



WE NEED BIGGER, BROADER GST

Australia is a relatively high-taxing nation but our revenue raising is cumbersome

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The tax system has three major problems: it is unsustainable, inefficient, and it reduces our global competitiveness.

Australia is already a relatively high-taxing country so raising taxes is not the answer. Rather, we need to fix the tax mix.

Of the OECD nations, Australia ranks second in its reliance on company and personal taxes. We also have one of the lowest and narrowest consumption taxes. This mix will be unsustainable as our population continues to age.

We need a new mix of taxation. This will involve lowering company and personal taxes, broadening and increasing the GST and abolishing inefficient state taxes.

This cannot be achieved without the states. The Prime Minister's impending retreat with state premiers is a unique opportunity as it occurs in the midst of a tax review. Continuing reformist leadership by the premiers of NSW and South Australia will be essential to achieve tax reform.

Personal income taxes currently provide 50 per cent of the commonwealth revenue base. By 2055 this will be significantly diluted when there will be half as many working-aged, taxpaying Australians as we have today.

Our expenditures, however, will not diminish.

According to the recent Inter-generational Report, cumulative

budget deficits will see net debt balloon to 60 per cent of GDP by 2055 — an unsustainable level.

But we continue to lock new expenditures on to a fragile tax base. Without changing our budget trajectory, Australia will be unable to fund worthy concepts such as the National Disability Insurance Scheme, which will grow at 46.2 per cent per annum from 2013-14 to 2023-24.

The inefficiency of Australia's tax mix stems from our federal structure, where the states are hemmed in by their funding gap: they raise \$100 billion less revenue than they need to spend on schools, hospitals and roads.

Aside from relying on a multitude of confusing grants from Canberra, the states close the gap by imposing inefficient, distorting taxes such as stamp duties on property and insurance.

While NSW Premier Mike Baird recently acknowledged the inefficiency of some of these taxes, the states remain too narrowly focused on raising revenue to notice the drag such inefficiency imposes on business and consumers.

Stamp duty on insurance is one of the most damaging taxes. The Victorian government, for example, recently created a new insurance tax — a 10 per cent annual duty on disability insurance. This discourages insurance coverage, which will lead to higher demand for the Disability Support Pension and NDIS.

Our global competitiveness is also impacted by our tax mix which impinges on our companies even where we have free trade agreements.

This is because our 30 per cent company tax rate is uncompeti-

tive for exporters and for inbound foreign investment. It compares poorly to the Asian average of 22 per cent.

Britain, Japan and New Zealand have embarked on significant company tax cuts and tax mix changes. Singapore and Hong Kong have long had nimble, competitive tax systems.

Britain has reduced company tax from 28 to 20 per cent in just five years. These have been positive reforms for the British economy: treasury modelling shows the tax reductions will increase investment by up to 4.5 per cent and GDP by 0.8 per cent.

So if company and personal taxes as well as state insurance taxes are cut, which would cost the states around \$6bn a year, where will the revenue come from?

This is where the GST comes in. And while the politics of GST reform are undoubtedly hard, there are signs the community understands the status quo is not sustainable.

Australia has one of the lowest and narrowest consumption taxes in the OECD. At 10 per cent, it is in fact the fourth lowest compared to the OECD average of 19 per cent. Our GST accounts for just 47 per cent of goods and services, whereas NZ's covers 90 per cent.

If we built in compensation for low-income earners, a 15 per cent GST with a broader base would deliver \$42bn additional revenue in 2015-16. This would allow us to significantly reduce direct taxes.

Sustainability, efficiency and competitiveness factors cannot be addressed without co-operation from the states as they receive the GST revenue and must abolish transaction taxes.

This month's leader's retreat, combined with the tax and federation white papers, gives us a rare opportunity to fix the tax mix.

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