



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

Opinion Piece by ACCI Chief Executive Peter Hendy for The Australian – “Tax Cuts Not Good Enough” - 13 April 2006

Tax Cuts Not Good Enough

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

THE International Comparison of Australia's Taxes report, which was co-authored by Dick Warburton and me and released yesterday by Treasurer Peter Costello, sets out some powerful reasons for a second wave of structural tax reform.

The report supports the arguments that the Australian Chamber of Commerce and Industry has put forward:

- The top marginal tax rate is too high and cuts in at an income level that is too low. The report states that Australia's top marginal tax rate of 48.5 per cent is higher than the average top marginal tax rate for both the OECD-10 (second highest) and the OECD-30 (11th highest), and Australia's threshold to which the top marginal tax rate applies is sixth highest in the OECD-10 and 12th highest in the OECD-30. The report also notes that 19 OECD countries have cut their top marginal tax rate since 2000, whereas Australia has not.

But the top marginal tax rate should be cut over time to equal the company tax rate of 30 per cent. Thresholds, furthermore, should also be indexed to inflation (abolishing bracket creep). The report notes that many of the OECD-10 countries use partial or full indexation.

- The taxation of capital gains is well above average. The report states: “Australia has the third highest top capital gains tax rate for shares held between one and two years, and the second highest top capital gains tax rate for shares held for 10 years (of the OECD-10).”

But further reductions in the burden of CGT are feasible by introducing a stepped-rate CGT where the rate decreases the longer an asset is held.

- Australia's system of taxing retirement income and superannuation is unique in the OECD. Many countries impose a tax system that is simpler. Eight countries out of the OECD-10 tax superannuation at the withdrawal point only.

The present system, which taxes contributions and earnings, should be replaced by a system that has an equivalent level of taxation at the withdrawal point only.

- The tax burden on financial and capital transactions is very high. These taxes are largely imposed by the states. The report says: "Of the OECD-10, Australia has the highest financial and capital transaction tax burden (which includes taxes such as stamp duties on conveyances)."

In this regard, the states should abolish all the taxes that were included in the 1999 GST agreement, including many of these transaction taxes. The states have been slow to honour the spirit of that agreement

- Payroll taxes are well above average. States could implement significant reductions in the tax by handing it back to the federal Government.
- Australia is in a fiscal position to afford tax reform. While other countries may have to increase tax (or reduce expenditure) to cover budget deficits, Australia has low debt and a budget surplus, which gives us flexibility to reduce taxes.
- Australia provides a less generous treatment of company losses. This supports our calls earlier this year for the treatment of the same business test for losses to be made easier to access.

The withdrawal rates on welfare are very steep. Measures are needed to reduce the very high effective tax rates that apply when welfare is removed.

In response to the debate about whether to include the superannuation guarantee in tax comparisons, the report argues that there is an arguable position that the super guarantee is comparable to social security charges in other countries.

The report notes that the tax burden on companies is well above average. There may be an argument for reducing the company tax rate in the future but the main priority at the moment is reducing the top personal tax rates, particularly as the gap between the Australian company and personal tax rates is slightly above the average for the OECD-30 and four percentage points above the average for the OECD-10.

The report notes that Australia has a below-average reliance on value added and sales taxes. But any increase in the rate of GST or excise is not justified.

The report also notes that Australia is low taxing overall. That is not an argument against reform. Particular taxes are well above average, and there are many other reasons for reform in addition to international competitiveness. Tax reform is essential to increase economic growth, remove barriers to higher labour force participation, retain skilled workers and encourage skilled migrants to come to Australia, and reduce incentives to avoid and evade tax.

In light of booming government revenue and Australia's strong financial position, the federal Government must stop denying the need for a second wave of significant, structural taxation reform. Australia needs tax reform -- not just tax cuts.