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Tax reform options - implications for local government

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AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION

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National Tax Reform?

- The Australian Government released the **Re:think tax discussion paper** in March 2015
 - *To open a national conversation on tax reform*
 - <http://bettertax.gov.au/>
- The intention is to develop White Paper for policy consideration through formal consultative process



Australian Local Government Association

- ALGA has appointed Deloitte Access Economics to undertake a study:
 - Into credible **tax reform options** under active public discussion.
 - To assess the **implications for local government** resulting from the possible implementation of such reforms.

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Background

- The **2010 Henry Review** provided a comprehensive analysis of Australia's tax system.
- Very few of the recommendations of the Henry Review have been implemented, or seriously publicly debated

Australia's future tax system

Report to the Treasurer

December 2009

Part One
Overview

'Re:think' tax discussion paper

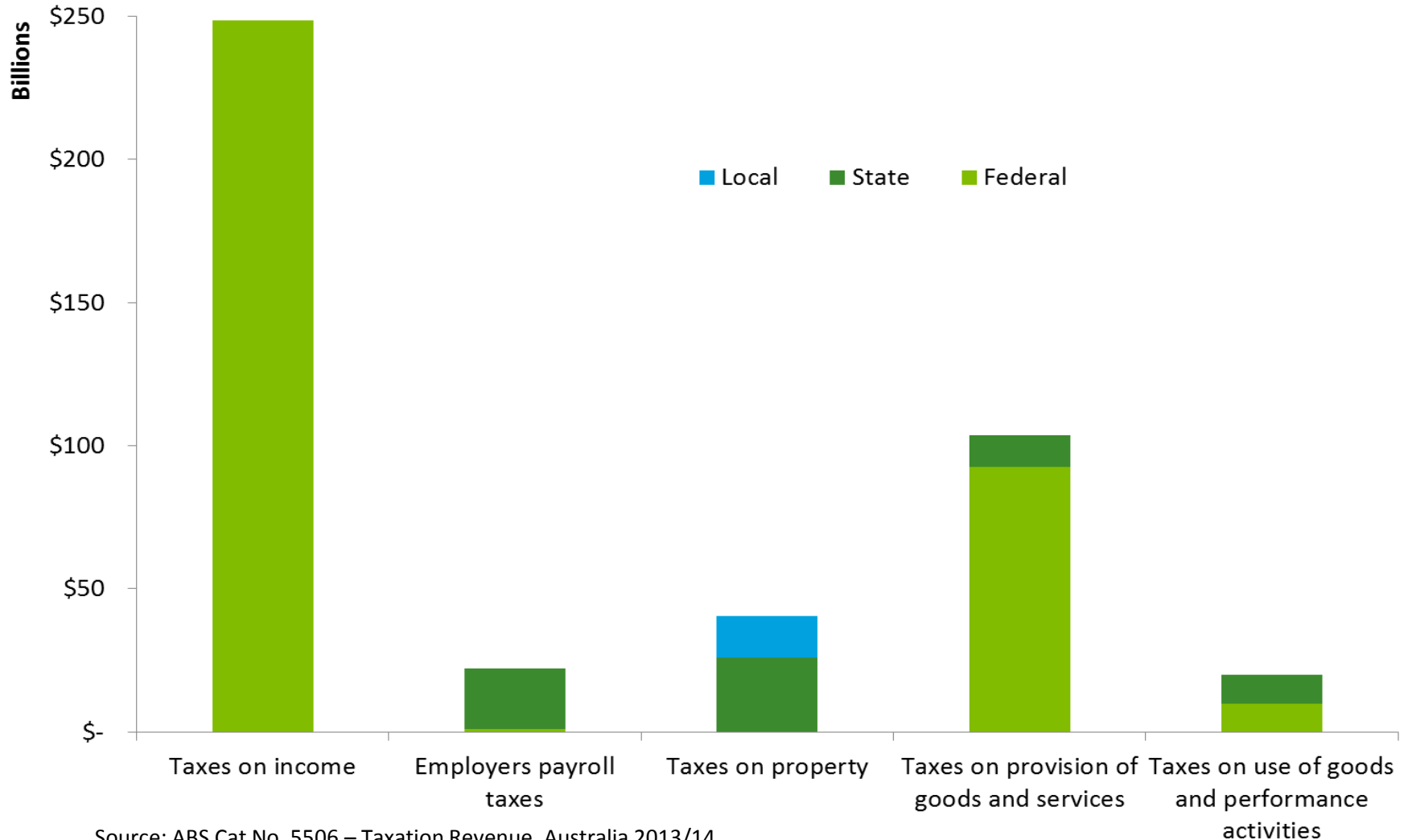
The Australian Government's *Re:think tax discussion paper* claims:

- Australia's current tax system is:
 - holding Australia back, and
 - designed in a different era, when the economy was very different.
- Many features of the system discourage:
 - investment in Australia,
 - jobs growth, and
 - people from working.
- Tax reform offers opportunities to:
 - improve growth in standards of living, and
 - simplify and improve fairness.

Is there a problem?

- Australia arguably relies more on taxes with high costs to economic growth than other developed countries. For example:
 - corporate and personal income taxes, and
 - stamp duties on transactions.

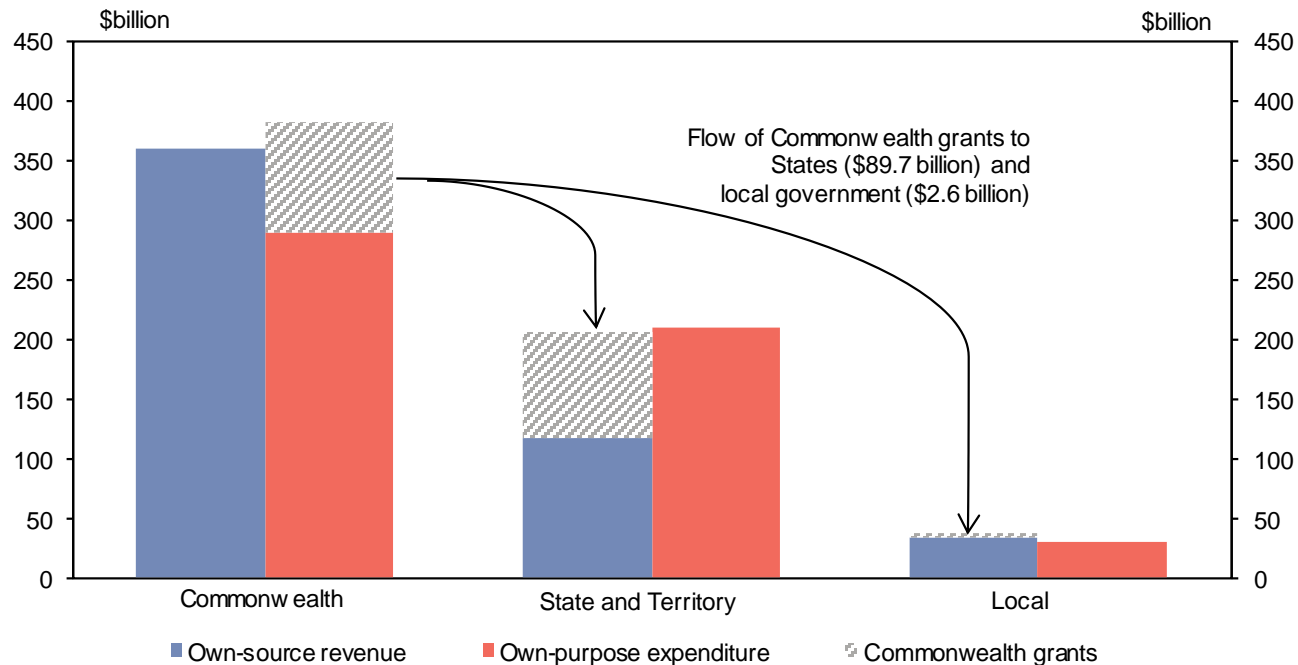
Tax revenue sources by sphere of government



Source: ABS Cat No. 5506 – Taxation Revenue, Australia 2013/14

Vertical Fiscal Imbalance (VFI)

- As a result of our fiscal federation structure, the Commonwealth generates the most tax income.
- State and territory expenditure responsibilities exceed their own-source revenue.
- Vertical fiscal imbalance can reduce transparency and accountability.



Source: Commonwealth Government Reform Of The Federation White Paper, discussion paper number 5

What's likely to be considered?

The taxation green and white paper process is likely to consider a number of reform options:

- Reduced reliance on income & company tax.
- Broadening and increasing the GST.
- Reduced reliance on stamp duties on transactions.
- Increased reliance on recurrent property taxes by states.
- Possible change in commonwealth / state financial relationships:
 - Reform of Federation White Paper also under preparation.
 - See <https://federation.dpmc.gov.au/>

Federal Government Federation White Paper

The Federal Government's Reform of the Federation White Paper process will also address the issue of VFI in some detail.

- The Federal Financial Relations issues paper (discussion paper number 5) raises questions concerning the funding relationship between local government and other spheres of government:
 - Q.3.6: What, if any, unnecessary duplication and overlap occurs in roles and responsibilities between local governments and other levels of government?
 - Q3.7: What should be the division of roles and responsibilities between local governments and other levels of government? In what areas is a shared role warranted ?
 - Question 3.8: What, if any, reforms are required to the revenue-raising powers and other revenue sources of local government?

Tax reform issues for local government

Land/property tax reform

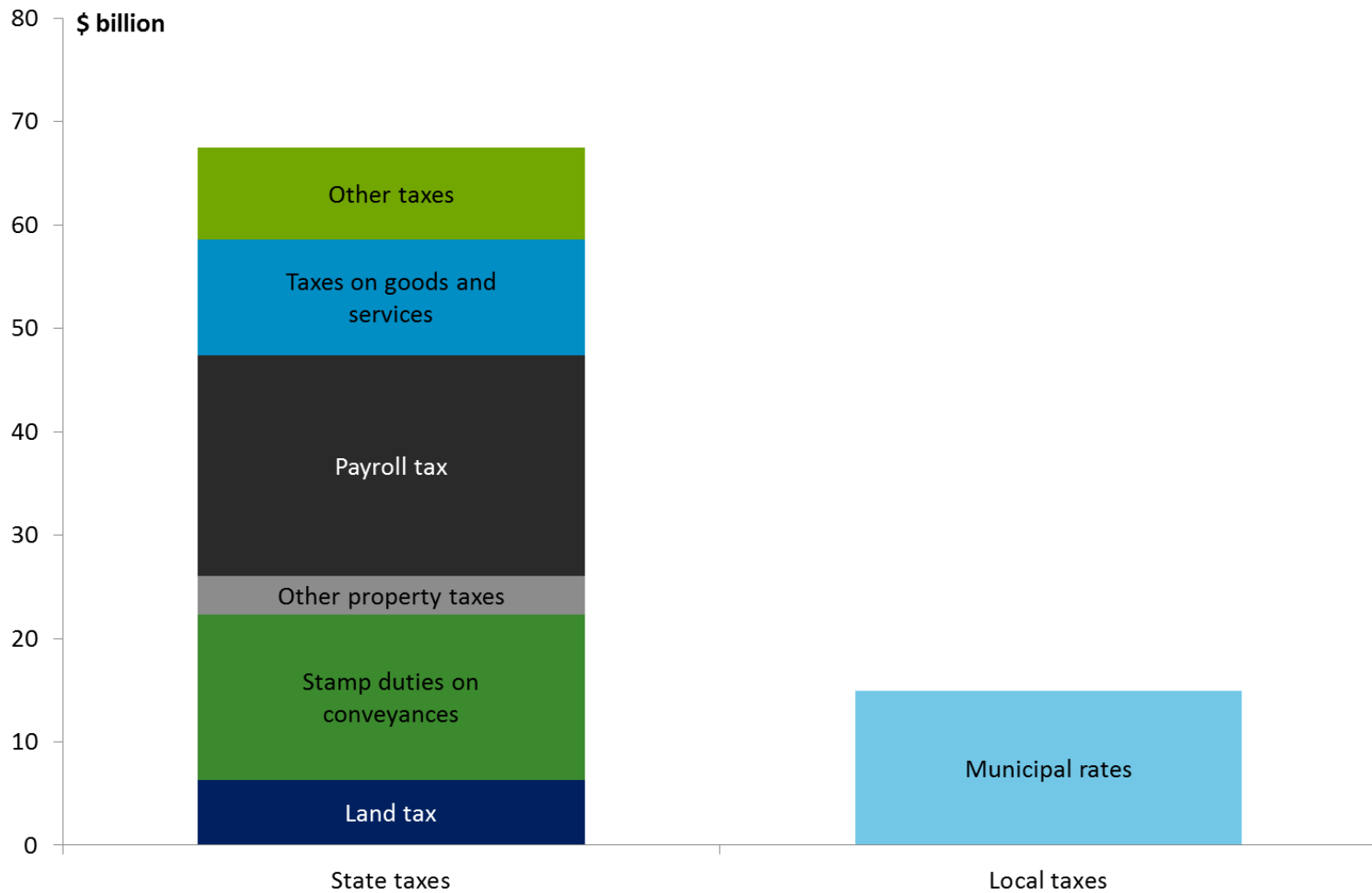
- There may be implications for local government if state governments seek to raise more revenue from recurrent property taxes.
 - To what extent would a potential future increase in state land tax and other recurrent property taxes impact on the capacity of councils to raise revenue through rates over time?

GST reform and Financial Assistance Grants

- The ongoing provision of grants from other spheres of government may be reformed as part of a Federation Reform 'Grand Bargain'.
 - In particular, could local government FAGs be under threat?



Sources of tax revenue

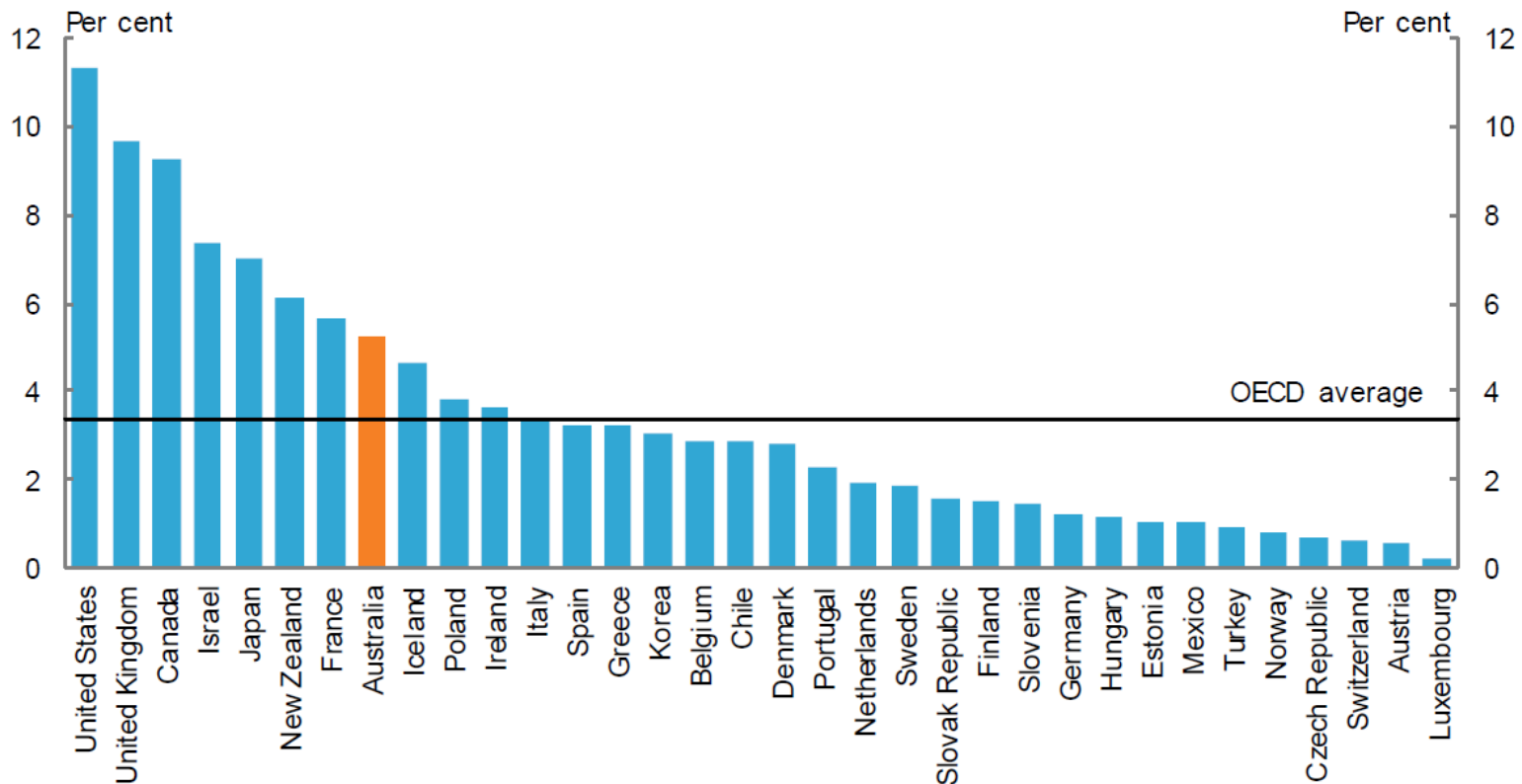


Source: ABS Cat No. 5506 – Taxation Revenue, Australia 2012/13

Recurrent property taxes

- Australia's reliance on recurrent taxes on land, as percentage of the total tax take is higher than the OECD average, but around half the proportion raised in US, UK and Canada

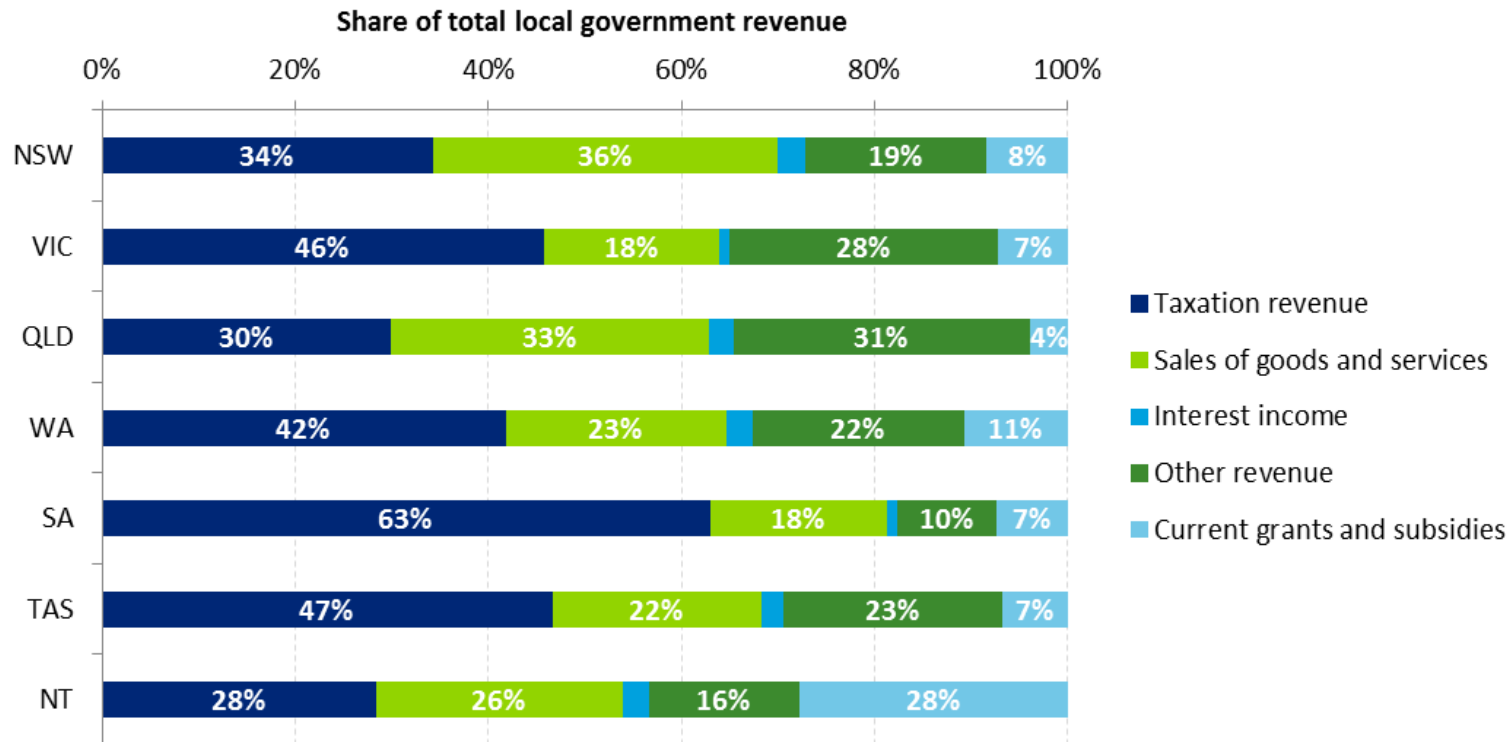
Chart 8.10 Recurrent taxes on immovable property as a percentage of total taxation, OECD countries, 2012



Source: Commonwealth Government *Re:Think* Tax Reform Discussion Paper

State breakdown of local government revenue

- While there is variation in local government revenue shares across states and territories, some councils within each jurisdiction are much more dependent on grants than others.



Source: Government Finance Statistics, Australia, 2013-14, Catalogue No. 5512.0

The outcomes of this review are unlikely to just consider text book theory

Meaningful reform will require broad consensus between commonwealth and state governments (and their parliaments).



Thank You

References

- Graphical information sourced from:
 - Deloitte Access Economics research (often ABS data) in preparation of report for ALGA
 - Australian Government's Re:think tax discussion paper
 - Australian Government's Reform of the Federation: Federal Financial Relations issues paper.