

## Australia's Future Tax System Review

The AFTS Review considers how Australia can improve its tax and transfer systems to meet the challenges of the 21<sup>st</sup> century while building on social and economic outcomes. The challenges identified include:

- Greater globalisation
- Ongoing technological transformation especially in ICT
- Population ageing
- Ongoing population growth and diversity
- Environmental pressures
- Pressure on housing affordability and urban amenity.

In looking to the shape of a tax system that will meet these challenges, the Review finds that many of the core elements of the existing system will serve well or will provide a good foundation for improvement. Thus, while the Review presents the case for “root and branch” reform, it does not argue for a ringbarking of the existing system.

The Review confines itself to setting “strategic directions” for reform. It does not contain a once-off reform package and has not put forward a detailed timetable for reform. It recognises the need to address political and practical realities in pursuing taxation reform and the need also for consultative approaches to design and implementation of tax reform proposals.

## High Level Vision

The Review's vision is of a tax system that meets its objectives “efficiently, equitably, transparently and effectively.”

*Critically it should support per capita income growth rates at the upper end of developed country experience by encouraging high workforce participation, a more efficient pattern of saving, and stronger investment in education and physical capital.*

The Review also has a vision of a tax system that is robust, capable of adapting and dealing with shocks. That supports dynamism and diversity. That reflects the Australian values of fairness and support for the disadvantaged. It would “reduce compliance costs and make interactions with the tax system easier, more certain and more understandable.” It would enhance accountability of governments.

A key element of this is the Review's recommendation (Rec 123) that pre filled tax returns should be provided to the majority of taxpayers.

The broad architecture through which the Review would have these objectives achieved would involve a significant rationalisation of taxation in Australia. The Review envisages the removal of the following taxes “over time”: insurance taxes; payroll tax; property transfer taxes; stamp duties on purchase of motor vehicles; resource royalties; luxury car tax; tax on superannuation contributions (in the fund); income taxes on all government pensions, allowances and benefits; and fuel and vehicle registration taxes.

Instead, revenue collection should be concentrated on “four robust and efficient tax bases”:

- Personal income (assessed more comprehensively to include many fringe benefits and superannuation contributions);
- Business income;
- Private consumption (using broad, simple taxes); and
- Economic rents from natural resources and land.

## Key Directions

### Company taxation and business investment

Reduce the rate of company tax to 25% and retain the imputation system “over the medium term” and maintain the rate towards the lower end of the range of rates applied in small to medium OECD economies.

A possible longer-term reform direction is to adopt a business level expenditure tax and reconsider the place of the imputation system.

Proposed changes to business tax base include:

- Allow a one-year carry-back of company losses (so a tax refund would be available if a loss was made providing the company paid tax on profits in the previous year).
- Provide a more generous low-value asset write-off provisions for all businesses (and a high threshold for small business).
- Extend the effective life principle to a wider range of business assets.
- Streamline small business capital gains tax arrangements.
- If exploration concessions were continued, they should take the form of a refundable tax credit at the company tax level.

### Resource taxation

Replace existing royalties with a project-based resource rent tax levied at 40% on profits above a threshold rate of return.

The proposal would not extend to designated “low-value” resources. Transition rules should be developed so both new and existing projects were included.

The Commonwealth and State governments should negotiate an appropriate allocation of revenues and risks.

## Road transport

The Review proposes a new approach to road charging that would include:

- Direct road user charging including variable, time-of-day congestion charges in cities.
- Acceleration of COAG's development of mass-distance-location pricing for heavy vehicles.
- Improvements to third-party insurance to better reflect individual risks.
- On routes where road freight is in direct competition with rail freight, impose an additional charge on heavy vehicles.
- Ideally fuel tax would be entirely replaced over time with user charges or at least reduced and harmonised with more direct road user charging.

## Personal saving and investment

The review proposes a common 40% discount for returns to personal saving and investment in the form of interest, residential rents and capital gains (the discount on capital gains is currently 50%).

All interest expenses related to personal saving would also be discounted by 40%. This includes borrowings related to earning dividends for which no discount would apply.

## Personal income taxation

Streamline the personal income tax scale by having a higher universal tax free threshold – set at around \$25,000. This would replace current differential thresholds and tax offsets. Beyond the tax-free threshold a two-step rate scale would apply (indicatively 35% from \$25,000 to \$180,000 and 45% above \$180,000).

Include all forms of remuneration from work in an individual's assessable income. This would include the main fringe benefits and employer superannuation contributions. Work-related deductions could be rationalised by replacing the current approach with an optional standard deduction linked to the level of income from work.

All government pensions and allowances could be exempt from tax.

## Taxation of superannuation and retirement incomes

The Review proposes substantial changes to tax/transfer arrangements applying to superannuation:

- Remove the tax on superannuation contributions in the fund and instead include employer contributions in individuals' assessable income. Subject to annual limits, all contributions to superannuation would attract a tax offset payable to contributors.
- Retain indefinitely the current transitional contributions cap of \$50,000 pa for people over 50.
- Tax the income and gains of superannuation funds at 7.5% (currently 15% for income with a 33% discount for capital gains).
- Include superannuation balances in the Age Pension means test on the same basis as other savings.

The Government should encourage the development of a market for longevity products (annuities).

### Consumption taxation

The Review canvasses the option of replacing a range of existing taxes (including insurance levies and payroll tax for example) with a low-rate cash flow tax on all entities.

Such a tax would exempt exports and tax imports (as does the GST); allow a deduction for a return on capital employed; but need not allow a deduction for wages related expenditure.

Consider replacing the current treatment of financial services under the GST with an alternative financial services tax.

### Land taxation

Subject to a long transitional period, replace existing land tax arrangements with a land tax applying to all land regardless of use. Apply a rate scale based on per square metre land values.

Most land in agricultural use would be effectively exempt through the combination of a zero rate threshold and the per square metre approach. Most residential land would attract an annual tax of about 1%.

Land tax revenue would replace stamp duties on land transfers.

### State and local government taxation

The Review puts a strong case for the removal of many of the existing taxes levied by State and Territory governments.

The Review contemplates a variety of alternative revenue sources. These include a possible new land tax, a possible cash flow tax on business and revenue sharing (as with the royalty/resource rent tax proposal). The Review also canvasses the possibility of the states piggy-backing on the personal income tax (assuming the Commonwealth withdraws to create room for them to do so).

The Review suggests that local governments should retain the responsibility for levying rates and should have greater autonomy from control over rates than currently allowed by the states.

### Workforce participation and housing affordability measures and the transfer system

The following changes are proposed for the tax and transfer system to encourage participation:

- Improve support for quality child care.
- Build clear work incentives into the *levels* of income support payments.
- Target means tests depending on whether recipients are fully able to work full time (impose steeper rates of withdrawal) and facilitate take-up of part time work for others (with gentler means tests).
- Establish three levels of primary support payments: pensions for aged, disabled and carers; lower-rate participation allowances for those of working age; and assistance payments for young people and students. Means tests would reflect different work expectations.
- When adequacy benchmarks are reached, preserve them with common indexation arrangements.

- Remove the assets test and expand the means test with income from saving assessed on a deemed return on assets.
- Family assistance to be paid through a single program based on assessed additional costs of children in general increasing with age and means tested in accordance with family taxable income.

As part of a broader policy agenda to address housing affordability the Review suggests that maximum rates of rent assistance should be increased and linked to movements in market rents and that existing public housing rent concessions should be replaced with rent assistance and a new form of assistance for high-need tenants.

### Administration and process

To improve administration, accountability and transparency, the Review recommends that:

- The Board of Taxation should be able to initiate its own reviews and that an Advisory Management Board should be established to guide the organisation and management of the ATO.
- Increased resources should be provided for the Inspector General of Taxation (IGOT), the Australian National Audit Office and the Commonwealth Ombudsman.
- The IGOT should focus solely on systemic tax issues relating to business.
- Regular data and analysis of tax and transfer systems should be made available.

### Macroeconomic and Fiscal Impacts of Reform

The Review anticipates that there would be a significant boost to productive activity if its directions were pursued. It has used a computable general equilibrium model to estimate a number of core reforms:

- Reducing company income tax;
- Improving taxation of non-renewable resources and land;
- Replacing a range of narrow taxes with a cash-flow tax;
- Improving the structure of other taxes; and
- Reducing disincentives to work through personal income tax and transfer system reforms.

The Review estimates the gain to output to be in the order of 3% - 4%. In 2010-11 dollars this is equivalent to \$25-\$40 billion dollars.

This modelling did not include potential gains from changes to transport pricing, improvements in allocation of saving or any administration or compliance costs.

The Review has also estimated the revenue impacts of the major reform directions as revenue neutral overall and involving the following approximate shifts in revenue sources:

**Estimated Fiscal Impacts of Reforms**

<b>Source of Revenue</b>	<b>Estimated Change in Revenue (\$ billion in 2010-11 dollars)</b>
Personal taxation	-7
Investment and entity taxation	-7
Land and resource taxation	+7
Taxing consumption	0
Enhancing social and social outcomes	+2
The transfer system	0
Revenue on growth dividend	+5

## Navigating the AFTS Report

Following the Executive Summary, the Report is in two parts. Part 1 is an Overview and Part 2 contains the Detailed Analysis behind specific recommendations.

Part 1 initially makes the case for reform, sets out the principles the Review has adopted and the broad vision for the architecture for the future tax system. It also contains individual chapters that provide summaries of the areas covered in Part 2. Finally (chapter 11) it outlines the macroeconomic and fiscal impacts of reforms.

The following table sets out the main reform areas covered in the relevant chapter of Part 1 and the relevant Section in Part 2.

Reform Area	Chapter in Part 1	Section in Part 2	Main Topics Covered
Personal Taxation	4	A	<ul style="list-style-type: none"> <li>o Personal tax base and rates</li> <li>o Taxation of saving (including investments in rental properties)</li> <li>o Retirement incomes (including superannuation)</li> </ul>
Investment and Entity Taxation	5	B	<ul style="list-style-type: none"> <li>o Company tax rate and base</li> <li>o Small business arrangements</li> <li>o Imputation</li> <li>o Possible expenditure tax direction</li> <li>o Not for profits</li> </ul>
Land and Resource Taxation	6	C	<ul style="list-style-type: none"> <li>o Royalties and resource rent tax</li> <li>o Land tax and stamp duties</li> </ul>
Taxing Consumption	7	D	<ul style="list-style-type: none"> <li>o Options for rationalisation of indirect taxation (including cash flow tax)</li> <li>o Taxation of financial services</li> </ul>
Enhancing Social and Market Outcomes	8	E	<ul style="list-style-type: none"> <li>o Road transport</li> <li>o Taxation and the environment</li> <li>o Alcohol taxation</li> <li>o Tobacco taxation</li> <li>o Gambling taxation</li> <li>o Phasing out other taxes</li> </ul>
The Transfer System	9	F	<ul style="list-style-type: none"> <li>o Types of payment and means testing</li> <li>o Family-related payments and child care</li> <li>o Housing assistance</li> </ul>
Institutions, Governance and Administration	10	G	<ul style="list-style-type: none"> <li>o Consultation and accountability</li> <li>o State tax reform</li> <li>o Client experience</li> <li>o Monitoring and reporting</li> </ul>

## Recommendations and Government Response

A1 Personal Income Tax		Status	Business Impact	Comment
4	Exempt income support payments from tax	D		
5	Remove Medicare levy and structural offsets	R/D		Ruled out removing Medicare Levy.
6	Rationalise concessional offsets	R		Government will not reduce remuneration for defence personnel
8	Personal income tax base broadening (private education payments and employment related payments included, foreign employment exemption removed, defence salaries taxable)	R		
9	FBT (most to employees, some in hands of employer, market value principle, single rate of valuing car benefits, change for not for profits – see below)	R		
10	Alienation of personal services income	D		
11	Standard deduction for work related expenses (taxpayer choice)	D		
12	Tighten nexus between expense and its role in producing income	D		
14	40% saving discount for interest, residential rents, capital gains/losses and interest expenses – including for shares in listed companies) (note Rec 15 and 16 are related proposals)	R/D	+	Reject in relation to reduction of CGT discount and in relation to interest deduction on real estate.
17	Simplification of CGT (threshold increase for collectibles, restructure small business arrangements, remove grandfathering, rewrite legislation)	R/D		Ruled out removal of grandfathering.

Status Code:

Accept

Rule out

Defer/No comment

Business Impact Code

+ Positive

- Negative

+/- Positive and negative elements

<b>A2 Retirement Incomes</b>		Status	Business Impact	Comment
18	Change super taxation (remove tax on contributions, treat as personal income of individual, provide a refundable tax offset, remove from income tests for income support)	R		Effectively ruled out as Government has gone down an alternative route on super.
19	Halve to 7.5% tax on super earnings (remove CGT discount)	R		Reject in relation to removal of CGT discount
20	Remove restriction on contributions for people aged over 75	D		
21	Support by government for longevity insurance market (rec 22 related)	R		Reject in relation to government provision of annuity products
23	Improve information including by increasing frequency of employer payments and changing reporting to employees	D		

<b>A3 Wealth Transfer Taxes</b>		Status	Business Impact	Comment
25	Possible tax on bequests – for community discussion	R		Ruled out

B1 Company and other Investment Taxes		Status	Business Impact	Comment
26	Maintain current comprehensive income tax structure but discuss business level expenditure taxation	D		
27	Reduce company tax rate to 25% over short to medium term	A	+	Partially accepted – rate to 28% with a possibility of further reductions
28	Capital allowance regime (low value asset write off and review remaining concessional write off regimes)	D		
29	Streamline small business write off regime (immediate write off and pooling)	A	+	Partially accepted – write off threshold well below Review recommendation
30	SME entity turnover threshold raised to \$5m (from \$2 million) and consider adjustment of net asset value test	D		
31	Carry back losses for 1 year	D		
32	Change in exploration expense provisions	A	+	Accepted as part of the Resource rent package
33	Exempt financial institutions from IWT for non-residents	D		
34	Consider negotiation IWT to zero in tax treaties	D		
35	Better arrangements for managed funds to ensure conduit income is not taxed in Australia	D		

<b>B2 Business entities and owners</b>		Status	Business Impact	Comment
36	Rewrite and update trust rules to reduce complexity and uncertainty	D		
37	Keep imputation for short to medium term but consider change as part of possible move to expenditure tax base	R		Government will not remove the benefits of imputation
38	Not adopt a flow-through entity for now but consider if imputation is removed	D		
39	Current restrictions on imputation to remain (limit to Australian company tax paid)	D		
40	Review Australia-NZ harmonisation of company tax arrangements	D		

<b>B3 Not for profits</b>		Status	Business Impact	Comment
41	Charities commission to modernise definition and streamlining NFP tax concessions	R/D		Government response is that it will not pursue any changes that harm the not-for-profit sector
42	Current income and GST concessions to remain and continue to apply to commercial activities of NFP	D		
43	Reconfigure NFP FBT concessions (phase out capped concessions, replace with direct funding)	R/D		Government response is that it will not pursue any changes that harm the not-for-profit sector
44	Simplify treatment of clubs with large trading activities	R/D		

<b>C1 Non-Renewable Resources</b>		Status	Business Impact	Comment
45	Replace royalties with a uniform RRT Rate 40%, not apply to lower-value minerals, measure rent as net income less allowance for corporate capital – long-term Australian government bond rate), project based; carry forward of losses and grouping, refund on closure of project, deductible expense for company tax purposes	A	+/-	Royalties not replaced but refunded to companies liable to RRT.  Some winners and losers in the mining sector. Link of proposal to reduction of company tax and small business measure extends the category of winners.
46	No concessions for rapid development or on location etc	D		
47	Transfer existing projects with an adjustment to the starting base for the allowance for corporate capital	A		
48	Federal & state governments to negotiate allocation	D		
49	Use cash-bidding to allocate exploration permits	D		
50	Abolish fees and stamp duties on transfer of interests in projects	D		

<b>C2 Land Tax and Conveyance Stamp Duty</b>		Status	Business Impact	Comment
51	Switch out of stamp duties by land tax or broad-based consumption tax	D		
52	Levy land tax on a broad base with thresholds based on per metre <sup>2</sup> and a zero rate to exclude e.g. agricultural land	R/D		The Government response is to note the land tax is a state tax and not its area.
53	In the long run include all land	R/D		
54	Apply on a per holding basis (Vs aggregated value), eliminate stamp duties for industrial and commercial in return for removal of stamp duties, investigate transitional arrangements)			

Consumption		Status	Business Impact	Comment
55	Over time a broad-based cash flow tax could finance abolition of other taxes including payroll, insurance taxes etc.	D		
<b>D2 GST</b>				
56	Greater use of GST free business to business transactions or reverse charging	D		
<b>D3 Payroll Taxes</b>				
57	Should eventually be replaced with a tax that more efficiently captures the value added of labour	D		

E2 Taxes to Improve the Environment		Status	Business Impact	Comment
58	Phase out other measures when CPRS is in place	D		
59	Industry assistance measures should be regarded as transitional and Productivity Commission should produce an annual review (assisted by industry expertise)	D		
60	Monitor tax concessions aimed at the environment and replace with direct spending if appropriate	D		

E3 Road Transport Taxes		Status	Business Impact	Comment
61	Consider phasing in comprehensive congesting charging	D		
62	Accelerate development in COAG of mass-distance-location pricing for heavy vehicles	D		
63	Improve compulsory third party insurance to reflect individual risks	D		
64	An additional heavy vehicle charge where road and rail compete directly for freight	D		
65	Replace fuel taxes over time with more efficient taxes. If maintained link more closely to efficient financing of the road network	R/D		Reject in relation to the indexation of fuel tax arrangements
66	Taxes on vehicle ownership should be made more transparent; taxi quantity restrictions should be removed	D		

E4 Housing affordability		Status	Business Impact	Comment
69	COAG should give priority to ensuring zoning and planning do not unnecessarily inhibit housing supply	A		Covered by previous announcement (at April COAG meeting).
70	COAG should review infrastructure/developer charges to ensure they are set appropriately	A		

<b>E5 Alcohol; E6 Tobacco; E7 Gambling Taxation</b>		Status	Business Impact	Comment
71	Phase in volumetric alcohol taxation	R/D		Ruled out change "in the middle of a wine glut"
72	Improve administration to remove redundant compliance obligations	D		
73	Retain and increase tobacco taxes	A		Subject of an earlier announcement.
74	Index by a broad measure of wages	D		
75	No duty free allowance for tobacco	D		
76	Gambling taxes should focus on collection of economic rents due to government restrictions	D		
77	Eliminate gambling tax concessions (e.g. for clubs)	D		
78	Minimise conflicts between revenue and addressing problem gambling	D		

<b>E8 Rationalising Other Taxes</b>		Status	Business Impact	Comment
79	All insurance taxes including the fire services levies should be abolished (not GST on insurance)	D		
80	Luxury car tax should be abolished	R		Ruled out
81	Governments should systematically review all existing and potential user charges and minor taxes in an principled way	D		

**Section F relates to Transfer Payments and is not included in this brief**

<b>G1 A Responsive and Accountable Tax System</b>		Status	Business Impact	Comment
111	Better dealing with community ideas on tax and transfer system	D		
112	Government should commit to principles-based approach to tax-law design	D		
113	Board of Taxation should be able to initiate its own reviews (in consultation with the Government). Also consider: ways to manage its higher workload, whether Government representatives should instead be advisors, whether Inspector General of Taxation, Auditor General Commonwealth Ombudsman and Chair of Tax Practitioners Board should be also appointed as advisors)	D		
114	Information from Treasury to ATO on purpose of law should be made public	D		
115	An advisory board on ATO Governance and management	D		
116	Make clear that the role of the Inspector General of Taxation relates to systemic admin issues that affect business	D		
117	Sufficient resources for Inspector General of Taxation, Auditor General Commonwealth Ombudsman	D		
118	Joint Committee of Public Accounts and Audit should monitor implementation of recommendations of Inspector General of Taxation and Commonwealth Ombudsman	D		

<b>G2 State Tax Reform and G3 Local Government</b>		Status	Business Impact	Comment
119	Use Intergovernmental Agreements for State Tax Reform	D		
120	Greater autonomy in tax rates for local governments	D		
121	State and local taxes more integrated including joint billing and common base valuation methods for rates and land tax	D		

<b>G4 Client Experience of the Tax and Transfer System</b>		Status	Business Impact	Comment
122	Strong customer research and strong customer input into design	D		
123	Pre-filled income tax returns provided to most individual taxpayers	D		
124	Improve client experience – by better aligning definitions and requirements of tax and transfer systems	D		
125	As much as possible use third party sources to collect individual tax information including employers, financial institutions and share registries	D		
126	Further approaches built on Standard Business Reporting (SBR) to reduce compliance costs for business	D		
127	Assistance for small business to be “business ready”	D		
128	Common information standards (based on SBR)	D		
129	Modern secrecy and privacy framework	D		
130	Better linking of records	D		
131	High level taskforce to improve client experience	D		

G5 Monitoring and Reporting on the System		Status	Business Impact	Comment
132	Five yearly Tax and Transfer Analysis Statement (performance and impact of systems)	D		
133	Better data collection including on compliance costs from Federal and state governments	D		
134	Public support for independent policy research on the taxation and transfer systems	D		
135	Rules to encourage appropriate trade offs between tax expenditures and direct spending measures	D		
136	Amend Charter of Budget Honesty to include tax expenditures	D		
137	Tax expenditure reporting standards	D		
138	COAG to develop uniform approaches to tax expenditures	D		

## Background to the Review

The Australia's Future Tax System Review was established by the Government in 2008 to examine Australia's tax and transfer system, including state taxes, and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

### Terms of Reference

#### Objectives and scope

1. The tax system serves an important role in funding the quality public services that benefit individual members of the community as well as the economy more broadly. Through its design it can have an important impact on the growth rate and allocation of resources in the economy.
2. Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational), and minimise complexity for taxpayers and the community.
3. The comprehensive review of Australia's tax system will examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia's economic and social outcomes. The review will consider:
  - 3.1. The appropriate balance between taxation of the returns from work, investment and savings, consumption (excluding the GST) and the role to be played by environmental taxes;
  - 3.2. Improvements to the tax and transfer payment system for individuals and working families, including those for retirees;
  - 3.3. Enhancing the taxation of savings, assets and investments, including the role and structure of company taxation;
  - 3.4. Enhancing the taxation arrangements on consumption (including excise taxes), property (including housing), and other forms of taxation collected primarily by the States;
  - 3.5. Simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation; and,
  - 3.6. The interrelationships between these systems as well as the proposed emissions trading system (ETS).
4. The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:
  - 4.1. Workforce participation and skill formation;
  - 4.2. Individuals to save and provide for their future, including access to affordable housing;
  - 4.3. Investment and the promotion of efficient resource allocation to enhance productivity and International competitiveness; and
  - 4.4. Reducing tax system complexity and compliance costs.
5. The review will reflect the Government's policy not to increase the rate or broaden the base of the goods and services tax (GST); preserve tax-free superannuation payments for the over 60s; and the announced aspirational personal income tax goals;
6. The review's recommendations should not presume a smaller general government sector and should be consistent with the Government's tax to GDP commitments;

7. The review should take into account the relationships of the tax system with the transfer payments system and other social support payments, rules and concessions, with a view to improving incentives to work, reducing complexity and maintaining cohesion;
8. The review should take into account recent international trends to lower headline rates of tax and apply them across a broader base, as well as domestic and global economic and social developments and their impact on the Australian economy.
9. The review will also incorporate consideration of all relevant tax expenditures.

**Composition and consultation:**

10. The review panel will be chaired by the Secretary to the Treasury, Dr Ken Henry AC and will also comprise Mr Greg Smith (Australian Catholic University); Dr Jeff Harmer (Secretary of FaHCSIA), Heather Ridout (Australian Industry Group), and Professor John Piggott (University of New South Wales).
11. The review panel will be supported by a working group from within the Treasury, with representation from the Department of Families, Housing, Community Services and Indigenous Affairs, and drawing on other Australian Government and state agencies as appropriate.
12. The Chair may task members of the review panel to oversee programs of work related to their field of expertise.
13. The review panel will consult the public to allow for community and business input.
14. The review will also, where necessary, draw on external expertise and shall have the co-operation of State Governments and their Treasuries as well as relevant COAG working groups.
15. The Minister for Families, Housing, Communities Services and Indigenous Affairs will provide input on issues related to transfer payments, family assistance and retirement incomes.

**Structure and timing:**

16. The review process will be conducted in several stages. These will follow the release of an initial discussion paper by Treasury on the architecture of the tax system and an examination of the existing tax rates and bases (excluding the GST). The paper will be released by the end of July 2008.
17. The review panel will provide a final report to the Treasurer by the end of 2009.

## The Review Process

Between the time of its appointment in May 2008 and when it reported to the Government in December 2009, the Review published a number of papers as set out in the table below.

### Review Publications

Date Released	Title
6 August 2008	Architecture of Australia's Tax and Transfer System
10 December 2008	Australia's Future Tax System - Retirement Income Consultation Paper
10 December 2008	Australia's Future Tax System - Consultation Paper and Summary
12 May 2009	Australia's Future Tax System - The Retirement Income System: Report on Strategic Issues

The final report of the Review was released by the Government on 2 May 2010 along with the Government's initial response.

The Review took a 'root and branch' approach and examined Australian and State government taxes, and interactions with the transfer system in order to make recommendations to position Australia to deal with Australia's demographic, social, economic and environmental challenges.

The Review received around 1,500 formal submissions and a range of contributions from public meetings and focus groups, meetings with representative business and community groups, discussions with other government departments and agencies, and through a two-day international conference on tax-transfer policy held in June 2009. This conference provided an opportunity for leading international experts and a range of academics and stakeholders to discuss leading-edge tax and transfer policy issues.

## Web Site

Further details about the Review and downloads of its publications, a range of fact sheets, the papers presented at its conference and the submissions made to the Review are available at the web site:

<http://taxreview.treasury.gov.au/>

## A Snapshot of the Existing Tax System

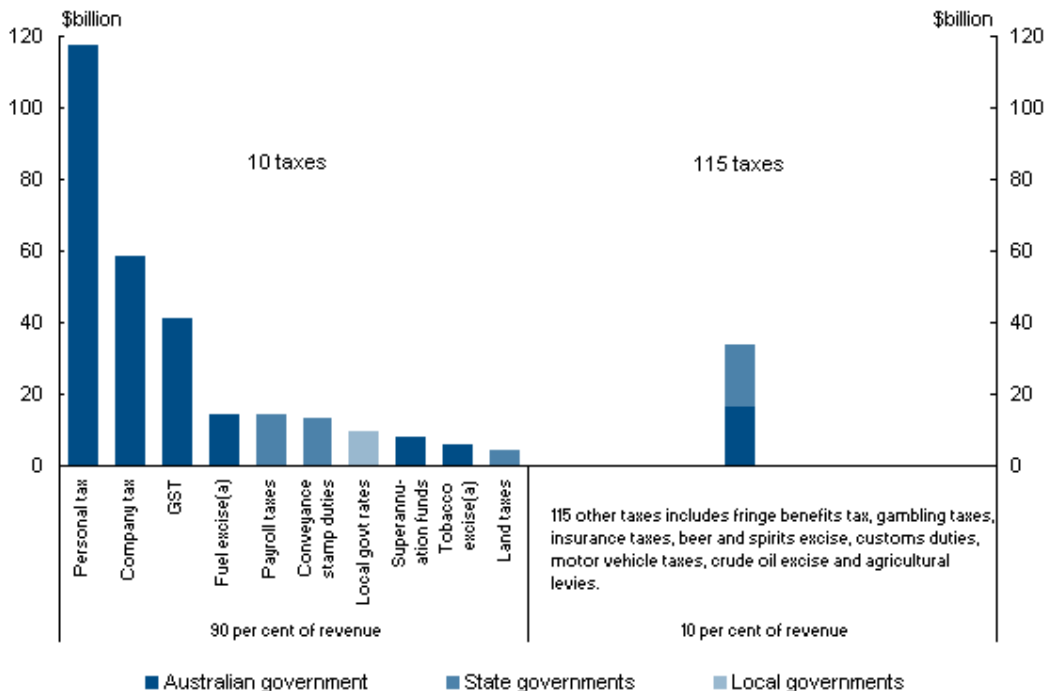
In August 2008, the Review published a comprehensive outline of the Australian tax and transfer system: *Architecture of Australia's Tax and Transfer System*. Most of the following material and all of the charts in this section are based largely on that publication and the related fact sheets on the Review's web site. It provides a snapshot of our current tax system and draws some comparisons with the tax systems of other OECD countries.

### 125 Different Taxes

Governments in Australia levy at least 125 different taxes. The 10 largest taxes account for over 90 per cent of the revenue raised. Many taxes are levied on similar transactions by different Australian governments with relatively little harmonisation across jurisdictions.

### Taxes

Ranking of Australian taxes by revenue in 2006-07

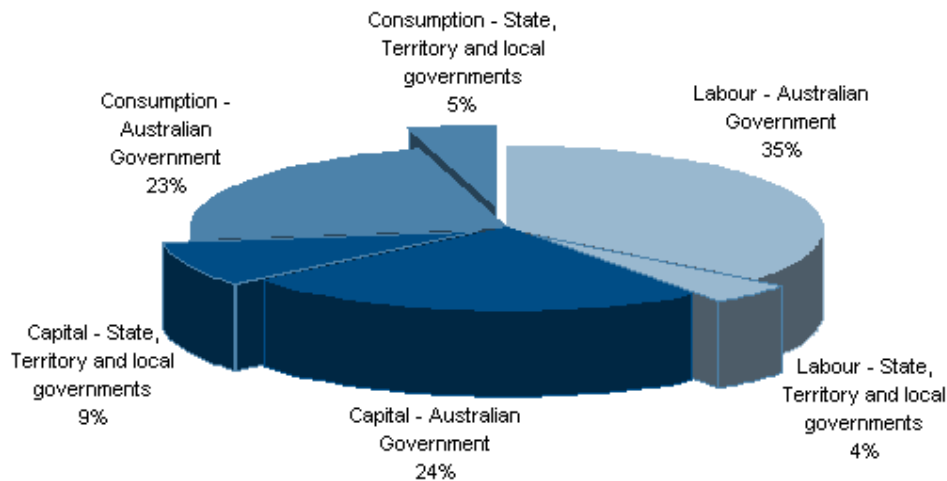


## The Mix of Taxes

Around 40 per cent of tax revenue is derived from direct taxes on labour income. Taxes on capital income account for about 33 per cent, while taxes on consumption account for 27 per cent.

## Tax revenue from labour, capital and consumption

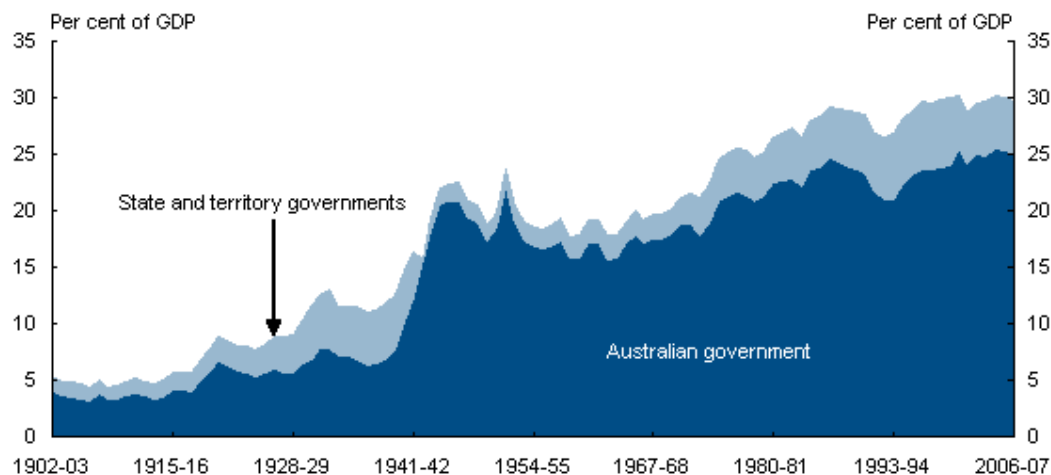
### Australian Government and States — 2006-07



## The Level of Taxation

The total level of taxation and the relative importance of the Commonwealth and the States has changed markedly since federation. At federation tax raised as a proportion of GDP was around 5%. Boosted by wars, particularly the Second World War, and with strong growth from the mid 1960s, the tax take reached close to 30% in the mid-1980s and, recessions aside, and has hovered around this level since that time.

### Australian Government and State taxation (1902-03 to 2006-07)



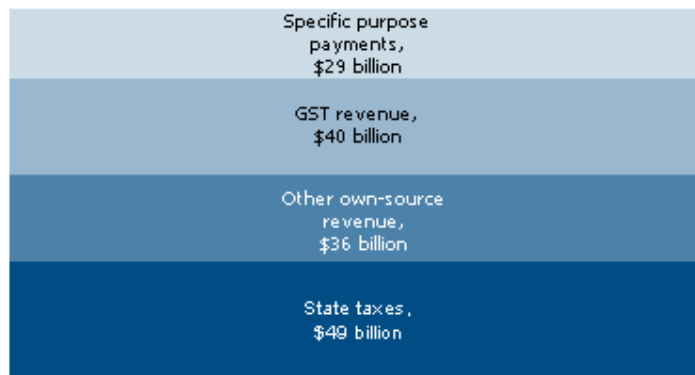
### State Taxes

Taxes levied by States and local governments account for a significant proportion of total tax revenue in Australia. The taxes levied by the States have changed over time. The current array of State taxes includes some transaction taxes which are relatively inefficient.

Fiscal relations between the Australian Government and the States are characterised by “vertical fiscal imbalance” (i.e. the States' own revenue sources are insufficient to fund their expenditure responsibilities, while the Australian Government's revenue sources are greater than is necessary to meet its expenditure responsibilities).

While a concentration of taxation can reduce the extent of inefficiency in the tax system, the imbalance also gives rise to substantial intergovernmental financial flows which brings with it ongoing struggles over sovereignty, accountability and the division of responsibilities.

### Composition of State government revenue in 2006-07



## International Comparison of Australia's Tax-Transfer System

Australia is a low tax country in comparison with the majority of other OECD countries. However our tax to GDP ratio is above that of the two largest OECD countries (USA and Japan) and below the level of the large number of small European countries.

As a result, Australia's tax to GDP ratio is close to the weighted average of all OECD countries or to put it another way, Australia's level of tax as a share of GDP is around the same as the OECD area considered as a whole.

While Australia's mix of direct and indirect taxation is broadly comparable to other OECD countries, its composition differs in several respects. Key points of comparison are:

- Australia is one of two countries (along with New Zealand), that does not levy a social security tax.
- Australia and New Zealand are also the only OECD economies that have a dividend imputation system although other forms of relief from the double taxation of dividends are more widespread).
- Our reliance on broad-based consumption taxes is below the OECD average.
- Our reliance on revenue from taxes on property is above the OECD average.
- Australia's top personal income tax rate is typical of the OECD.
- Australia has a high tax burden on capital income relative to comparable OECD countries.
- Australia's corporate tax rate is the eighth highest in the OECD and above the OECD average.
- Corporate tax revenue as a percentage of GDP is the fourth highest in the OECD.
- Australia's taxes on fuel are low in comparison to other OECD countries.
- Australia's tax-transfer system is highly redistributive by OECD standards.