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TAX 1.*Revised
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Our Taxation system, as distinct from some individual taxes, is again under active debate having slipped from the agenda following the defeat of John Howard's attempts to reform it. I wonder if Malcolm Fraser, during his last chaotic months in government, with his party deeply rent by retrospective tax law and an unsustainable budget, did not regret his government's failure to back the Howard proposals.

Senator Peter Walsh is trying hard, and not altogether convincingly, to tell us that resource rental is a satisfactory and substantial addition to the tax base. Mr. Kelman of CSR and Mr. Coates of the AMP have submitted separate papers to EPAC calling for a raft of reforms. (They wisely guaranteed the widest possible publicity for their arguments by submitting them in confidence.) The NSW Institute of Public Affairs has published a useful paper by Mr. John Harrowell calling for radical change. The unions are looking for income tax cuts to guarantee their co-operation in the incomes accord. The Confederation of Australian Industry wants to raise more revenue from indirect taxation and reduce ^{income} taxes. The Opposition is struggling with a taxation policy to run on at the next election, and the Government has promised income tax cuts. Costigan Q.C. continues to burrow into some of the more colourful means by which citizens have avoided tax and Professor Russell Matthews continues to pepper us with relevant statistics and memorable bons mots.

Yes, the tax system is back on the public's agenda. Let us this time do something about it. (There is however a case for persisting with an inefficient tax system and it should be stated.) It is simply this: there are very few restraints, other than the political odium of raising revenue, upon gross public waste. (An International Monetary Fund study I discussed on February 10 invariably associated high taxes with falling or only slowly-rising living standards.) If we want to be rich, somehow we must keep money, and hence resources, out of the hands of governments, but we must find a better way of doing this, than a tax system which is unfair, costly to administer, and causes taxpayers to waste resources while avoiding tax.

The Income Tax Act has 1100 pages and weighs 1.85 kilograms in a soft cover edition. No reasonable government would expect its citizens to comply with a law like that. Australian income tax law is a dog's breakfast and it is such a mess primarily because far too much is asked of it. Too much is asked because the government is unnecessarily large, because two thirds of the Commonwealth's revenue is derived from Income Tax, eighty percent of all tax is raised by the Commonwealth, and because it is (a vehicle for political favours.)

Alan Coates in his EPAC submission said: "I would hold strongly to the view that the aggregate claims of government on the country's income are already too high and that any new sources of tax revenue should be fully offset by reductions in personal income tax and possibly the overall taxation treatment of corporate profits. Consistent with this view I have assumed that the government will examine most stringently the expenditure side of its budget....." - as the winged pigs fly bravely overhead ! Still it was a nice try, and the more often it is said the more nearly it will be achieved.

The Confederation of Australian Industry is trying to convince the government to slash waste in public sector spending. They will be credible when they are specific and if they include assistance to industry among their cuts.

Lobbies for sectional interests who call in general terms for tax cuts but continue to demand tax concessions and hand-outs for themselves in their pre budget submissions are hypocrites who, not deserving to be taken seriously by governments, are not. Their lack of credibility becomes a licence for government extravagance. While there are many other departments, including health and education, which might function better with less money, we know that industry as a whole would function better without the selective tax concessions and subsidies which favour some industries over others in the scramble for inputs.

In one way Australia is lucky; because we have concentrated so heavily on taxing incomes, taxes on consumption and capital are not as beset by sectional and particular interests. Sir Eric McClintock in the foreword to the IPA-Harrowell paper makes the point that "A complex law cannot be replaced by a simple law without upsetting those with sectional and particular interests..."

Sir Eric is scathing of those who exercise too much political caution asking those who say the Harrowell proposals are "not on" to think again. Instinctively I am sympathetic but we must crawl before we walk. The first thing for a government to do is to shift the tax base away from those sectional and particular interests to other tax bases reducing income tax rates. This will reduce the unfairness and economic loss occasioned by the anomalies in the income tax act without setting quite as many hares running. In due course, when a government gets around to cleaning up the income tax act it will find that the vested interests are not as vehement because the tax rate is lower.

In the meantime a government will need all its limited courage and persuasive influence to defend those taxes which it will ask to carry an additional load and to excise any effect the changes might have on the Consumer Price Index from wage fixing procedures. The obvious tax bases to carry the additional load are those recommended by Harrowell, Kelman, Coates, Matthews and the Asprey Committee, namely consumption and capital gains.

Although Brian Kelman talks of "a bold new initiative" he recommends against sweeping changes to the body of the Income Tax Assessment Act. He seems to think his recommendations quite bold enough for one year without that. Even though the Act in its present state is offensive, I think he is right.

We must however start understanding just how bad it is now.