

Turnbull will need to be nimble to persuade the states to dance his tax tango

Written by The Conversation USA

By proposing a dramatic shake-up of income taxing power Malcolm Turnbull has thrown himself into a contest that will test his policy and persuasive skills to the hilt. That's assuming the quest is worth the effort, which experts will argue about.

Most immediately, Turnbull has to convince the states to enter serious discussion on his proposal. He then faces a fight with the opposition, which suddenly has a new scare campaign.

As the election looms, is Turnbull the brave reformer, or just crazy brave?

He's certainly differentiating himself from Tony Abbott, who when prime minister firmly indicated he would not go down the path of state income tax. On Wednesday Abbott was being good Tony, however. Asked his view of Turnbull's initiative, Abbott's spokesman said: "The prime minister is just doing his job – having a candid conversation with the premiers about hospital funding with all options on the table."

Earlier Turnbull had outlined his "big idea" – bizarrely, when he was at a sports venue – to address the problem that the states do not raise enough of the revenue they spend, which he said diminished their accountability as well as forcing them to go "cap in hand" to Canberra.

He proposes the federal government would reduce its personal income tax collection by an agreed percentage – 2% is being canvassed – and allow the states room to fill the gap with their own income tax. That amount would be the maximum levy "for a period" – taxpayers would pay the same amount of tax. The federal government would withdraw from funding some state programs.

Crucially, in the longer term, "a state should be free to lower that [levy] amount or indeed raise it and then they are accountable to their own voters", Turnbull said.

He said such a reform would reduce duplication between federal and state governments and promote efficiency.

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It would attack the “blame game”. Heard that somewhere? Yes. Kevin Rudd promised to get rid of it.

The states were forced to hand over their income taxing power to the Commonwealth during the second world war, and were unable to retrieve it later. Moves under the Fraser and Hawke governments to give them a look in didn't get far, an indication this is rough terrain.

While this week's proposal might have seemed a bolt from the blue, Turnbull said the government had been working on it for “some time”. It seems to have been out of sight on that tax table.

Those involved in drawing it up included Treasurer Scott Morrison, Social Services Minister and former Western Australian treasurer Christian Porter, Finance Minister Mathias Cormann, and assistant cabinet secretary Peter Hendy, a long-time advocate.

The states' reactions to the proposal are mixed. NSW Premier Mike Baird said he would consider it constructively; Western Australia's Colin Barnett thought it made some sense. But South Australia's Jay Weatherill, the Labor premier who has looked for a path forward on tax, said having “some form of double taxation” was “just not practical”. Tasmanian Liberal Premier Will Hodgman feared the big states “gaming” the system.

Around the Lodge dining table on Thursday night, ahead of Friday's Council of Australian Governments meeting, Turnbull will be urging the premiers that it is in their interests to consider over coming months the prospect of a slice of a growth tax.

If they rebuffed him this week, it would be embarrassing for Turnbull. But, as he and they know, that would allow him to “blame shift” in the row over the funding squeeze Canberra has put on the states.

If the states agree to talk – pushing the issue beyond the election – that won't be cost free: Turnbull gives Bill Shorten a campaign weapon. The slain spectre of a higher GST will have been replaced by a new spectre – the state income tax. You wonder how much luck Shorten

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can have.

On Wednesday the opposition got an immediate break when Morrison appeared to be on a different wave length to Turnbull, who enthuses about this once in a generation, or several generations, reform.

When it was put to Morrison that Turnbull had said that in the future the states would be free to raise their income tax rates – making for a possible increase in the tax burden – Morrison said: “Well, the prime minister ... I don’t think has gone that far ultimately”. He also said that “we have no appetite for states to be able to increase taxes”.

Morrison was focused on the message that tax would not rise overall. But in the long term, it would be up to the states as to whether it did or not. Turnbull’s office played down any difference between the prime minister and his treasurer. Turnbull himself blurred the possible consequences of the plan, stressing in a video he issued that “this is not about increasing the total tax take”.

In fact the debate about the total tax take is pretty academic. The eventual outcome cannot be predicted because we are talking years on and decisions by multiple governments subject to unknown economic and spending pressures.

Meanwhile, as ministers struggle with an extremely difficult pre-election budget they won’t be cheered by Wednesday’s Essential poll results on tax.

Told the government had indicated the budget may include company tax cuts, people were asked whether it was more important to provide tax cuts for companies or income tax cuts. Some 62% said income tax cuts; only 16% nominated company tax cuts. And – contrary to the economic wisdom – people overwhelmingly thought income tax cuts were better for the economy than company tax relief (61% to 19%).

What priority the public would give to the state income tax plan is yet to be tested.

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