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Tax Review Submission

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Summary

The tax system indirectly guides behaviour and provides signals as to what is important and what is not. It has been accepted by most governments that the most pressing long term issue for our society is the management of anthropomorphic climate change. There is now overwhelming evidence and scientific consensus that the negative impacts of an unmanaged carbon economy outweigh any near-term cost for readjustment to avoid these impacts. It is essential that the tax system be structured to encourage the adjustment required.

Introduction

The Tipping Point Institute welcomes the review of the tax system. Australia has one of the most complex compliance environments of any developed economy. The complexity negatively impacts our international competitiveness and provides numerous perverse incentives to individuals and industry. The tax review for many is overdue; nevertheless the review is occurring at a key point in global economic development – the early stages of the pricing of carbon.

Carbon conscience

The pricing of carbon into the economy is perhaps the most significant stewardship role requested of government in history. The reforming of the fundamental economic decision mechanisms carries great uncertainty. This uncertainty will not be offset without the structural support that the tax system can provide.

The ability for the tax system to guide personal and corporate behaviour can significantly assist in the challenge of raising the 'carbon conscience' of our society.

Incentives

Tax is often labelled a penalty, a penalty that includes various systems providing different checks and balances to support those less advantaged. It is also labelled a 'cost of doing business'. It is perspectives such as these that position the common behaviour in Australia to at least avoid, if not evade, tax. Enormous effort is invested in the pursuit of avoiding tax, with Australia having one of the largest tax advisory sectors per \$GDP of any OECD country.

If this significant focus in Australia's economy was redirected to assist in the adjustment to a carbon constrained world, Australia could have a considerable international competitive advantage. This would lead to lowering the net present cost of any post-Kyoto international commitment.

This could ultimately lead to the imposition of a direct or implied carbon tax that all would seek to avoid. However the uncertainty around the costs of avoiding this proposed tax results in a high resistance to move from present non-carbon conscience behaviour. In order to achieve the positive shift sought the carbon tax would have to be set at such a level as to significantly distort the current economic balance. This would reintroduce consideration for special interests that could in fact be avoided.

A tax system that provides incentives can proactively guide and shift the focus to how to best operate in a carbon economy. The specifics of the incentive would be part of ongoing policy, however the fundamental difference is the approach. The approach is to avoid any penalty for current, and in retrospect inappropriate, behaviour and focus instead upon incentives for appropriate behaviour in a carbon constrained world.

