



TAXATION REFORM BLUEPRINT

The Need for Reform

The need for further tax reforms is substantial.

- Tax reform is a vital component of continued economic reforms to promote Australia's growth, productivity and continued well being.
- Australia's high personal tax rates and low thresholds are uncompetitive by international standards. This harms innovation, training, risk taking and immigration to Australia while promoting tax avoidance and evasion.
- ACCI's 2004 Pre-Election Survey showed that the level of taxation was the number one issue facing Australian business, followed closely by the complexity of tax legislation.
- Australia is facing a number of major challenges, particularly from an ageing population and increasing health costs. These challenges are best met from tax reform that promotes economic growth.
- Business supported the introduction of the GST. However, the implemented GST fell short of what business wanted. As a result, a number of the most inefficient State taxes have not been removed.
- Tax reforms will assist in dealing with skills shortages and a tight labour market by encouraging people to enter the workforce and obtain appropriate education and training.

To address these problems, ACCI is supporting the following reforms:

Personal Taxation

- As a first step, the original tax schedule as proposed in *A New Tax System* should be implemented, appropriately adjusted for inflation. This would mean an increase in the top tax threshold to \$100,000 (it is currently \$70,000 and scheduled to increase to \$80,000 from 1 July 2005).
- Bracket creep should be eliminated by indexing the tax brackets to inflation.
- The number of tax thresholds should be reduced, preferably to no more than two;
- The top personal tax rate should be reduced to align with the 30 per cent corporate tax rate.
- The 15 per cent tax rebate on savings should be reintroduced.

Tax Compliance

- The Government should consider introducing a Tax Administration Impact Statement (the TAIS) to be administered by the Inspector General of Taxation. The TAIS should include

estimates of the time and money that business spends on complying with the tax system. These estimates should be attached to any new proposal. Agencies should be provided with greater education, skill development and resources to ensure that the TAIS is carefully constructed.

- The TAIS should incorporate a range of initiatives to assist business to identify, understand and implement new and existing taxation requirements.
- The Department of Treasury should establish a committee similar to the Corporate Consultative Committee at the ATO to tap into business concerns and experience in the development of tax legislation and its administrative arrangements.

State Taxation

- The states should implement major reductions in payroll tax as a first step towards its eventual abolition. This could be achieved by handing the tax back to the Australian Government.
- The changes to state taxes proposed in *A New Tax System* should be fully implemented, including the abolition of many stamp duties applying to businesses.
- State and Territories should undertake expenditure restraint to reduce the level of inefficient taxes such as any remaining stamp duties.
- The Fire Insurance Levy should be reformed so that it is based on property values and applies to all property. The current system in NSW and Victoria, which places a levy on insurance premiums, is inefficient, unfair and complex.

Capital Gains Tax

On Capital Gains Tax (CGT) while business appreciated the Government's reforms in 2000, in the years since, other countries such as the US and the UK have further reduced taxes in this area. To improve Australia's competitiveness, ACCI proposes:

- The introduction of a stepped rate CGT system where the percentage of gains subject to the tax reduces the longer an asset is held.
- The Government should consider the carry-back of capital losses, an extension of CGT rollover provisions, and franking credits for capital gains.

Retirement Incomes & Superannuation Taxes

With an ageing population major reforms to the taxation of superannuation are needed to ensure that all Australians have an adequate retirement income. ACCI is proposing:

- The present taxation of superannuation contributions and earnings should be abolished and gradually replaced with equivalent levels of taxation at the point of benefit only; and
- Any increase in the Superannuation Guarantee should be made through the introduction of employee contributions rather than further demands on already over-burdened employers.

Corporate Philanthropy and Tax (Increasing Education and Training Investment)

Incentives for business philanthropy will reduce the pressure on Governments to provide services. In addition, education incentives will promote investment in human capital and therefore increase economic growth.

- The Government should seriously investigate a package of measures which improves the level of donations and bequests to Australian universities; and
- The Government should also examine the possibility of introducing tax incentives to increase the level of investment by employers and individuals in other education and training activity.

Employee Share Ownership Plans and Taxation

Providing employees with a share in ownership can play an important role in improving productivity and changing the nature of employer/employee relationships.

- ACCI proposes that Australian Government should give serious consideration to implementing all of the taxation recommendations arising out of House of Representatives Standing Committee inquiry into share ownership in 2000.

Fringe Benefits Tax

The Fringe Benefits Tax (FBT) has increased complexity and has added substantially to the costs of doing business. Therefore, ACCI proposes that:

- Like all other income, FBT should be applied to the employee, with collection from employers in the same manner as the Pay As You Go system;
- The application of FBT to allowances paid for employment in remote areas and certain costs relating to relocation are counter-productive to other economic and social objectives in Australia's industrial development;
- The compliance costs of FBT should be reduced substantially, particularly on business meals and car parking.
- The FBT law should be based on a 'remuneration test' in the definition of fringe benefits; and
- The Government should look at extending the FBT exemption on childcare.

Infrastructure and Taxation

Infrastructure is vital to economic growth. With Government involvement in infrastructure diminishing over time, the private sector has played a more significant role. However, the Government needs to retain involvement by providing the right climate for private infrastructure provision, particularly by removing tax barriers to private investment. Therefore, ACCI proposes that:

- Section 51AD and Division 16D of the Income Tax Assessment Act should be reformed as they impede investment in infrastructure.

Research & Development

While private sector R&D spending has picked up in recent years, Australia is still below the OECD average. An effective R&D tax concession that promotes greater investment in R&D is a crucial element of our national innovation system. Therefore, ACCI proposes that:

- The R&D tax concession should be restored to its pre-1996 level of 150 percent.

Tax and the Welfare System

A tight labour market and skills shortages emphasises the need to ensure that the greatest number of people are participating in the labour market. This will not only keep wage pressures under control, but will also reduce the incidence of poverty (which is significantly tied to joblessness). ACCI supports proposals to reduce disincentives to enter the workforce:

- An earned income tax credit warrants further consideration. It is an option that can potentially increase work incentive and raise the disposable incomes of low-income families;
- However, ACCI does not support proposals to trade off tax cuts for a pause in minimum wage growth.

International Taxation

With our economy becoming increasingly integrated into the world market, our tax system needs to be internationally competitive, particularly in attracting foreign investment. Therefore, ACCI proposes that:

- Domestic shareholder tax relief should be provided for unfranked dividends paid out of foreign source income but the amount of relief must be carefully chosen.

Regional Development

To promote regional business development, ACCI supports the following proposals:

- The rate of depreciation on certain assets should be accelerated where there is a significant difference between the construction cost and salvage value;
- The Zone Tax Rebate boundaries be aligned with the ABS definitions of remote and very remote; and
- The Government should remove eligibility for the Zone Tax Rebate from those people who are employed under fly in/fly out arrangements and whose principal place of residence is not in one of the designated zones.

Indirect Taxation

Business was supportive of the major reforms to indirect taxes introduced in 2000. While business would have preferred the original GST to have fewer exemptions, ACCI does not support proposals to broaden the base. Business was supportive of the GST legislation because it included a series of safeguards that have made increases in the rate and extensions of the base difficult. This remains true today.

However, ACCI does propose that there should be continued reform of the administration of the GST system as issues arise.

Company Taxation

- While ACCI is not opposed to further reductions in the corporate tax rate, a higher priority is to reduce the top personal income tax rate down to the current corporate tax rate of 30 per cent.
- ACCI supports the similar treatment of different business entities (such as trusts and companies), but we are sceptical that a workable, simple and efficient model can be implemented without significant transitional costs.

Budget Context

ACCI's proposed tax changes, excluding personal taxation, would cost less than \$4 billion per year. The cost of personal tax changes could rise to as high as an additional \$10 billion. ACCI considers this could be reached with appropriate expenditure restraint and appropriate use of future Budget surpluses. A tax cut of \$14 billion would reduce tax revenue from around 32 per cent of GDP to 30 per cent.

About ACCI

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry. Through our membership, ACCI represents over 350,000 businesses nation-wide, including top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. This makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. ACCI members represent small employers or sole traders, as well as medium and large businesses.