



## AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

**Opinion Piece by ACCI Chief Executive Peter Hendy for The Australian – “Twenty Years of Taxation Reforms” - 20 September 2005**

### **Twenty Years of Taxation Reforms**

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

THIS week is the 20th anniversary of the announcement of the most recent substantial change to the top tax rate in this country. In September 1985, the Hawke-Keating government announced that it would reduce the top rate from 60 per cent to 49 per cent. The top rate has remained almost unchanged since - (though it was cut to 47 per cent in 1990).

So Australia is overdue for an examination of the top marginal tax rate. In addition, a simple examination of personal income tax systems around the world shows that Australia is becoming less competitive against many countries. This is another reason why more tax reform is essential.

Australia is in a ferocious global competition for capital and skilled labour. Tax is very often a factor driving capital movement, and the effect of tax on skilled labour is increasing. While individuals do not necessarily leave Australia because of tax, tax is a disincentive to return after time spent overseas - and there are one million Australians living overseas. An uncompetitive tax system discourages them from returning.

We are gradually, but surely, falling behind. Our top rate of tax at 47 per cent is basically a museum artefact from a bygone economic age. Many eastern European countries are leading the way. To the dismay of many advocates of big government, many of the former communist countries have decisively broken with their past and have implemented large reductions in personal tax rates. The Economist has reported that reforms to personal rates have resulted in the following top rates: Lithuania (rate: 33 per cent); Latvia (25 per cent); Slovakia (19 per cent); Romania (16 per cent); Serbia (14 per cent); Ukraine (13 per cent); Russia (13 per cent); and Georgia (12 per cent). Estonia has just cut its tax rate to 20 per cent.

Other countries could be soon jumping on this bandwagon. The New Zealand Opposition is advocating lower taxes - and NZ personal tax rates (at a top rate of 39 per cent) are lower than Australia's.

Meanwhile, most of our Asian neighbours have much lower rates of personal tax. Singapore is reducing its top tax rate to 20 per cent. The top rate in Thailand is 37 per cent; Indonesia 35 per cent; The Philippines 32 per cent; Malaysia 30 per cent and in Hong Kong 16 per cent. Notably, Vietnam raises very little revenue from its personal tax system with a top rate of 50 per cent.

The tax changes in the 2005-06 budget mean that Australia's personal tax rates and thresholds will be about average in the Organisation for Economic Co-operation and Development by July 1, 2006, but this is not a useful comparison. We are competing more and more with lower-taxing countries, we should not copy the unsuccessful policies of uncompetitive OECD countries if we want to be a 21st-century economy. Against a much larger sample of 111 countries, Australia's top marginal rate ranks a dismal 88th lowest (or 23rd highest).

Let's start by progressively moving to a top rate of 30 per cent; reduce the number of tax brackets to ideally two and, very importantly, eliminate bracket creep by indexing the tax brackets to the inflation rate.

Sometimes big tax cuts do not cut government revenue. Estonia and Russia, in particular, have had increases in revenue since cuts to personal tax were introduced. Sometimes this is because people work harder. In Russia's case the International Monetary Fund argues that revenues increased because the new system was easier.

But Australia's tax reforms should not require revenue to be maintained or increased. The Government should in fact be reducing its revenue take: the size of government is getting too large and we are advocating big reductions in spending. A thorough review of unnecessary government spending is essential to achieve this goal. To aid the debate, ACCI released a discussion paper earlier this year called Government Spending (And Taxes) Can be Cut - And Should Be ([www.acci.asn.au](http://www.acci.asn.au)).

This paper shows that it is a furphy to argue that the size of government has been shrinking. Commonwealth expenditure in 2003-04, excluding GST, is the same as in the 1995-96 (with grants to the states excluded to be consistent) and is 2.5 percentage points higher than the last year of the Whitlam government. Much of the growth has been through income support payments - a large amount of this goes to families that pay significant tax. This "churning" of money is inefficient.

The debate about tax cuts does not need to assume that tax cuts need to be funded by the broadening of the tax base. Spending cuts can and should be examined as a funding source. No matter how these cuts are funded, it is very important for reform to continue to ensure that Australia increases its international competitiveness. Otherwise, we will be left behind in access to global capital and skilled workers.