

The need for ambitious tax reform

Address to the The Tax Institute

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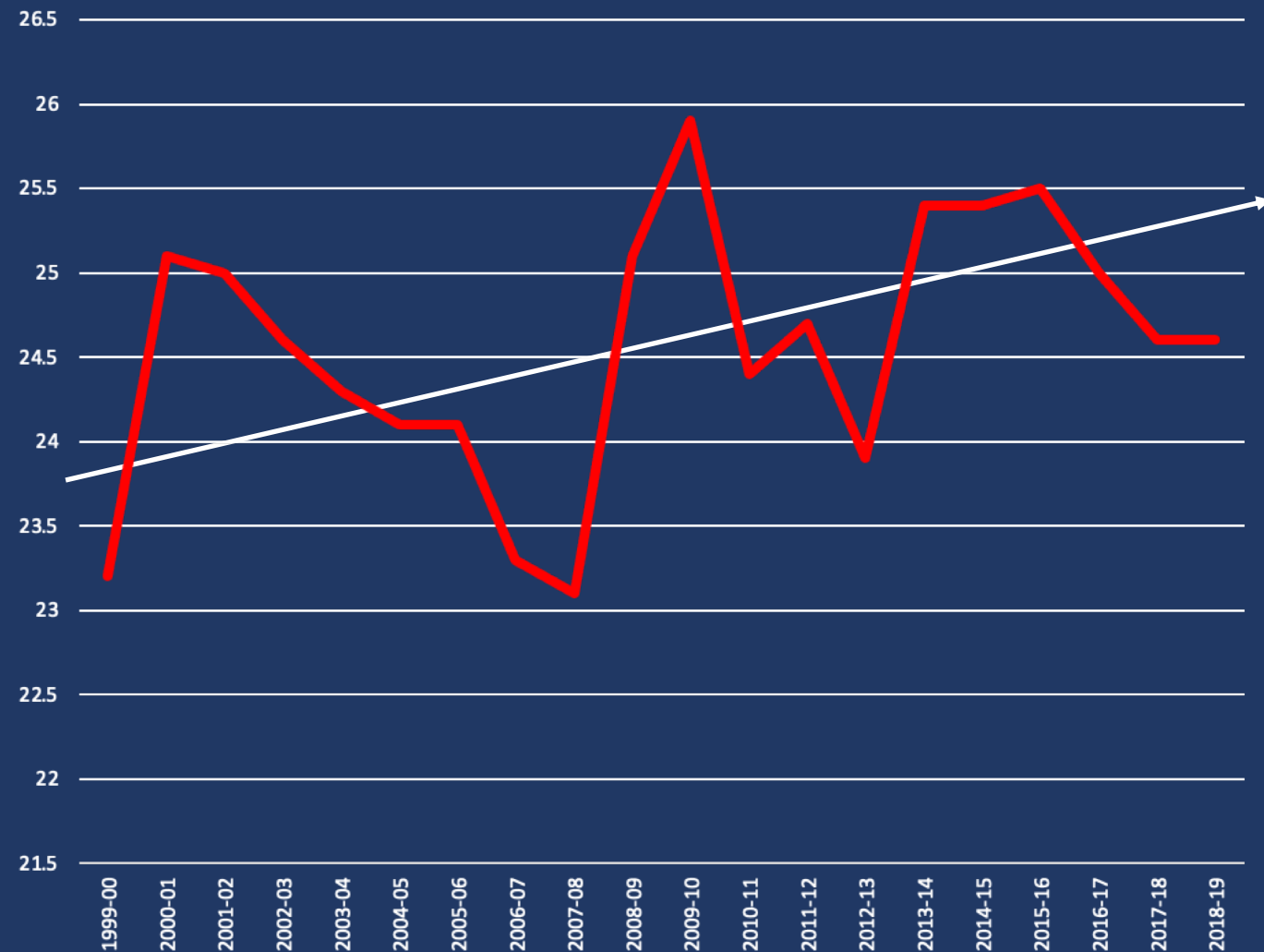
16 March 2023

Melbourne

Figure One:

Commonwealth
payments

(% GDP)

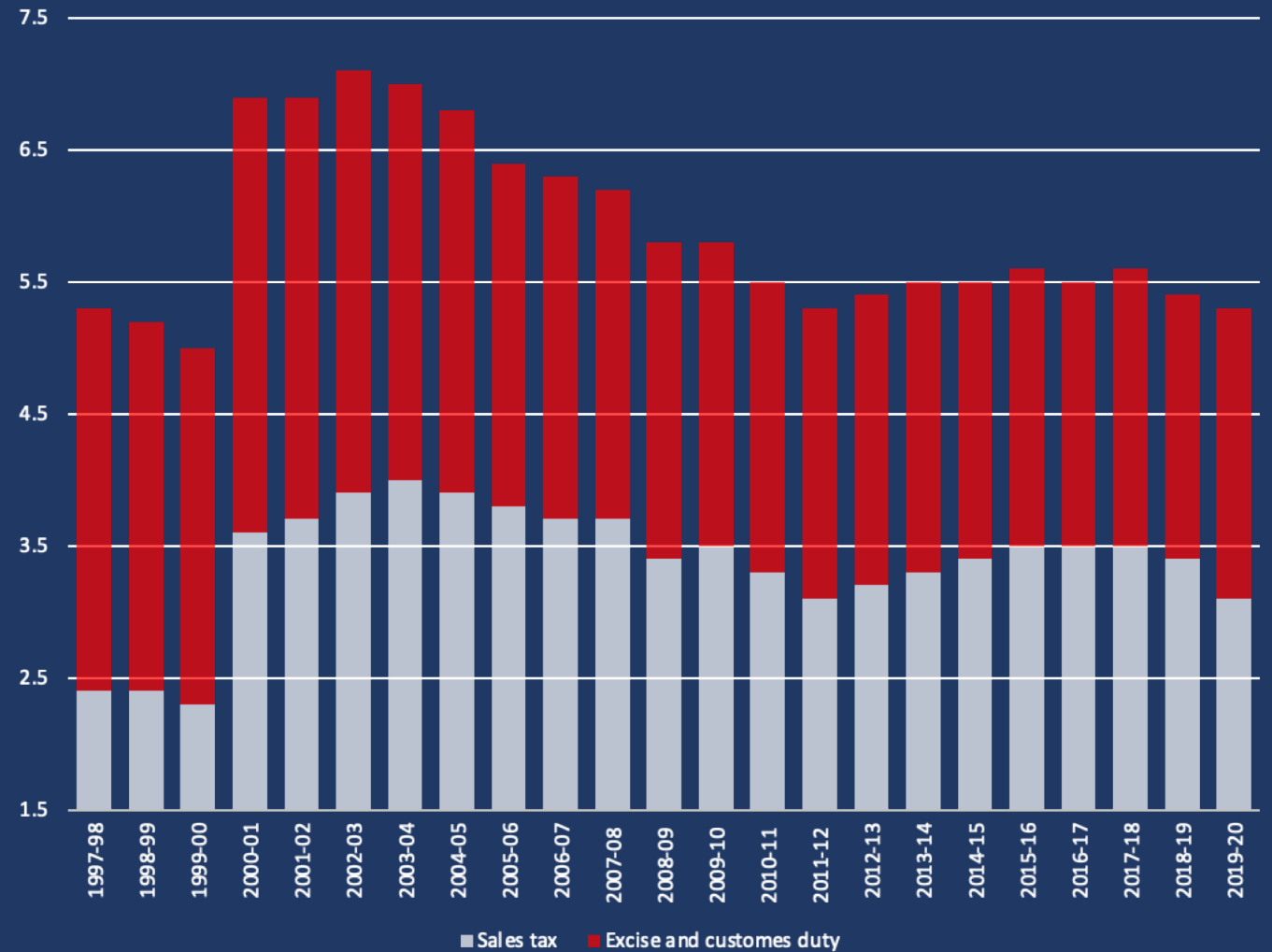


Source: Australian Government, Budget Paper No.1.

Figure Two:

Major indirect taxes

(% GDP)



Source: Australian Government, Budget Paper No.1.

Older generation

Income

Tax-free income from superannuation

Other lightly taxed capital income:
Franked dividends
Low taxed capital gains

Government pension

Wealth

Sitting on tax-free capital gains in housing,
exempt from pension assets test

Superannuation balances accumulated in low-
taxed environment

VS

Younger generation

Income

Heavily taxed income from employment

Paying for climate change action
Repaying a mountain of public debt
Paying large HECS bills

Concerned that pension is unsustainable

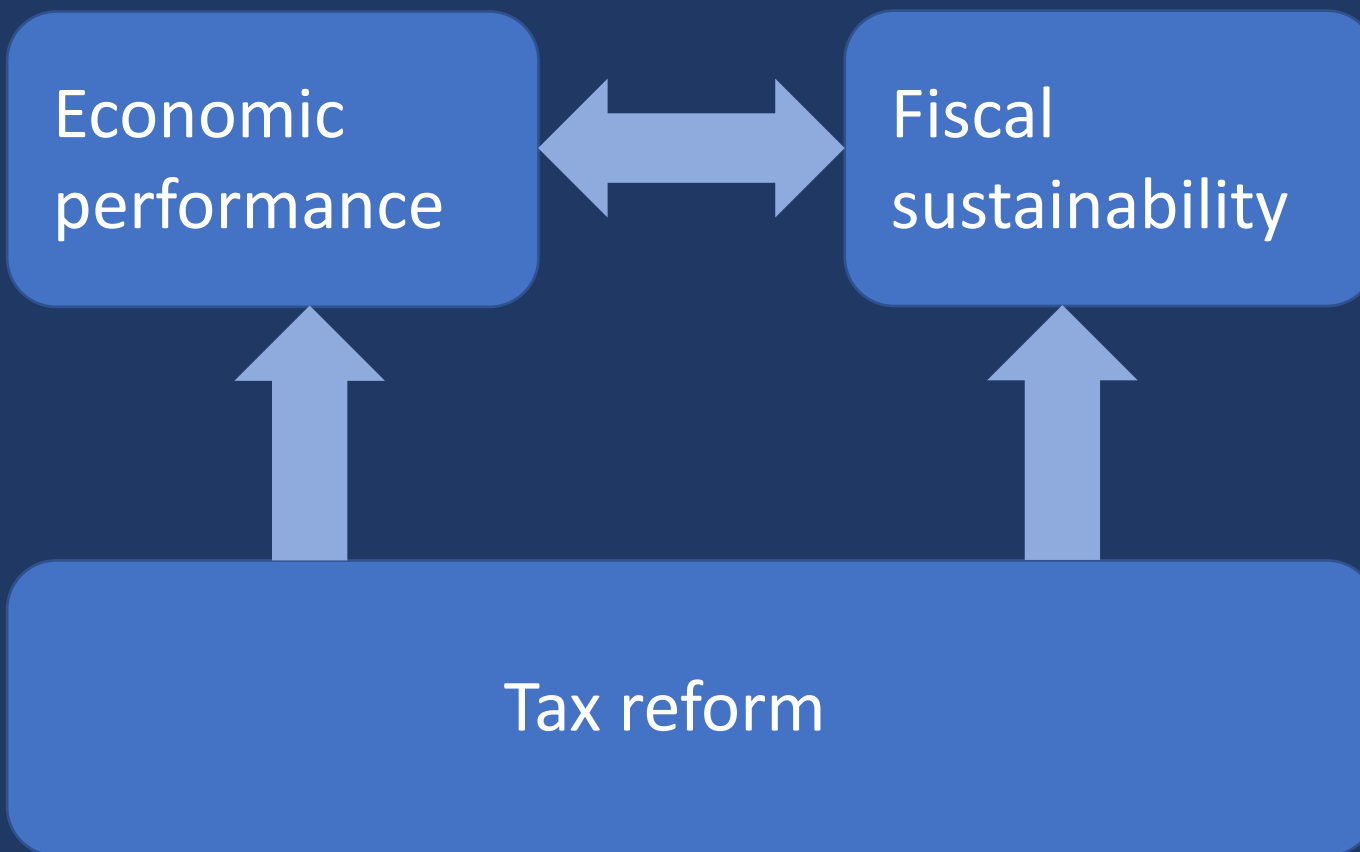
Wealth

Priced out of the housing market

Concerned that superannuation tax
concessions are unsustainable



What should we do?



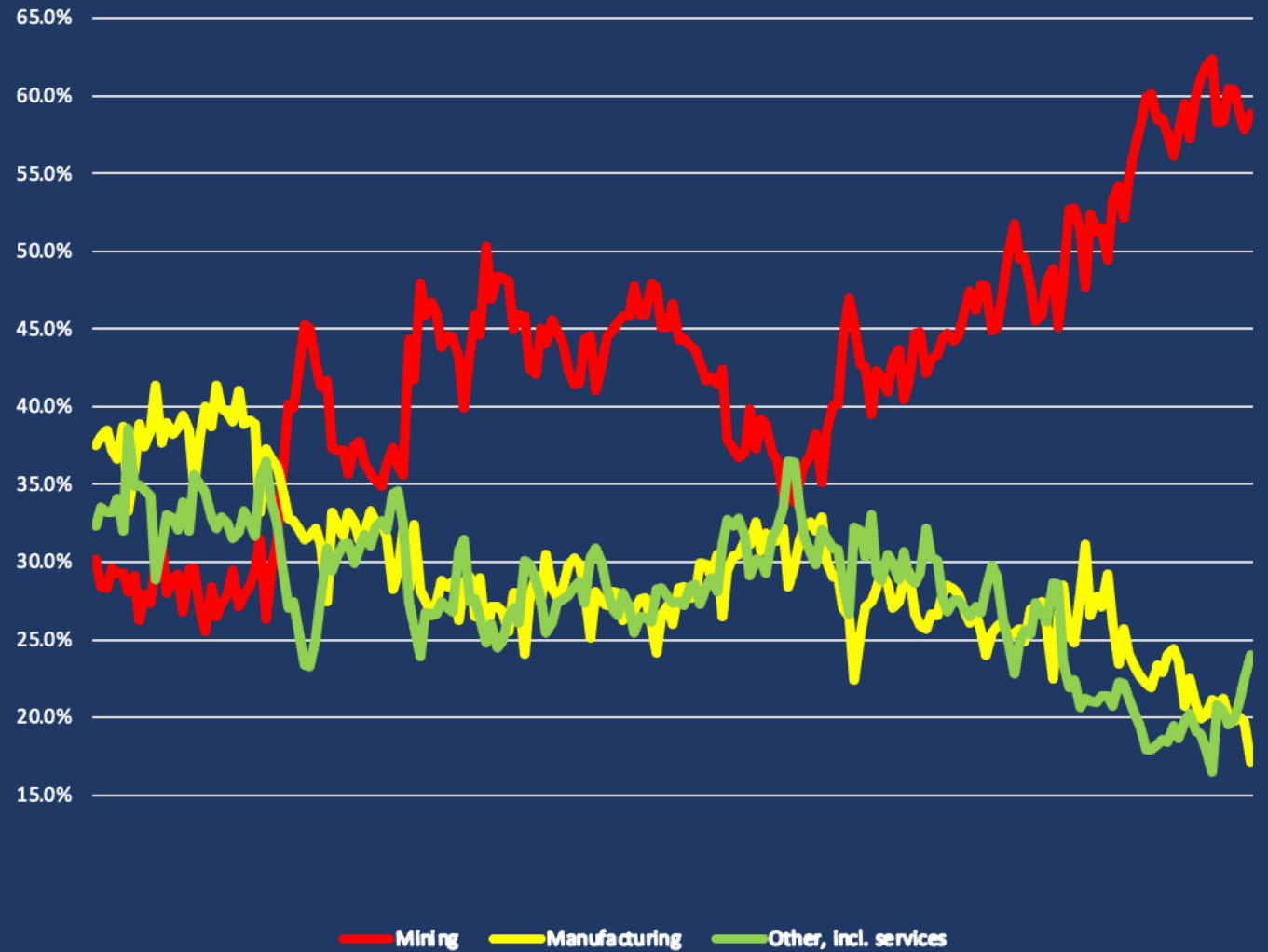
Economic drivers

- Global drivers
 - Climate crisis
 - The digital revolution
 - The Asian century
- Domestic drivers
 - Population aging
 - Biodiversity and ecosystem crises

Figure Three:

Shares of total exports

(per cent)

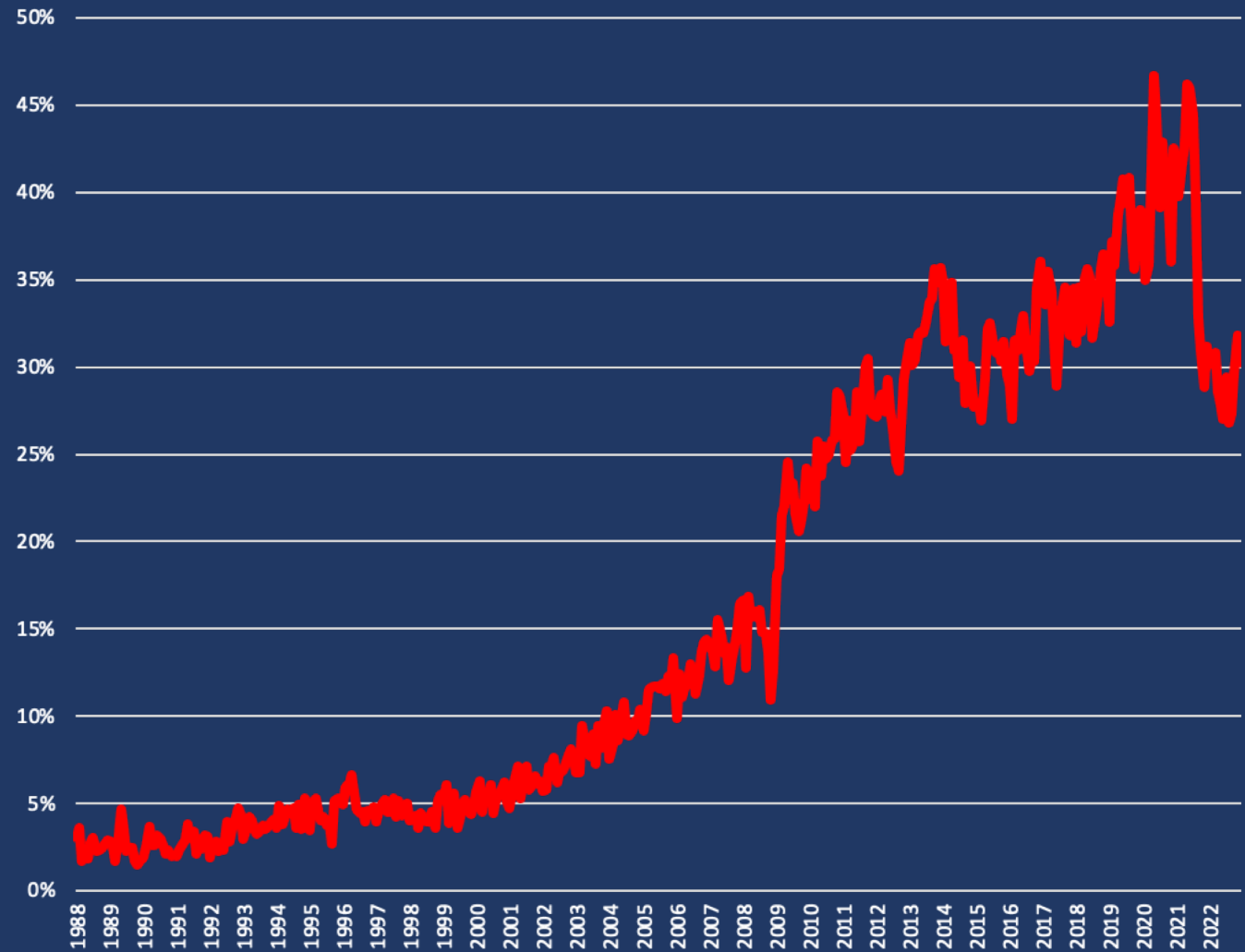


Source: ABS

Figure Four:

Exports to China

(per cent of total exports)

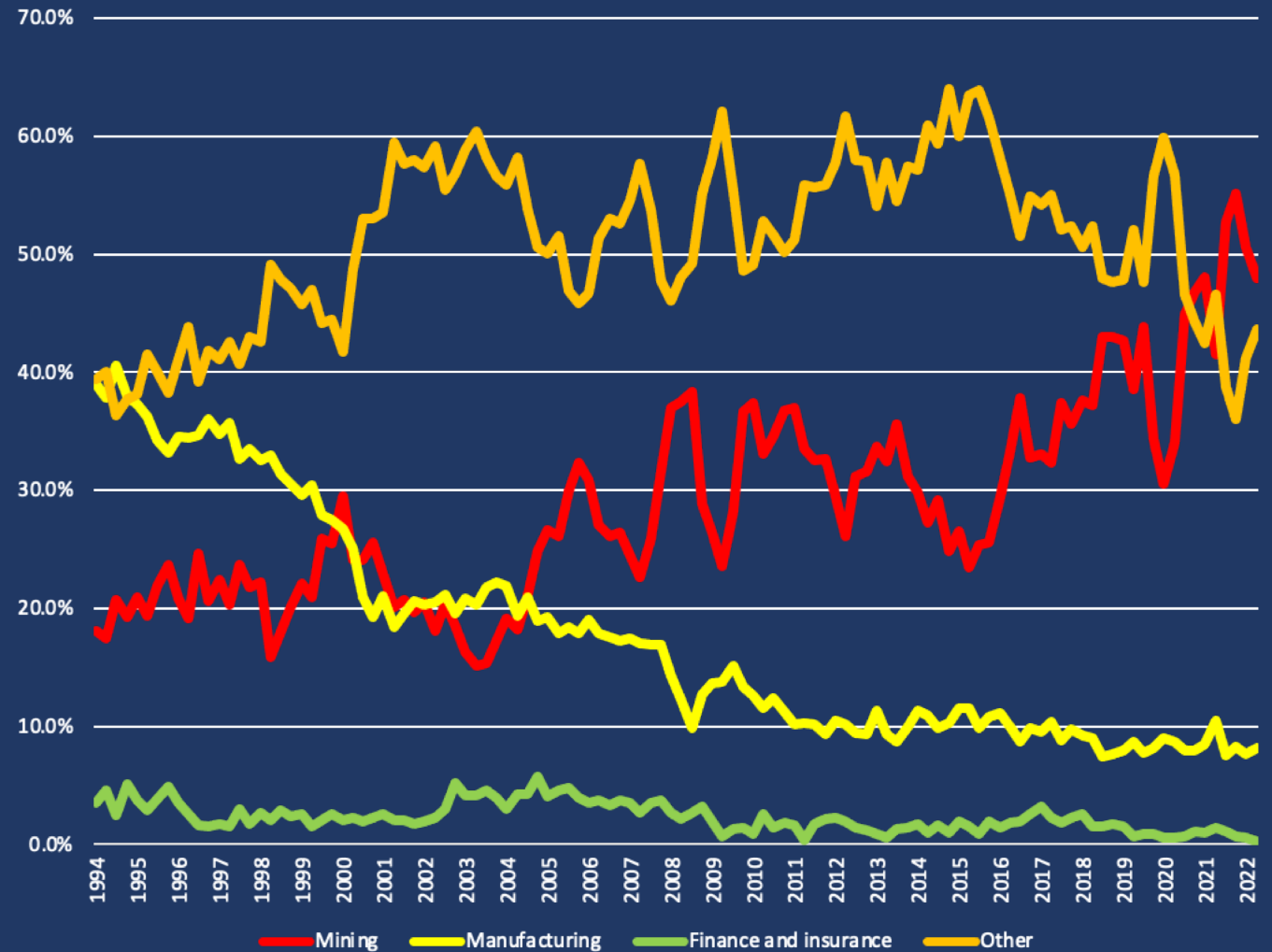


Source: ABS

Figure Five:

Industry share of profits

(per cent)



Source: ABS

Figure Six:

Industry share of jobs

(per cent)

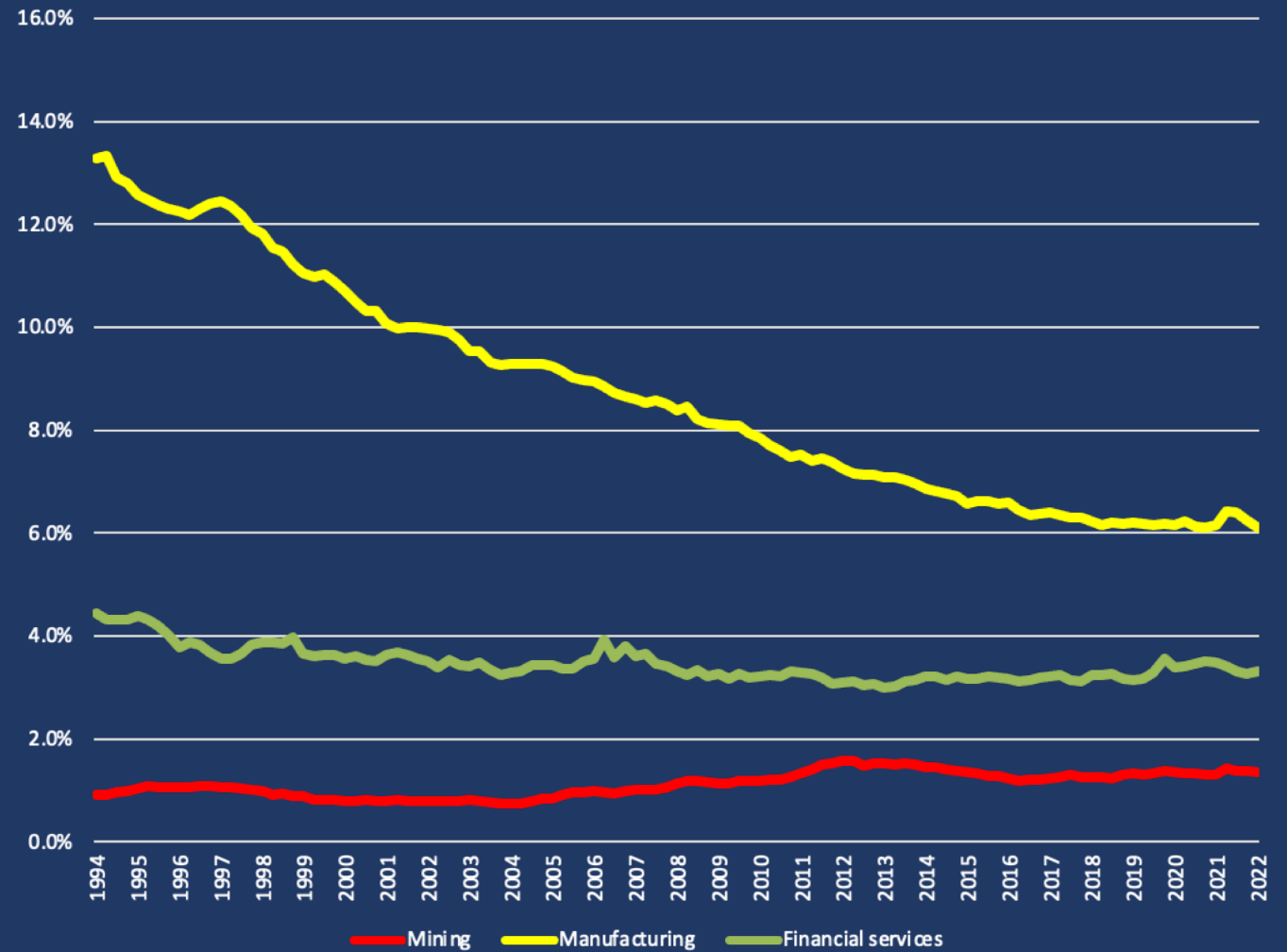
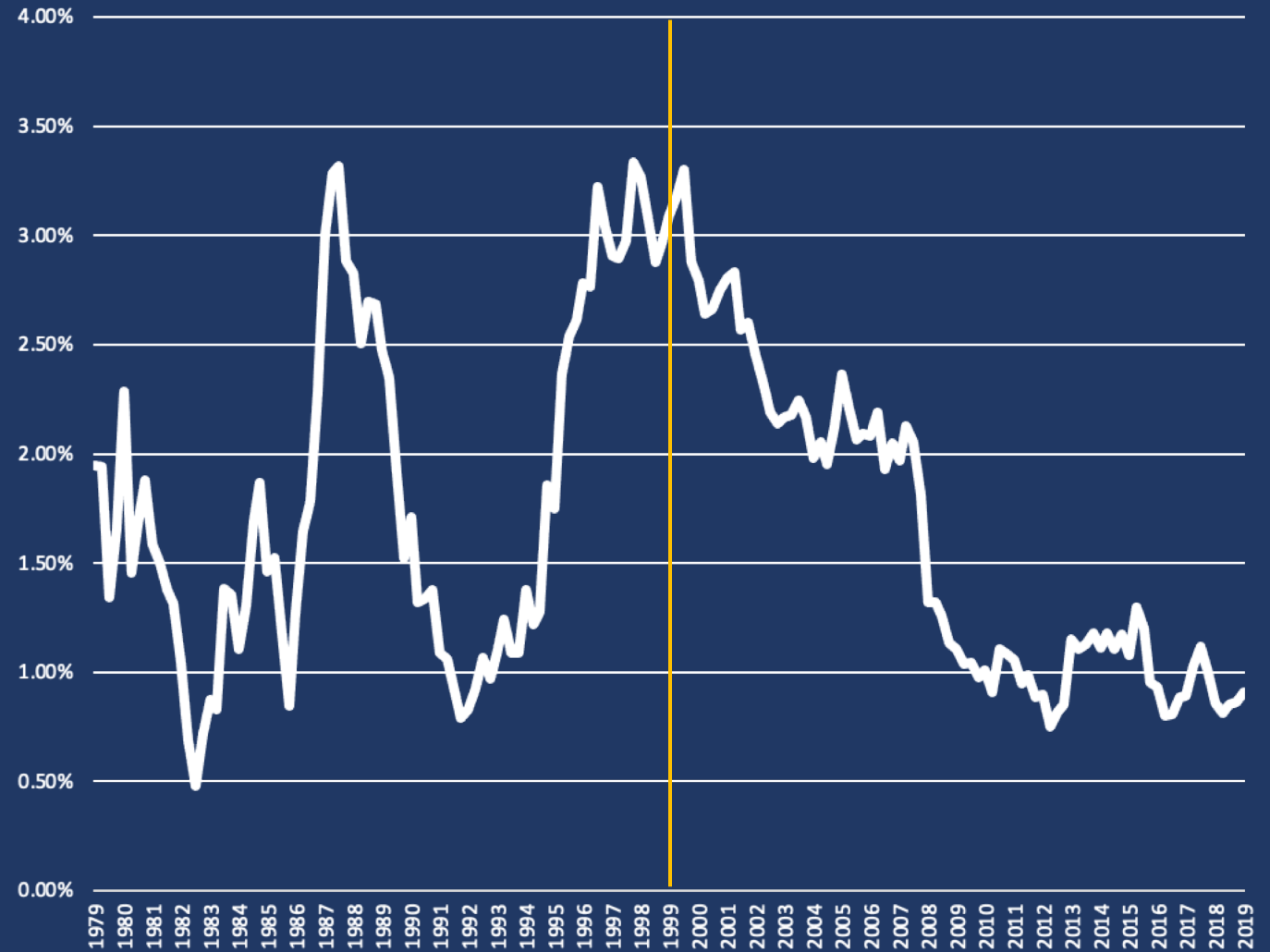


Figure Seven:

GDP per capita
growth (five-
year average)

(per cent per
annum)

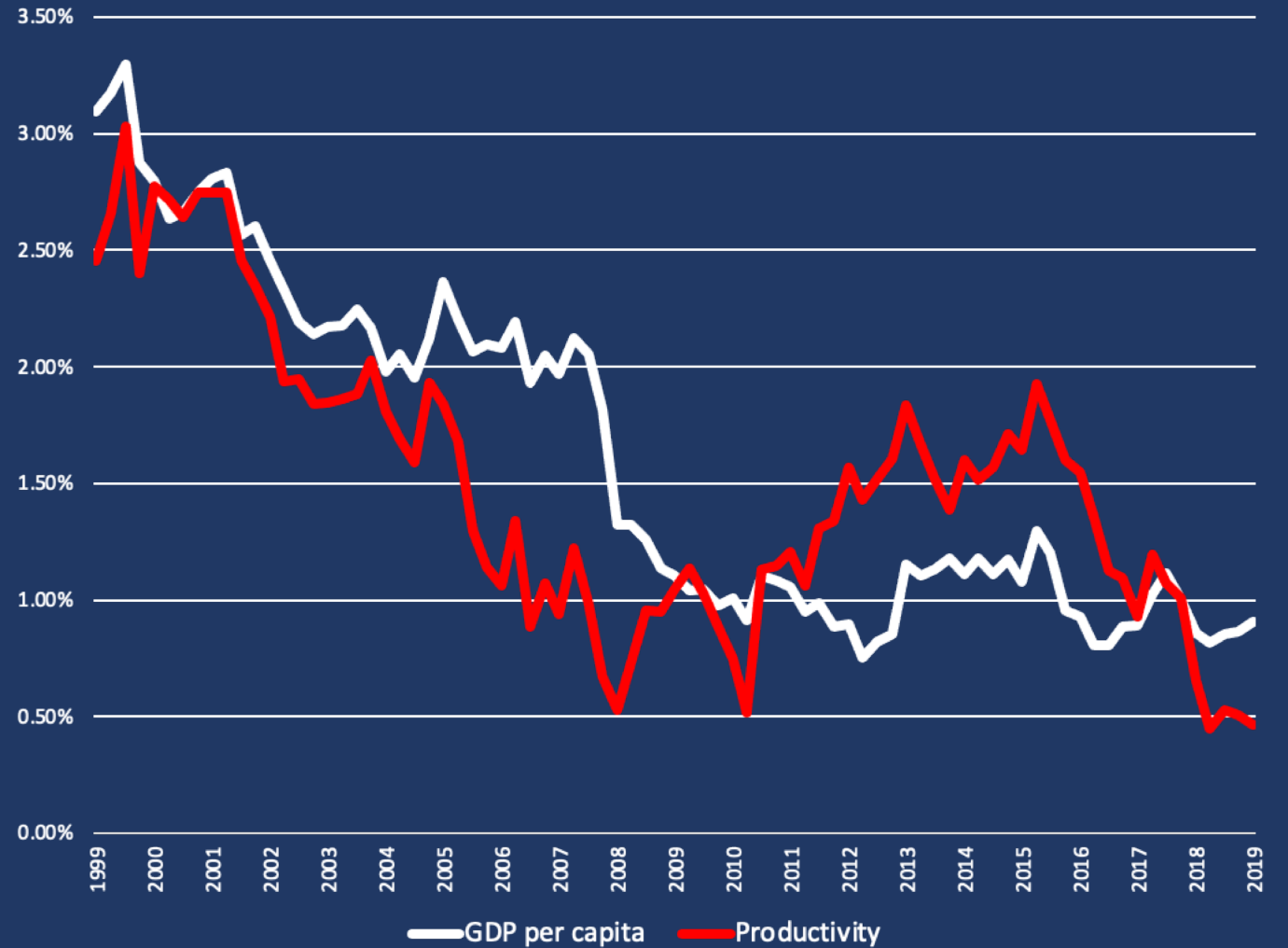


Source: ABS, Author calculations.

Figure Eight:

GDP per capita
and productivity
growth

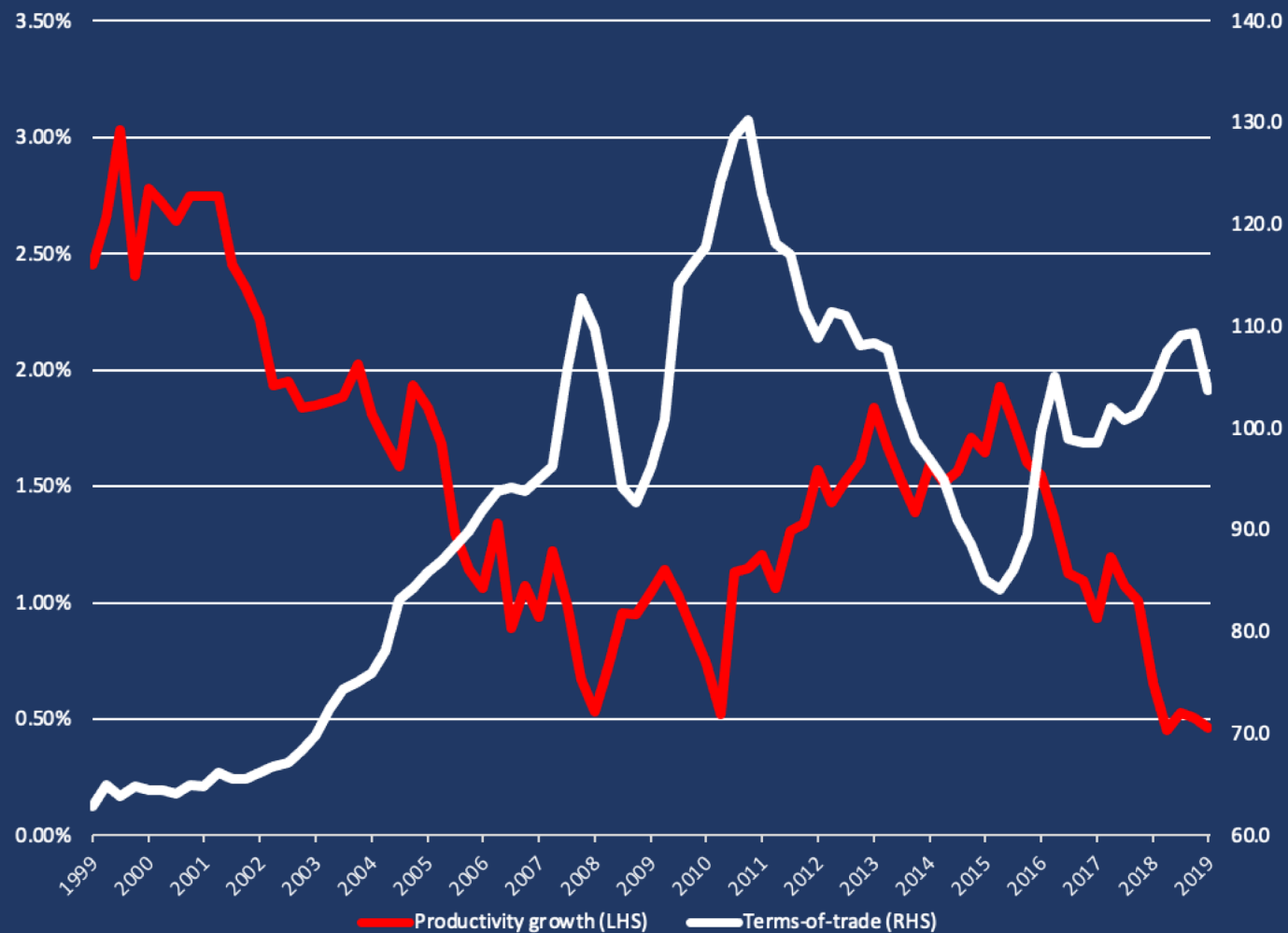
(per cent per
annum)



Source: ABS, Author calculations.

Figure Nine:

Productivity growth (%pa)
and the terms-
of-trade (index)

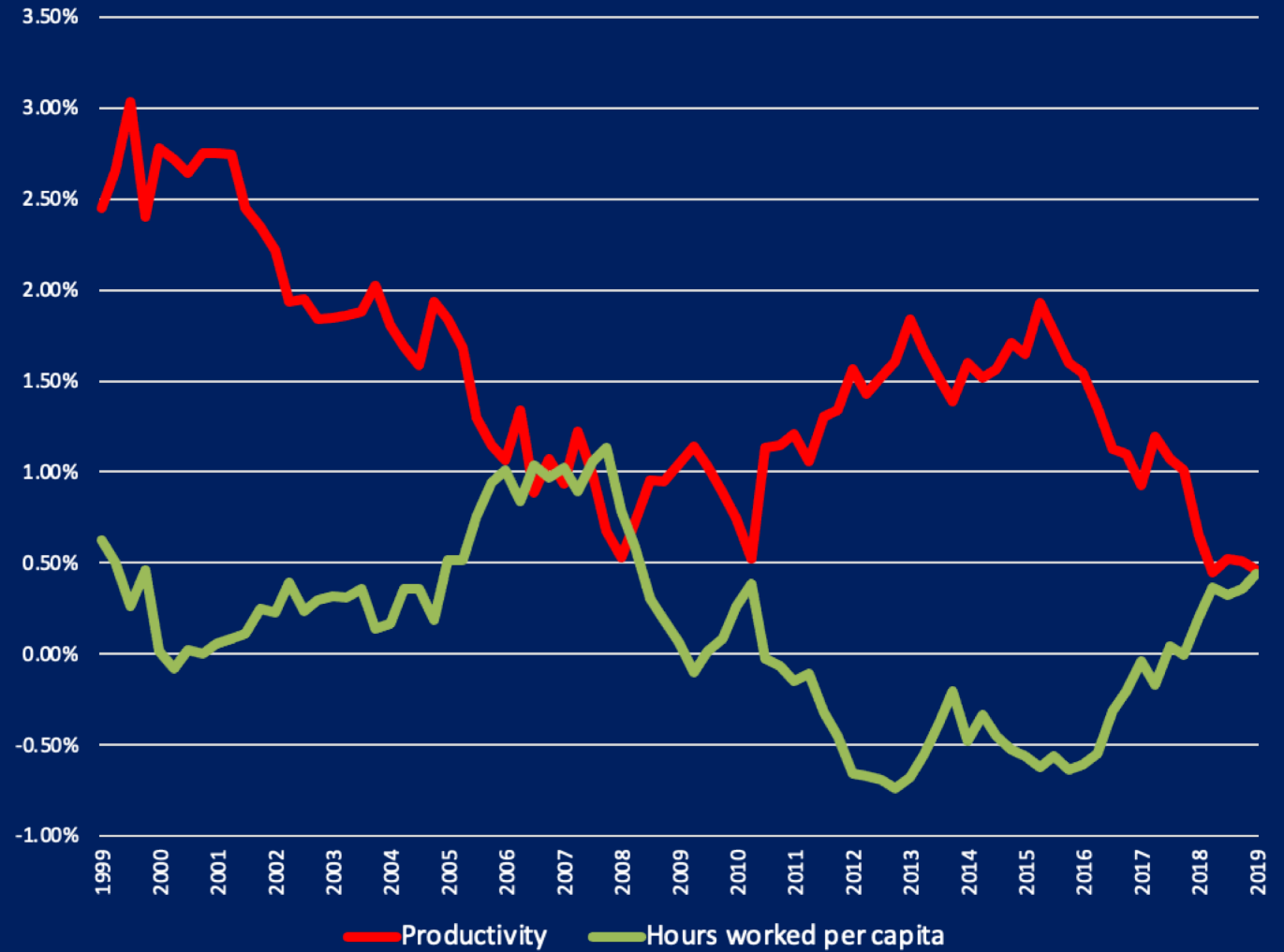


Source: ABS, Author calculations.

Figure Ten:

Productivity
growth and
growth in hours
worked per
capita

(per cent per
annum)

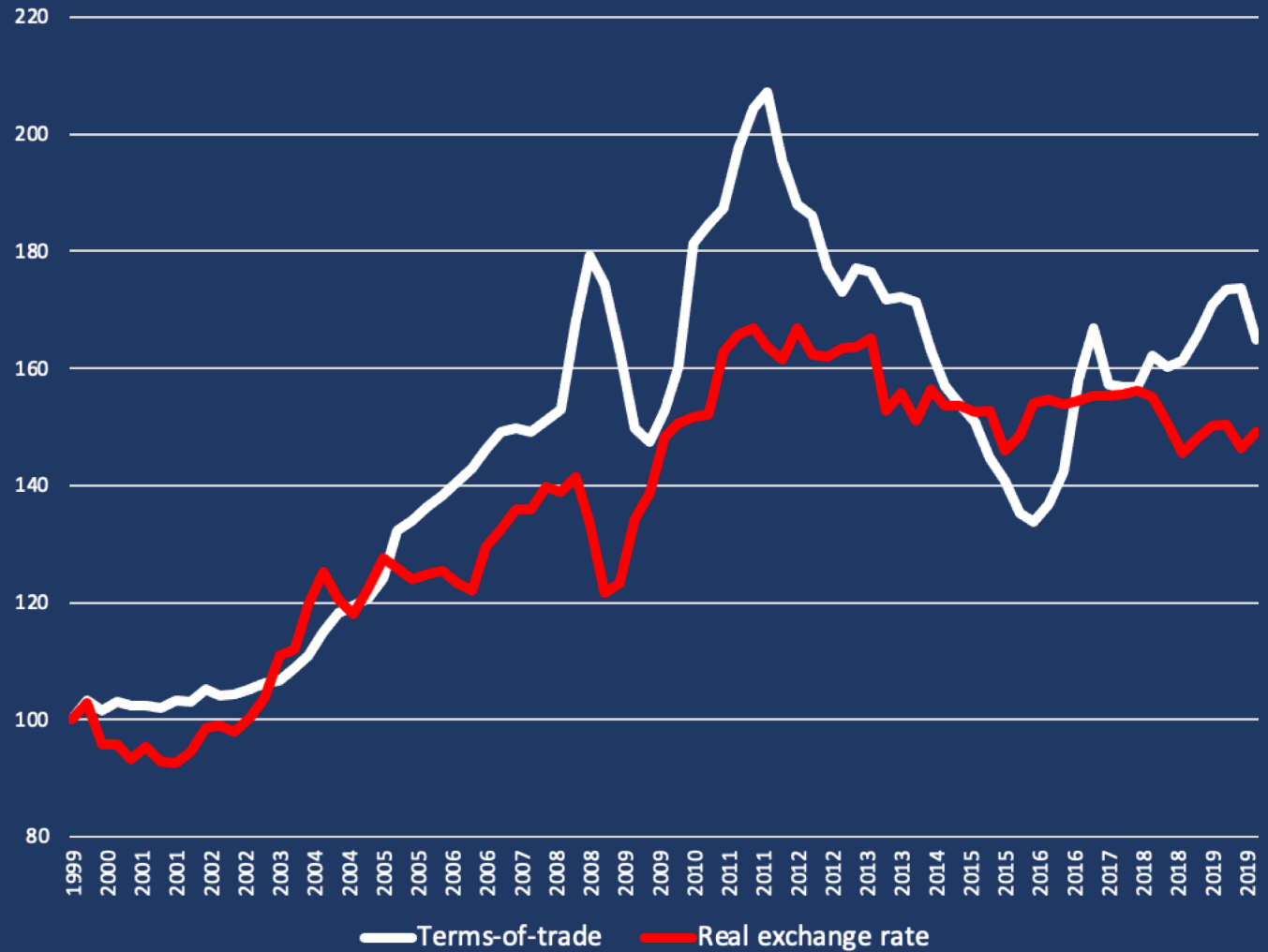


Source: ABS, Author calculations.

Figure Eleven:

The terms-of-trade and the real exchange rate

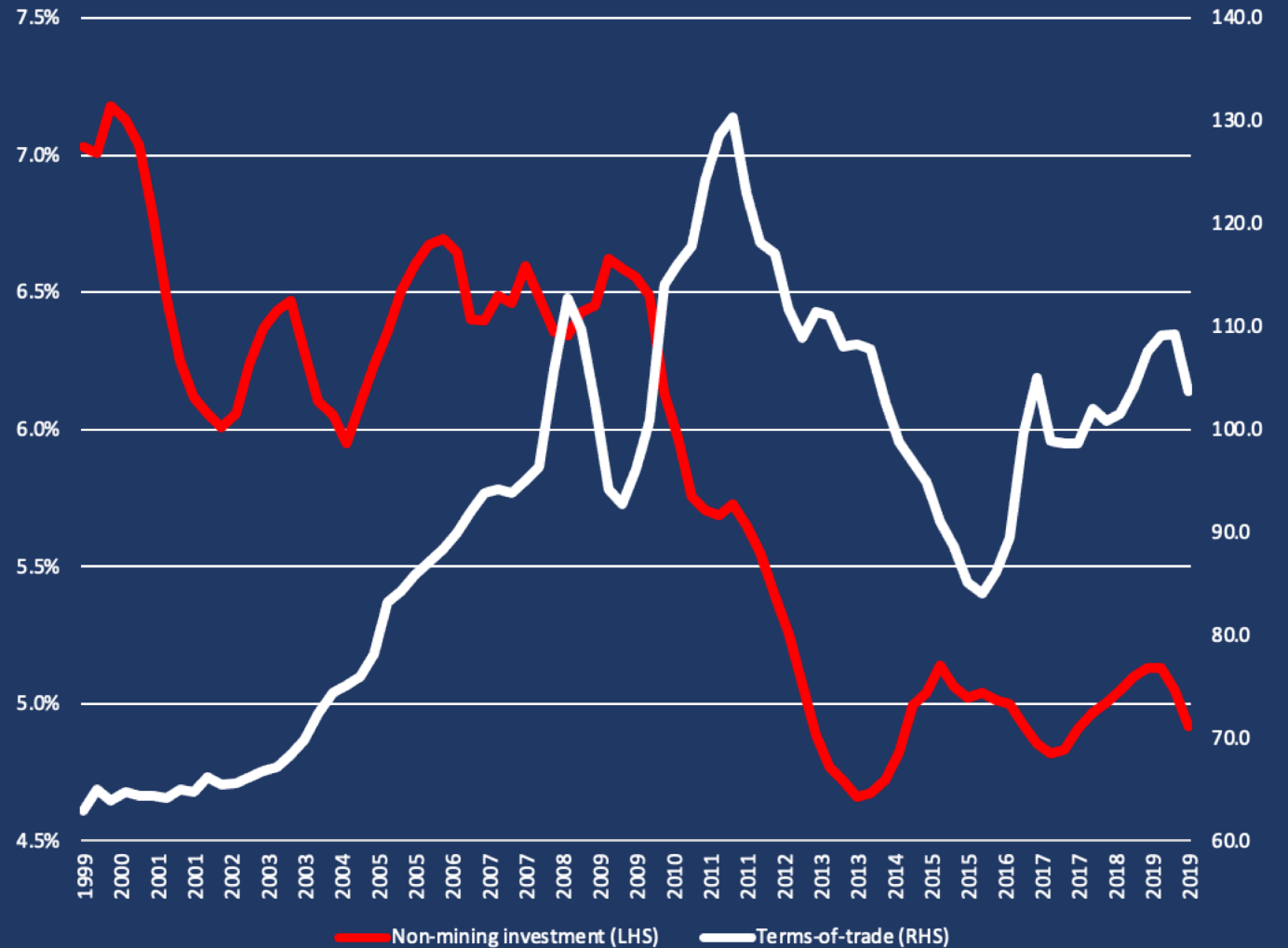
(index values)



Source: ABS, Author calculations.

Figure Twelve:

The terms-of-trade (index) and non-mining investment (% GDP)



Source: ABS, Author calculations.

Table One:

Commonwealth
spending

Year	IGR1 projections		Outcomes and October 2022 projection for 2032-33	
	Level (%GDP)	Change on <u>projected</u> 2005-06 level	Level (%GDP)	Change on <u>actual</u> 2005-06 level
2005-06	21.4	-	24.1	-
2021-22	23.4	2.0	26.8	2.7
2032-33	25.4	4.0	27.9	3.8
2041-42	27.4	6.0	Na	Na

Table Two:

Average annual
growth rate
projections (%
pa)

IGR1

Decade	Labour productivity growth	Employment growth (hours)	Real GDP growth rate	Real GDP per capita growth rate
1980s	1.2	2.4	3.4	1.8
1990s	2.0	1.3	3.4	2.2
2000s	1.7	1.5	3.1	2.1
2010s	1.75	0.6	2.3	1.5
2020s	1.75	0.2	2.0	1.4
2030s	1.75	0.1	1.9	1.5

High level tax design strategies

- Lift productivity
- Encourage greater participation
- Enhance economic resilience

High level tax
design strategies



Labour income

Normal return on capital

Transactions (e.g., stamp duty)

Consumption

Land

Other natural resources

Windfall profits and economic rents

Carbon

Other environmental externalities

Lifting productivity

- Comprehensive road user charging
- Replace GST, payroll tax, taxes on insurance with broad-based business cashflow tax
- Discounted, uniform rate of tax on interest, rent, capital gains
- Economy-wide price on carbon
- Cut the company tax rate or replace with ACE
- Increase tax on economic rents

Participation

- Less reliance on personal income tax
- Flatten the rates scale
 - But reform taxation of fringe benefits, superannuation and scholarships
- Replace property stamp duties with annual land taxes

Questions for tax reformers

- Is tax reform fair?
- What about roles and responsibilities?
- What should be the scope of reform?
- What would a sensible process look like?
- What do we need from our political leaders?