

Motion regarding analysis undertaken on taxation reform Tabling statement
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In 2010 the ACT Government commissioned a review of the ACT taxation system to advise on the efficiency and sustainability of the Territory's revenue collection, following the Henry Tax Review at the Commonwealth level. Both the ACT Review (the Quinlan Review) and the Commonwealth Review (Henry) concluded that the ACT's tax system – like all other jurisdictions – is inefficient and unsustainable.

The ACT is in a unique position to pursue taxation reform. It has both the roles of a state and local government, and hence has access to a broad based tax in the form of general rates.

In the 2012-13 Budget a Five Year Reform Program was issued, and the government committed to the target of the full abolition of the inefficient taxes – in particular conveyance duty.

The first tranche of major reforms announced included:

- abolishing duty on insurance policies over five years;
- abolishing conveyance duty over twenty years;
- abolishing commercial land tax;
- increasing the tax free threshold for payroll tax; and
- making residential land tax and the general rates system more progressive.

These reforms put the Territory on a strong footing for the future and provide flexibility to deal with our demographic changes and fiscal challenges and to respond to external economic circumstances.

The ACT was the first government in Australia to undertake such reform.

An underlying principle of the reforms is to ensure revenue neutrality for the Budget overall, while preserving capacity for government services and ensuring future generations do not bear the higher economic costs of an unfair and inefficient tax system.

Further, conveyance duty is an inefficient tax - it is transaction based, its incidence is uneven (impacting on a small percentage of the population only in any year period), and hence it has a distortionary economic burden.

The amount of revenue raised fluctuates greatly from year to year, making it difficult to estimate future revenue with any degree of certainty and hence making budget planning difficult.

Under the tax reform program, the extent of budget reliance on inefficient taxes will reduce significantly over time. The cumulative economic benefit of improved economic efficiency was estimated to be \$169 million in the first five years of tax reform.

The Government said at the outset that reform of this extent cannot be a set and forget exercise – this is necessarily an ongoing and dynamic reform program that requires monitoring, adjustment, flexibility and responsiveness over the short and long term. This is demonstrated as follows:

First: undertaking reform over two decades provides the appropriate amount of time for the market to adjust to the changes – defining the first five years allows the market to operate with certainty as to the direction of the changes.

Second: the government will have regard for the impact on Canberrans and establish mechanisms to preserve broad equity in the tax system and to ensure the impact of the change is not excessive for any particular groups or at any particular stage of the reform program.

Third: the Government committed to providing updated taxation reform figures annually, for the coming forward estimates periods, as part of the budget.

Madam Speaker, forecasting decades ahead is not without its challenges. Quite simply, you'd need a crystal ball to try to predict what property prices, economic growth and interest rates will be over such a period. That is why the Government has focussed on annual updates within rolling five year reform programs.

We have also analysed the longer term pattern of revenue replacement between the revenue lines impacted by taxation reform.

The analysis considered the shifting of taxes between inefficient transaction taxes to more efficient tax lines over two decades.

A range of scenarios have been considered, with a range of underlying assumptions for those parameters which will impact the experience across these revenue lines – these assumptions included the Wage Price Index, property values, property turnover rates and population growth.

The analysis provided a range of possible target revenue paths. No single path is definitive; no single path was intended to be used as a defined reform approach or revenue replacement amount.

Rather the analysis provided tools by which to measure the overall progress and pace of the reforms and assess the efficacy of either accelerating or slowing the rate of individual reforms of taxation lines based on prevailing economic circumstances, broader fiscal strategy of the Government and the assessed financial capacity of ACT households and businesses.

It is important to note the tax reform program must also have regard for the broader budget context, and remain flexible to respond to the external impacts on the budget which will occur, but cannot be predicted, over a 20 year period.

The tax reform program should be implemented to be consistent with, and to support where appropriate, the government's overall fiscal strategy.

Own-tax revenue is a significant component of Budget revenue, and the general rates and conveyance components are a significant part of own-tax revenue. The other significant component of revenue is Commonwealth government grants, which include GST revenues.

The own-tax revenue reform program should consider the potential for changing circumstances in regard to Commonwealth funding arrangements and frameworks.

To illustrate this, a range of scenarios can be considered:

- GST revenue is a major component of Commonwealth funding and consequently ACT Revenue is particularly sensitive to GST. A change in the ACT's relativity from the current 1.2 to say 1.4 would result in an increase in revenue from this source of about \$150m in 2014-15 which is about 30 per cent of revenue across these three lines.
- A 2 per cent reduction in ACT Government expenditure while preserving National Partnership and Specific Purpose Funding Commonwealth grants would free up about \$80 million in 2014-15.

These scenarios serve to illustrate the importance of the broader budget and fiscal context in designing a program of tax reform over an extended period.

The Government will consider a range of options in managing its budget and advancing tax reform. The principles of our approach will be to favour efficient over inefficient taxes, simpler rather than complex taxes and fair rather than unfair taxes.