



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

Opinion Piece by ACCI Chief Executive Peter Hendy for the Australian Financial Review - 11 May 2006 - 2006 Budget

Valuable Move Towards Major Changes

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

The budget takes into account the end of the resources cycle.

The government has made a very good start to taxation reform in the budget, which reduces the top two marginal tax rates and increases the thresholds at which these rates cut in.

The changes should help improve work incentives and participation, encourage more innovation, entrepreneurship, skilled migration, education and training.

They will also make Australia more competitive. The International Comparison of Australia's Taxes report I co-authored for the Treasurer made it clear that Australia's top marginal tax rate was uncompetitively high.

The Australian Chamber of Commerce and Industry was, however, disappointed that the government didn't go further towards reducing the top rate to 30 per cent or indexing the tax thresholds to inflation, which would remove bracket creep. Without indexation, the benefits of the tax cuts are whittled away immediately, requiring constant tax cuts for taxpayers to remain in the same place. Australia is still uncompetitive on this issue and is behind world best practice.

My report highlighted the need for Australia to improve its performance in relation to write-offs and depreciation. The budget improves our competitiveness on depreciation, with higher depreciation charges allowed in the early years of ownership. ACCI supports this change.

The budget has welcome changes to simplify definitions and reduce compliance costs for taxes, including the GST, the simplified tax system and capital gains tax (CGT) on small business. The government has announced changes to reduce the costs of fringe benefits tax. These changes will reduce the FBT liability of many businesses, but won't have a large effect on compliance costs because most businesses will need to measure fringe benefits to ensure they fall under the FBT thresholds.

A major disappointment to ACCI is that there was no reform to the CGT. Our top personal CGT rate is 24.3 per cent (which will fall slightly) for assets held more than one year. The comparison of taxes report found that we have the eighth highest CGT on shares held between one and two years (the Organisation for Economic Co-operation and Development average is 15.2 per cent) and the seventh highest CGT on shares held for 10 years (OECD average is 14 per cent). Eleven of the OECD countries impose no CGT on shares.

ACCI's preferred policy is the introduction of a stepped rate of CGT, where the tax reduces the longer an asset is held. A stepped rate would make Australia more competitive internationally.

The budget proposes removing the taxation of superannuation benefits. This should reduce complexity. We will examine its long-term implications before making a final judgement.

Even with the tax relief, income tax revenue increases by \$7.9 billion or 4.5 per cent in 2006-07, of which company tax revenue increases by a massive \$6.4 billion, or 12.7 per cent. The level of taxation is staying broadly the same as a proportion of the economy, remaining around 23 per cent of gross domestic product over the next four years. The government is merely returning to people the large increases in tax revenue that have been received in recent years.

This should make it clear that the tax cuts should have limited, if any, effect on inflation and hence interest rates. In addition, tax reform should encourage investment and workforce participation, which reduces inflationary pressures.

Some of the increased tax revenue is due to the mining boom. But it is not correct to argue that tax cuts are unaffordable because the end of the mining boom will mean a significant reduction in tax revenue.

In the budget, Treasury assumes that high minerals prices will return to their long-term levels by 2008-09. This has no noticeable effect on revenue forecasts.

In any case, previous economic reforms (such as deregulation, privatisation and tax reform) mean Australia should be able to weather the end of the mining boom with confidence, just as we have been able to weather the Asian financial crisis, the tech boom and the housing boom.

Overall, ACCI supports the 2006-07 budget as a valuable step towards major tax reform.