Opinion Piece by ACCI Chief Executive Peter Hendy for The Australian "Tax Reform is Not Just Desirable - It's Necessary" - 16 November 2004

Taxation Reform is Not Just Desirable, It's Necessary

By Peter Hendy - Chief Executive, Australian Chamber of Commerce and Industry

A SECOND wave of tax reform that builds on the Howard Government's 2000 reforms is an urgent business priority. During the past 16 months the Australian Chamber of Commerce and Industry - together with its 36 state chamber and industry association members, representing about 350,000 businesses nationwide - has drawn together tax policies covering the wide range of direct and indirect taxes at the federal and state levels.

The resulting 104-page Taxation Reform Blueprint: A Strategy for the Australian Taxation System 2004-2014 is being launched today to coincide with the start of the new parliamentary term. Business is keen to ensure that personal and business taxation issues remain at the top of the re-elected Howard Government's policy agenda.

Before last month's federal election, the No.1 issue for business was the level of taxation, followed closely by the complexity of tax legislation. But it is not a question of wanting a lower and simpler tax regime just for the sake of it. Tax reform is a necessary response to some of the significant long-term policy and infrastructure issues facing Australia.

Three critical pressure points are our ageing population, serious skill shortages in the Australian workforce and the need to boost private expenditure on research and development.

The first two issues demand a taxation system that will keep people in the domestic workforce and attract back some of the 1 million Australians estimated to be living and working overseas. Chief among our concerns is the need for meaningful personal income tax reform.

Australia's high personal tax rates and low thresholds are uncompetitive by OECD and Asian standards. Personal income tax reform should be implemented in a series of steps during the next 10 years. The top tax threshold of $80,000 should be increased to $100,000. Bracket creep should be eliminated by indexing the tax brackets to the inflation rate. The number of tax thresholds should be reduced, preferably, to no more than two. And the top personal tax rate should be brought into line with the 30 per cent corporate tax rate.

Although we are not opposed to further reductions in the corporate tax rate, a higher priority should be to bring these two rates into alignment.

The elimination of bracket creep would be a significant structural reform to the tax system and would go a long way towards resolving the false debate we recently have had about how to spend excess budget surpluses. We should eliminate excess budget surpluses at their source by reducing the personal tax take.

To help with tax complexity, the Government should introduce a tax administration impact statement. This would be a cost-benefit analysis to ensure that the burden of complying with the tax system is addressed when a tax is designed. In addition, Treasury should set up a formal consultative committee process for business input into the development of tax policy and legislation.

As for state governments, they should undertake significant reductions in the most inefficient and outdated state taxes, particularly stamp duties on business transactions and the fire services levies on insurance. The abolition of many state taxes was foreshadowed as part of the 1999 GST agreement, but business is concerned at the delay in the implementation of this undertaking. State governments should explore handing payroll taxes back to the federal government (from whence they came in 1971) -- but only on the basis that this is a first step to far-reaching reforms to this tax, such as the harmonisation of rates and definitions, and its eventual abolition.

The Government also needs to make important changes to the tax treatment of capital gains and R&D to encourage and reward entrepreneurship and innovation. We are in a ferocious competition with the rest of the world for investment dollars and, although private-sector R&D spending has picked up in recent years, Australia is still below the OECD average. The R&D tax concession should be restored to its pre-1996 level of 150 per cent.

On capital gains tax, while business appreciated the Government's reforms in 2000, other countries such as the US and Britain have further reduced taxes in this area in the years since. Why not introduce a stepped-rate CGT system where the percentage of gains subject to the tax is reduced the longer an asset is held?

Finally, with an ageing population, serious reforms to the taxation of superannuation are needed to ensure that all Australians have an adequate retirement income. ACCI's Blueprint contains detailed proposals to simplify the system and improve its equity in a way designed to be revenue-neutral over time.

In this parliamentary term, and with a Senate majority from July 2005, the Howard Government has a golden opportunity to put in place a taxation system that encourages and rewards work, investment and enterprise. Let's hope our political leaders don't waste this opportunity.

Peter Hendy is chief executive of the Australian Chamber of Commerce and Industry.