

Tax and Transfer System Reform....with a State focus: Tax endgame must deal with institutions and process

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Tax Revenue 2007-08

	2007-08	
	\$m	%
COMMONWEALTH GOVERNMENT		
Taxes on income	208,580	59.9%
Employers payroll taxes	381	0.1%
Taxes on property	15	0.0%
Taxes on provision of goods and services	75,863	21.8%
Taxes on use of goods and performance of activities	832	0.2%
Total taxation revenue	285,672	82.0%
STATE GOVERNMENTS		
Employers payroll taxes	16,022	4.6%
Taxes on property	20,944	6.0%
Taxes on provision of goods and services	9,162	2.6%
Taxes on use of goods and performance of activities	7,002	2.0%
Total taxation revenue	53,130	15.3%
LOCAL GOVERNMENTS		
Taxes on property	10,116	2.9%
ALL LEVELS OF GOVERNMENT		
Taxes on income	208,567	59.9%
Employers payroll taxes	15,903	4.6%
Taxes on property	31,041	8.9%
Taxes on provision of goods and services	85,025	24.4%
Taxes on use of goods and performance of activities	7,780	2.2%
Total taxation revenue	348,316	100.0%
Total taxation revenue % GDP	30.8%	

State Tax Revenue

TAXATION, Total All States State Government 2007-08

	\$m	%
Employers payroll taxes	16,022	30.2%
Taxes on property	5,444	10.2%
Land taxes	4,346	8.2%
Municipal rates	159	0.3%
Other	940	1.8%
Taxes on financial and capital transactions	20,944	39.4%
Government borrowing guarantee levies	253	0.5%
Stamp duties on conveyances	14,392	27.1%
Other stamp duties	855	1.6%
Total	15,500	29.2%
Taxes on the provision of goods and services	4,850	9.1%
Taxes on government lotteries	697	1.3%
Taxes on private lotteries	422	0.8%
Taxes on gambling machines	2,985	5.6%
Casino taxes	375	0.7%
Race betting taxes	341	0.6%
Taxes on gambling n.e.c.	31	0.1%
Taxes on insurance	9,162	17.2%
Insurance companies contributions to fire brigades	937	1.8%
Third party insurance taxes	347	0.7%
Taxes on insurance n.e.c.	2,966	5.6%
Total	4,250	8.0%
Taxes on the use of goods and performance of activities	7,002	13.2%
Motor vehicle taxes		
Stamp duty on vehicle registration	2,207	4.2%
Other	4,179	7.9%
Total	6,386	12.0%
Other	617	1.2%
Total	53,130	100.0%

Australia's Future Tax System Review ...the tax endgame!

SUMMARY OF PROPOSALS: COMMONWEALTH

- Dual Personal Income Tax (a cleaning up of what is already in place)
 - Labour income:
 - PAYG Withholding
 - **National Insurance** ⇒ health (Medicare), dental, education (HECS-HELP), unemployment
 - Capital income: We have dividend withholding so what about interest withholding?; capital gains tax reform?; superannuation reform?
.....rationalisation “up” more than radical reform
- Company Income Tax:
 - retain imputation – but possibly a narrow base (incentives) - tension!
- Consumption taxes
 - Broad based: GST major omission from Review
 - Narrow based: excise, environmental levies
- Transfer system reforms
 - ⇒ EMTR reduction.. expensive and complicated

Australia's Future Tax System Review ...the tax endgame!

SUMMARY OF PROPOSALS: STATES

- Decrease (or abolish):
 - Taxes on insurance (8% of State taxes) and conveyancing (27%)
- Increase:
 - Land tax (8% State taxes): base broadened and harmonised across States with State/Local collaboration on collection
 - Payroll tax (30% State taxes): reassumed by Commonwealth (revisit 1971) with base harmonised but rates variable between States and revenue returned to States
 - Resource taxation: Commonwealth takeover?; base/tax share?
- New
 - Transport levies/congestion levies with hypothecation
 - User-charges (benefits principle taxation)
 - Net Worth Tax? or Death and Gift Duties? (ie broaden land tax)
- Redesign/redeploy State tax administrations

Why not just abolish the States?

Why State expenditure?

- Better reflects local needs and wants
- Decentralisation and democratisation

Why State taxation?

- Better reflect local capacity
- Benefit of expenditure is location specific
- Accountable/responsible government

Why would a national government revenue share with States?

- Dissuade 'backdoor' (inefficient) taxation
- Fund region-specific services
- To reflect benefits to all residents (ie quasi-benefit tax)
- To allow some local say in the level of development
- To address Vertical Fiscal Imbalance (VFI)

Australia's Future Tax System Reviewand State Taxes

- Review's findings catalyst for **MAJOR STATE** tax reforms
- Problem – pathways/process is everything to success:
 - State(s) alone cannot undertake real reforms and therefore can appear intransigent
 - States perceived by Commonwealth as imposing impediment to national growth
- Question for Review:
 - How do we achieve the **endgame?**
...not just a political question

A new approach to intergovernmental fiscal arrangements

STRATEGY:

New Intergovernmental Agreement (IGA)

1. Expenditure reassignment
 - Health and education
 - Infrastructure and cities
2. STATE-focussed NATIONAL tax reforms
 - *Base sharing* eg PAYG withholding and payroll tax base aligned
 - *Revenue sharing* eg GST
 - *Tax sharing* eg Commonwealth agent for States eg Payroll
 - *Tax reassignment*
3. Changes to intergovernmental fiscal arrangements

A new approach to intergovernmental fiscal arrangements

PROCESS MAPPING

- COAG and COAG Reform Council
- Productivity Commission (for performance monitoring)
- CAF

INSTITUTIONAL CHANGE

- Constitution
- Horizontal fiscal equalisation (HFE) and CGC
- Commonwealth/State tax cooperation
- Role of State tax administrations
 - ATO/OSR collaboration
 - Benefits of SBR