



WHERE KNOWLEDGE IS POWER

The 2015 Taxation Inquiry

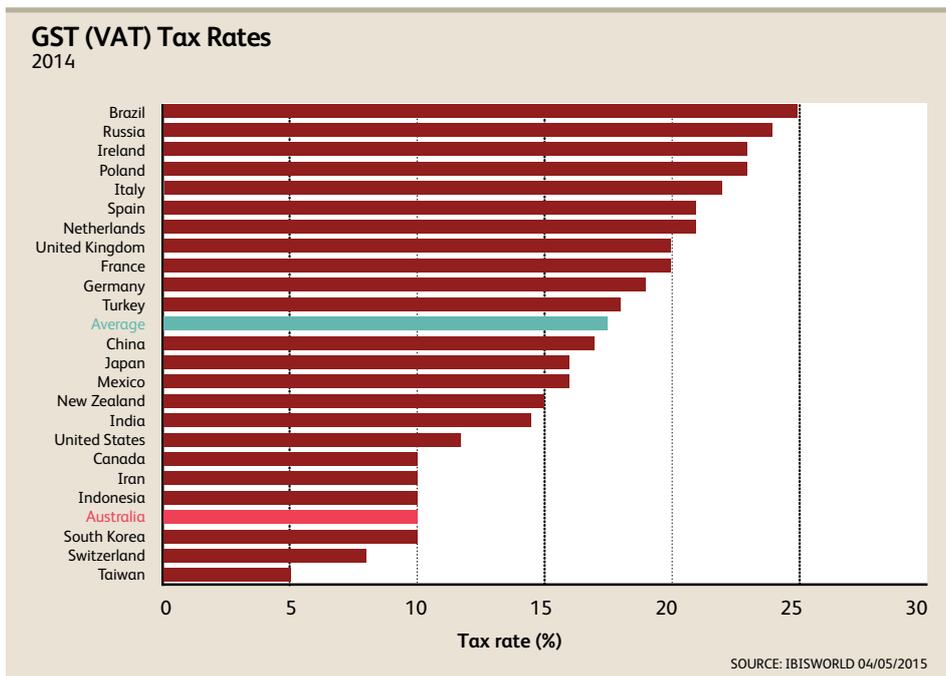
IBISWorld Newsletter

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Phil Ruthven AM, Chairman

Governments have lots of inquiries: they sound good, are a good distraction, take a long time, and are rarely acted upon. The current government has continued the trend with the Commission of Audit, Workplace Relations Framework (Productivity Commission), Harper Competition Policy Review and others – all headed by eminent chairpersons. And now, a taxation debate and inquiry.

Will the taxation inquiry go anywhere? Certainly any outcomes will await the next election for endorsement, as already predicated by the PM and Treasurer. And before the inquiry has started, the ALP has said it won't entertain any increase in the GST – despite it being one of the lowest in the developed world, as shown in the exhibit.



Such an attitude is dog-in-the-the-manger, and unbecoming of a serious intent to solve the chronic budget deficit problem besetting whoever is in power. The current government has, up until recently and while in opposition, similarly recoiled from any intention to touch the GST. So are we seeing bloody-mindedness, ideology, politicking, a shortage of courage or what in Canberra?

Our GST is nearly the lowest in the developed world, and is virtually equal-lowest when exemptions are taken into account, bringing it to the equivalent of Taiwan in the above table.

Our neighbor New Zealand has a rate of 15% and no exemptions, and the average GST across the OECD group is 17.5%: over three times our effective rate (after allowing for our exemptions).

The Prime Minister of New Zealand simply raised their GST without an inquiry and without disturbing the ongoing CSI (Consumer Sentiment Index) to any extent: that's leadership, that's salesmanship, that's courage.

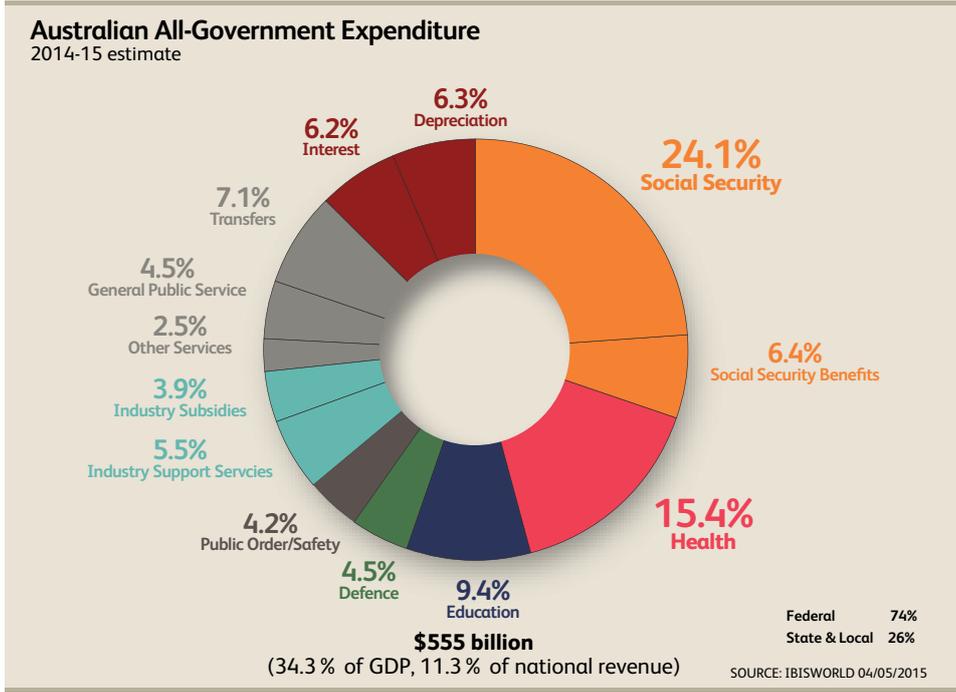
Our politicians should be telling business and the public that we have the lowest total tax rate (28% of GDP) in the rich-list developed world in 2015, yet we're running a deficit of over 6% of all-government expenditure of around \$555 billion. Our government income – including all taxes, other income (government business enterprises et al) and deficit financing – is the same amount, of course, at \$555 billion, and adds to just over 34% of GDP.

Balancing budgets, except in recessions or other occasional setbacks, is good housekeeping and honesty. It is fair to future generations. It is also wise so as to avoid the sort of problems besetting nations like Japan, with the worst debt/GDP ratio in the world, Greece (a basket case) and many others.

In Australia's case, we have no such mountainous debt problem as yet – only ongoing deficit problems that could, unchecked, take us down the road to perdition (albeit a longish road of at least a decade). But why wait for that?

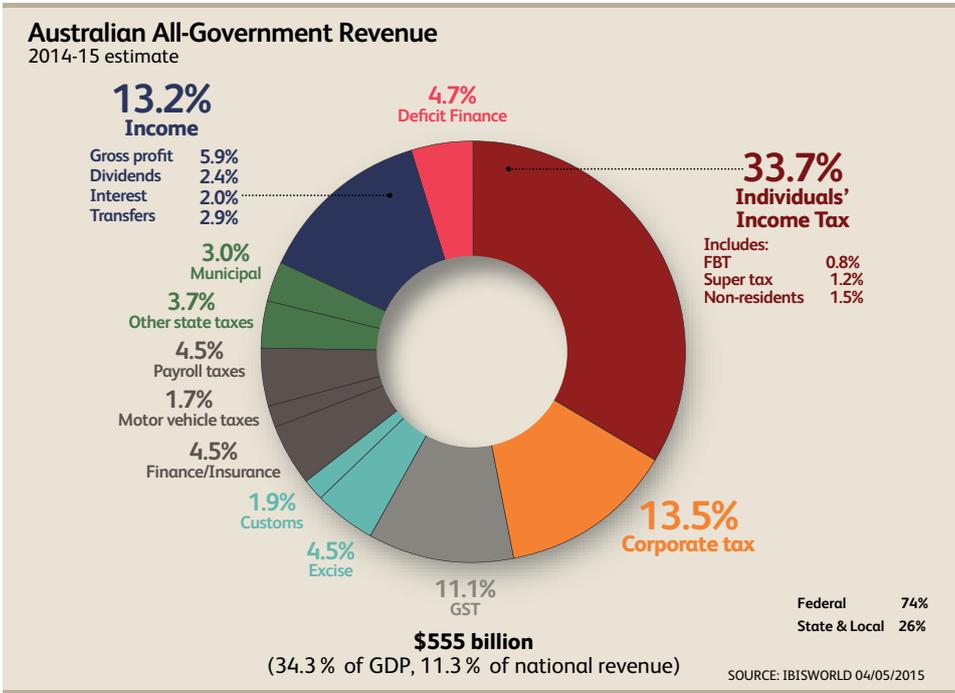
The challenge isn't daunting. We need to lift government income across the three tiers by around 2-3% of GDP, which would still keep Australia among the lowest taxed nations in the rich list, and would certainly make it the only government at that level that is balancing its budgets – Japan and the USA aren't.

Or we can cut back current benefits to pensioners, the disabled, students, health services, and other social security areas – all of which have all been built up over a long time. And perhaps tackle superannuation advantages to the rich (probably fair). Which ones from the exhibit below?



But why only focus on slashing outgoings rather than balancing some of those reductions – for the purpose of forcing efficiencies and some self-reliance – and not raise taxes a little?

The taxes and incomes in 2014-15 as a percentage of all government income are shown below:



It is generally accepted that the tax regime ought not to penalise wealth creation unduly. After all, it is to everybody's benefit to create a bigger economic cake to share – whether through corporate investment or workers, both of whom carry the weighty end of taxes. Better to tax spending.

Hopefully the inquiry can put to the public some simple propositions: reduce benefits, or raise taxes a little (not even as much as NZ did recently with its GST), or a bit of both.

If looking to the tax side of the equation more than the spending side, which taxes go up, and which, if any, go down (e.g. some corporate taxes to maintain competitiveness in Asia)? None of the options are really tough – they just take intelligent reasoning, sensible selling to the public and courage. Mike Baird, as Premier, showed those qualities in the NSW election win in March, admittedly with a generous seats advantage in the outgoing parliament.

We can only hope politicking, vested interests and narrow-mindedness take a back seat in this inquiry. On recent performance, that is unlikely, and more's the pity.

But we can hope.



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