

Submission to Australian Tax Review October 2008

Taxation is one of the government's most powerful tools for changing the behaviour of individuals and companies, other than regulation. It has both a direct impact, through price and income changes, and an indirect impact due to the emotional response individuals have to taxation in general.

This submission focuses on how our taxation system can be structured to change the behaviours needed for us to achieve a balance between economic growth and environmental protection.

In the 20th century capital and labour eventually achieved a working relationship. So must the proponents of economic growth and the proponents environmental protection in this century.

Global GDP is growing at approximately \$2 Trillion per annum. China's GDP is \$3.3Trillion. We are effectively adding the resource demands and environmental degradation of an economy the size of China every 20 months.

If global growth continues at this rate, by 2020 we will have added the equivalent of 10 Chinese economies to the planet. By 2050 that number will be 65 and 500 by the end of the century. This is clearly unsustainable without a major change to the way we live, learn, work and do business.

Since the sixties and seventies environmentalists have been drawing the world's attention to natural resource depletion and environmental damage. Those same warnings are now being repeated by leaders of society and by leaders of industry. And it is not just Climate Change that is seen as being urgent by industry leaders:

- *“the world will never be able to increase its output of oil from the current level”* - Christophe de Margerie, Total CEO
- *“after 2015 supplies of easy-to-access oil and gas will no longer keep up with demand.”* Jeroen van der Veer, Royal Dutch Shell CEO
- *“Water is the oil of the 21st century”* – Andrew Liveris, DOW Chemicals CEO
- *“Water consumption is doubling every 20 years...and is unsustainable”* – Goldman Sachs
- *One half to three quarters of annual resource inputs to industrial economies are returned to the environment as wastes within a year.* – World Resources Institute

The increasing global population which drives much of this growth also requires our economic activity to provide more employment opportunities, not just globally, but within Australia. Ageing demographics requires constant immigration to maintain services and maintain economic activity. There is also great likelihood of many refugees seeking shelter from climate change and other pressures.

Finally, to achieve the new paradigm of 'green-capitalism' we must have the innovation and entrepreneurship to develop the new technologies and new processes to ensure we can protect the planet while also maintaining and improving the quality of life for all.

If we examine our current taxation structure we see that, in very broad terms:

- Two thirds comes from taxing employment and innovation through income, company and payroll taxes and FBT
- 15% comes from non targeted consumption taxes –GST, customs duties, etc
- 10% comes from targeted consumption taxes – Fuel, alcohol, tobacco, vehicles, etc
- 10% comes from wealth taxes – stamp duty, rates, land tax and superannuation

If the 21st century is going to be the century for successful green-capitalism then we need to:

- Reduce consumption of natural resources, energy usage and waste production and
- Increase innovation, entrepreneurship and employment opportunities

Our current taxation structure is almost diametrically opposed to these objectives and the situation worsens when government incentives to resource and energy companies are taken into account.

If the taxation system is to be effective in changing behaviours then we need to reverse the emphasis to increase taxes on consumption of natural resources and waste production and reduce taxes on income and profits.

Reducing income and profits taxes will increase the disposable income of taxpayers and make Australia more competitive in attracting people and companies.

Increasing taxes on those activities that are non sustainable will make new technologies more viable and direct business and consumer behaviour into more sustainable areas.

Keith McIlroy
Sydney
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