

As Malcolm Turnbull continues to strike down the prospects of a GST increase being part of his tax package, the secretary of his department, Martin Parkinson, is taking charge of the tax issue bureaucratically.

With Turnbull asserting public control of the debate, Parkinson has been asked to provide analysis and recommendations on a package.

The prime minister's department would always have a major voice in such a central policy area, but the clear impression is that Parkinson is now top dog at the public service level.

He's superbly qualified for the task, as a former treasury head steeped in tax policy.

But there is more than one irony in the position in which Parkinson finds himself.

First, if he had not been sacked by Tony Abbott and was still in his old job of Treasury secretary, one can be confident he would be leading (at the official level) the tax reform effort, reinforcing Treasurer Scott Morrison. Whoever was head of the prime minister's department almost certainly wouldn't be able to match Parkinson's clout in the area.

Second, Parkinson himself has been a long-term strong public advocate of the need for a switch in the tax mix – away from direct taxes (such as income tax and company tax) towards indirect taxes (like a bigger GST). Yet his boss, Turnbull, is now pronouncing himself unpersuaded by the case for such a major reform.

Parkinson is extensively on the record but this example, from September 2014 when he was still Treasury head, is notable in the current context. He told a tax reform forum: "Under current policy settings our reliance on income taxes – both personal and corporate – will continue to increase. As a result without conscious change, the economic cost of raising tax from our current tax mix will also increase. Many studies, both in Australia and internationally, have suggested that reducing reliance on direct taxes would lead to higher incomes".

He was still making the same point in December 2015, just before moving into his present job.

A main reason why Turnbull is shying away from a GST rise is that the modelling suggests that after the hefty compensation needed to protect lower-income earners, the switch would not give enough economic benefit to be worth the problems of making the change. A switch that focused heavily on a company tax reduction rather than personal income tax cuts would produce a greater boost but be politically unsaleable.

Cabinet Secretary Arthur Sinodinos on Sunday told Sky that a lot of the models found the boost to growth from a tax-mix switch and associated changes, “particularly if it’s around things like company tax”, could be 0.5% of GDP.

But he also said a limitation with the modelling was that it just captured the pictures before and after the change. It did not look at how the switch over time would encourage a more entrepreneurial, risk-bearing culture.

He agreed with the proposition that such a tax change could have greater benefits than a static model might suggest.

“And what’s the alternative? The alternative is to rely in the next few years on bracket creep”, which would skew workforce participation decisions. “So you’ve got a country where taxes are going up, in a region where, on the whole ... taxes are going potentially the other way.”

Sinodinos – who was chief-of-staff to John Howard during the GST election of 1998 and so does understand the political pain of such an exercise – sounds more in favour of radical reform than Turnbull.

Turnbull’s Sunday line on the ABC was much the same as his negativity on Friday. “It’s not a question of politics here. At this stage, I remain to be convinced or be persuaded that a tax mix switch of that kind would actually give us the economic benefit that you’d want in order to do such a big thing,” he said.

Martin Parkinson, Turnbull's right-hand man, caught in crosshairs on tax

Written by The Conversation

“You have got to first decide: is this policy going to give you the economic outcome you want? Then you have to assess the practical politics. With the GST-income tax swap proposal, it has not yet passed that first test and that’s what the analysis is [that is] being undertaken. So we have not made a decision on that yet, and it does pose a lot of complexity, particularly in the area of compensation.”

Parkinson now is caught in the crosshairs of the tax debate. If a tax-mix switch is not made this time, the opportunity may not come again while he is a player in the game. As Sinodinos said, the GST would become the “tar baby” of Australian politics.

When Parkinson accepted his current job, he might have expected there was an ideal opportunity, with a popular and persuasive prime minister and a weak opposition leader, to achieve such a major policy change. But Turnbull does not appear to be up for this fight.

With Turnbull poised to pull the plug on the GST rise’s life support, some key questions remain. Will Morrison make a last ditch effort to argue for it? Will Parkinson – in light of Turnbull’s public position – continue to press the advantages of a switch? And can he produce an analysis that backs his case?

Asked about the key ingredient in whether Turnbull went forward or not with large-scale tax reform Sinodinos said that “with this prime minister the key ingredient will be, ‘does this really get me excited, and can I get my party room excited?’”

At the moment, Turnbull is showing no sense of excitement. The partyroom is thankful for that.

Read more <http://theconversation.com/martin-parkinson-turnbulls-right-hand-man-caught-in-crosshairs-on-tax-54311>