



THE TAX INSTITUTE

25 January 2013

Mrs Lisa Baxter
The Executive Officer
Economic & Finance Committee
Parliament of South Australia
Parliament House
North Terrace
ADELAIDE SA 5000

By email: EFC.Assembly@parliament.sa.gov.au

Dear Mrs Baxter

Taxation Inquiry

The Tax Institute is pleased to present this submission in respect of the inquiry by Parliament's Economic & Finance Committee into the South Australian taxation system (the "**Inquiry**").

The Tax Institute is Australia's leading professional association in tax, with more than 11,000 tax practitioner members. Further details about The Tax Institute are included at Appendix A.

We commend the Committee for conducting the Inquiry in light of the State's revenue needs, both today and in the future. Reviews such as these are essential in order to:

- consider the impact of the taxation system on residents;
- plan taxation revenues, outgoings and capital investment; and
- allow the broader goal of tax reform to be considered in light of the relationship between the Federal and State Governments.

The Tax Institute broadly supports a reduction in the overall number of State taxes levied in favour of each State government deriving its income from a smaller number of efficient and broad based taxes, supplemented by revenue from Federal taxation (in particular, the GST).

State Tax Reform

The Tax Institute has long advocated for robust debate on, and a sustained commitment to, tax reform for the benefit of all Australians.

In the context of the Inquiry, The Tax Institute strives for:

- Harmonisation of state taxes;
- Simplification of state taxes; and
- Consideration of opportunities for further state tax reform.

Each of these areas warrants significant examination before embarking on any pathway to reform.

However, tax reform is not a challenge that the South Australian Government should address on its own. In order for our taxation system to best support Australia's broader goals, it is essential that South Australia work collaboratively with the Federal Government and the other State and Territory Governments to ensure that all taxes levied in Australia operate harmoniously. Australia's tax system should:

- encourage savings and investment;
- make Australia an attractive destination for foreign investment;
- be simple to understand;
- be equitable in application; and
- be certain in effect.

The benefits of a unified tax system that achieves these goals will flow to all Australians in the form of a stronger economy.

Across States, even where the same type of tax is levied (for example payroll tax), this unity is currently lacking. Harmonisation of payroll tax administration, in which South Australia has taken part together with four other States, is the first step in the right direction. The applicable thresholds, rates and exemptions differ between States, significantly increasing compliance costs for individuals or businesses that invest or operate in more than one State. Significant government resources are drained in resolving issues of implementation and compliance with respect to this inefficient and often archaic collection of taxes.

In this regard, a move towards harmonisation, or at the very least a standardisation of the application of certain taxes common to all State jurisdictions (such as stamp duty and land tax) could well be beneficial. This may also inevitably lead to simplification of these taxes as a result.

The findings of *Australia's Future Tax System Review* (the **Henry Review**) generated significant national debate on tax reform. It is imperative that Federal and State governments all harness this momentum and seize the opportunity to set a vision for tax reform that will deliver the tax system that Australia needs.

Each State, and in particular South Australia, has significant revenue needs that stem from the multitude of State government responsibilities and programs that are integral to ensuring an appropriate delivery of services to residents. In our view, the quandary of balancing the autonomy of State revenue generation with the need for simplicity in Australia's tax system overall needs to be determined in the context of a core set of principles.

Each State government needs to work with the Federal government within the Council of Australian Governments (COAG) framework to build a tax system that creates greater autonomy for States through increased revenue generation from Federal taxes, in particular the GST.

However, it is also imperative that this COAG framework is robust, such that any agreement to abolish taxes is adhered to. This would require breaches of agreements to be dealt with in a serious manner, to prevent instances of States reneging on commitments.

Specifically, The Tax Institute submits that:

- Australia should increase its reliance on consumption taxes (such as the GST) and abolish inefficient and complicated State taxes (as recommended in part by the Henry Review);
- Such an increase in revenue from the GST should be the result of an increase in the rate and/or a broadening of the base of the GST;
- Federal and State governments should consider the impact of such reforms on taxpayers in lower income tax brackets to ensure that such taxpayers do not suffer adverse tax consequences;
- The resulting increase in GST revenue collected should flow to the States through an automated mechanism; and
- As this mechanism will effectively represent an autonomous source of revenue for the States, each State should then utilise the increase in GST revenue to abolish inefficient taxes.

In this regard, we would broadly support a reduction in the overall number of State taxes levied in favour of each State government deriving its income from a smaller number of efficient and broad based taxes, supplemented by revenue from Federal taxation (in particular, the GST).

We note the ACT Government's recently announced five year reform plan towards a fairer, simpler and more efficient tax system. The plan includes an eventual phase-out of conveyance duties (over 20 years), with the revenue to afford this to come from general rates, which the ACT is in a unique position of also levying due to its combined state and local government functions. The reforms also include abolishing duty on insurance policies over the next five years. Acknowledging this is a long-term process, the proposal recognises that reform needs to be phased-in to avoid distortions in the market.

In terms of reform opportunities for South Australia, though there are many areas of State taxation ripe for reform, we note our views on the following:

- **Conveyance duty** - The Tax Institute supports the initial reduction, and then the abolition of, conveyance duty. This position is in line with the recommendations of the Henry Review.
- **Land tax** - We note that, of the many taxes presently levied in South Australia, land tax is one of the more efficient, particularly if the base is broad enough. As recommended by the Henry Review, the government may wish to consider the appropriateness of applying land tax using an increasing marginal rate schedule, with thresholds determined by the per-square-metre value and introducing a de minimis threshold.

In addition, it may wish to examine the effects of broadening the land tax base to include residential properties (other than those that are being used as a principal place of residence).

The Tax Institute supports a move towards land tax uniformity across applicable thresholds, rates and exemptions of the States.

- **Payroll tax** – This tax is typically regarded as a disincentive to increased employment and has a narrow base. The Tax Institute agrees with the recommendation of the Henry Review that payroll taxes should be phased out and eventually abolished.

If payroll tax is to continue, we are of the view that these laws must continue to be harmonised and there must be uniformity across the States in the application of the tax, including in relation to applicable thresholds, rates and exemptions of the States.

- **Insurance duty** – A perverse situation results from the application of insurance duty: people who are responsibly insuring against risk are penalised for doing so. This must be abolished in line with the Henry Review.
- **Tax Administration** - The Tax Institute is of the view that there needs to be greater harmonisation and uniformity overall in tax administration across the States.

We would welcome the opportunity to speak in further detail with the Committee about this submission.

If you would like to discuss any of the above, please feel free to contact me on 02 8223 0011.

Yours sincerely

A handwritten signature in black ink that reads "Robert Jeremenko". The signature is written in a cursive style with a vertical line to its right.

Robert Jeremenko
Senior Tax Counsel

APPENDIX A

About The Tax Institute

The Tax Institute is Australia's leading professional association in tax, with more than 11,000 tax practitioner members. The Tax Institute sets the benchmark for the most up-to-date tax professional development events and education programs in the country. This means that members of The Tax Institute are best placed to have the highest level of expertise in the field.

The growing membership base includes tax professionals from commerce and industry, academia, government and public practice throughout Australia.

The Tax Institute's reach now extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the numerous specialist, practical and accurate tax publications – all of which ensure that the latest information is available at their fingertips.

Established in 1943, the purpose of The Tax Institute was to provide education and information products and services to the tax profession as well as support improvements in the tax law and its administration. That core purpose remains.

Today we lead the tax profession with a strong and authoritative voice in supporting a fair and equitable tax system in Australia, whilst at the same time providing a full suite of education and information products that keep today's tax professional up-to-date and build the capacity of the next generation of tax professionals.

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