



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

Opinion Piece by ACCI Chief Executive Peter Hendy for the Australian Financial Review - "A Second Wave of Tax Reform is Vital" - 11 April 2006

Second Wave of Reform is Vital

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

The budget is due to be delivered by the Treasurer on May 9. The story of the budget will be tax reform. If the budget delivers on widespread calls for tax reform that will obviously be the key story. On the other hand if the budget fails to deliver then that will also be the key aspect.

Recently, in a personal capacity, together with Dick Warburton, I have co-authored a report to the government detailing statistics comparing Australia's tax system with other countries. The report, as required by the terms of reference, makes no recommendations about whether or not there should be taxation reform. I can say no more about the report as it is yet to be released by the government.

However, the Australian Chamber of Commerce and Industry, the organisation which I head up, has a very detailed view on the need for taxation reform and how that reform should be implemented. With just four weeks until the budget, it is worth repeating the ACCI policy proposals.

ACCI released a taxation reform blueprint called A Strategy for the Australian Taxation System 2004-2014 in 2004 noting that the current tax system:

- reduces economic growth;
- is a major barrier to higher labour-force participation, which is particularly important as the workforce ages;
- makes it harder to retain skilled Australian workers and encourage skilled overseas migrants to come to Australia;
- reduces the incentives to invest in human capital (education and training). discourages innovation, risk-taking and entrepreneurship.;
- increases incentives to avoid and evade tax.

These all provide extremely good reasons to reform the tax system. Businesses are overwhelmingly convinced of the need for reform. ACCI's last pre-election survey showed that businesses considered the level of taxation to be the highest concern, with tax complexity the second highest. It is particularly important for tax reform to improve incentives for working, innovating, entrepreneurship, training and education. It is clear that high tax rates reduce all of these incentives.

The current system actively discourages the development of a skilled, innovative workforce. In particular, ACCI is calling for a reduction in the number of tax thresholds, preferably to no more than two; the top tax rate to be reduced so that ultimately it equals the company tax rate of 30 per cent; and the indexation of tax thresholds to abolish bracket creep. We also call for measures to reduce the very high effective tax rates that apply when welfare is removed, to maximise participation and the benefits of workplace relations reform.

ACCI is also calling for further reforms to capital gains tax. While business welcomed the reforms that were announced in 1999, we consider that further reforms are needed. CGT is a major barrier to capital formation, which is absolutely essential for economic growth. It also penalises retained earnings, which in turn reduces corporate savings and investment. In addition, CGT reduces innovation and entrepreneurship. Therefore, ACCI is calling for further reductions in the burden of CGT by introducing a stepped-rate CGT where the rate reduces the longer an asset is held.

The current tax system is also acknowledged to be very complex. The government has recognised the complexities by proposing to remove inoperative tax legislation and agreeing to a number of recommendations in its Report of the Taskforce on Reducing Regulatory Burdens on Business. However, much more needs to be done. The Treasury and ATO both need to do much more careful analysis of the regulatory burdens of administrative and policy decisions. Thorough and detailed regulation impact statements should be required for all tax legislation and significant regulations and rulings.

It is also essential to continue to reform state taxes. These are among the most inefficient taxes that exist in Australia. The GST was meant to replace some of the worst state taxes, but ACCI is disappointed that state governments have been slow to keep the spirit of the original GST agreement. ACCI is calling for the abolition of all the taxes stipulated in that original agreement. We also propose changes that would result in the eventual elimination of payroll tax and a reduction in the taxes on insurance, which are extraordinarily high and very inefficient.

These reforms will provide major benefits to the Australian economy. A second wave of taxation reform, following the first wave when the GST was introduced, is a vital economic reform that must be implemented.