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MELBOURNE

Melbourne Law School

Thinking Big and Small in Tax Reform

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MELBOURNE ECONOMIC FORUM

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TAX REFORM ... perennially unfinished business



<http://www.abc.net.au/news/2015-08-25/stewart-why-the-hard-sell-on-personal-income-tax-cuts/6721930>



2013 Budget Special
ABC: [Tax reform](#)



<https://treasury.gov.au/review/the-australias-future-tax-system-review>



https://treasury.gov.au/sites/default/files/2019-03/c2015-rethink-dp-TWP_combined-online.pdf



How to think big and small in tax reform

- Big-bang “tax reform package” - off the agenda
- But calls for fixing the tax system continue...
- Australia needs an effective, reasonably broad-based tax system for the 21st century
- Across bases of labour, capital and consumption
- Recalibrated for these essentials for growth:
 - Gender equality
 - Environmental sustainability
 - Digitalisation

Policy and system goals

- Fairness and addressing inequality of income/wealth
 - Labour is being over-taxed relative to capital and consumption
 - Especially female labour
 - Far from taxing inheritances ... currently, our system is subsidising them
- Incentives for:
 - Environmental, renewable, sustainable growth – supply and demand side subsidies
 - Sharing the cost of care – by increasing care wages, lowering their effective tax rates and financing this with a progressive rate income tax
- Taxing rents and assets better:
 - Corporate tax is highly effective, on the whole
 - We need to control tax avoidance on capital for individuals, not just corporates
 - State tax reform would do a lot – land tax/stamp duty
- Tax consumption more but subsidise renewables
 - Especially polluting costs, but support households to make different choices
- Resilience, simplicity and administrability
 - Digitalisation, 'single touch'; reducing compliance costs; reducing complexity and disputes
 - Suitable to adjust as demographics/economy changes

Back to 1983 and 1985?

C A B I N E T M I N U T E

Canberra, 12 May 1985

Decision No. 5629

Memorandum No. 2875 - Draft White Paper on Reform of the Australian Tax System

Memorandum No. 2896 - Draft White Paper on Tax Reform: Supporting Tables

The Cabinet agreed that :-

- (a) the Treasurer continue negotiation of tax reform with the ACTU on the basis of the preferred option put in Memorandum No. 2875;
- (b) the draft White Paper be revised to show the extent to which income tax rate changes might be effected, compensation payments might be necessary, and price effects, of progressively expanded tax reform measures, along the following lines :-
 - (i) broadening of the income tax base;
 - (ii) broadening of the income tax base and of the existing indirect tax base including taxation of services;
 - (iii) broadening of the income tax base, retention of part of the wholesale

.../2

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Decision No. 5629 (contd.)

2.

- sales tax, such as on motor vehicles, videos and similar goods, and introduction of a BBCT at a relatively low rate; and
- (iv) broadening of the income tax base and substitution of a BBCT for the wholesale sales tax along the lines of the preferred option in Memorandum No. 2875;

noting that the Minister for Employment and Industrial Relations would be consulted on the gradualist approach implicit in (iii) above;

- (c) in revising the draft White Paper the Government's position on various steps which might be taken should be stated less dogmatically than in the present draft while indicating, where appropriate, broad preferences;

- (d) it would consider the redrafted White Paper when the Treasurer reported back on the results of his consultations with the ACTU; and
- (e) it be advised of :-

- (i) revenue implications of retention of a 60% marginal rate in the light of

.../3

CABINET-IN-CONFIDENCE

3.

Decision No. 5629 (contd.)

- (ii) measures proposed to broaden the income tax base; and the feasibility of raising sufficient additional revenue by means of a BBCT to finance the removal of pay-roll taxes, in addition to adjusting the personal income tax rate scale and providing compensation as required.

Ed Vincent

Acting Secretary to Cabinet

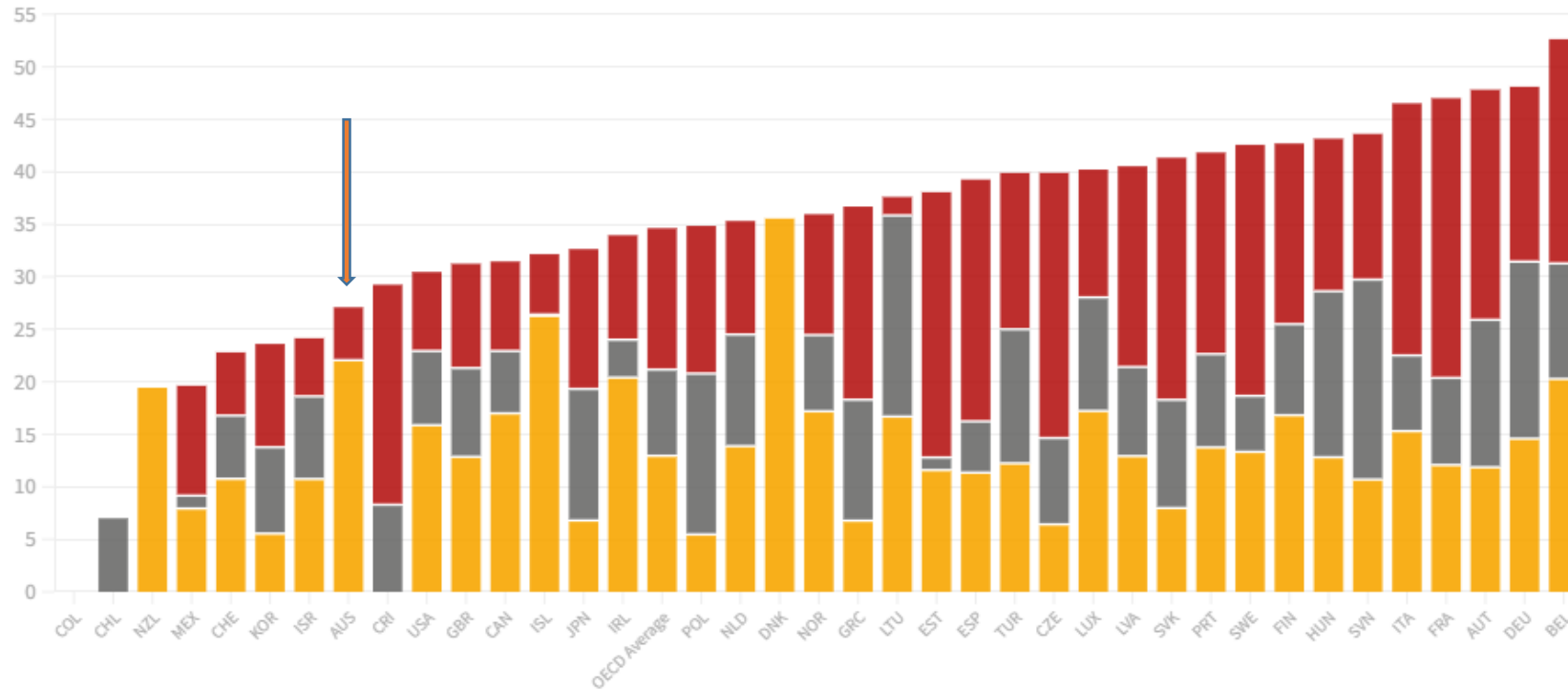
Review the tax-transfer system and effective tax rates

- Income testing is producing high effective tax rates on many workers
- Causing disincentives to work more, unfairness and poverty traps, and incentives to be paid in cash or avoid tax
 - Jobseeker and youth allowance (especially part time/gig work)
 - Age pension income test
 - HECS/HELP means test phase-in
- Review the family payments system
 - FTB A and B date back to the Howard era of mum and the white picket fence
 - But have been cut and cut, so benefit less than half families now
- Remove punitive work-search, income control and similar conditions on Jobseeker and Youth allowance
 - Wasteful and just fund job 'services' intermediaries

The average single worker does not really need a tax cut, actually ... but most people are not average

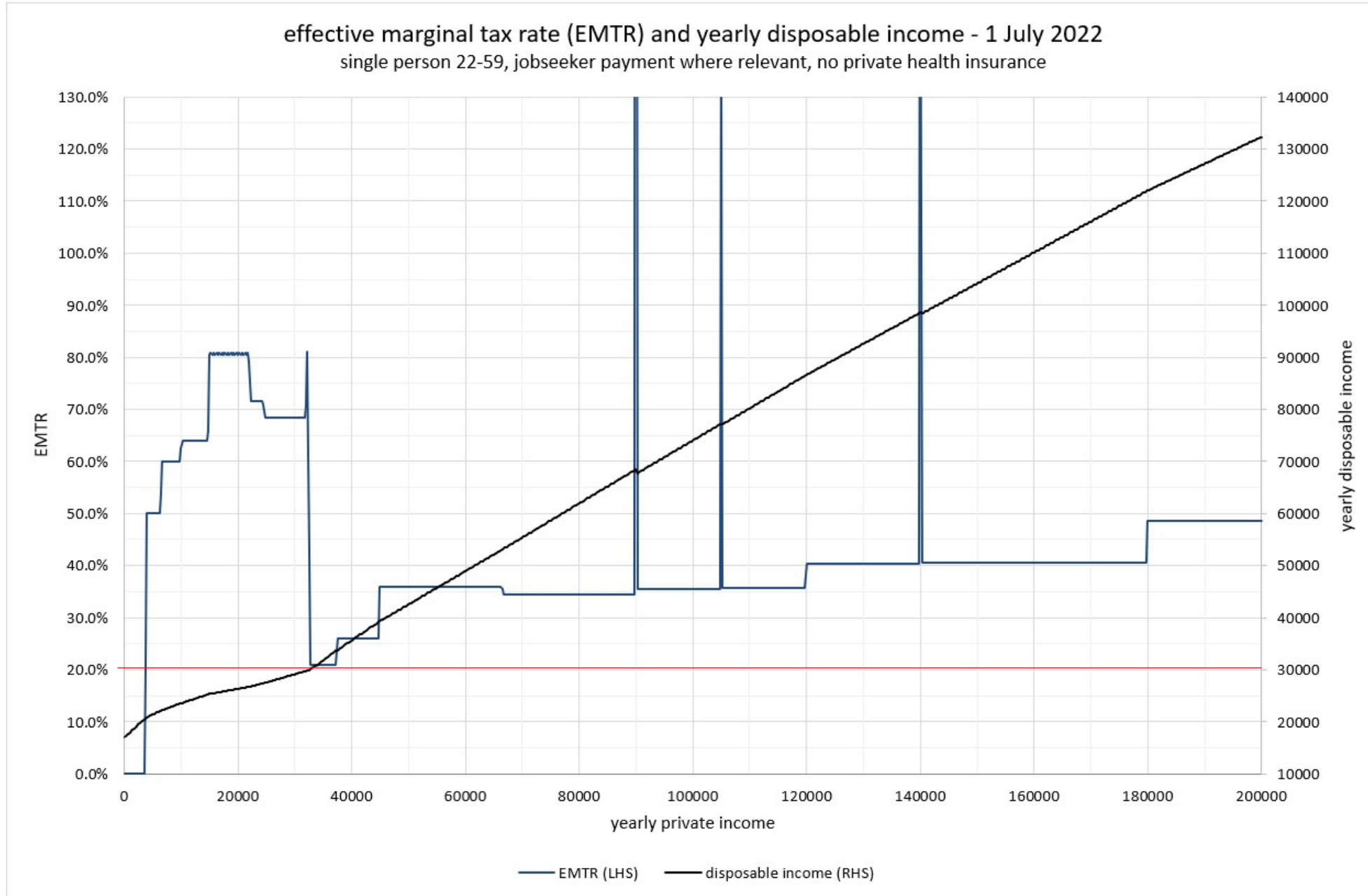
Taxes as % of labour costs for the average single worker, 2021

Toggle individual components ON/OFF: ■ Income tax ■ Employee SSC ■ Employer SSC

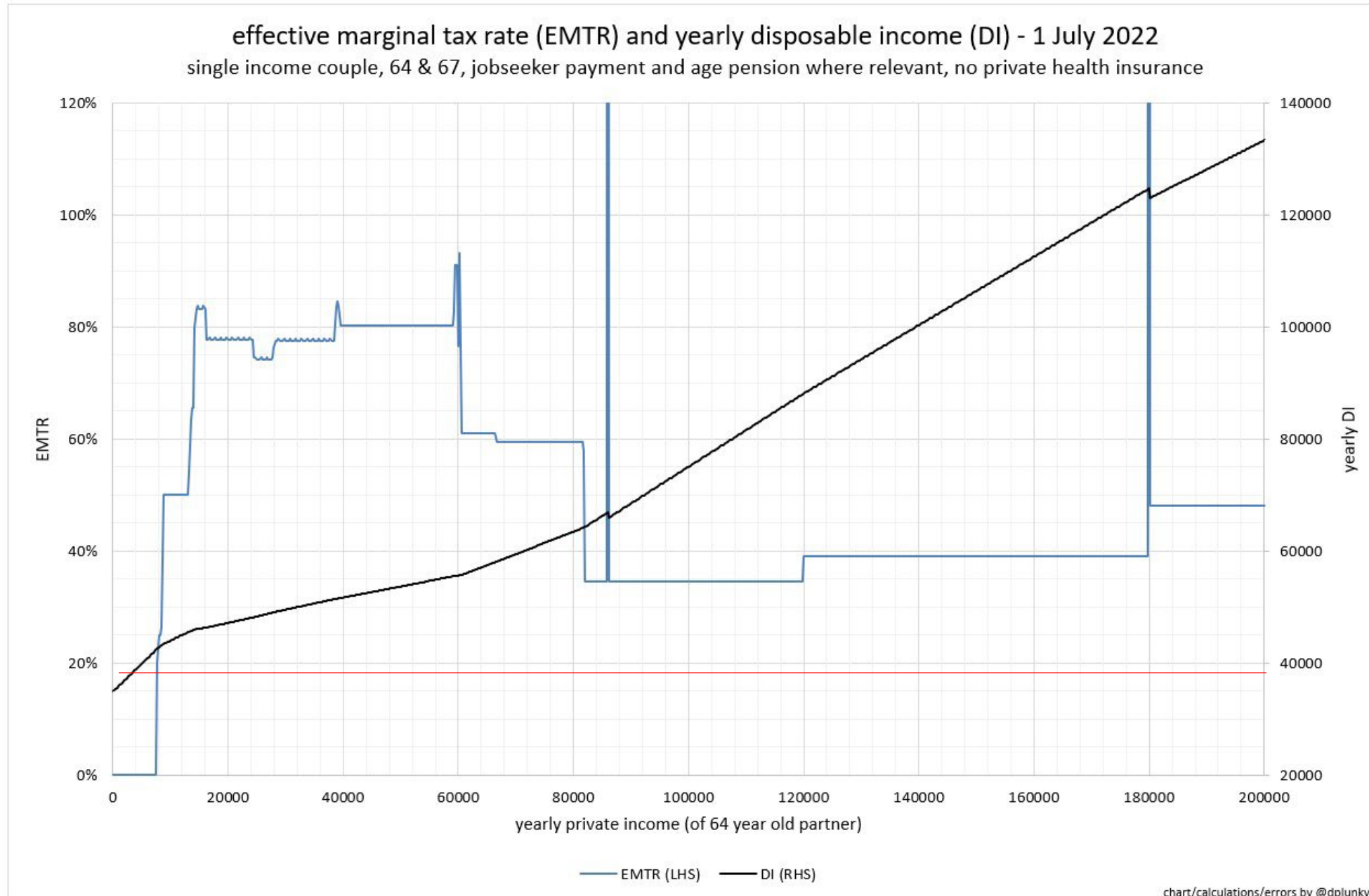


Source: [OECD \(2022\) Taxing Wages 2022, OECD Publishing, Paris](#) • Single individual without children at the income level of the average worker. Includes payroll taxes where applicable. In Colombia, the single worker at the average wage level did not pay personal income taxes in 2021, and their contributions to pension, health and employment risk insurances are considered to be non-tax compulsory payments (NTCPs) and therefore are not included as taxes in the Taxing Wages calculations.

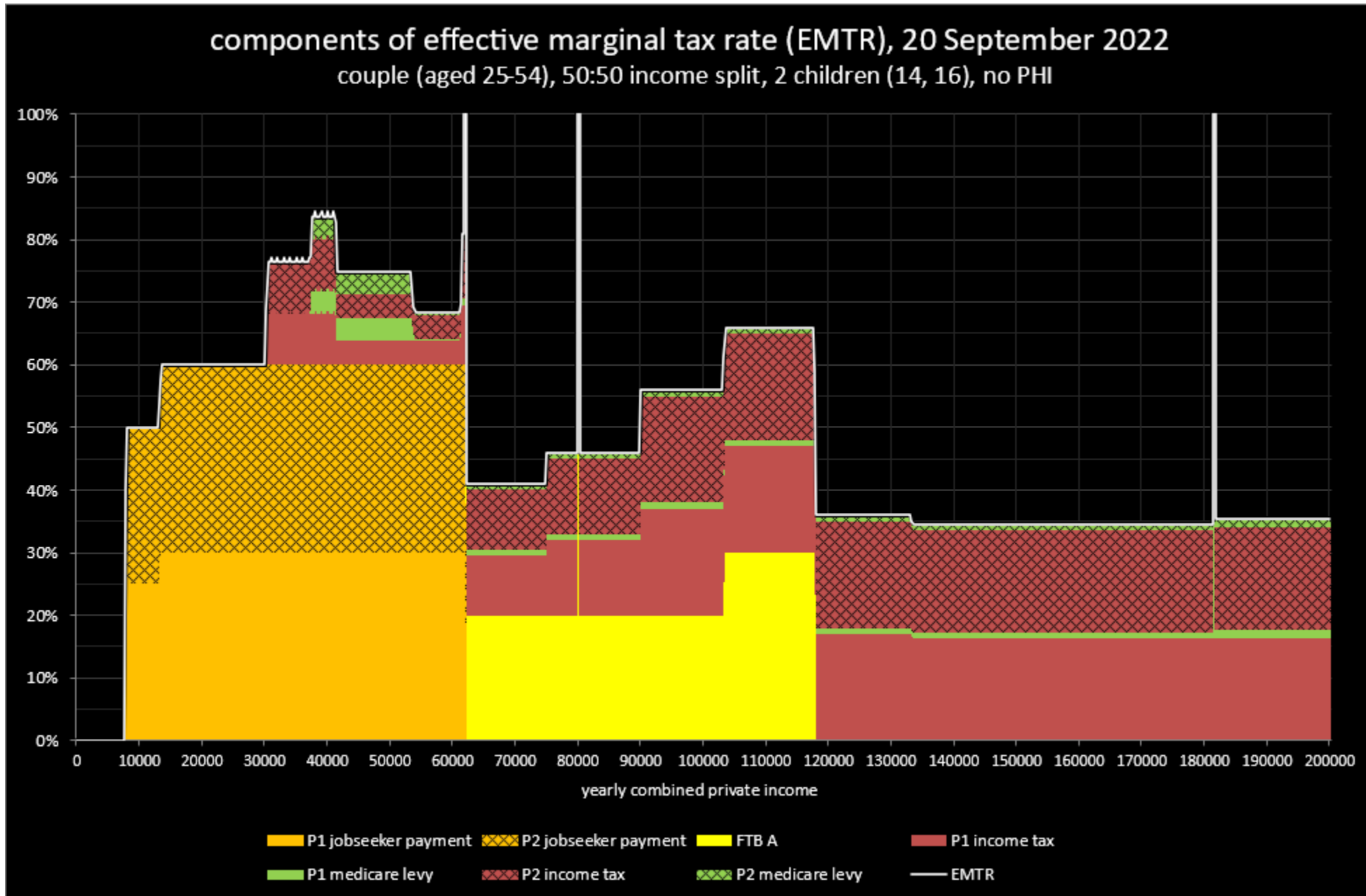
Jobseeker/Youth allowance – part time/gig work



Age pension, jobseeker couple (aged 64, 67)



Family tax benefit A and B, dual earner, teen kids



Address the backlog of “reform” measures

- New government needs to respond to the backlog of “announced but unenacted measures” it has inherited from the previous government
- Many of which, that government inherited from the government before
- It needs to promptly enact the measures it decides to proceed with, and to announce what it is not proceeding with

Engage with business and the tax profession

- Businesses are the main collectors of tax in the whole system
- Tax professionals are important intermediaries in managing it
- A top concern – and fair enough - is complexity and compliance costs
The answer to tax planning is not to cap deductibility of the cost of advice, but to review and streamline tax rules for entities and concessions
- Consider the recent Tax Institute report, *A Case For Change*
 - its not all about tax cuts, but many suggestions for a reasoned way forward
 - <https://www.taxinstitute.com.au/insights/case-for-change>

Back to 1983 and 1985? – what is the govt-business compromise?

The economic Summit and the 1984 election campaign had set the scene for a comprehensive review of the taxation structure and the holding of another tripartite conference, the taxation summit. Business had been pressing for some time for a move away from direct to indirect taxes and a complete reshaping of business taxation.⁵³ Their goals were to lessen the 'cost' of investment and profit and to increase incentives for those who earned more. In the CAI's submission there was some support for capital gains taxation.⁵⁴ Later, in the EPAC discussion of tax reform, the BCA nominees, Coates (AMP) and Kelman (CSR), endorsed the introduction of some form of capital gains tax. Naturally this increased tension amongst business's political representatives. Most business organizations were not willing to go so far.⁵⁵ Still, it was on the issue of taxation that the heads of all major business peak organizations met in an attempt to secure a unified approach to the question.⁵⁶ This was the first time that such a meeting had taken place.

<https://www.ppesydney.net/content/uploads/2020/04/The-National-Economic-Summit-Conference-1983-Canberra-business-and-the-Hawke-Government.pdf>

A few possible fixes and targeted reviews of the tax base – focusing on “broadening”

“Small” or targeted law/policy fixes (examples)	Targeted Reviews
Income tax: Close the testamentary trust loophole that permits funds to be channelled tax-free in a testamentary trust to minor children unlike all other trusts	Tax expenditures: Review all tax expenditures, identify revenue foregone, introduce limits, caps or sunset clauses/reviews
Income tax: Proceed to reform individual residence test (following Board of Tax, but modified)	FBT: Review all FBT valuation rules and exemptions with the goal of broadening the base. If you are going to enact an EV FBT subsidy, sunset it at five years.
Income tax: Ensure that building depreciation in Div 43 can only be claimed where costs are evidenced in tax data	Electric vehicles/luxury car tax/fuel excise: Review, retarget. Support the States to enact road user charging for EVs or develop a national system
Income tax: Limit politician’s work-related expenses ... enforce personal deductions eg work from home; determine if legislation needed	Diesel fuel rebate: Review and transition away from the diesel fuel rebate and if needed deliver subsidies for electrification of industry/agriculture
Income tax: Terminate the pre-1985 status of CGT assets (now 40 years old...!) with a market valuation at a point in time	SMEs: Reform the treatment of private companies and trusts for conduct of a business; review and reform small business CGT concessions
Superannuation: Contributions; address death benefits tax planning; reasonable benefit limits (again...); CGT and pension phase exemption	Excise: Review and reform the alcohol excise to introduce uniform volumetric alcohol taxation
Corporate income tax: Implement the BEPS thin capitalisation EBITDA proposal; watch this space on BEPS 2.0; consider need for a minimum tax (Pillar 2) and a digital services tax (if Pillar 1 does not proceed)	GST: Review the environmental impact of GST including potential to extend GST to water/sewerage services, meat and dairy
GST: End ability of residents to claim under the tourism refund scheme (abolishing it altogether might hurt Chinese tourism)	CGT discount and CGT main residence: Review the parameters and levle; consider “house flipping” bright line; excessively generous rules for living away

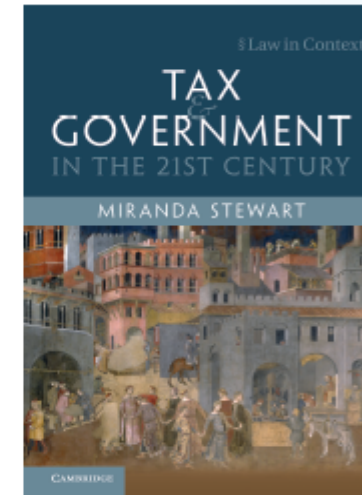
Tax and Government in the 21st Century

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With an accessible style and clear structure, Miranda Stewart explains how taxation finances government in the twenty-first century, exploring tax law in its historical, economic, and social context. Today, democratic tax states face an array of challenges, including the changing nature of work, the digitalisation and globalisation of the economy, and rebuilding after the fiscal crisis of the COVID-19 pandemic. Stewart demonstrates the centrality of taxation for government budgets and explains key tax principles of equity, efficiency and administration. Presenting examples from a wide range of jurisdictions and international developments, Stewart shows how tax policy and law operate in our everyday lives, ranging from family and working life to taxing multinational enterprises in the global digital economy. Employing an interdisciplinary approach to the history and future of taxation law and policy, this is a valuable resource for legal scholars, practitioners and policy makers.

1. Introduction; 2. Tax and government; 3. The budget; 4. Tax principles; 5. Tax, work and family; 6. Taxation of saving and wealth; 7. Corporate and business taxation; 8. Tax, charity and philanthropy; 9. Administration, compliance and avoidance; 10. Tax jurisdiction: the individual and the state; 11. States and corporations in the global digital economy; 12. The future tax state.



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