply, the interaction of the tax and social security systems over the range of incomes generated by part-time and full-time work on minimum wages can and should be reviewed and reformed.

Working people with incomes up to $50,000 per annum typically have an income combination of part wages, part social security, and part special income tax entitlement. As their incomes rise (whether from working more hours or from a pay rise) they are affected by withdrawal of social security entitlements and the LITO (Low Income Tax Offset).

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[8] Saunders P, Chalmers J, McHugh M, Murray C, Bittman M and Bradbury B, Development of Indicative Budget Standards for Australia, SPRC, UNSW, Policy Research Paper No 74, p1

The resulting effective marginal tax rate (EMTR) can be very high – well over 50% of the additional income earned. This is much higher than the top marginal income tax rate.

Because the thresholds where withdrawal of income support kick in are low, and the rates of withdrawal are high (between 40% - 60% per dollar of earned income), persons moving from no work to part-time or full-time work can face extremely high effective marginal tax rates. For example:

- A single person receiving Newstart Allowance can earn the sum of $31 a week before their allowance is reduced by 50 cents in the dollar.
- If their income exceeds $125 a week the withdrawal rate is 60 cents in the dollar.
- This means a single part-time worker with no dependents earning $125 a week in wages, effectively pays 75 cents in tax on each additional dollar of wage income if they increase their hours of work. (60% from Newstart withdrawal plus 15 cents in the dollar income tax rate). [9]

No other group in the Australian workforce faces a tax rate of 75% on their additional earnings!

While the EMTRs are the result of tax and income support withdrawal, people facing these interactions view them as tax rates on earned income.

To reduce poverty traps and to reduce disincentives, these interactions of the tax and social security systems should be reviewed and reformed.

[9] The ACTU acknowledges the effect of Working Credits, which accumulate when someone earns lass than $48 per fortnight, in increasing, by one dollar for each working credit, the amount a person can earn before their income support payment is reduced.

APPENDIX 1

ESTABLISHMENT AND OPERATION OF THE COMMUNITY TAX FORUM

(Agreed by the Steering Committee of the Forum, 25 September 2009)

Establishment and purpose

1. A Community Tax Forum has been established by the Australian Council of Social Service and the Australian Council of Trade Unions after consultation with a number of community organisations and research groups.

2. The purpose of the Forum is to encourage and facilitate contributions from a wide range of community organisations around Australia to the current Taxation Review Panel's consideration of key reform issues and to public discussion of those issues.

3. The Forum will be concerned with basic principles for tax reform, key directions for action and particular proposals for change. It will focus on promoting convergence of opinion amongst community organisations rather than detailed agreement on specific options.

4. The Forum will be managed by a Steering Committee comprising an independent chair, one representative each from ACOSS and ACTU, and up to three other members chosen by the Committee (either as a representative of a peak organisation or in an individual capacity). It will operate from 1 October 2008 to 31 December 2009.

Principal activities

5. The Forum's principal activities will include

   - undertaking and commissioning research;
   - preparing information papers, policy statements and media kits;
   - distributing material and information from other sources;
   - convening meetings, seminars etc with community organisations and tax experts;
   - meeting with governments, business representatives and others.

6. A key element of the Forum's work will involve convening Round Tables for community organisations on a regular basis in order to encourage discussion of policy options and possible cooperative action. Participants will receive a regular update service about future Round Tables and other activities.

7. Another key element will involve establishing an Expert Advisory Panel of independent academics and researchers. The panel will help the Forum to identify and pursue research priorities, and to develop and assess proposals for reform.

8. Statements made in the name of the Forum will relate mainly to broad principles for tax reform and key directions for action. The Steering Committee will be responsible for determining their content. In doing so, it will draw on views expressed by participants at Round Tables, members of the Expert Advisory Panel and other sources.

9. Organisations represented on the Steering Committee, at Round Tables and in other Forum activities are likely to have differences of opinion on some issues. They will remain free to make detailed policy statements on these and other issues, whether in their own name or in combination with other organisations.

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Circular No. 122/2008 3 October 2008
JL:pl

TO: ACTU Executive
National Secretaries of Affiliates

Dear Colleagues,

RE: **Community Tax Forum**

As you would be aware, the Federal Government is conducting a review of Australia's Tax and Transfer system. The review will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

The ACTU has expressed concern that the Taxation Review Panel is too narrow and, in particular, does not have representatives from unions or social and community services.

As a means to address this imbalance, the ACTU, Australian Council of Social Service and the Consumers' Federation of Australia, after consultation with a number of community organisations and research groups, have established the Community Tax Forum.

The purpose of the Forum is to encourage and facilitate contributions from a wide range of community organisations around Australia to the current Taxation Review Panel's consideration of key reform issues and to public discussion of those issues.

To facilitate the exchange of information and ideas Round Tables on Priorities for Tax Reform will be held in Melbourne and Sydney. Participation has been invited from unions, welfare organisations, consumer groups and other community sector representatives as well as some independent tax experts.

Affiliates who would like to contribute to the Community Tax Forum should contact Michelle Reynolds at the ACTU (mreynolds@actu.asn.au).

In unity,

Jeff Lawrence
Secretary

APPENDIX 2

A Fair Australia

Tax

Policy

ACTU CONGRESS 2003

1. Congress declares that the principal objectives of the Australian taxation system should be:

   (a) equitable and progressive taxation of individuals and other entities, so as provide for fair redistribution of wealth and income;

   (b) the collection of sufficient revenue to:

      (i) fund the universal provision of high quality services, including health, education and social welfare, to the community, recognising that there are a number of areas in which governments are best placed to ensure adequate infrastructure and delivery; and

      (ii) facilitate the assistance required to ensure equal opportunity for those who would otherwise suffer poverty and disadvantage; and

   (c) the encouragement of socially, economically and environmentally useful investment and the discouragement of investment which is destructive and unproductive, recognising the need to strike an appropriate balance between competing objectives.

2. Congress notes the following features of the current tax system:

   (a) Australia is amongst the lowest taxing nations in the OECD, with total tax revenue of just over 31% of GDP;

   (b) Australia's tax base has declined relative to the OECD in the last 20 years;

(c) Australia taxes ordinary workers at around the OECD average, while taxing high income earners and companies at relatively low levels;

(d) the personal income tax system, including the marginal rates structure, should be more progressive;

(e) dividend imputation, while encouraging investment in Australia, has created additional inequity; and

(f) there is wide scope for tax avoidance and evasion based on the use of trusts, interposed entities and the creation of artificial company structures.

3. The Federal Government has increased inequities in the taxation system, in particular through the introduction of the GST, the cutting of marginal tax rates at higher levels and the reduction of capital gains and company taxes.

4. In order to address these issues, Congress calls for a thorough review of the tax system to be conducted in a framework of the objectives set out above. In particular, Congress supports consideration of the following:

(a) an approach to raising the living standards of the low paid which emphasises greater provision of better and higher quality public services together with redistributive revenue raising measures;

(b) a more progressive income tax;

(c) addressing the sometimes prohibitive effective marginal tax rate at the intersection between social security and the tax system through changes to the taxation system in order to assist low income households, but not as a substitute for fair minimum wages;

(d) a company tax regime which is consistent with income taxes and which provides for a minimum level of company tax;

(e) the abolition of the discretionary tax treatment of family trusts (and similar vehicles) with future tax to be applied consistent with general company taxation;

(f) the restoration of the previous capital gains tax for assets valued above $1 million;

(g) the abolition of the private health insurance rebate, with the saved expenditure directed towards the Medicare system;

(h) the elimination of tax deductibility for any part of an annual salary which exceeds $1 million per year, with FBT to apply to the issuing of shares or options packages to employees for that part of their assessable value which exceeds $1,000 per year;

(i) the introduction of a wealth tax on high income individuals;

(j) increased focus and resources by the Tax Office to target phoenix company operators;

(k) a major commitment by the Tax Office and legislative change to reign in the large amounts of tax being lost to bogus self-employed contractor arrangements;

(l) using the tax system to encourage greater energy efficiency and long term sustainable energy programs; and

(m) the introduction of a small number of hypothecated tax levies.

5. The ACTU will campaign around these issues as appropriate, including through sponsoring a National Tax Policy Forum to stimulate widespread public debate.