

A confused start to government's tax conversation

Written by The Conversation

In launching its national “conversation” about tax reform, the Abbott government is caught between the policy imperative of “leading” and the political requirement of “listening”.

A further complication is that Prime Minister Tony Abbott is seeking to wedge Bill Shorten, paving the way to blame him if no real progress can be made in fundamentally recalibrating the tax system.

What we are witnessing in this first stage of the “conversation” is that the government is reluctant to be seen to be “leading”. It’s hinting and nudging, but playing coy about what it believes is required. Inevitably, this makes the beginning of the debate quite confused.

The government is starting the sentence – “we need to fix the tax system” – but then leaving it hanging. Is this some super-sophisticated tactic, or is it not sure itself where things will head?

There are some tantalising points thrown out but what do they mean? “Fairness,” said Treasurer Joe Hockey on Monday, “is in the eyes of the beholder. And this is where I want everyone to think a bit more deeply about things. 2% of taxpayers pay 26% of personal income tax.” He went on to express concern these people could relocate because they felt they were paying too much.

But Hockey also said: “I’m not saying they should be taxed more or less”. From the ordinary person’s point of view, that’s not likely to encourage deep thinking – it’s a signal to tune out until the treasurer has something solid to say about his view on the tax these people pay.

The tax discussion paper is a useful document but hardly a revelatory one. Much of the ground it traverses is familiar; basically, it updates arguments, taking account of fast-moving developments in the globalised economy, and it refreshes the statistics.

On one level, it seems very democratic to just throw the whole discussion open, without putting forward options until later in the year after submissions are received. Also, given the lashing

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Abbott has got over his lack of consultation on the budget and other measures, it might be said he hadn't much choice.

But it would make for a more focused community discussion if the government had set out its broad view at this initial stage. To do this does not require a prior national conversation – its preference is pretty clear (although that doesn't mean it can be ultimately attained).

Hockey dwells on the tax system's heavy reliance on personal and corporate income tax.

He avoids going to the next logical point, which would be to say "what we would really like to do is lower income tax, both for individuals and companies, and rebalance the system by raising the rate of the GST or broadening the base, or both".

If the government were being frank with the public it would also say: "If we boosted the GST, which goes to the states, that would enable them to pay for some of the extra burden of future spending on hospitals and schools that we pushed their way at the last budget".

But the GST is such a dangerous bogland that the government dances around the edge, leaving commentators and others to draw the implications from the discussion paper, which doesn't make recommendations. Hockey said at one point on Monday that talk of the GST should be put aside – attention should be on other areas. But everyone knows this is avoiding the elephant in the room.

Abbott shifts the onus onto Shorten. "The point I stress is that there can be no change to the GST unless Bill Shorten wants it."

This is a reference to the consensus requirement reiterated in the discussion paper, which says: "Any change to the GST rate or base would require the unanimous support of the state and territory governments, the endorsement of the Australian government and the passage of relevant legislation by both houses of the Australian parliament."

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But claiming “Shorten” has an effective veto power (only sort of true) is a very negative way to go about an argument for a shift in the tax mix.

This is a corner that, in strict political terms, the opposition leader is unlikely to mind being forced into.

Shorten has ruled out supporting changing the GST base or rate – although Labor is willing to contemplate lowering the present A\$1000 GST-free threshold on imported goods if that were practical.

Changes to the GST, even when accompanied by substantial income tax cuts, would be a very difficult sell for Abbott at the 2016 election, especially given the lack of trust the community feels in him.

On the other hand, the tax reform debate is not all plain sailing for Shorten.

If Labor won't countenance altering the GST, how would a Shorten government meet the escalating pressures on the budget as the community ages, the proportion of workers falls, and the revenue rivers don't flow as strongly as they did in the years of the mining boom?

The opposition has announced a policy that would crack down on multinationals avoiding tax by shifting profits overseas. It is proposing to look at other areas including the generous concessions for superannuation.

But those sorts of measures are unlikely to be enough to meet the challenges ahead. The logic of that is Shorten would have to embrace tougher spending cuts than Labor might wish, if the opposition is to put forward a responsible fiscal program.

Postscript:

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Did someone in Treasury have a long memory when giving an example of the complexity of the GST?

“Pizzas, pizza subs, pizza pockets and similar foods are subject to GST. In contrast, pizza rolls are generally GST-free but can be subject to GST when they are similar to ‘pizzas, pizza subs or pizza pockets’”.

When Liberal leader John Hewson was proposing a GST, he was asked before the 1993 election about how it would apply to a birthday cake. The explanation degenerated into a tangle that haunted Hewson for the rest of the campaign.

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