

# **Mixed Fortunes**

# **The History of Tax Reform in Australia**

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# Today's seminar

## 3 phases of tax reform at the Commonwealth level

- Early Federation and the 1942 income tax unification
- 1975 Asprey tax blueprint and the tax reforms of the 1980s and 1990s
- The 21st century – so far
- State tax reform

# Early Federation Tax History

## Federation - Constitution

- Customs and excise exclusive to Commonwealth (main tax base)
- Other taxes (estate, land, stamp duties, income taxes) open to both but initially levied by just the states

1910 - commonwealth land tax and establishment of Tax Office

1915 (WWI)

- Commonwealth income tax
- Tax base - ordinary income less expenses
- Tax rate – progressive, continuously increasing average and marginal tax rates

# 1923 and 1934 Royal Commissions on Taxation

Consider commonwealth-state overlapping tax responsibilities

- Especially problems with both levying income tax

1923 recommendations

- Income tax wholly to Commonwealth, land tax wholly to states
- Outcome - none

1934 recommendations

- Agree common core provisions of income tax base but separate acts and rates
- Outcome - Commonwealth Income Tax Assessment Act 1936

# 1942 Income Tax Unification

## WWII finance needs

- Commonwealth tax increases
- Commonwealth asked states to vacate income tax - states refused

## 1942 Committee on Uniform Taxation

- Policy case established by Royal Commissions (foundational reviews)
- Recommended uniform income tax at commonwealth level (determinative)

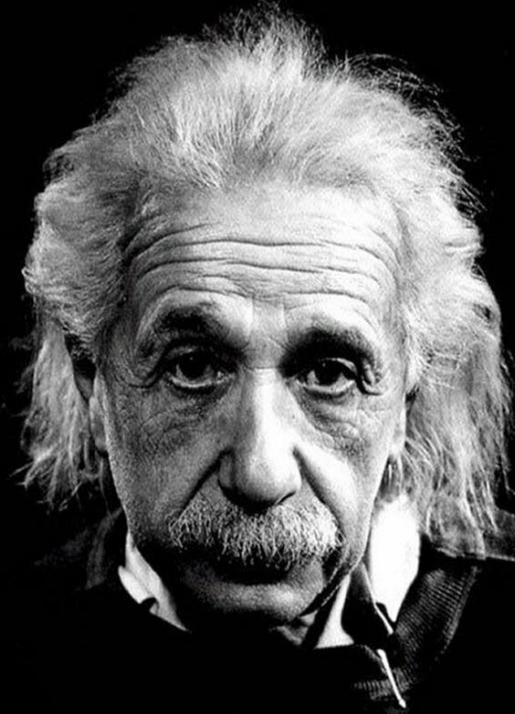
## Government response

- C/W enforced income tax takeover by reconfiguring C/W-State financial relations
- Constitutional challenge by states failed

# Income Tax

**The hardest thing in the  
world to understand is  
income tax.**

Albert Einstein



Albert Einstein  
1879 - 1955

# Golden Years – Benign Neglect

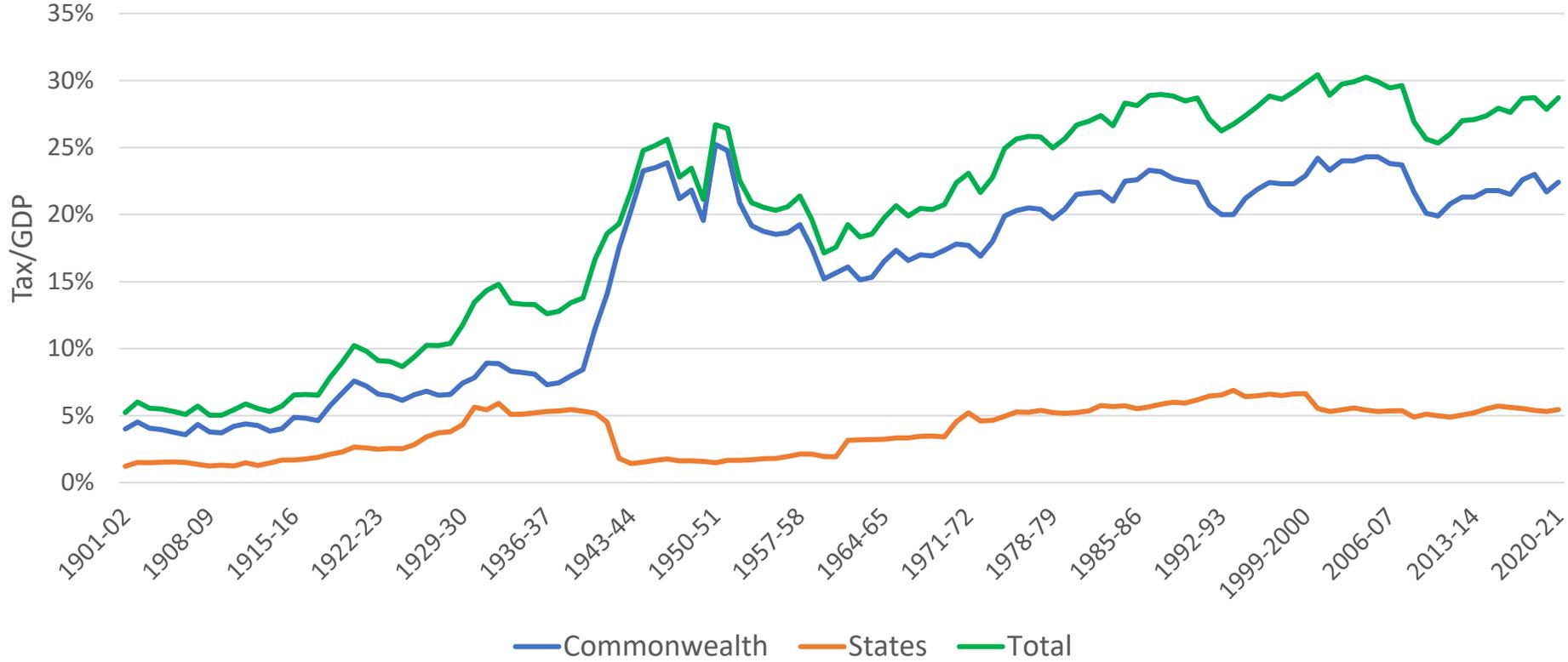
1950s and 1960s a period of relative social and economic stability

- Increasing size of government and hence tax burden
- Income tax the main revenue-raiser but structural gaps in tax base

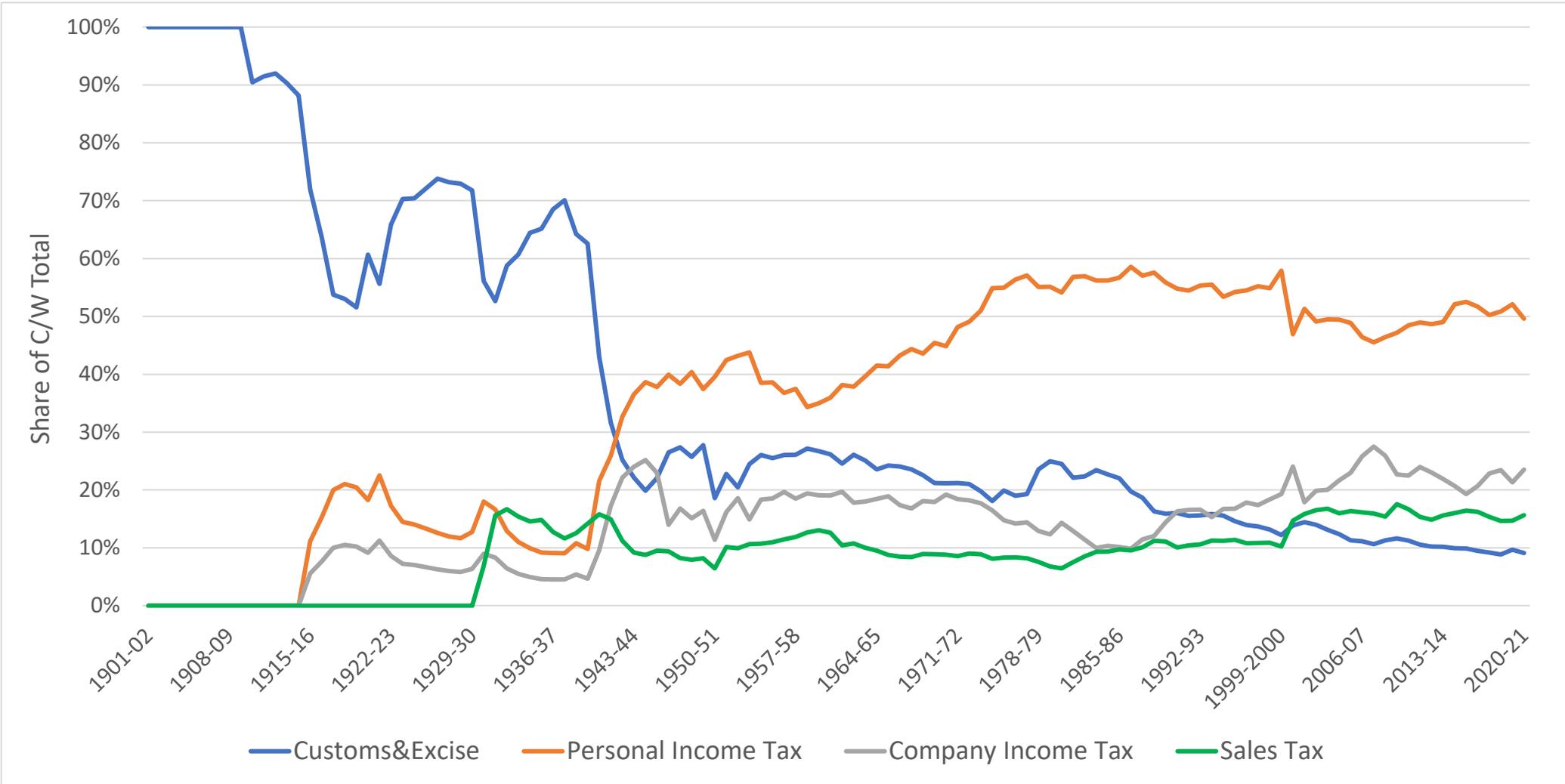
Little substantive reform

- No change in personal income tax rate scale from 1954 to 1970 - bracket creep
- Company tax rate increased - 30% in WWII to 47.5% by 1970

# Tax/GDP since Federation



# Tax Mix Since Federation (Commonwealth)



# Stagflation from late 1960s

Stagflation exposed flaws in tax bases

- Inflation pushing individuals onto higher personal tax rates
- Major gaps in tax base, eg capital gains, fringe benefits, facilitated avoidance

Asprey review commissioned in 1972

- Efficiency (neutrality, with exceptions for externalities)
- Fairness (horizontal and vertical equity)
- Simplicity (administration and compliance costs)

# Asprey Tax Blueprint

## Personal income tax

- Comprehensiveness – include capital gains and fringe benefits

## Company income tax

- Critical of classical system - recommended dividend imputation system

## Broad-based Consumption Tax

- Multi-stage Value Added Tax

## Other

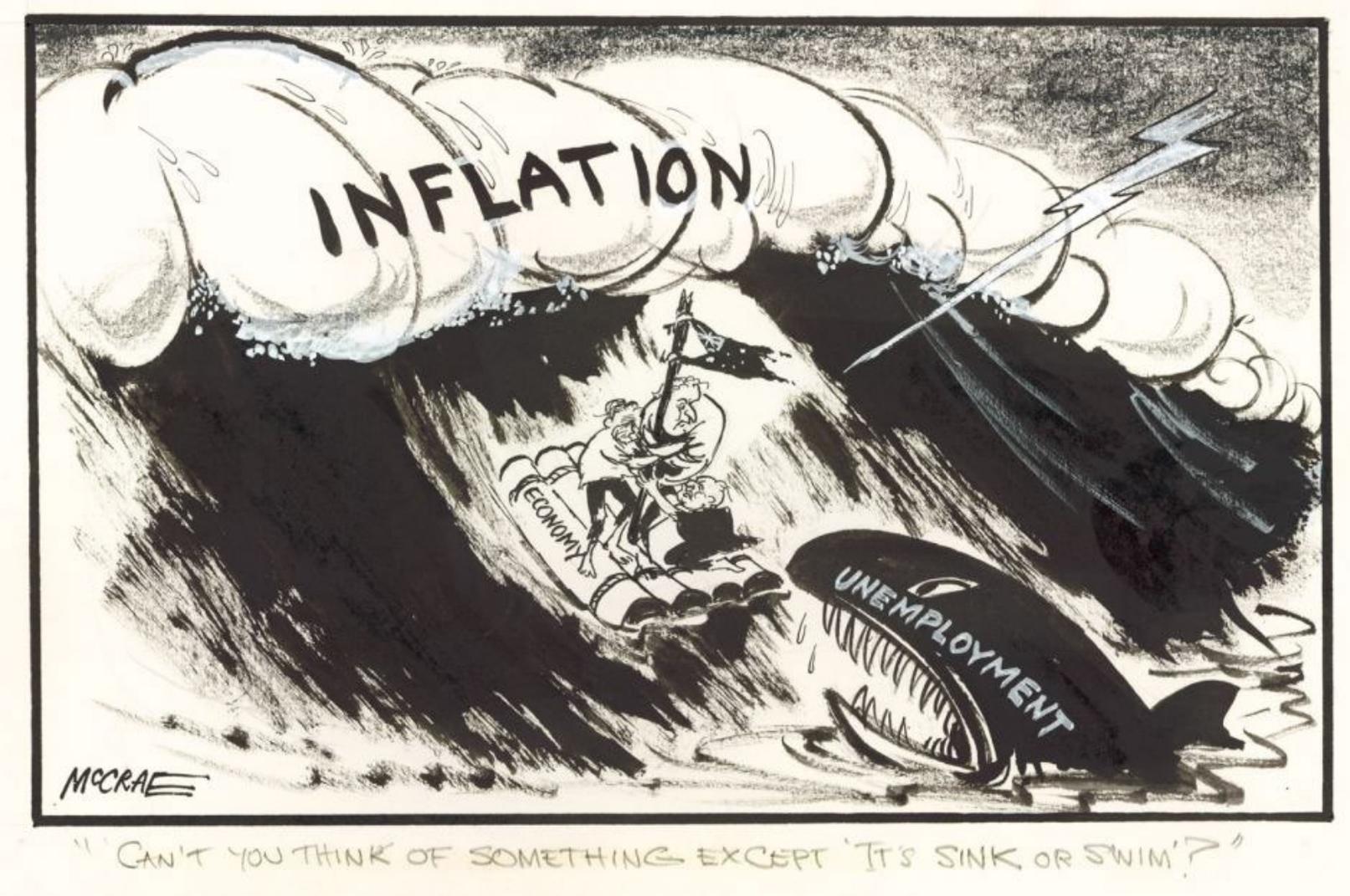
- Foreign Tax Credit System
- Superannuation - full taxation of end benefits

# Government Response

No formal response to the Asprey report

- Some input to 1974 and 1975 budgets
- Lost in turmoil of final year of Whitlam Government
- But had provided a blueprint for the Australian tax system
  - Foundational review
  - CGT, FBT, FTCS, Imputation and (eventually) VAT implemented over next 25 years

# Australia in the 1970s



# Economy and Tax System in Poor Shape

Temporary indexation of personal income tax scale in late 1970s

- Recommendation of Mathews Committee (1975)

Campbell Committee (1981) recommended reforms

- Financial system and tax aspects

But lack of reform

- Breakdown in taxpayer morality

# 1985 Tax Review Process

In 1984 election campaign, Hawke committed to a tax summit

Existing tax system flawed – narrow base, high rates

- Gaps in income tax base (capital gains, fringe benefits)
- Narrow consumption tax base (WST applied to 10% of consumption)
- High tax rates - incentive and opportunity for tax avoidance and evasion
- Double taxation of dividends

# Reform of the Australian Tax System (RATS)

## Broaden the income tax base

- Capital gains tax (real gains, realisations basis)
- Fringe benefits tax (levy on employers)

## Broaden the consumption tax base

- Replace WST with a 12.5% BBCT
- Tax mix switch from income tax

## Other

- Dividend imputation system
- Foreign tax credit system
- National identification system (Australia Card)

# 1985 Tax Summit



# Tax Statement (September 1985)

Major tax reform package

- CGT, FBT, FTCS
- Tightening of expense claims
- Dividend imputation system

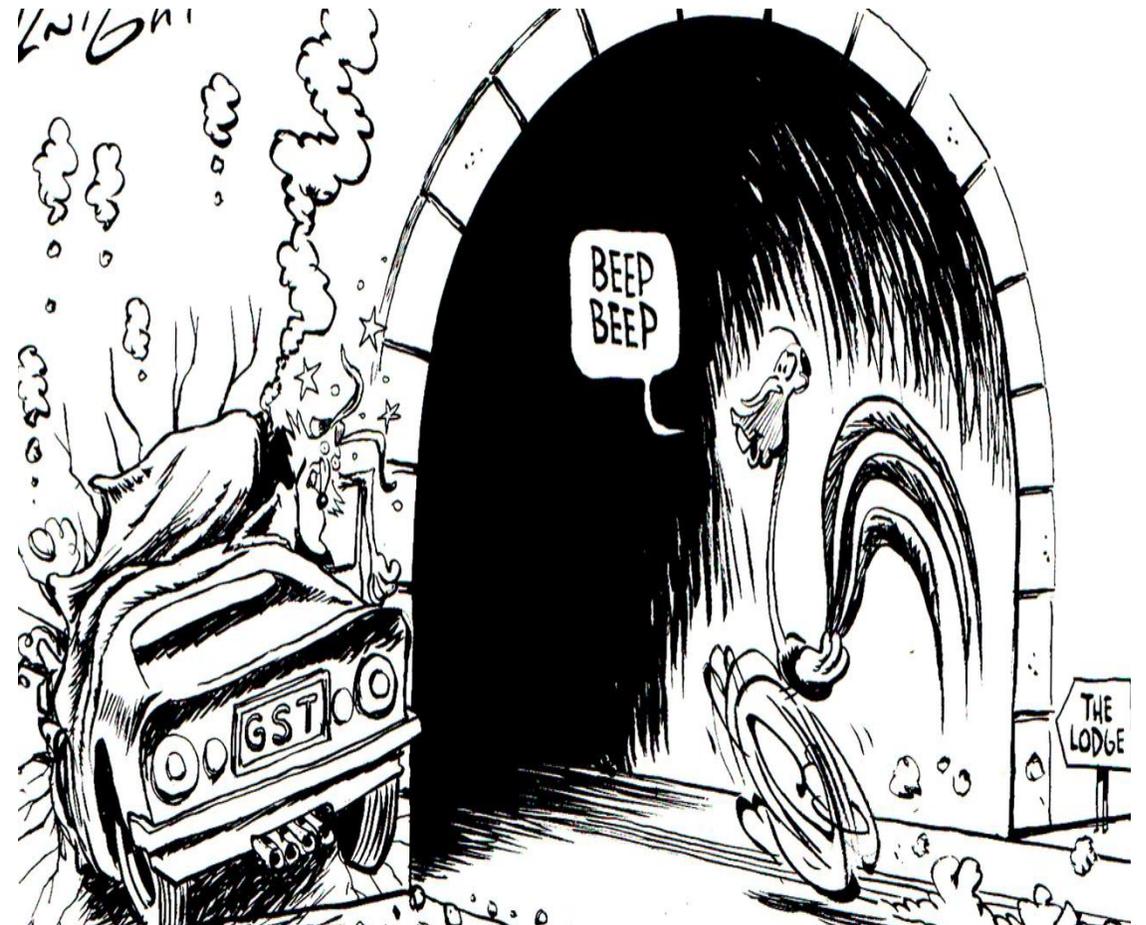
But broad-based consumption tax didn't get up

- Unfinished business

Followed up with 1988 Economic Statement

- Cuts in company tax rate and tariffs

# Fightback v One Nation



# 1998 Tax Review Process

After 1997 Budget, Howard committed to a tax review

- Referenced High Court ruling on state Business Franchise Fees
- Take proposals to the 1998 election (manage 'never ever' statement)

Review to consider

- Broad-based indirect tax
- Personal income tax cuts
- Commonwealth-state financial relations

# A New Tax System (ANTS)

## Broadening the consumption tax base

- 10% GST – VAT with exemptions for health and education
- All GST revenue to go to the states (FAGs abolished)

## Abolish other indirect taxes

- WST
- Nine state taxes

## Other

- Personal income tax cuts (budget funded)
- Rationalisation of family assistance arrangements (FTBA, FTBB, CCB)
- Ralph review to consider business tax issues

# Political Negotiations

## States

- Intergovernmental agreement to pass GST revenue to the states in return for abolition of the 9 taxes and FAGs

## Deal with the Democrats

- Fresh food exempted from the GST
- Only 4 state taxes could be abolished

## Implementation

- 1 July 2000 for GST (Unchain my Heart)

# Political Economy Lessons

## RATS and ANTS

- Determinative reviews that leveraged off the foundational Asprey review
- Taken Australian tax system from world-worst practice towards world-best practice

## Four major tax reviews in 15 years

- RATS, 1988 Economic Statement, ANTS, Ralph review
- Major makeover for the Australian tax system

# Plucking the Goose

The art of [taxation](#) consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing



Jean-Baptiste Colbert  
French Minister of Finances  
1665 - 1683

# Australia in the 21<sup>st</sup> Century

Resources boom from 2004

- Strong revenue

GFC in 2008

- Big stimulus packages

COVID in 2020

- Really big stimulus packages

Politics

- Fraught

# 2009 Australia's Future Tax System (AFTS)

Resources boom driving strong revenue

- Chance to 'buy' some more tax reform (idea from the 2020 Summit)

In 2008, Rudd Govt. commissioned 'root and branch' review of the tax system

- Changes to GST ruled out

But then GFC blew the budget surplus

- AFTS took a longer-term perspective

# AFTS Approach

Optimal tax (different from Asprey)

- Potentially tax different forms of income differently, depending on elasticity

Central conclusion - shift the tax mix

- Away from relatively mobile and inefficient bases (company tax and stamp duties)
- Towards relatively immobile and efficient bases (land and resource rents)

# Taxation of Capital and Resource Rents

## Company tax

- Cut tax rate to 25 per cent

## Resource rents

- Replace mining royalties with a resource super profits tax (RSPT)

## Importantly this was a package

- Company tax is important in ensuring Australia receives an adequate return for natural resource extraction

# Consulting on the RSPT

25 May '10

Nicholson



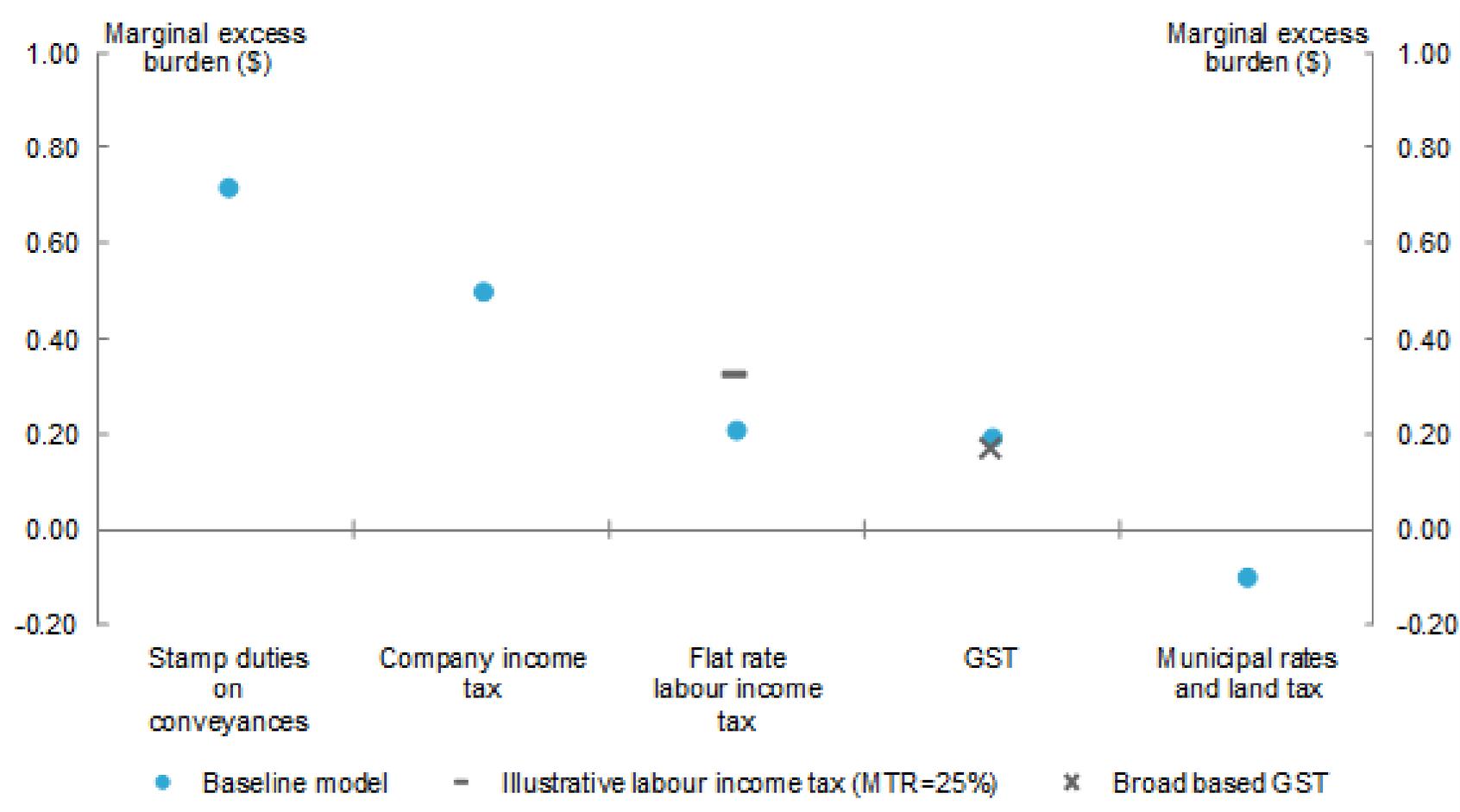
# 2014 Tax White Paper

Tax White Paper commissioned in conjunction with a Federation White Paper

Process stalled at discussion paper stage (Re:think)

- Similar philosophy to AFTS
- Optimal tax thinking
- Shift tax burden away from relatively inefficient taxes

# Marginal Excess Burdens



# Death and Taxes

Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes



Benjamin Franklin,  
13 November 1789  
(5 months before  
his death)

# State Tax Reform

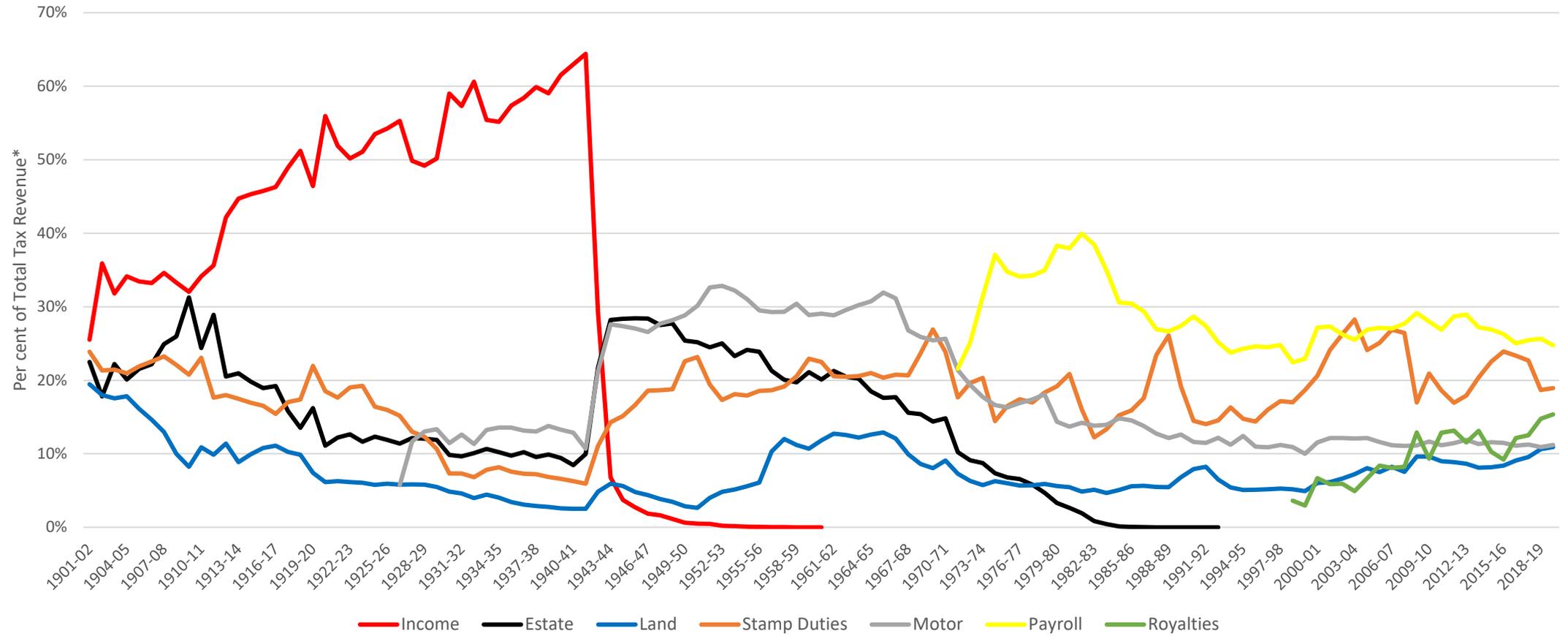
Commonwealth-State financial relations shaped by 2 tax events

- Constitution: customs and excise exclusive to Commonwealth
- 1942 Commonwealth takeover of income tax

Consequent Commonwealth dominance of taxation (consumption and income)

- States left with an eclectic mix of other taxes
- Substantial VFI and Commonwealth grant payments to the states

# History of Main State Taxes\*



# State Tax Reviews

The need for reform of state taxes has long been recognised

- Tax policy characterised by base-narrowing competition
- But achieving reform has proven politically difficult

National level

- Early Federation – royal commissions
- ANTS – GST replaced inefficient transaction taxes

Each jurisdiction has conducted its own tax reform reviews at times

- Need to maintain adequate revenues
- Interstate competitiveness

# Jurisdictional Reviews

NSW: Reviews in 1976, 1988, 2008, 2011 and 2020

- Decrease stamp duties, reform land tax and payroll tax

Victoria: Reviews in 1983, 2001 and 2010

- Decrease stamp duties, reform payroll tax and land tax

Western Australia: Reviews in 2002 and 2007

- Decrease stamp duties, harmonise payroll tax and reform land tax

ACT: Review in 2012

- Switch from property conveyance duty to reformed land tax, abolish insurance duty

# Local Government

Not specifically provided for in the Constitution

- Operate under delegated authority of the state and NT governments
- Arrangements vary between jurisdictions

Property rates is local governments' sole tax

- Generally very broad-based

Limited reviews

- Property rates considered efficient, equitable and amenable to administration
- Support for additional local government tax powers

# Conclusions – State Tax Reviews

## Consistent policy prescription across the reviews

- Change the tax mix away from transaction taxes, such as stamp duties, to more efficient taxes, such as broad-based land taxes
- Greater harmonisation across jurisdictions, eg payroll tax

## Policy outcomes mixed (at best)

- Reductions in stamp duties
- Some progress on harmonisation of payroll tax

## Problems remain

- Propensity to compete with other jurisdictions in base-narrowing tax cuts
- Good tax bases - death duties, land tax, payroll tax - lost or compromised

# Tax Reviews – are they worth having?

More misses than hits

- Tax reform is hard – especially at the state level

State tax reform blueprint

- These reviews have, however, created a broad blueprint for state tax reform
- That blueprint sits there as a foundation for more determinative reviews by future reformist governments

# Where to for Tax Reform in Australia?

Opportunities for tax reform constrained by

- Federation arrangements (Constitution)
- Ever increasing demand for government services (debt v tax)
- Changing global economy

But some directions established by AFTS etc

- Foundational review to inform future determinative reviews
- Transition from inefficient to efficient taxes
- Subject to the changing world context