

Landmark tax review due for completion Dec 2009

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## Key points

- The Review of Australia's Future Tax System commenced in May 2008 and will complete its final report by the end of December 2009.
- The Review Panel was commissioned by the Treasurer and is chaired by Dr Ken Henry, Secretary to the Treasury.
- The Review is required to consider all forms of taxation, excise, duties and transfer payments, at federal and state level, and to recommend ways to improve the efficiency, productivity, cost effectiveness and equity of the tax and transfer system as a whole.
- The Review has been characterised repeatedly as a long-term 'root and branch' assessment of Australia's tax and transfer system, and not just a fine tuning of current arrangements.
- The terms of reference do not specify a date by which the government will release and respond to the Review's recommendations. Instead, the Government has undertaken to "respond in a timely way to the tax review's recommendations as they are released."
- Given the wide-ranging, long-term nature of the changes that this review will likely recommend, the multiple levels of Government that are involved (federal and state), and the fact that 2010 is likely to be a federal election year, the Government's responses to this Review's recommendations are likely to take some time to come through. Legislated action as a result of this Review will take even longer – probably several years or more.

## Key dates

13 May 2008	Australia's Future Tax System Review commenced
12 May 2009	"Report on the Retirement Income System" released
End Dec 2009	Review's final report delivered to the Treasurer
2010	Government to release and respond to the Review's recommendations "in a timely way".

## Key quotes

*"Tax reform [is not] the equivalent of a short sharp jab. ... The tax system should evolve and its evolution should be coherent."*

*"We mustn't forget the importance of simplifying the tax system".*

*"Some of those tax reform options that might otherwise have been delivered quite quickly perhaps will not be capable of being delivered for quite some time so that's one very real way in which the global financial crisis and its aftermath has impacted on the Review Board's thinking. [But] as far as the basic architecture of our tax reform exercise is concerned, and of the recommendations that we will make, there has not been a large impact."*

Dr Ken Henry, Speech and Q&A to CEDA, 15 Oct 2009.

## Who? What? When? Why?

The Henry tax review began in May 2008 and will be completed in Dec 2009.

The Review will examine the tax and transfer system as a whole, including all federal and state government taxes, excises, duties, transfers (welfare payments) and even the Government's proposed emissions trading scheme.

The Review must not increase the rate or scope of the GST.

The Review must not change the Government's personal income tax goals.

The Review appears to be leaning toward reducing our reliance on income taxes and increasing our reliance on consumption taxes.

User-pays tax or charging systems are likely to be part of the recommended mix.

State government duties on insurance policies, cars and property transfers are in the firing line.

In May 2008 Treasurer Swan announced the commencement of the Henry Tax review. It was one of the more significant of a large number of policy reviews that were commissioned in 2008 by a still relatively new federal government.

The impetus for the Review came partly from pre-election commitments and partly from the Government's 2020 Summit, held in 2007, which recommended just such a review. The Government says this is the first comprehensive review of all federal AND STATE taxes in over 50 years, with most previous reviews (such as the Asprey Review of 1975) focussing on one level of taxation only.

The scope of this Review is unusually broad. It includes all aspects of the tax and transfer (welfare payments) system, operated by all levels of government, as well as the 'inter-relationships between these systems' and, just to round out the picture, interrelationships with the 'proposed emissions trading system'.

This review is a long one, at over 18 months. To date, over 1,000 submissions have been received, and extensive consultations have been undertaken. The review Panel also hosted a 2-day conference to gather academic input. A complementary review of Australia's pension system has also been undertaken. All of these documents are available for public viewing on the Review's website. Dr Henry recently noted that all of the consultations to date are supportive of changing the tax system (albeit in many and varied ways), with "none of the [1,000 submissions] suggesting leaving the tax system unchanged".

### Scarce few early hints

The only limits placed on the Review's recommendations by its terms of reference are that it must:

- not increase the rate or broaden the base of the GST
- preserve tax-free superannuation payments for over-60 year olds and
- respect the government's "aspirational personal income tax goals".

Outside these three points, the Review is asked to recommend tax reform that will encourage employment, skill formation, saving, investment, efficient resource allocation, international competitiveness, simplicity and social equity, as well as reducing compliance and administrative costs.

While no draft recommendations have yet been released, speeches and papers by Dr Henry and the Review Panel indicate that a very long-term, wide-ranging approach is being taken. In his latest speech to CEDA, Dr Henry emphasised that tax reform should be (1) compelling, (2) evolutionary and coherent, (3) simple, (4) equitable and (5) able to cope with future change, such as population ageing, environmental degradation, globalisation in capital markets, technology change and affordable housing. A very wide-ranging brief indeed.

In terms of the general direction of the review, it appears that the Review Panel may look to recommend moving further away from our current reliance on income taxes (from both individuals and businesses) and more toward consumption taxes, as a way of encouraging work, investment and savings (all objectives listed in the Review's terms of reference). However, the Government's mandate that the Review must not increase the rate or scope of the GST (our primary consumption tax) will make this a tricky balancing act.

Among individual taxes and charges, Dr Henry has so far knocked out the idea of 'taxing the family home' in any way, but he has raised the concept of user-based pricing reform in road transport, pollution and related areas – a common policy internationally but still unpopular here in Australia. If the balance of our tax system is to shift more toward consumption taxes however, such user-pays measures may need to be considered.

Several state-based taxes also appear to have been singled out for the axe already, subject to suitable revenue streams being implemented to replace them. State taxes "such as those on insurance policies and the transfer of

**Transition measures and compensation may be required in the short-term for individuals and businesses that are disadvantaged by tax changes.**

**The Review's recommendations will be wide-ranging and long-term.**

**The Review's recommendations will require negotiation and agreement between federal and state governments in order to be implemented.**

**Once the direction and detail of tax reform is agreed by all levels of Government, implementation will be a long-term process, spread over several years or more.**

property and motor vehicles are generally recognised as being highly inefficient, sometimes even by the States themselves. ... Taxes levied on broader bases would be more efficient policy tools, probably more equitable and certainly more transparent ways of raising revenue. Without such tools, governments will continue to rely on bad taxes to achieve their spending objectives."

Speculation is rife on the fate of many other individual taxes and charges for businesses and individuals. But until the Review's recommendations are released by the Government, it will not be possible to state decisively what the possible effects will be for particular industries or communities. It is clear however, that the Review is considering the issue of transition measures and compensation, if and where it may be required. Dr Henry has on several occasions publicly discussed the "political problem" of compensation for individuals who might be disadvantaged in the short-term by large-scale taxation changes. He noted that in some cases, the compensation required or expected could rule out an otherwise desirable tax reform, at least in the short-term. Other implementation costs (such as temporarily higher administration or compliance costs) will be more acceptable if they can be offset by longer-term savings.

## Likely outcomes and timing

The terms of reference do not specify a date by which the government will release and respond to the Review's recommendations. Instead, the Government has undertaken to "respond in a timely way to the tax review's recommendations as they are released."

Many of the recommendations are however, likely to require further government consultation. And recommendations that affect state government measures or powers will require negotiation, as well as consultation, with all state and territory governments through the COAG forum. Some might even require the states to refer powers to the federal government and/or constitutional change.

Given the wide-ranging, long-term nature of the changes that this review will likely recommend, the multiple levels of Government that are involved (federal and state), and the fact that 2010 is likely to be a federal election year, the Government's responses to this Review's recommendations are likely to take some time to come through. Legislated action as a result of this Review will take even longer – probably several years or more.

This tax review is intended to be part of a long-term planning exercise, so a drawn-out implementation timetable is not necessarily a problem. Indeed, Dr Henry cites the 1975 Asprey tax review and its successful influence on tax policy for the following two decades as his model. But it does underline the ongoing, rather than one-off nature of the tax reforms that are likely to come our way.

**Henry tax review - timetable**

Date	Event
<b>13 May 2008</b>	<b>Treasurer Swan announced the ' Future Tax System Review'</b>
6 Aug 2008	Review releases its first discussion paper
19 Aug 2008	Review Panel releases framing questions and calls for submissions
19 Aug–17 Oct 2008	First round of public submissions accepted
Oct 2008	First round of discussions held with key stakeholders
5 Dec 2008	The Treasurer and the Minister for Superannuation and Corporate Law ask the Review Panel to bring forward its consideration of the retirement income system
10 Dec 2008	The Review Panel releases consultation papers
Dec 2008 – Feb 2009	Public submissions on the retirement income system accepted
Dec 2008 - May 2009	Further public submissions on the taxation review accepted
Jan 2009 - Mar 2009	Discussions held with key stakeholders
16–27 Mar 2009	Public meetings held in all capital cities and two regional centres
Apr 2009	Focus groups held in five capital cities and three regional centres
12 May 2009	Review's report on the retirement income system released by the Government
18–19 June 2009	Tax and transfer policy conference held in Melbourne
June–November 2009	Ongoing consultations with key stakeholders
<b>Dec 2009</b>	<b>Final report delivered to the Treasurer by the end of 2009</b> (public release of the final report will be at the discretion of the Treasurer).
<b>2010</b>	"The Government will respond in a timely way to the tax review's recommendations as they are released" during 2010 and beyond.

Source: [www.taxreview.treasury.gov.au](http://www.taxreview.treasury.gov.au)

**Henry tax review - documents released to date\***

Date	Title
6 Aug 2008	<i>Architecture of Australia's Tax and Transfer System</i>
10 Dec 2008	<i>Australia's Future Tax System - Consultation Paper</i>
10 Dec 2008	<i>Australia's Future Tax System - Retirement Income Consultation Paper</i>
Feb 2009	<i>Pension Review Report, DFHCSIA</i>
12 May 2009	<i>Australia's Future Tax System - The Retirement Income System: Report on Strategic Issues</i>
18-19 Jun 2009	<i>Australia's Future Tax and Transfer Policy Conference, University of Melbourne (10 papers presented and published)</i>
13 Aug 2009	<i>A Conceptual Framework for the Reform of Taxes Related to Roads and Transport, Paper by H. Clarke and D. Prentice</i>
19 Aug 2009	<i>Taxation reform and fiscal federalism - implications of Australia's Future Tax System review, Address by Dr Ken Henry to the Australian Economic Forum</i>
21 Aug 2009	<i>Perspectives on company tax, Address by Dr Ken Henry to the Australia New Zealand Leadership Forum</i>
17 Sep 2009	<i>Tax Reform - Future Direction, Address by David Parker to the Minerals Council of Australia's Biennial Tax Conference 2009</i>
1 Oct 2009	<i>Towards a better taxation of savings, Address by Dr Ken Henry to the Australian Conference of Economists Business Symposium 2009</i>
15 Oct 2009	<i>Lessons from tax reform past, Address by Dr Ken Henry to Committee for the Economic Development of Australia (CEDA)</i>

\* All papers, speeches and fact sheets available from [www.taxreview.treasury.gov.au](http://www.taxreview.treasury.gov.au)

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