



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

ACCI Chief Executive Peter Hendy on ABC Radio's PM Program - Tax Cuts - 11 April 2006

Costello Dampens Hopes for Tax Overhaul

Reporter: Stephen Long

MARK COLVIN: A month out from the Federal Budget, the Treasurer is facing taxing times.

Peter Costello raised expectations of tax relief when he appointed the head of the Australian Chamber of Commerce and Industry, Peter Hendy, to collaborate on a study comparing tax rates here with overseas.

But now the Treasurer is sending out signals that seem to downplay the prospect of significant tax cuts, and the man he hand-picked to head the study is not impressed.

Economics Correspondent Stephen Long prepared this report.

PETER HENDY: The top marginal tax rate for this country is too high. And it should be cut. Our view is that over the course of 10 years you should put in place a strategy that should lower the top marginal tax rate to 30 cents in the dollar.

STEPHEN LONG: Peter Hendy runs the Australian Chamber of Commerce and Industry, and he's a man with strong views on taxation.

PETER HENDY: We pay too much in terms of taxation in this country. There is no justification in macroeconomic terms to have such large budget surpluses. If we've paid off our debt, we should be balancing our budget.

STEPHEN LONG: Peter Hendy's views were well known when the Treasurer chose him, along with the businessmen Dick Warburton, to benchmark Australia's tax system against the world. So it was widely assumed that Peter Costello was laying the groundwork for a tax overhaul.

But now the tax cut lobbyists aren't so sure - Peter Hendy among them.

PETER HENDY: The Budget is in four weeks from today. And it will be about tax. The story about this Budget will be taxation. Either they do something on tax reform and that's the story, or they do nothing, and that is the story as well.

STEPHEN LONG: Well, how optimistic are you there will be tax cuts?

PETER HENDY: Well, we're waiting with bated breath, to be honest.

STEPHEN LONG: In fact there are signs Peter Costello doesn't want major tax cuts. He's worried about the costs to the health and welfare of an ageing population. And Treasury officials predict the resources boom may not go on for too much longer, so the tax windfall from mining royalties could dwindle.

And Peter Costello's office isn't denying a report that he told people attending a Liberal Party function in Victoria last weekend that the ageing population may mean more taxation in years to come, not less.

Some economists say he's right to be circumspect about cutting the tax base, among them John Edwards, Chief Economist at HSBC, who used to advise Paul Keating on economic policy.

JOHN EDWARDS: We can't dismiss the possibility that the Treasurer's doing the right thing here, that it's true that tax receipts have been boosted by the commodity price boom, which won't continue forever, and it's also true that Australia has a savings problem, which is expressed in the size... big size of its current account deficit, which is unsustainably high.

And for both of those reasons you might want to preserve a budget surplus rather than giving a substantial amount back as tax cuts. I mean, that's good economic policy at this point.

STEPHEN LONG: But if Peter Costello doesn't plan to deliver, why raise expectations? A question I put to Peter Hendy.

PETER HENDY: That's a question for Peter Costello rather than me.

The report's not released, so I can't say much about the report itself, but the report did not ask either myself or Dick Warburton to put recommendations about reforming the tax system.

STEPHEN LONG: In fact it specifically disavowed that, didn't it?

PETER HENDY: Yeah, it asked that we not do that. What it asked us to do was to compare and contrast the statistics on taxation between Australia and other countries.

STEPHEN LONG: The lack of ability to make specific recommendations was a straightjacket for the Hendy-Warburton review, but Peter Hendy clearly thinks the figures gathered in its 400 pages back his case, which may be why Peter Costello's sitting on it.

And some economists still believe the Budget will deliver tax cuts to people on high incomes.

John Edwards.

JOHN EDWARDS: I still think that the Treasurer is going to remove the top tax rate, income tax rate, that is the 47 cent rate, if for no other reason than it's so very cheap to do it.

It only costs a little over a billion, that's not going to make any difference to tax revenues going forward, it's not going to make any difference to national savings, it's not going to make any difference to the likelihood of interest rate rises, and on the other hand it gets a lot of people off his back.

STEPHEN LONG: But speaking on the *Meet the Press* program earlier this month, the Prime Minister said cutting the top tax rate wasn't his priority.

JOHN HOWARD: I think there are higher priorities in the tax system, let me put it that way. Look, I am unashamedly a supporter of a tax system, which is biased towards giving help for low and middle income families.

STEPHEN LONG: But that support may take the form of higher family tax benefits rather than direct tax cuts. Cutting tax for low and middle earners costs big money because there's so many of them.

MARK COLVIN: Economics Correspondent Stephen Long.