

## Opinions divided over Henry tax review

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CHRIS UHLMANN, REPORTER: And for their analysis of the Rudd Government's response to the Henry Tax Review, I'm joined by Mitch Hooke, chief executive officer of the Minerals Council of Australia, George Megalogenis senior writer for the 'Australian' newspaper and Heather Ridout chief executive of the Australian Industry Group.

And Heather Ridout of course you were on this review committee. Can you tell us; is this the largest tax reform in your lifetime?

HEATHER RIDOUT, CHIEF EXECUTIVE, AUSTRALIAN INDUSTRY GROUP: Well certainly the Henry Report, 138 recommendations, are really shaking up Federal State taxes and welfare and retirement incomes.

Now that is an ambitious agenda and it's a long term blueprint for reform.

The Government's response, the changes are important, they're very significant and they're quite far reaching, but, you know, I don't know whether it's the biggest we've ever had.

Certainly we're not seeing the abolition of any taxes, but we're seeing some new ones introduced or extended. Some reduced, like company tax, but I don't think we should focus on the hyperbole; we should focus on the reforms themselves.

CHRIS UHLMANN: George Megalogenis, do you see this as a big tax reform by the Government, the Government's response that is?

GEORGE MEGALOGENIS, SENIOR WRITER, THE 'AUSTRALIAN': Well the Government claims it's the biggest tax reform and I was wondering whether Wayne Swan was talking about his term as Treasurer, his lifetime as a citizen or the gap in between his time in Federal politics, there's been much bigger reforms than this one.

Just going back to the Hawke-Keating era the introduction of fringe benefits tax and capital gains tax, just on the personal tax side is bigger reform than this one.

The reduction in the end of top personal tax rate, the former Labor Government inherited at 60 cents in the dollar, they were able to reduce that one quite dramatically and I wonder just more generally, this idea that soaking miners to do some good things on superannuation and for small business counts as reform in the sense that we understood it in the past.

In the past there were winners and losers with reform, but there was always a national interest narrative. We were told what the net benefit would be to the economy.

Now, there isn't a reform this Government has undertaken, put reform in inverted commas in this instance, that hasn't involved a loser.

Everything involves a very, very clear political message, which is: I'm going to take a bit of money off these people who don't vote, in this case miners, and I'm going to give this money to, and I'm gonna take the money and give it to some other people who do vote.

CHRIS UHLMANN: Or is there one big loser? Mitch Hooke, is this a big reform?

MITCH HOOKE, CHIEF EXECUTIVE OFFICER, MINERAL: Oh I'm in the same space as George.

I've seen a lot of reforms over the past two and a half decades that positioned this economy pretty well, but the minerals industry and, in fact, when all Australians get to understand what this really means, we'll see this as actually the biggest tax grab that we've seen this in a very long time, not taxation reform and, what really worries us, is that the Government doesn't understand the ramifications of the full impact of this on the Australian community as a whole, not just the mining industry.

CHRIS UHLMANN: We'll come back to that in just a moment, but let's concentrate on what's good about this package and Heather Ridout, what is good about this package? Of course retirement incomes are very important.

HEATHER RIDOUT: Well I think in terms of what's good about it, the reduction in the company tax rate is very welcome. Not as far as what the Henry Report advocated and certainly not as far as business would like it to go.

I think the small business changes are good, extending those write off provisions to \$5,000, I think that's a very important reform. Again, not as far as the Henry Report advocated.

The early start too for small business to the company tax will be important, although not an awful lot of companies, small businesses, actually pay company tax, so it's quite important to understand that.

The superannuation changes, they're I mean, when Mitch talks about the mining industry being the biggest payer, well industry, business, is going to have to pay \$12 billion upwards to fund this three per cent extra super when it's mature.

So, that's a pretty big cost on business and, you know we'll be seeking to sit down with unions at the time and start to work, you know, out some wage

arrangements so that we can trade off some of these cost increases unless we can see some pretty smart productivity increases come back into the economy.

The resources super profits tax, that's a very big conceptual change in the right direction in the view of many. I have sympathy with Mitch's concerns for his members and they've got to try and work on the best deal they can get. But, you know, it's obviously a very, very important reform for Australia.

CHRIS UHLMANN: And George, you're a big fan of the change to retirement incomes.

GEORGE MEGALOGENIS: I think Labor had almost written this one off.

The previous Howard Government inherited the super guarantee at nine per cent of wages and the Labor Opposition at the time and Gareth Evans made the comment, first the Shadow Treasurer that the opportunity to increase that to 12 or 15 per cent, which was Paul Keating's original reform goal, had probably passed and that the money was never going to be in the Budget to do this thing again.

Now coming into Government again after 12 years in Opposition, Kevin Rudd and Wayne Swan ruled out any change to the super guarantee in the first year. They were probably even more cautious than they are today. They didn't want to impose an additional impost on small business, left that thing alone. Coming into the second Budget of Wayne Swan it was pretty much ruled out. Now the thing has come back on the agenda in the second half of last year and to get from nine to 12, I know they've taken a long time to do that, pretty much nine years to get from nine to 12, and Paul Keating was able to do the first nine in the space of 10 years. So, if you want to measure reform fibre, I would say the former government, the former Labor government was obviously a little more ambitious than this one is, but still getting from nine to 12 is a structural reform and over the long haul it'll pay off.

There'll be fewer people on the pension which is one of the reasons why you'd want to do this as the population ages.

CHRIS UHLMANN: Now, Mitch Hooke, all this is being paid for by resources rent tax, but why shouldn't the Government extract all it can get from what is a one off, once you dig up these minerals they're gone for good. So why shouldn't the Government get a good return on that for the community?

MITCH HOOKE: Well it should, but it's gotta be a balancing act between ensuring that we remain internationally competitive and that we won't, in fact, invoke the highest tax regime on the minerals industry in Australia, which will essentially see investment dollars shift off shore.

There's no shortage of natural resources around the world. Australia doesn't have a monopoly on natural resources and if we're going to develop those resources here, to the benefit of all Australians, then you've got to make sure

that we do it on a platform that's internationally competitive.

CHRIS UHLMANN: You've made massive profits over the last decade \$ 250, \$230 billion over the last decade. 52 per cent of that's gone offshore, why shouldn't more of it stay in Australia?

MITCH HOOKE: Well, actually, a lot of it has stayed in Australia. The real contribution from our mining activity here is the economic benefits that accrue to Australia.

Everybody knows we were the bedrock of getting Australia through the global financial crisis, but unlike what the Prime Minister is saying that only \$ nine billion over that decade you're talking about has gone to governments in terms of royalties, when you add in company tax rate and, I don't know where he got that figure from, but the real, the real payment on royalties, in fact \$ nine billion was a single year, then you're up to \$80 billion.

These are Access Economics estimates, they're the figures that they've given us. That's what we've paid over the decade to 2008 - 09. So, Australians have already and are already benefiting.

What we're talking about here is what you're going to actually take off the top of a whole stack of projects that will be put at risk. Now, if you put those projects at risk, then you start to, as they say, kill the goose that's laying the golden egg.

CHRIS UHLMANN: Heather Ridout, could this be a drag on the economy?

HEATHER RIDOUT: Look, I think... I mean, Mitch is making some valid points for his industry, but the weight of expert opinion seems to be in support of this type of tax.

The EconTech research, which can line up against Access, indicates that investment jobs and output will grow in the long term under a tax like this.

You'll see marginal mines stay open for longer, new ones open up.

You know, you can have the debate on both sides and I suspect that's what we're going to have over the months ahead and this panel's been established to look at a lot of the issues, the design, the transitional arrangements. I think that's a very important move and I'm sure Mitch and other industries including the ones we represent will certainly have a view about it.

CHRIS UHLMANN: A reasonable way ahead, do you think George, for the Government to fund what it wants to promise through a resources rent tax?

GEORGE MEGALOGENIS: Well, they don't have that many other options. The Budget still has a share of GDP at record deficit for 2009-10. So they've begun, sorry, they're continuing this tax reform process at a time of record deficit.

The original Henry Review was commissioned at a time of record surplus in 2008, so obviously the GFC (Global Financial Crisis) has come in between the two things.

There's obviously a second phase of the mining boom upon us, whether it lasts 18 months or 20 years is anyone's guess, so there is some scope there if you're looking to do these transactions to take it off the miners.

CHRIS UHLMANN: Mitch Hooke, just briefly, what's the next move for the mining industry?

MITCH HOOKE: Oh we'll have to contest a lot of the falsehoods that this is all based upon. I mean, the notion that we've got foreign companies that don't bring earnings back into Australia and to be taxed onshore is just wrong.

Well GEORGE MEGALOGENIS, HEATHER RIDOUT and MITCH HOOKE, thank you.

MITCH HOOKE: Welcome.

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