Chamber of Commerce & Industry Queensland

CCIQ THOUGHT LEADERSHIP

REVITALISING AUSTRALIA'S TAX SYSTEM

CCIQ OFFICES

We have regional representatives in offices throughout Queensland, and are affiliated with more than 100 chambers of commerce throughout the state.

BRISBANE
Regional Manager
Colin Fruk
Phone 0409 622 297
Email cfruk@cciq.com.au

CAIRNS AND FAR NORTH QUEENSLAND
Regional Manager
Karen Seal
Phone 0418 724 112
Email kseal@cciq.com.au

GOLD COAST AND HINTERLAND
Regional Manager
Troy Cush
Phone 0458 422 041
Email tcush@cciq.com.au

MACKAY AND CENTRAL COAST
Regional Manager
Victoria Bradshaw
Phone 0410 220 915
Email vbradshaw@cciq.com.au

NORTH QUEENSLAND
Regional Manager
Karen Seal
Phone 0418 724 112
Email kseal@cciq.com.au

ROCKHAMPTON AND GLADSTONE
Regional Manager
Victoria Bradshaw
Phone 0410 220 915
Email vbradshaw@cciq.com.au

SOUTH WEST QUEENSLAND
Regional Manager
Roger Gorrel
Phone 0429 001 612
Email rgorrel@cciq.com.au

SUNSHINE COAST AND WIDE BAY
Regional Manager
Hamish Bolderston
Phone 0400 731 522
Email hbolderston@cciq.com.au

For general enquiries, please call **1300 731 988**.
For the Employer Assistance Line, please call **1300 135 822**.

CCIQ Powering business potential

Chamber of Commerce & Industry Queensland
375 Wickham Tce, Spring Hill QLD 4000
Telephone 1300 731 988

Revitalising Australia's Tax System

OVERVIEW

The Chamber of Commerce and Industry Queensland (CCIQ) believes Australia needs a tax system that supports the growth of the economy. Australia's competitiveness should be enhanced by the tax system not disadvantaged. The situation whereby 117 of Australia's 127 taxes and charges raise only 10% of overall taxation revenue is massively inefficient. This is acting as a significant brake on our economy and our international competitiveness.

CCIQ sees a massive opportunity flowing from a commitment by both the Queensland State Government and the Federal Coalition to finish the tax reform process and ensure all States have sufficient revenue raising capacity. CCIQ urges all parties across Australia to commit to this outcome.

The recent State Budget and the Commission of Audit have both highlighted that Queensland and indeed Australia is in urgent need of a tax system that better suits our State's modern and evolving economy.

Rather than examining specific taxes and industries in isolation, a holistic view must be taken.

At present, Queensland's finances are in a difficult position. We have a significant level of debt, a loss of AAA credit rating, an embedded structural deficit and unwillingness on behalf of the general public to consider the sale of many of the state's assets. At the same time, there is expectation of continued investment in public services. A similar story is evident across Australia.

However the ability for the State's Government to raise revenue is limited. Under federation, the Commonwealth raises the majority of revenue and the states deliver the majority of services the public needs.

Undoubtedly most Queenslanders have become numb to the continuing argy-bargy between the Commonwealth and the States over who pays for what and how they are funded.

What is overlooked is the fact that Queensland's economy has evolved over recent decades, as have the services Queenslanders require. Yet our State and National tax system has not kept up with these changes.

Let's be abundantly clear, small, medium and large businesses do not object to paying tax. What they do object to is a taxation system that is hard to understand, difficult to navigate and at its core deeply inefficient and failing to deliver for State and Federal finances.

Unfortunately National Tax Reform stalled following the Ken Henry Review.

We have observed a lack of follow through and commitment to modernise Australia's tax system, resulting in a situation that leaves small business bearing the brunt of an inefficient tax regime that drowns them in red tape.

Incredulously, we have instead seen the implementation of two new taxes; the Minerals Resource Rent Tax and the Carbon Pricing Mechanism which were not actual recommendations of the Ken Henry Review.

A proper structural review across the taxation system is long overdue and is a necessary step for the Australian economy to continue growing. Including Good and Services Tax (GST) as part of this process makes common sense.

For example when the GST was introduced all State Governments committed themselves to review the need for inefficient transfer duties yet many duties still remain that are continuing to inhibit economic growth.

There is no question that if Australia was to start afresh in designing its taxation system then taxes such as payroll tax (a tax on employing staff) and the suite of transfer duties on business transactions would not exist.

CCIQ has a number of aspirational tax reform goals that it would like to see achieved to benefit businesses across Queensland through reduced cost and compliance. However we have always recognised the realities of Federal and State Government's limited finances and the means to address these recommendations have not always been in place.

However an opportunity is now before us, should the Coalition's commitment to tax reform be undertaken. If consideration of raising or expanding the tax base of the GST is given then many revenue neutral options present themselves to simplify taxation on business including:

- The complete phasing out of payroll tax.
- Transfer duty on business transactions being eliminated.
- Remaining business tax thresholds being indexed annually.
- The compliance and paperwork burden being dramatically reduced.

Not only are these benefits delivered, but the financial security of the Queensland is cemented as GST revenues continue to grow, funding our schools, roads, public health and community safety.

The objectives of tax reform should be to reduce the overall burden of tax, eliminate economically damaging taxes, provide the states with financial sovereignty and generate greater incentives for business to grow and employ.

Business recognises that tax reform needs to be affordable and raising the GST rate or expanding the GST tax base introduces this opportunity.

Queensland and Australia's tax system needs equity, efficiency, simplicity, transparency as well as adequacy.

AUSTRALIA'S TAX SYSTEM

Now is a timely opportunity to ensure the economic and business policy settings are squarely focused on maintaining Australia's growth momentum into the future. A key challenge for governments will be keeping Australia's economy competitive in the face of fierce overseas competition.

Australia must respond to today's challenges in a concerted and decisive manner. The Federal and all State Governments must lay the foundations today if our country is to ensure that it continues to enjoy strong economic growth and prosperity well into the future. Quite simply there is no substitute for good forward planning and timely action.

CCIQ's overarching policy objective is to achieve fundamental reform of Australia's taxation system consistent with the following objectives and criteria for a competitive tax system:

- **equity** - fairness in the distribution of resources between high and low income earners as well as similar tax burdens for taxpayers with similar means;
- **economic efficiency** - taxation impacting neutrally on taxpayer groups and economic sectors with commercial decisions not skewed by tax considerations;
- **adequacy** - tax systems raising sufficient revenue for public expenditure needs;
- **simplicity** - taxpayers being able to clearly understand their obligations;
- **transparency** - taxpayers understanding how and when they are paying tax, and how much tax they are paying;
- **cost** - compliance and collection costs minimised; and
- **anti avoidance** - minimum incentive and potential for avoidance of taxation.

In adopting these principles and objectives, CCIQ recognises that comprehensive taxation reform will necessarily impact on and require the commitment of the Commonwealth and all the States and Territories. CCIQ will work with all levels of government in an endeavour to achieve comprehensive tax reform which encompasses the above critical elements.

CCIQ believes a range of issues identified as priorities for business must be addressed including:

- the employment impact of the payroll tax burden;
- the desirability of abolishing inefficient state turnover taxes;
- proposing options to increase the potential of the GST;
- reform to Commonwealth and State government spending;
- transforming the Commonwealth-State fiscal relationship.

ARGUMENT FOR BUSINESS TAX REFORM

Based on the tax design principles above, the main reasons for further reform of Australia's tax system include:

- Improving the efficiency and international competitiveness of the Australian economy
- Continuing Australia's strong growth and productivity results
- Ensuring Australia can meet long-term challenges, particularly demographic changes, in the most cost effective way
- Promoting innovation, risk taking and entrepreneurship
- Encouraging investment in human capital, for example through education and training
- Achieving appropriate retirement incomes for Australians.

More specifically CCIQ believes the following are key arguments for tax reform:

The need to compete: Government has a vital role in building and sustaining the economy. However businesses see the responsibility of Government as creating an environment which is conducive to economic growth. Queensland businesses operate in a global environment. As a result, Queensland needs to have a business operating environment that is the absolute standout as a region to do business in.

Greater priority must be given to examining and bringing down the cost of doing business in Queensland and Australia. Creating a strong business operating environment that allows local industries to compete globally is pivotal to the economic well-being of Queensland.

Suring up future tax receipts: One of the often cited reasons against tax reform is the insufficient funds for meaningful reduction in the burden of the tax. However CCIQ has consistently stated that positive action by Government to improve the business environment will ultimately safe guard its taxation receipts. Carefully crafted business tax reductions ultimately do not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts. There can be no doubt that the best way to enhance Government revenue is to generate private sector economic activity.

Meeting Social Policy Objectives: A key consideration when setting taxes is the tension between taxation acting as an impediment to business growth and taxation providing a revenue stream to deliver social and transfer benefits to the broader community. CCIQ believes tax reform assist in meeting the Government's social goals by providing higher employment levels, resulting in improved community wealth and greater social inclusion through increased participation in society. It will also result in greater economic development which will allow the Government to provide increased funding to social and environmental areas. The single greatest contribution a business can make to enhancing Australia's social wellbeing is quite simply providing a job and in turn a livelihood.

Aging Population: The inherent ageing of Australia's population means that the proportion of retirees will continue to increase substantially and the demand for taxation, health care and aged care will also increase as well as having significant implication for the working age population. By 2047, Australia's population is projected to be 28.5 million. A quarter of the population is projected to be aged 65 and over, nearly double the current proportion. Currently there are 5 people of working age to support every person aged 65 and over, but by 2047 there will only be 2.4. The tax base will come under greater pressure as Australia's age dependency ratio (the ratio of those of working age to those not of working age) declines. Consequently, the sustainability of the current system of tax and superannuation is in serious question.

GST REFORM

Funding tax reform by increasing the rate of the GST is a realistic and necessary objective as is broadening the base of the GST by removing exemptions. For example the three major GST exemptions: food, health and education, in total summed to almost $10bn. Removing these exemptions and or lifting the tax rate would enhance efficiency, reduce compliance costs and at the same time provide additional revenue to fund the removal of inefficient taxes.

GOVERNMENT SPENDING

Importantly, the issue of government spending at both the State and Federal level needs to be addressed in the context of returning to an affordable level of Government service provision. A lack of fiscal discipline has left budgets across Australia deep in deficit in recent years. Sound management of the nation's finances underpins the ability of a government to successfully implement vitally important economic reforms necessary to lift productivity growth.

Both the Commonwealth and State governments need to conduct a 'root and branch' review of their expenditure with a view to providing efficiency savings that could be used to fund tax reform and return the budget to balance. Consideration has to occur for:

- the rationale for returning the budget to balance;
- the case for reducing government expenditure as a proportion of GDP, including providing scope for further tax reform and income tax relief;
- more clearly delineating Commonwealth and State responsibilities;
- outlining options and priorities for reducing government expenditure.

REFORMING COMMONWEALTH-STATE FISCAL RELATIONS

The Commonwealth State financial relationship needs to be subject to review, particularly having regard to the incentives for taxation and spending reform. Australia's vertical fiscal imbalance must be addressed whereby the Commonwealth Government raises all the revenue yet the State's in large measure spend all the money. Significant planning for the Queensland's future cannot occur without addressing this crucial issue. There needs to be a much closer correlation between responsibility for expenditure and the revenues necessary to fund it. This requires correction of the current vertical fiscal imbalance between the Commonwealth and the States.

The following issues must be examined:

- reviewing the calculation and process of horizontal fiscal equalisation (GST distribution);
- review of the effectiveness of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
- proposing a credible enforcement mechanism for State tax reform commitments, both 'carrot' and 'stick', and performance linkages;
- discussion of the federation's institutional arrangements;
- options for streamlining State taxes.

CONCLUSION

A bigger picture is at stake here and opportunities for major reform only seldom occur. Accordingly this one should not be squandered and CCIQ must do everything possible to ensure that our future tax system enables businesses to grow, invest, innovate, compete globally and most importantly employ.

The issue of tax reform must remain on the agenda as part of a broader effort to improve the nation's productivity. Such an ambitious reform agenda should not be constrained by the need to be revenue neutral and will require all taxes to be considered.

CCIQ recommends:

- The Australian and all State Governments commit to undertaking a full review of the whole tax system. The ability to achieve the scope of taxation reform needed is dependent upon considering the Commonwealth and State tax systems as one regime.
- Australia must increase its reliance on more efficient broad-based taxes, something that has not occurred in recent years despite the introduction of the Goods and Services Tax. Both broadening of the GST tax base and an increase in the rate should be considered as options in the years ahead.
- With above recommendations actioned many of the specific tax reforms including abolishing payroll tax, a lower personal and company tax rate, duty on business transactions, indexing thresholds and tax simplification will follow.

All information referred to overleaf is sourced from Federal and State Budget Papers, and Australia's Future Tax System.

CASE STUDY ON PAYROLL TAX

One of the most burdensome taxes upon business is payroll tax and changes to reduce the complexity and burden of payroll taxes are necessary if Australian businesses are to remain globally competitive. Payroll tax directly impedes employment and industry growth. It is a direct tax on employment and one that is levied without any regard to a firm's capacity to pay. The detrimental employment impact of payroll tax is significant. If jobs are the priority for the next Federal Government, as they should be, then payroll tax reform is needed.

CCIQ recognises the relative importance of payroll tax to the State Government but believes that the negative effects of this regressive taxation and its adverse impact on international competitiveness clearly places it at the top of any taxation reform agenda. Accordingly CCIQ recommends a long term view of completely phasing out payroll tax through progressively lifting the exemption threshold

Ken Henry Recommendations on Payroll Tax:
Recommendation 57: State payroll taxes should eventually be replaced with revenue from more efficient broad-based taxes that capture the value-add of labour.

WHAT ARE WE AIMING FOR?

A long-term (10-20 year) plan for tax modernisation in Queensland and Australia. Is the tax system we have today the system we want to have in 20 years time?

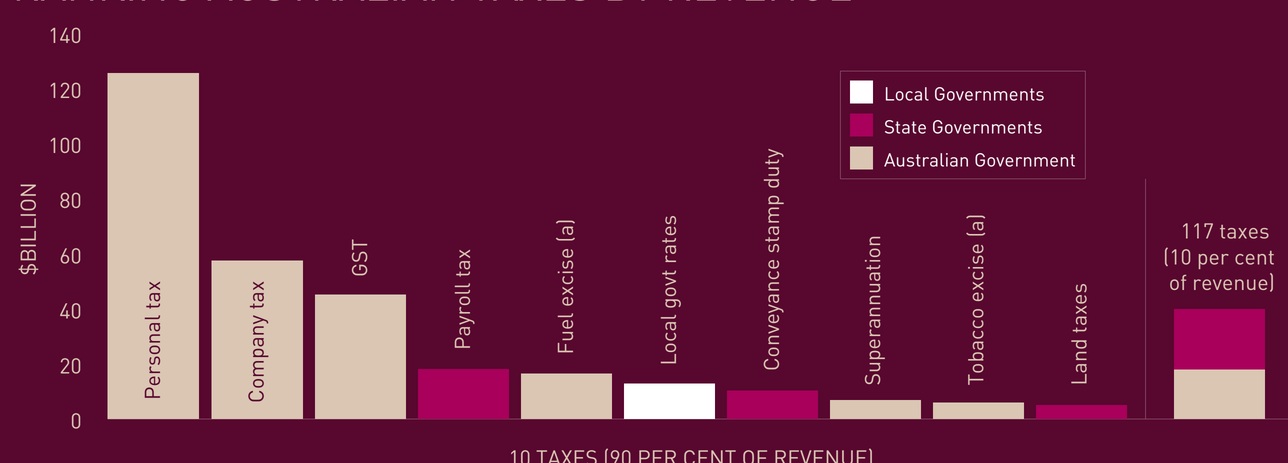
WHAT ABOUT NATIONAL TAX REFORM?

National Tax Reform has stalled following lack of follow through from Australia's Future Tax System recommendations (the Ken Henry review) other than implementation of the Minerals Resource Rent Tax and the Carbon Pricing Mechanism that were not actual recommendations.

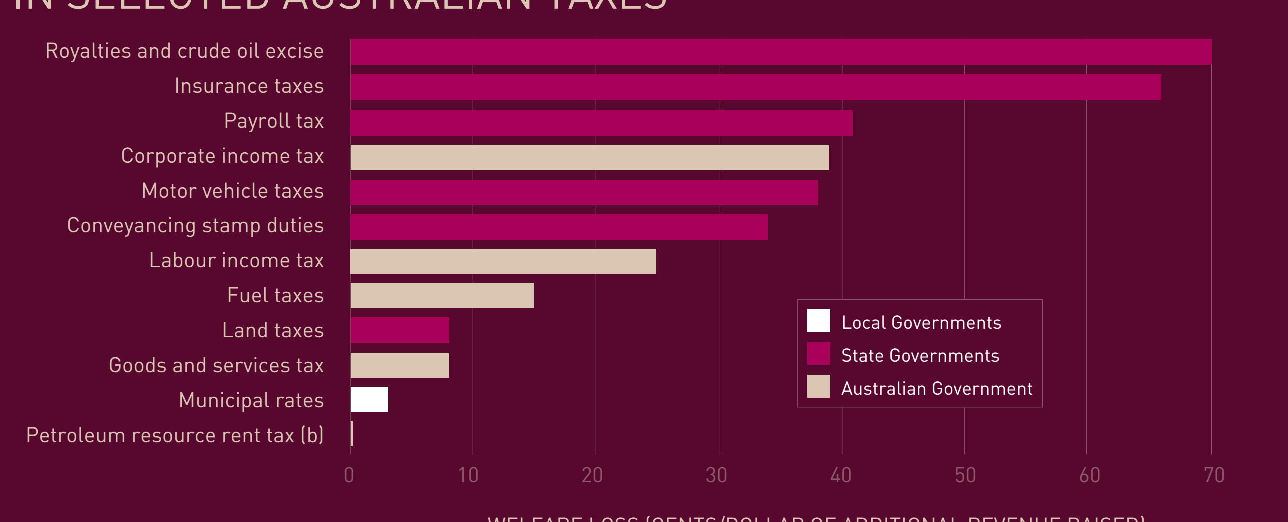
Continuing argy bargy between States and the Commonwealth on the carve up of GST revenue.

Both horizontal fiscal equalisation and the vertical fiscal imbalance between the States and Commonwealth remain unaddressed.

RANKING AUSTRALIAN TAXES BY REVENUE



MARGINAL WELFARE LOSS FROM AN INCREASE IN SELECTED AUSTRALIAN TAXES



WHAT ABOUT STATE TAX REFORM?

STATE GOVERNMENT

State Government's 3rd Fiscal Principle as part of State Budget and Election Platform is to "Maintain A Competitive Tax Environment For Business".

QUEENSLAND COMMISSION OF AUDIT

The State Government has limited revenue options to assist in the fiscal adjustment task:

- almost half of the Government's total revenue is sourced from Australian Government grants over which the state has limited control
- the Government has few broad based revenue bases from which to raise revenue
- the Government has a commitment to retain Queensland's competitive tax status compared with other states.

GUIDING TAX REFORM PRINCIPLES

Equity, economic efficiency, adequacy, simplicity, transparency, low compliance and admin cost and anti avoidance.

HOW BENEFITS FROM TAX REFORM ARE USED

	% OF BENEFIT	BENEFIT TO JOBS
Invested in business bank A/C or cash funds for future use	18.0%	✓
Used to increase or retain Queensland jobs	17.9%	✓
Invested in plant & equipment within Queensland	17.1%	✓
Invested in buildings within Queensland	9.9%	✓
Withdrawn as business profit (dividend)	8.2%	✗
Redirected to activities or businesses outside Queensland	1.8%	✗
Expenditure on Training	10.0%	✓
Expenditure on other business activities	17.1%	✓

92% of employers will invest and spend tax reform savings to the direct benefit of the economy and more importantly to jobs.

THE STATE OF PLAY IN AUSTRALIAN TAX

The following summarised key themes characterise the current Australian tax system.

Low reliance on consumption taxes

- As a share of GDP, Australia's total tax burden on consumption is 9 per cent, making it the fourth lowest in the OECD.
- General consumption taxes (mainly the GST) contribute 13 per cent of tax revenue compared with an OECD average of 19 per cent.

High reliance on taxation of capital income

- As a share of tax revenue, Australia has the highest reliance on capital income taxation in total revenue within the OECD.
- Capital tax accounts for 35 per cent of total revenues.
- As a share of GDP, the total tax burden on capital is about 11 per cent, the fourth highest in the OECD.

High reliance on corporate income tax

- The contribution of corporate income tax to total tax revenue in Australia is higher than for most OECD countries.
- The share of corporate tax revenues to GDP is the fourth highest in the OECD.
- Australia's statutory rate is above the OECD average and is the tenth highest in the OECD.

High tax on capital income at the personal level

- Australia has one of the higher top personal tax rates on capital gains (notwithstanding the discount available for assets held for longer than 12 months).
- Australia has a relatively high rate of tax on interest income.
- On the other hand, full dividend imputation means that Australia compares favourably with its OECD peers in terms of taxation of dividends from domestic sources.

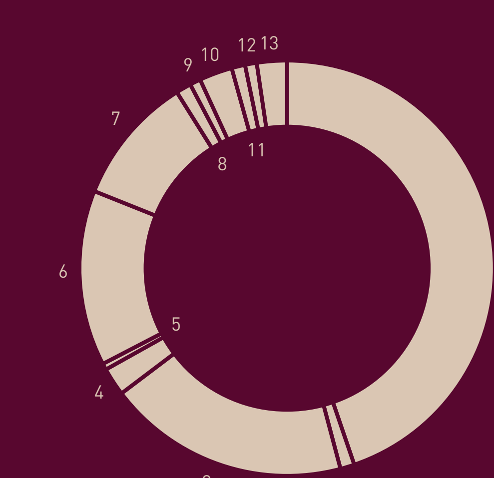
A staggering number of taxes, most of which collect little revenue

- There are at least 127 different taxes in aggregate applied by federal, state and local governments in Australia;
- Of the total tax revenue collected by Australian governments 90 per cent was derived from just 10 taxes. These 10 taxes accounted for 95 per cent of Australian government revenue and 70 per cent of state tax revenue. Ten per cent of tax revenue was contributed by the remaining 117 taxes.

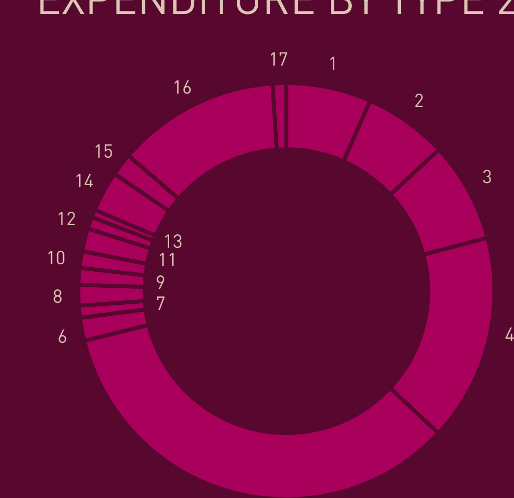
The terms of reference for the Henry Review were limited by political intervention.

COMMONWEALTH GOVERNMENT REVENUE BY TYPE 2012-13 $M

1	Total individuals' and other withholding tax	$156,850	45%
3	Company tax	$66,000	19%
6	Goods and services tax	$47,918	14%
7	Duties and Industry Taxes	$35,180	10%
10	Sales of goods and services	$9,043	3%
13	Other non-taxation receipts	$8,211	2%
4	Superannuation funds	$7,680	2%
8	Carbon pricing mechanism	$4,160	1%
2	Fringe benefits tax	$3,860	1%
11	Interest received	$3,674	1%
12	Dividends	$3,186	1%
9	Other indirect taxation receipts	$2,939	1%
5	Resource rent taxes(a)	$1,710	0%

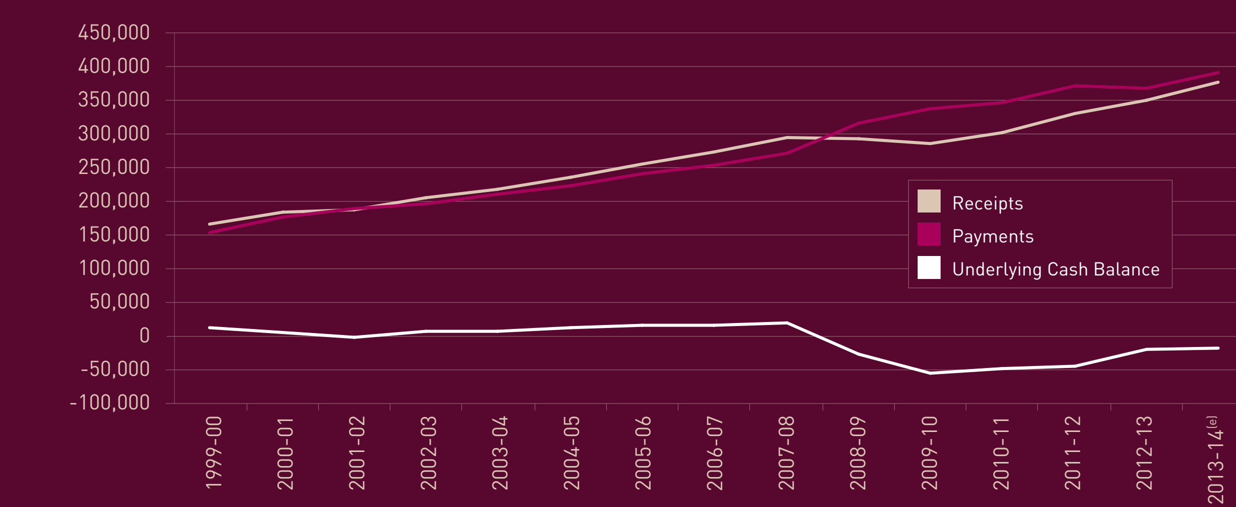


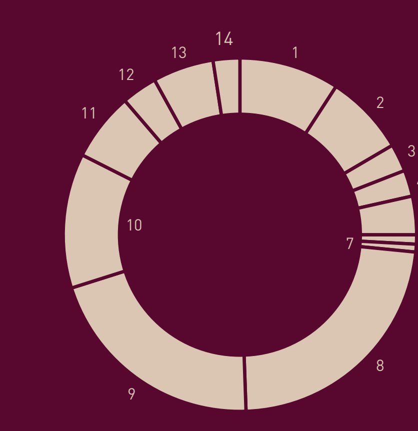
COMMONWEALTH GOVERNMENT EXPENDITURE BY TYPE 2012-13 $M



5	Social security and welfare	$132,388	34%
4	Health	$62,249	16%
16	General revenue assistance - States and Territories	$48,935	13%
3	Education, Vocational and industry training	$30,069	8%
1	General public services	$25,555	7%
2	Defence, Public order and safety	$25,150	6%
14	Public debt interest	$12,209	3%
6	Housing and community	$6,898	2%
11	Industrial relations, Labour and employment affairs, and labour market assistance	$6,883	2%
15	Superannuation interest	$6,778	2%
8	Fuel and energy	$6,168	2%
9	Industry Directed Expenses (Ag, Forestry & Fisheries; Mining & Manuf; Tourism and promotion)	$5,053	1%
10	Transport and communication	$5,002	1%
17	Local government assistance (incl. Natural disaster relief)	$4,119	1%
7	Recreation and culture	$3,641	1%
12	Immigration	$3,575	1%
13	Economic Affairs	$2,337	1%

COMMONWEALTH GOVERNMENT REVENUE & EXPENDITURE $M



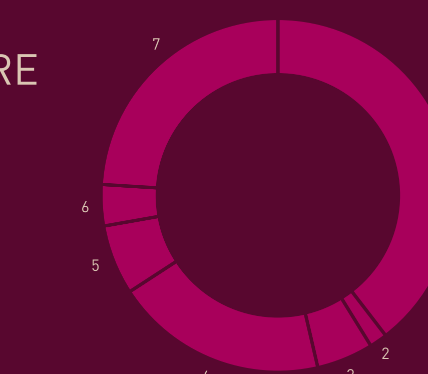


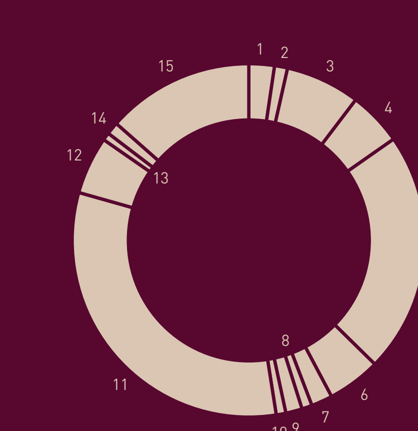
STATE GOVERNMENT REVENUE BY SOURCE 2012-13 $M

8	C/W GST revenue grants	$9,469	23%
9	C/W payments for specific purposes	$8,556	21%
10	Sales of goods and services	$5,104	12%
1	Payroll Tax	$3,792	9%
2	Duties	$3,062	7%
11	Interest income	$2,592	6%
13	Royalties and land rents	$2,311	6%
5	Motor vehicle registration	$1,459	4%
12	Dividend and income tax equivalent income	$1,351	3%
3	Gambling taxes and levies	$1,046	3%
14	Other	$1,010	2%
4	Land tax	$994	2%
6	Fire levy	$351	1%
7	Other fees and taxes	$295	1%

STATE GOVERNMENT EXPENDITURE BY TYPE 2012-13 $M

1	Employee expenses	$18,409	40%
7	Grants expenses	$11,173	24%
4	Other operating expenses	$9,053	19%
5	Depreciation and amortisation	$2,974	6%
3	Other superannuation expenses	$2,410	5%
6	Other interest expenses	$1,752	4%
2	Superannuation interest cost	$756	2%





STATE GOVERNMENT EXPENDITURE BY DEPARTMENT 2012-13 $M

11	Queensland Health	$11,793,745	32%
5	Education, Training and Employment	$8,172,749	22%
15	Transport and Main Roads	$4,996,629	13%
3	Communities, Child Safety and Disability Services	$2,526,498	7%
12	Queensland Police Service	$1,957,482	5%
4	Community Safety	$1,826,487	5%
6	Housing and Public Works	$1,809,075	5%
1	Combined Agencies less than $250K expenditure (incl. ABSIMA, EWS, EHP, LGCRR, SDIP, TMESB)	$864,426	2%
7	Justice and Attorney-General	$720,417	2%
9	Natural Resources and Mines	$555,517	2%
2	Agriculture, Fisheries and Forestry	$440,601	1%
14	Science, Information Technology, Innovation and the Arts	$421,739	1%
8	National Parks, Recreation, Sport and Racing	$348,838	1%
10	Premier and Cabinet (incl. administered authorities)	$326,809	1%
13	Queensland Treasury and Trade (incl. QAO)	$261,414	1%

The Queensland State Government has not embraced its full responsibilities arising from the 1999 IGA on Reform of Commonwealth State Financial Relations.

QUEENSLAND STATE GOVERNMENT REVENUE & EXPENDITURE $M