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HOW TO THINK BIG AND SMALL IN TAX REFORM

In an era when big-bang tax reform is off the table, a coherent set of smaller reforms can contribute to budget repair while shoring up the tax base to fund services for our aging population.

Those who were around at the time nostalgically remember the Hawke government's Economic Summit of 1983, described in the Financial Review as "unleashing two decades of economic reforms". Like the Economic Summit, the Jobs and Skills Summit does not mention tax. But as in 1983, the reform of our fundamental systems of tax and welfare can make the difference between success and failure of the jobs and skills agenda. Indeed, the Economic Summit was followed by a Tax Summit a couple of years later.

Australia's population is ageing and fertility is way below replacement, but our multicultural society means we are better off than most other countries. A strong migration program and ensuring a gender-equal economy are necessary for a new era of green economic and social prosperity.

Well-designed reforms that improve workforce incentives, support environmental sustainability and build a fair go could be considered in the preparation of a white paper that is expected from the Albanese government's Jobs and Skills Summit.

Australia's well-educated female labour force is still underutilised because of punishing disincentives in the tax and transfer system. Child, disability and aged care workers – still mainly female - will be essential workers, and have families too. We must pay well enough to attract more into these professions. This must be enhanced by a tax system that delivers a fair effective tax rate for these workers, while those who have greater ability to pay, do so.

The ALP election commitment to increase the Child Care Subsidy was massively popular, but barriers to female work participation continue. Family tax benefits A and B were deliberately structured by the Howard government in the 1990s to keep mum at home behind the white picket fence. They benefit less than half of families today and should be replaced with a single payment to recognise the cost of children for all families.

In these times of elevated inflation, as wages start to rise, nominal tax rises but real income falls. This is regressive: it will generate more taxes paid, and bracket creep, for low and middle earners while high income earners are scarcely affected.

The Stage 3 tax cuts will add to inflationary pressures and permanently flatten the rate structure, while leaving the problem of bracket creep unsolved. Now that the Low and Middle Income Tax Offset has ended, the government should replace the Stage 3 cut with a calibrated increase in tax thresholds to benefit the middle. Lifting the threshold for the 32 and 37 per cent tax rates, protecting that middle rate, would better target the tax cut to median and average wage earners and protect one of the most important features of the income tax: its progressivity.

Where we should flatten rates is in the punitive income tests for the age pension and Jobseeker, so that we can increase the return to work for old and young. Older men and women cannot reskill affordably and rely on below-poverty level payments until they are eligible for the age pension – which discourages working more than a day a week. Young people face a poverty trap while working in the gig economy, or studying to be our future workforce, with an effective tax of 70 per cent on part-time earnings.

To fund these essential tax cuts for most workers, savings and assets must be taxed fairly. We can do many small fixes in the income tax, ranging from closing the testamentary trust child loophole to repairing the rules for building depreciation. But the big one remains superannuation. The Retirement Incomes Review of 2020 found that the majority with superannuation have large end-of-life balances. A system meant to fund *retirement* not *inheritance* is broken. Low-taxed death benefits are the new tax planning nirvana, while ATO statistics confirm that the top 1 per cent have multi-million dollar balances.

State land tax and stamp duty reform remains the single largest economic growth generator. It can support worker mobility, ensure fairer tax on assets across generations and make housing more affordable. The government should consider a lower tax rate on build-to-rent institutional investment in housing, which was an important part of the ALP's reform package at the election.

We can still use the income tax to encourage enterprise. The COVID-19 fiscal stimulus provided massive investment allowances for business. These should be targeted towards renewables, combined with careful public sector investment. The Albanese government's early move to exempt employer-provided electric cars from Fringe Benefits Tax delivers a subsidy of nearly half the cost of the car for employers to convert their vehicle fleets to electric. This might work but it won't assist the majority of Australians: it should have a sunset clause of five years.

By considering these and other smaller reforms, and integrating them, the Albanese government could achieve a big tax reform that makes a positive difference to work incentives, the integrity of the tax base and environmental sustainability. Authorising the work would be a valuable outcome of the Jobs and Skills Summit.

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