



# Re:think

## The Discussion Paper on Tax Reform

On the 30th of March 2015, the Treasurer released a Discussion Paper on tax reform, “[Re:think: Better tax, better Australia](#)” (“Discussion Paper”). This Alert provides an overview of the Discussion Paper, the reform process and some of the major issues that are likely to impact upon Financial Index Wealth Accountants clients as the national tax reform debate is played out over the coming years.

### The tax reform process

The government states that the purpose of the Discussion Paper is to start a national conversation about tax. Following consideration of submissions and issues raised in the Discussion Paper, an options (green) paper will be developed and published in mid to late 2015. The Government will then release its plan on how to improve the tax system before the next election.

### What are the big issues the Government is considering?

It is important to note that there are no recommendations or proposals in the Discussion Paper. The Discussion Paper is a consultation document that will provide the backdrop to an ongoing tax policy debate.

The Discussion Paper notes the following general themes about the current tax system:

#### ***Both the corporate and personal income tax take is too high***

The Government states that about 70% of Commonwealth tax revenue is collected from just two taxes: personal and company income tax.

#### ***Indirect taxes including the GST form a small and diminishing fraction of the total tax take***

In the 1950s indirect taxes made up about 36% of the total tax take while today that percentage has fallen to about 23%. Moreover, consumption taxes as a percentage of total taxation across the OECD are lower than average.

#### ***Costs imposed by the tax system are too high and have an impact on economic growth and living standards***

The Discussion Paper indicates that several taxes in the current system have “high long term costs for living standards” largely as a result of their effects on business investment – these include company income tax, stamp duties and insurance duties.

### What is in it for me?

The good news is that there are likely to be winners from the next round of tax reform if the Government is able to convince the Australian people that its vision for a future tax system is better than the status quo. Specifically:

#### ***A reduction in personal income tax rates***

The Discussion Paper indicates that workers on average weekly earnings (around \$80,000 p.a.) will find themselves in the second-highest income tax bracket in just over a year’s time as a result of “bracket creep”. Bracket creep occurs when tax thresholds do not keep pace with wages growth.

#### ***A reduction in corporate tax rates***

The Discussion Paper provides a raft of data to demonstrate that not only is the corporate tax rate high in comparison to selected trading partners, but also that corporate tax revenue as a percentage of GDP is high and growing relative to the OECD. This had negative implications on our ability to compete for capital with other jurisdictions.

#### ***A simplification of the entire tax system***

The Discussion Paper identifies the high and increasing cost of managing tax affairs for Australian taxpayers. The ATO estimates the aggregate compliance burden costs Australian taxpayers in the vicinity of \$40 billion annually.

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### *The kicker*

One of the government's biggest priorities is Budget repair. A reduction in tax rates as outlined above will not help this cause without countervailing revenue boosting measures. In this regard, not much is left off the table including:

- Negative gearing, many superannuation concessions and family trusts.
- The Small Business Concessions, Primary Producer concessions and non-commercial losses.
- The taxation of the Not-For-Profit sector.
- General business issues such as the company tax imputation system, depreciation of capital assets, the taxation of carry forward losses and international taxation.
- Indirect taxes such as fuel, alcohol tobacco taxes, the LCT and agricultural levies and tariffs.

To emphasise, the Discussion Paper contains no proposals on any of the above issues. However the government is aiming to open up a debate about whether the tax concessions available to taxpayers that have access to the above are always appropriate in a modern competitive Australia.

Given the emphasis placed on the tax mix in the opening two chapters, it seems that a potential increase in the GST base or rate (and the revenue generated by this change) could be offered to state governments as an incentive to scrap some of the more inefficient state taxes such as payroll tax or stamp duty.

### What to do now?

A watching brief should be applied to the tax reform space over the next 18 months for all Financial Index Wealth Accountants clients. As proposals take shape it may be necessary to take action to shore up existing positions. Talk to your Financial Index Wealth Accountants Adviser about the most recent developments as they unfold or anything else of concern from the Discussion Paper.

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Financial Index Wealth Accountants

H.O: L17 181 William Street

Melbourne VIC 3000

Phone: (03) 9292 0101

E-Mail: [info@findex.com.au](mailto:info@findex.com.au)

Web: [www.findex.com.au](http://www.findex.com.au)

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