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MEDIA RELEASE

The Australia Institute Revenue Summit Speech

17 October 2018

The tax and transfer system is no longer doing the job the community expects.

My sense is that as in the mid-80s and 90s there is a general recognition that this is the case even if voters individually do not understand why.

I would argue that this is an environment in which it is once again possible to advocate successfully for fair and broad based reform of the tax system.

This community unease is matched by the data.

Government revenue has become increasingly dependent on personal income tax as other forms of taxation have fallen away.

For example, the percentage of household spending subject to the GST has fallen from a little under 61 percent to less than 56 percent in the years since its introduction at the beginning of the 2000s.

Over the same period fuel excise has fallen from 1.5 percent of GDP to a little over one percent.

And I should add this is likely to fall further as Australians shift from vehicles powered by internal combustion engines to electric vehicles.

This trend was but one of the reasons I advocated a Senate Inquiry into EVs – a committee which I am now chairing and which we are in the process of preparing a report for the parliament.

I am hoping that it will provide a roadmap enabling policy makers to make up for lost time as the rest of the world makes the transition to EVs.

It also points to the urgency of moving to some form of road user charge so that the costs of building and maintaining our roads are equitably spread through the community.

Why should the owner of a $200,000 Tesla pay nothing to drive on our roads, subsidised in effect by owners of Holdens and Fords.

And then there is the question of resources rent taxes which have fallen from just over two tenths of one percent of GDP since 2001/2 to under one tenth of one percent of GDP today.

In short, according to the Parliamentary Budget Office, an array of taxes from the GST to taxes on alcohol and tobaccos to the FBT to company taxes to taxes on fuel products have all fallen as a percentage of GDP since the beginning of this century.

At the same time, the budget is still struggling to return to balance and net debt continues to rise.

As former Treasurer Peter Costello noted some months ago – and remember he was the last Treasurer to preside over the reduction of government debt to zero – debt is now so high that he thought he would be dead before it was paid off again.

As he put it: "It took us 10 surplus budgets to pay it off last time. You'd be doing well to pay it off in 10 surplus budgets this time."

And yet when the government announced last week that it intended to bring forward company tax cut for companies with a turnover of up to 50 million dollars the Treasurer revealed that there would be no savings to match the estimated cost of 3.2 billion dollars over the forward estimates.

At least Labor announced that it would help meet the cost by delaying the implementation of its Australian Investment Guarantee, which provides tax incentives for businesses to increase their investment.

The last time the issue was before the Senate I opposed the cuts on the basis that the best evidence to date found that the corporate tax cuts already in place have had next to no impact on wages and a small effect on jobs and investment.

The best factual evidence for this comes from analysis of actual data by economic researchers AlphaBeta Advisers who sampled the accounts, taxes and invoices of businesses with a turnover of under two million dollars which received a tax cut in 2015.

I have told the government that I think the money earmarked for speeding up the tax cuts for companies with a turnover of up to 50 million dollars would be better spent on expanding the instant asset write off, expanding R&D concessions and spending more on physical and intellectual infrastructure.

The evidence I have seen suggests that these would provide a much quicker boost to jobs, wages and growth.

Once again, I will be opposing bringing forward the tax cuts when asked to vote on the legislation in the Senate.

The revenue foregone as a result of this government initiative could also be better spent with more immediate effect by increasing the level of Newstart and associated payments by 75 dollars a week.

As the BCA noted some years ago, Newstart is now at such a low level that it may actually be a barrier to employability.

The recent report by Deloitte Access Economics suggests that an increase of 75 dollars a week in Newstart would produce a "prosperity dividend" of four billion dollars for the Australian economy – not to mention lifting tens of thousands of jobless workers out of extreme poverty.

We are told the current state of dysfunction in Australian politics reduces the prospects for fair and broadbased tax reform.

I beg to differ.

The problem, it seems, to me is that successive governments have tried to "cherry-pick" the tax reform agenda.

Whether it was Labor's attempt to introduce a super profits tax on mining companies or this government's to cut taxes for our biggest corporations.

Go back to the mid-80s and mid-90s.

Economic conditions could hardly have been more trying than they were in the 1980s when Bob Hawke and Paul Keating embarked on the first major program of tax reform; the Howard government was deeply unpopular when it set out to introduce the GST.

Both were successful and both survived the subsequent election.

It is not as if we do not have a template for fair and broad-based tax reform – a foundation for a renewed effort to fix the problems we now confront.

It was, of course, the Henry Review of the Tax and Transfer System with its proposals for 5 principle reforms and 149 recommendations.

It has been the bible on which I have depended in coming to decisions on economic matters since I entered the Senate earlier this year.

As Ken Henry noted when he addressed the Institute of Company Directors in May we have “an unsustainable tax structure characterised by multiple, often conflicting objectives…”

“Ten taxes are responsible for 90% of the revenue. The other 10% comes from more than 100 taxes.”

We can – and must fix this, if for no other reason than we owe it to our children.

Henry has provided us with the platform – the foundation for reform.

What he was NOT asked to do was to come up with a package of reforms – the changes and the tradeoffs.

That is where my attention is now focussed and in recent months I and my staff have talking to an array of experts to see whether there is a way of rebooting the tax debate to renovate a tax and transfer system which is no longer fit for purpose.

I am an optimist with an eye to the future, but also a person who believes in looking to the lessons of the past.

History shows that it is only comprehensive, fair and adequately compensated tax reform which has succeeded in recent times.

It may be a hard slog, but the evidence from the 80s and 90s is that those two rounds of reform helped set up Australia for the continuous growth and prosperity of the last quarter century.

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