We need to talk about tax – State of Affairs event at State Library QLD

19 August 2015

Few people like talking about tax. Even fewer like paying it. But taxes are what we pay for civilised society – although we haven’t been paying as much tax as Australian governments have been spending. And how we pay tax makes a big difference to our prosperity. This year, tax has been constantly in the news: the Commonwealth crafting a White Paper on tax; groups lining up to criticise superannuation and negative gearing tax breaks; State governments urging GST changes to fund increasing health costs; and Grattan Institute suggesting changes to property taxes and stamp duties. PwC has made substantial contributions explaining the need for tax reform, the principles for better taxation, and laying out the options. Tax might sound technical, but it affects everyone’s hip pocket directly, and how our society works. This State of Affairs event discussed the key questions in Australian tax reform, and show how they raise fundamental issues about what sort of society we want to be.

Speakers:  
John Daley, CEO, Grattan Institute  
Sarah Amos, PwC

JOHN DALEY: Ladies and gentlemen, good evening and it’s my great pleasure to welcome you here to the State Library of Queensland. My name is John Daley. I’m the Chief Executive of the Grattan Institute where I have been, amongst other things, doing some work on government budget sustainability and tax reform.

I’m very lucky to be joined this evening by Sarah Amos, she’s an Associate Director at PwC where she works on tax and, in particular, has been working on their series called Protecting our Prosperity which has been looking at tax reform in Australia. They’ve published two publications there, one Why we need to talk about tax and the other one is around how you go about tax reform, and both of them show a really deep understanding of the issues that are involved in the Australian tax debate. Now of course, we are also in a world in which the Commonwealth Government has launched what was originally intended to be a substantial review of our tax system. It does appear that an awful lot of the issues have at least officially been taken off the table, although I suspect it’s in the nature of these things that you can say they’re off the table but that doesn’t mean that they are off the table, and we’re certainly going to keep all of the issues on the table for this evening. So welcome Sarah, it’s lovely to have you here.

By way of introduction, I started at Grattan Institute six-and-a-half years ago, I looked at tax and I thought, “Oh crikey, tax, it’s trivial, it’s tedious, it’s technical. Do I really have to do it? It sounds pretty dull”. And I was probably with a lot of people that saw tax as a wee bit like plumbing or, more accurately, like sewerage in the sense that most people don’t like the smell and most people don’t like talking about it. On the other hand, the more I’ve done on tax the more I’ve discovered that it’s actually really interesting, it goes to the fundamentals of what kind of society we are, it raises all sorts of fundamental ethical issues, and it has a huge impact on the society we are and the kind of lives that we lead. So that’s why we’re here tonight, to talk about tax, and I’m delighted that this many people at least want to spend their Wednesday evening talking about it.
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So first of all, out of all of the issues in tax what might we talk about? So Sarah, the Rethink paper came out, it had quite a lot in there. Do you think we should be talking about all the things that are in there?

SARAH AMOS: Well, it covered about 66 issues and, I have to say, when I read through it there were chapters I was quite happy to ignore completely. The big issues I think were covered but perhaps they got lost amongst the rest of them. So GST probably almost got glossed over to some extent, but needed to be a key issue that needs to be talked about. They also looked at things like stamp duties and land tax but, again, going into the depth of what those issues are probably was missing from the paper.

JOHN DALEY: Yes and instead we got a lot of discussion about the use of flow-through entities to make it easier for small businesses to spread their income amongst family members.

SARAH AMOS: Absolutely.

JOHN DALEY: Which doesn’t sound like a first order issue to me.

SARAH AMOS: Probably wasn’t at the top of my list.

JOHN DALEY: Right. Probably though when you are trying to prioritise, the deep question and quite fundamental question is should we be prioritising budget repair, the bottom line is the Commonwealth’s running a deficit of about $40 billion, that’s pushing up towards 2.5% of GDP. It’s been about that level for now seven or eight years, if Grattan Institute’s halfway right we’ve got another three or four years of that to go. We could be talking about budget repair or we could be talking about economic efficiency. Where should the debate go do you think?

SARAH AMOS: I feel like the focus should be on economic growth but I don’t want to undermine or question that budget importance because, at the end of the day, if we get through the tax reform process and we don’t look like we’re on the path to budget repair I think we’ll have failed. But to me key in this debate is focusing on economic growth because that is what’s going to guide the right tax decisions. I think we can look at the Mike Baird situation at the moment and look, I think Mike’s great, he’s come out and he’s said, “Let’s get GST on the table” but his basis for that was on budget repair and specifically funding health. And it’s noble and it’s the right way to be looking at it, but it starts to distort the argument.

What we want to be looking at is economic growth because if you just start focusing on budget repair suddenly you get the next solution that says, “Actually, if you’re just trying to fix the budget why don’t you up the Medicare levy?” and you start seeing these other suggestions come to the fore because they’re not thinking about growth, they’re just thinking about, “Oh well, how can we raise revenues?” And there’s a whole range of different ways we can raise revenue, it’s just questionable whether they’re the right ways to raise revenue.

JOHN DALEY: Presumably one of the questions is can we genuinely walk and chew gum. So can we both find some taxes to go up, presumably the most efficient ones to go up if at least part of our budget repair is likely to be tax changes, and then also look at some further increases but
accompanied by some reductions that increase the efficiency of the system? Is that doable do you think?

SARAH AMOS: I think it’s a longer term pat, that’s the challenge. If you start focusing on growth what you’ll see is there’s more incremental change that’s required along the way. So if you start looking at land tax, for instance, and a broadening of the land tax and you’re offsetting with a reduction in stamp duties, well any revenue gain sort of gets lost but what you’re hoping is over time you see those broader economic growth advantages that start to then build the budget, build economic growth, build activity and lead to a better outcome for a budget.

JOHN DALEY: So if we go back then to first principles, if you were designing a tax system from scratch and, of course, one never is, but if you were what do you see as being the fundamental principles to get right?

SARAH AMOS: I think there’s always the key ones that everyone goes to, it’s efficiency, it’s equity and it’s sustainability, and I think of that from the perspective of revenue sustainability. So the efficiency, you want to make sure that the taxes you’re imposing aren’t creating distortions or preventing otherwise beneficial economic activity, but economic growth in itself is not its end. We need to have that fairness consideration and so some degree of consideration of equity is still important, but still I guess, for me, sustainability is still important there.

JOHN DALEY: Yes, fair enough. So if we then move on to thinking about how they might actually play out, and let’s for the moment put the budgetary repair to one side. As you know, I’m not so confident as you are that we can afford to do that. It’s worth remembering when you run a budget deficit of $40 billion what you’re essentially saying to younger households is, “You will pay at some stage over your working life an extra $10,000 in tax some time”. And that’s quite a lot of money, particularly when you do it seven years in a row, by then you’re talking about $70,000 a year and all of a sudden that’s real money. But let’s put that to the side just for a moment and focus on the efficiency piece.

What do you see as being the reforms that will really have a big impact on the efficiency of our tax system?

SARAH AMOS: One of the first ones I think of is the land tax/stamp duty trade-off, and I know that’s something very close to your heart John, and it’s something that I think has benefits that could help with growth generally. GST obviously is an important one as well. If you’re looking to build revenues but still maintain efficiency, GST is a good tax for doing that such as it has a less distortionary impact, as opposed to something like raising a personal income tax, for instance, which tends to have a worse economic impact such that it detracts people from wanting to work.

JOHN DALEY: By definition you’re raising GST because you want to pull something else down, if you were going to pull down income taxes where would that be? Is the main game about pulling it down from 49c to 46c or is the main game the lower down thresholds?

SARAH AMOS: In my mind my concern is not with the high personal income tax bracket, so that’s probably least of my concerns. I think the focus is more on the middle income earners. So bracket creep of the fiscal drag is obviously becoming an increasing issue at the moment and really the focus is those lower income earners. You need those wage earners in the workplace and it’s also then
affecting your part-time females as well and so obviously, as Grattan’s done in the past, they’ve identified that what some of our real gains in terms of economic growth or productivity in the future is from greater female participation. And those tax rates, particularly the interaction of the welfare and the income tax regime for females, really impede that workforce participation.

JOHN DALEY: Yes. I think it’s worth drawing that out. I think the argument here, and queried but the argument is essentially the kind of people who are earning $200,000 a year are probably working full-time and if someone offers them another $50,000 a year they’re not going to not take it simply because they’re being taxed at 40c. On the other hand, people who are working three days a week will often find that they would either be barely going forwards or indeed going backwards if they worked extra days, and that’s the issue.

SARAH AMOS: Absolutely and I think you’ll notice that if I even speak to some of the more junior members in my team, they know when their pay rise goes up and then they see their salary the next month and it just so happens they’ve skipped a tax bracket and they’re going, “But I got a pay rise, but I don’t have a pay rise”. So it ends up being really obvious if you can’t see that change in your salaries and it is particularly noticeable at those lower levels.

JOHN DALEY: Yes. I was talking to someone the other day who said that their partner, they’ve got children, some of them are in childcare, she’s working three days a week, she’s got an employer basically pleading with her to work more days and she’s saying to the employer, “Look, I’m really sorry, it just doesn’t make any sense to work extra days. I go backwards”.

SARAH AMOS: Absolutely, yes.

JOHN DALEY: So moving along, we’ve talked about property taxes and stamp duties, we’ve talked about GST and income taxes. Where else do you think the priorities might need to be?

SARAH AMOS: There are other tweaks you can always make to improve efficiency. One of the things that a lot of people like to talk about is the company tax and, look, I work for PwC, I’d be remiss if I hadn’t raised the potential efficiency gains associated with a lower company tax. It is important from an economic growth perspective, but it’s not probably what I would lead with at this point in time given you are still thinking about a budget repair in the back of your mind.

JOHN DALEY: And presumably one of the other issues on the corporate tax rate, the fundamental argument for pulling down a corporate tax rate in a world where we have dividend imputation and therefore the tax rate on companies from the point of view of Australian shareholders is essentially irrelevant. The only place it matters is for foreign shareholders and so the argument for dropping the corporate tax rate in Australia as opposed to lots of other countries without dividend imputation is that we need to encourage foreign capital to come here. But of course, in a world in which interest rates are currently at their lowest since Ancient Babylon, according to a paper that came out recently from the Bank of England, they were higher in Ancient Babylon, they’re at their lowest since at least Ancient Babylon, perhaps quite a lot longer. In that kind of world it doesn’t sound like Australia needs to work that hard to attract foreign capital?

SARAH AMOS: No. It’s a nice to have and if we were in better circumstances perhaps it’s something you’d want to pursue, but I’d probably put in the not so important, not now.
JOHN DALEY: So we’ve talked about the things that are really important for efficiency, what do you see as being really important for fairness?

SARAH AMOS: To me the fairness one comes back to the bracket creep argument again, and I see that one as being really important. The other areas of fairness you start moving into the sort of more tax expenditure realm, and that’s the things around superannuation and superannuation concessions, and things like the negative gearing and the CGT discount where they seem to benefit those higher income earners rather than showing more fairness. It just raises questions about should government funding, whether it be government foregone revenues be used to support high income earners or whether it should be more distributive.

JOHN DALEY: Yes and presumably inevitably in the current environment there is an issue around international tax. If there are some corporates that are essentially seen to be paying no tax to anyone much there’s a perceived issue around fairness.

SARAH AMOS: Absolutely and I think those things, so the BEPS issue at the moment, the fact that there are high income earners that aren’t paying sufficient tax, it starts to undermine the integrity of a voluntary tax regime, which is effectively how Australia works. If people don’t feel like businesses or individuals are paying their fair share they start questioning why do I have to pay tax? So it starts to undermine even the very basis of our tax system.

JOHN DALEY: I think there’s some lovely work that’s been done there on the behavioural economics front about the way that the amount of tax that people are prepared to pay and, as you say, most tax systems actually rely on being largely voluntary. If you actually had to compel every single person to play by every single one of the rules the system will be unmanageable and that voluntary compliance is very driven by the perception or otherwise that everybody else is voluntarily complying.

SARAH AMOS: Yes.

JOHN DALEY: If I think that everyone else in this room is more or less doing the right thing, I’ll do the right thing too. If I think that most people in this room are basically cheating on their taxes, then I’ll cheat on my taxes too and we, to be blunt, wind up like Greece.

SARAH AMOS: Absolutely.

JOHN DALEY: Okay, so that’s in terms of fairness. Presumably the other one to think through there is around trusts and the perception that personal trusts are being used, again, by high income earners to reduce how much tax they pay. And I guess some of the analysis we’ve done there, we haven’t published it, is essentially showing that in the overall scheme of things reforming personal trusts is probably not going to net you a lot of extra revenue, in the same way that I suspect reforming international tax rules is not going to net Australia lots more extra revenue. It may net the US government and various other places more revenue, but probably not us that much. But, on the other hand, it’s an important symbol.

SARAH AMOS: Yes.
JOHN DALEY: So why don’t we move on to state taxes, as you know, a cause dear to my heart and particularly given that we’re here in Brisbane, because I guess these often to be the forgotten children of tax reform. One of the questions that came in in advance of this session was, “Given the inability of state governments to impose new taxes...” and I thought that was a fascinating assumption to make. The bottom line is state governments, I would argue, are sitting on the best taxes base in the country, namely property taxes. You can afford for property taxes to be a lot higher than they are, at least in economic theory that would have very little impact on the economy because of course one thing you cannot do with land is move it anywhere else. In fact, many of the other state governments have started to go down this road.

So Victoria’s now got a Fire Services Levy, WA and South Australia have both got Emergency Services Levies, which are essentially on the council rates base, the ACT of course is a sort of fused state government cum local government, so it’s already doing this. Queensland’s got nothing. Do you think Queensland should be looking at a property-based levy?

SARAH AMOS: I think all states and territories should be looking at a property-based levy. I think it ends up being an appropriate mechanism for raising revenue. There are obviously some hairs on it, so how do you deal with those individuals that may be asset rich but cash poor and who are trying to manage a land tax regime or a property levy regime, as I think Grattan likes to call it. So I definitely see it as being should be on the table for consideration. I think there are a lot of things to think about how you implement it and what you’re trading off.

JOHN DALEY: Yes. You always get told about the poor pensioners in wherever, insert name of rich suburb here depending on which state you’re in. A couple of things I’ve observed about that, one is actually when you look at the numbers the number of pensioners with really large houses and no other assets turns out to be quite small. The kinds of people who can over their lives accumulate a house work $2 million are usually the kind of people who wind up stashing a bit away somewhere else. The other thing I’ve observed about that is providing it’s a broad-based levy the rates can be very low. So if you have a tax of 0.1% of property value, so on a $500,000 house you’d be paying a tax of $500 a year, that would raise us $7 billion nationally, so you can multiply out from there depending on exactly how much you want to raise.

So you can raise quite a lot of money at very low rates and at those very low rates you can afford to let people capitalise against their houses and pay interest and you can kind of collect the tax when they finally die or sell the property or whatever, and actually it turns out to be a very small percentage of the property value. At 0.1% and capitalising it for 30 years, and not that many people are going to live that long from 65 to 95, if you do that it accumulates to be about 5% of the value of the house. So in the scheme of things it’s just not that large. It’s not like a reverse mortgage where if you borrow 20% of the value of the house compound interest eats up the value of the house really fast. If you’re only effectively taking 0.1% of the value of the house every year it just doesn’t grow that big.

Are there other things that worry you about property taxes?

SARAH AMOS: I think what I’m quite interested in and reading the work that Grattan’s been doing at the moment is the fact that there was some discussion about replacing stamp duty with a land tax, but it doesn’t seem to be the main focus. And I was wondering, is there a constraint that you see there
about being able to unwind stamp duty as well as at the same time introducing a land tax? I thought from more of a public perspective, I think they would like to see a trade-off and there wasn’t as much of a focus as I thought there would be on that in your paper.

JOHN DALEY: I think that’s fair and I think it goes back to that discussion we were having earlier, is your priority here budget reform or is your priority economic reform? I guess the way that we certainly thought about budget reform is if some of this has to be through tax increases then at least you want the most economically efficient tax increases and property tax struck us as being a better option than most of the other choices. And the issue that the state governments have got, and you see it particularly here in Queensland, is their budgets are balanced but kind of only just.

Most of their tax bases are not growing as fast as GDP, and in particular GST is not growing anything like as fast as GDP and probably won’t for the foreseeable future. They have been spending, and Queensland in particular has been spending a lot of money on infrastructure and that is now eating up much more of the state budget than it used to with a combination of depreciation, which effectively pays back the money that’s been borrowed, and the interest costs. Plus you have health growing much faster than GDP and that’s a global phenomenon, plus you have the Commonwealth essentially shrinking how much it’s going to provide for health not that much over the next year or two, but if you go four, five, six years out then it starts to really bite into state budgets. So we look at all of those things and we say jeez, over the medium run state budgets are in quite a lot of trouble and it’s not clear what it is that you would do to cut expenditure.

When you look at where do state governments spend money, far and away their biggest item is hospitals, they’re wildly popular, by and large they’re leading to much better health outcomes and, of course, hospital waiting lists are a really hot one in any state government election. Then they spend quite a lot of money on schools and I’m sure we could do that more efficiently but, again, I can’t see any state government rushing to cut those. Then they spend money no transport and transport infrastructure, again, pretty vital function. Then there are emergency services and then that’s kind of the end of the list. That’s basically where the money goes. So it’s hard to see that they’re busy wasting money hand over fist and given that and given this desire that we see around the developed world, as societies get richer basically they’re spending the additional income on health, essentially keeping themselves alive and in better health. And it so turns out that it appears to often be more efficient to spend that health money through government than privately, essentially governments are often better at getting a good health outcome relative to the amount that’s spent than people trying to do that all by themselves and the best example of that, of course, is the United States. Whereas Australia spends 9% of GDP on health the US spends 19% of GDP on health and it gets actually worse outcomes and essentially it’s because it has this highly privatised health system.

So we look at all of that and say as GDP goes up it’s likely that Australia, like other developed countries, will continue to spend more and more of that extra on health. That probably means that the size of government will go up, all other things being equal which they never are, and then the question is who is going to pay for it? The answer over the last few years was some combination of the mining boom and deficits paid for it, and clearly over the next 10 years we will need a different answer because we’re already running deficits and the mining boom is clearly no longer here to say.

SARAH AMOS: So would you say then land tax is almost your alternative to raising a GST?
JOHN DALEY: I think these broad-based property levies are, we would argue, a much better alternative than a GST. On Treasury's numbers they are inherently more efficient than a GST, they are inherently more equitable, by definition they just don’t hit the bottom 20% at all because the bottom 20% don’t own houses. They’re inherently even more economically efficient because you can’t move land and land taxes tend to get capitalised in the house prices, whereas a GST does ultimately reduce incentives to work because it’s less obvious but if I’m earning $100 and you’ve just increased the GST then my $100 is effectively worth less than it was yesterday. Consequently it does act as a drag on economic activity, albeit it’s less obvious.

Presumably those are the reasons why the traditional economic analysis and what was produced in Treasury’s Rethink paper says that the marginal excess burden as it’s known, so the efficiency drag, on the economy of land taxes is much lower than the efficiency drag of GST. Indeed there’s an argument that land taxes may actually have a negative economic drag, which is a dreadful term. In other words, Australia actually goes forwards when we have higher property taxes because basically we collect more money from foreigners and that’s a free kick for the economy.

SARAH AMOS: Pretty much, yes, which is pretty exciting.

JOHN DALEY: Yes, I’d always rather do that than the alternatives. We’ve talked lots about property taxes; obviously you’ve already raised the GST. What is it about a GST that makes it more efficient than an income tax?

SARAH AMOS: It’s a complex argument because at the moment when you look at Treasury’s paper you’re actually not seeing that much of a difference when you look at marginal excess burden between a GST versus a personal income tax, albeit they were based on a flat rate personal income tax. But what GST is deemed to do is have a less distortionary impact around the decisions you make to work, to invest, to do your normal activities, and that’s why a GST is seen to be more efficient. By all means I guess in my mind I sit there and say I would prefer to get taxed less on what I earn and more on what I spend because I have a choice over what I spend and that to me I think starts to resonate with people in general where they’re trying to go, “Well actually, I could spend less and therefore pay less”. And there’s also an argument I think in terms of fairness as well where the more you spend the more tax you pay and arguably those who spend more could be those who are higher income earners as well.

JOHN DALEY: Although, as we know, as a percentage of people’s income in fact lower income people spend more because essentially they don’t save anything.

SARAH AMOS: As a proportion of their income, yes.

JOHN DALEY: Yes. Presumably one of the other advantages of it relative to, say, an income tax is inherently it’s harder to avoid.

SARAH AMOS: Absolutely.

JOHN DALEY: Rich people do actually have to pay most of the time.
SARAH AMOS: Absolutely, and I think that’s what they’re saying in other more developing economies at the moment, they’re not looking at personal income tax, they’re looking at a consumption tax because it’s a much easier way to collect tax revenue.

JOHN DALEY: Yes. Presumably there are two things we could do here. We could either broaden GST, the kind of things that always get talked about are fresh food, private spending on health, private spending on education, water – I’ve never quite understood why it was that we pay GST on electricity but not on water, presumably there’s a “being nice to farmers” somewhere in there. We could either broaden it or we could increase the rate.

SARAH AMOS: Or we could do both.

JOHN DALEY: Or we could do both. If you were to do one of those two, which would you go for?

SARAH AMOS: From an efficiency ground you would look to broaden. So I’m not saying that’s necessarily my answer, but I’ll start with that. So from an efficiency perspective you’d look to broaden the GST, it just alters then any distortion about how you allocate your spending. So at the moment GST hasn’t been keeping pace with the expenditure requirements of states and territories and in part that can be attributed to the fact that households are purchasing more GST-free goods, such as health and education.

JOHN DALEY: In fact, the big thing there is housing isn’t it?

SARAH AMOS: And housing, yes.

JOHN DALEY: Because we did a piece looking at the last 10 years and the big thing that’s increased in terms of disposable income is not how much people are spending on education, although that’s gone up a bit, not how much they’re spending on health, because that’s gone up a little bit, but how much they’re spending on basically paying back the mortgage and paying interest on the mortgage. And of course inherently you don’t pay GST on that.

SARAH AMOS: Yes, so we’re seeing there’s expenditure that isn’t getting capture within GST and so we’re losing some revenue gain associated with that. So that’s the basis for why you would broaden, however it is clear that from a distributional perspective broadening the GST would have a worse income on lower income earners; comparing that to raising the GST on a narrower base, it looks better from a fairness perspective.

JOHN DALEY: But is there much in it really?

SARAH AMOS: There is not a huge amount. To be honest, it would be better from an equity perspective just to raise the GST. It’s not a huge amount, but it’s probably enough just to make a slight difference. From an efficiency perspective, if you could appropriately compensate those individuals within those lower income brackets you could justify broadening as well, but in our mind it seems to be a much harder argument. You’re going to have to be pushing that barrier pretty hard.

JOHN DALEY: The argument about broadening, as you say, partly there’s a, “Let’s capture the things that are growing a bit faster than everything else”, and in part it’s an argument that says, “Oh well,
there’s a lot of inefficiency in businesses having to figure out whether something is fresh food or not”. That’s an obvious one, but then there are some really interesting ones that people became more popularly aware of with the campaign around tampons, around is something health or is it not health and you get all this argy-bargy about whether vitamins, for example, are health products or not. Do businesses really spend that much time arguing about that stuff?

SARAH AMOS: I feel now a lot of that’s passed. So they often raise the High Court issue with the ciabatta, whether that should be counted as being a fresh food item or whether GST applied to it and I think the judge who was presiding over that case sort of came to the conclusion that this was a waste of his time and, indeed, an Australian taxpayer’s money to be able to be arbitrating these calls. I think a lot of those issues have largely been dealt with by now because we’ve had a lot implementation period now and I don’t think it’s causing as much of an issue. It does make me nervous to know that we’re starting to get to the point where we’re trying to reverse GST applicability to certain products, regardless of what they are, because that starts to undermine this GST tax base and starts to re-open the debate, “Well if we’ve taken it off, say for instance, tampons, what else could we remove GST from?” and it could open up a range of things.

JOHN DALEY: Okay, so we’ve talked a little bit about GST, now let’s go to one on fairness and superannuation, which of course is officially off the table, but I guess we don’t quite see it that way. Indeed, I would note on that we have a paper out from one of your competitors, KPMG, saying that superannuation tax concessions should be wound back; we have statements from Westpac; we have statements from some of the industry associations. At this point the turkeys are voting for Christmas and so really we’re arguing about how much they should be wound back rather than whether they should be wound back. I wonder if we could just take this back, what is the purpose of providing superannuation tax breaks in the first place?

SARAH AMOS: I think there’s been a lot of argument about this at the moment and everyone’s sort of wondering, what was the policy intent right back at the beginning? I think some people say it was there to supplement retirement incomes, it was never meant to replace the age pension, and then you have other people who say actually no, it was meant to be an alternative to the age pension. And to be honest, I feel like that whole purpose right back from the beginning about what superannuation was there for has kind of been lost and we almost need to go back and redefine it.

JOHN DALEY: Yes. I guess if you pick up the Murray Inquiry which of course had a very explicit go at this and said, “It’s there to either replace or supplement the age pension”. And one of the ways that we’ve been thinking about that is to say well if that’s the objective - and it kind of makes more sense than anything else anyone’s put on the table and, indeed, there may well be political consensus around that as an objective - then the argument is okay, so for anyone who might qualify for at least a part-pension, superannuation tax breaks are there to help them get to that point. But for people who are not going to qualify for an aged pension, in other words people who are going to save for their own retirement anyway, why should we give them a tax break?

SARAH AMOS: And it’s one of those really challenging ones and I constantly sit on the fence with this one where I sit there and go, “Does government have a role to create this incentive to save? Was there a view at the time when they introduced superannuation that individuals weren’t effectively saving for their superannuation?” Now, I do think there’s a group of high income earners who would
have had money put aside regardless for their retirement, but I feel like there's a middle group which probably sits above middle income but below super-rich that probably weren't thinking about saving about retirement effectively and having those incentives introduced might have led to behavioural change.

But obviously it is one of the things where you start going, “Well look, if you’re going to be well off enough to be able to put money away for that period of time, did you actually need a concession anyway?” And that’s where we start seeing them as being perhaps less inefficient or less than fair.

JOHN DALEY: Yes. One of the ways to think about this, I think you’re right, between roughly speaking about 40% and 80%, essentially most people in that group will probably get a part-pension under current rules. People essentially rom 80% upwards probably won’t, and people from 80% upwards are by definition households on income of about $140,000, $150,000. By definition I would argue those households, little secret, not planning to retire on the age pension of $30,000 and that was never their intention. Now, if we make the age pension so generous that they can claim it then they’ll be busy claiming it, but that’s probably the age pension rather than anything else. For those higher income households we can see from the data that the vast majority of them do save, the vast majority of them hit 50 and definitely 60 with a lot of assets not only their own home, but also investment properties and also financial asset shares outside of super.

Then when we look at the data round the world it’s fascinating, if you look at studies that have been done in the UK, in Spain, in the US, in Denmark, which has for some bizarre reason particularly good data on this, you see the same thing comes through every single study which is of the additional money that gets put into whatever special tax advantage vehicle you’ve got, in Britain they’re TESSAs, in the US they’re called IRA (Individual Retirement Accounts), in Australia of course we call it superannuation, of the extra money that goes into those vehicles at best 25% of it is extra money and 75% is stuff that would have been saved anyway, it’s just that people shuffle it. That’s at best; many of the studies suggest it’s much less than that and that essentially that top 20%-odd were always going to save and the amount that they save is very insensitive to the tax they’re paying on their savings. Where they save it is really sensitive to tax rates and of course they give very good financial advice that says if the government sets up a vehicle in which you can pay much less tax on your savings, you’d be pretty crazy not to use it and, indeed, many of them do and fair enough if that’s how we set up the rules.

But I think the much bigger question is why are we setting up the rules in such a way that we allow them to do that, given that they were going to save this money anyway? Why should we be effectively reducing the top rate of marginal tax to encourage people to do something they were going to do anyhow?

SARAH AMOS: Absolutely and I think this is probably leading to the reason why now having a bit of a rethink around the superannuation concessions is important. You’ve got three points to look at: when you’re putting it into superannuation, what’s happening during the accumulation, and then what’s happening at the retirement phase. They’re the three points that we now need to go back and have a really good look at and go, “Is this still having the desired policy effect that we wanted it to have and what needs to change?”
JOHN DALEY: On that note, why don’t we go to the last question that we should talk about before we open up to the floor which is all of this sounds very sensible, I hope. But of course it’s proving to be very difficult as a matter of political reality and indeed the current Commonwealth Government has taken much of the stuff we’ve been talking about off the table and other parts, like GST, are still on the table but with conditions that don’t look like they’re going to get met anytime soon. How do we go about getting from here to there? How do we go about actually making reform happen?

SARAH AMOS: A nice easy question to finish on. To me, getting reform to happen needs to be enabling the Australian people to understand what we’re doing and I think this comes back to what we were talking about right at the beginning, which is are we doing this for budget repair or are we doing this for economic growth? There needs to be a clear target or point to focus on for the government in terms of what they’re seeking to get from this. At the moment you’ve got someone from the left coming up with one idea, someone from the right coming up with another idea, and someone else from somewhere else coming up with another idea, and there’s no way for the government at the moment to be able to say, “Actually no, that’s inconsistent with the direction we’re working towards” or “It is consistent with the direction we’re working towards”.

Having some point of focus, whether it be key principles, whether it be just knowing what they’re trying to achieve through this tax reform process, will be really important to actually driving the debate forward and actually doing something with the wide range of ideas that are coming out.

JOHN DALEY: Yes. I think it’s inevitably very difficult, tax reform is hard. It’s worth remember it took 26 years from the Asprey Report recommending a value added tax to actually legislating a GST in the year 2000. This stuff is slow, but I suspect it’s also about making sure that we have the public conversation. The leaders of our people will follow wherever the people lead them and I suspect that that’s how a lot of this will happen.

SARAH AMOS: Absolutely.

JOHN DALEY: On that note, let’s throw it open.

AUDIENCE: My question I guess drives to possibly a contentious issue for both of you. Can you foresee any circumstances in which a genuine efficient simple tax is likely to get passed and not actually prevented from being implemented by what is currently a very large and very effective tax avoidance industry?

SARAH AMOS: Oh look, what I’ve seen even this week is that if you watch the Sunday television show on Sunday evening they were bringing up BEPS, and to me watching that show just made me sort of shudder as I go, “Well, this is the information that’s going out to the broader community”. And it creates this real notion that we’ve got big business that are making lots of money and not paying their fair share of tax. So what I would say is, is there a simple way that you can then tax those companies to ensure they actually pay their tax? And I think – and this is what many of my colleague say – by virtue of living in a complex society, advanced society, simple tax laws don’t always work. We’ve don’t have a simple society or business operating environment which we work in, so having a simple tax system doesn’t necessarily always work. There will always be some degree of complexity and with that complexity come abilities to manoeuvre.
What you want to do though I think is what the Australian government is trying to work towards with their BEPS arrangements at the moment is to say, “Our current arrangements are they leading to adverse outcomes and how can we reduce those adverse outcomes?” And that sits, to me, within that tax law framework.

JOHN DALEY: The thing I would add to that is, one, it’s worth remembering that there are a large number of Australian companies that transparently do pay very close to the 30% tax rate. If you go and look at any number of Australian companies, particularly the banks and so on, the actual tax that they pay according to their accounts is very close to 30% of the profit that they then try and distribute to shareholders. Those are the numbers they publish and there’s ample reason to believe that they are actually paying that tax. Now, that’s not true of all corporates and that’s a problem although, as I said, one of the issues is that the corporates who are probably doing their best or rather succeeding most in not paying tax in Australia may well, even if we change the rules, wind up paying that tax elsewhere rather than in Australia. There are clearly some companies that are paying basically no tax much to anyone anywhere in the world. That is a problem, but if we change the rules, as I said, it may not lead to them paying more tax in Australia.

The second thing that has underpinned a lot of our discussion is that one of the principles of good tax design is precisely to design taxes that basically wind up getting paid rather than avoided. And it’s worth remembering that at the end of the day corporates in fact don’t really pay tax. Ultimately people pay tax, i.e. shareholders. So really all we’re arguing about is what particular mechanisms and incidents, legal forms we use so that we decide exactly who, people, are going to pay exactly how much tax and through what mechanism. And I think one of the advantages of things like property taxes and consumption taxes, and largely income taxes, is precisely that they are quite difficult to avoid. Most people wind up largely paying them, precisely because it’s very hard to avoid them and precisely because we do have in general a culture of compliance, of voluntary compliance, as Sarah was saying.

AUDIENCE: My question falls under that sort of equity area and I’m wondering about things like when the GST was first introduced there was discussion not only about adjusting personal income tax rates, but also income splitting so that was seen as a way to assist families when you’re raising a family. In particular, if I could give a personal slant, that if you have an ill child and one partner therefore cannot participate in the workforce, even if the other working person might be on what would be considered to be a high professional salary, you end up far worse than two people who don’t have ill children and are able to participate fully in the workforce and pay tax, but also be able to contribute towards their superannuation. That’s not the case and so I just wonder what your thoughts are from the point of view of things like income splitting, because that just seems to have disappeared out of consideration.

SARAH AMOS: I think Henry looked at this as well, whether the tax unit should be the individual or the family. I guess from my perspective I probably haven’t looked at it in any really depth, but I’ve a view that for simplicity I think the individual as the tax unit has always been the preferred direction. I don’t know, John, if you have specific thoughts?

JOHN DALEY: No, it is something we have had a look at. I think there are two things that we’re trying to trade-off here. One is fairness between families, and I think you’ve made that case very well, but there’s another issue that’s a big deal and that is around participation rates and incentives. One of the
issues with income splitting is that inherently you reduce the incentive of the second income earner to work. So why is that? If I’ve got one person, let’s assume as is mostly the case or at least more often the case, let’s assume it’s the man who’s working and let’s assume that his partner is a woman, so he’s already working full-time. If you have an income splitting system then the first dollar that she earns effectively she pays tax at the marginal tax rate for the family, it’s probably going to be in the order of 30c. If on the other hand you don’t have income splitting then she gets a tax-free threshold of $19,000 and then of course she gradually works her way through the tax scales.

So one of the problems with those income splitting arrangements is that you wind up, and you see this in the international comparison literature, with much lower rates of female workforce participation than you would otherwise precisely because you create very substantial disincentives to either, one, moving into the workforce or, two, taking on more hours. And it’s a particular issue in terms of moving into the workforce when you’ve got this income splitting because it means the first hour that she’s paying at the family’s marginal tax rate, as I said it could easily in the Australian system be 37c, it might even be higher than that, and, of course, given the way that most welfare works, chances are there will be some welfare that the family gives up immediately and that means the effective take-home pay will be very low. And of course, as soon as the family’s paying for childcare then it’s probably not worth working at all.

So that’s why around the world governments have tended to opt for tax systems that are individually-based rather than family-based, because otherwise it winds up playing out as a female workforce participation, although of course it’s in fact more general. It’s essentially a second income earner participation issue.

AUDIENCE: I also had a question about equity as well, you mentioned earlier that corporations don’t pay taxes, people pay taxes and you mentioned that shareholders pay taxes. Well of course, the other option of that is that you have a corporate tax and the shareholders could pay the tax, but also the workers could pay the tax through higher wages or the consumers could pay the tax through higher good prices. When you take into account that it’s really difficult to tell who actually bears that tax burden, how do you then actually figure out how to design a fair tax?

SARAH AMOS: Good questions tonight. Yes, it is a very difficult thing. I think when it comes to corporate income tax, there’s been a large amount of empirical work that’s been done about the incidence of the tax and who actually pays the tax. But I take your point, I do think it is very difficult to design a tax system knowing exactly who it’s going to impact and implement. I don’t know if I have much more than that.

JOHN DALEY: And I think when you look at each of these taxes that’s precisely the right question to ask is who is really bearing the burden here? So the classic example is payroll tax, ultimately a lot of it falls on workers because essentially they wind up getting lower wages than they would otherwise and so it’s just an exotic way of levying income tax in some ways, flat rate income tax. That’s what you need to work through with each of these taxes and I think you can do that, you can say, “Where economically will this ultimately fall? And then how will that be distributed between the community?” And, as Sarah says, it’s not exactly a precise science, but at least you have a go and on many of these things you can get a reasonable approximation as to where is it going.
Payroll tax, as I said, as a first order of approximation it acts as a flat rate tax on anybody who’s working, so it’s like a flat rate increase to the income tax. A consumption tax essentially more or less is a flat rate tax across the community. Things like an income tax is inherently a progressive tax across the income spread. A property tax is a wee bit more complicated because of course it’s not being levied in income, in effect it’s being levied on a form of wealth and although wealth is correlated with income they’re not exactly the same. On the other hand, there’s no in principle argument to say that you should only be worried about distribution of taxes relative to income. There are plenty of arguments in principle that say you should also be worried about distribution of taxes with respect to wealth.

AUDIENCE: This might be a bit left of field, but I’m interested on your thoughts on gambling taxes. There was an article I was reading recently about some WA politicians making I think a valid point. I don’t understand the mechanism, but in the carve-up of the GST effectively revenue from gambling taxes aren’t taken into account, which I suggest would create quite a perverse incentive for them to maximise that industry. If you actually look at what the Productivity Commission was saying about gambling, they did point a few years ago to the industry itself, particularly pokies, not being a particularly productive industry and tending to cannibalise other forms of economic activity. And also around pokie use, in particular, that up to 40% of the revenue is coming from people who are addicted or high level harmful levels of engaging those behaviours. And of course there are a whole lot of knock-on effects about the impacts on their own small business, on families, etc.

So I’m interested in your thoughts on that and restructuring that perhaps at a Federal level?

JOHN DALEY: Can I pull that apart? The first question is around what’s the impact of gambling taxes on the distribution of the GST? We recently spent quite a lot of time as we were doing our property tax paper talking to the Commonwealth Grants Commission (CGC) about the precise way that their methodology works and they were clearly so excited to be talking to a bunch of people who were interested in the detail and who weren’t trying to game the system. Because essentially, as far as I can make out, there are about 50 people in the country who understand how the CGC really works and all of them work for state governments and they’re all busy trying to game it in one direction or another. Ironically, the way that the CGC works and GST distribution works, it doesn’t really matter whether or not gambling taxes are included in their methodology.

Let me just walk you through why that it is so. What they try and do is they try and ensure that all Australian state and territory governments are in the same position to provide the same level of services to the people who live in their state. So what they do is they look at the capacity of state governments to levy taxes. So they would, for example, look at Queensland and say that on average Queensland workers get paid a little bit less than people in, say, New South Wales and consequently when Queensland levies a payroll tax at whatever percent they will raise a little bit less revenue and therefore we will redistribute per person a wee bit more of the GST to Queensland. Now if you think through how that works for gambling taxes, if we include gambling taxes they say, “Will some governments be able to collect more gambling taxes than others?” and the answer will be yes, some will be able to collect a little bit more in the way of gambling taxes than others, but the differences won’t be large.
Alternatively they could exclude gambling taxes altogether and they could say, “We’re just going to ignore them”. Either way, it makes very little difference to GST redistribution. It would only make a difference if what the CGC did was look at how much state governments actually collect through gambling taxes, and that is the one thing that the CGC does not do. There are very, very good reasons of principle for that. Their whole point is to say, “We’re not in the business of telling state governments what to do. We’re in the business of trying to put them all in the same position so they can make their own choices” and that’s why whether or not a state government in fact levies a gambling tax makes very little difference to the CGC’s outcomes. So that’s the question about redistribution of GST. It’s not well understood, the CGC does not look at actual collections, it looks at potential collections. So that’s one part.

Part two is should we be collecting gambling taxes at all and, if so, what should they look like and how should we be regulating gambling? I’d be the first to say that the evidence from the Productivity Commission and others is enormous. There is absolutely no reason to be allowing people to have very large bets on pokie machines. It’s tough to believe that that serves any social purpose and it clearly results in much more social misery. So should we be, for example, legislating to pull down maximum bet on pokie machines? Answer is almost certainly yes. Should we be restricting how many pokie machines there are? Answer is almost certainly yes. Should it be lower than where we are at the moment? Answer is almost certainly yes. Will that lead to a happier society? Answer is almost certainly yes. Will it lead to an improvement in economic outcomes? Yes, probably because you’ll have fewer people who get themselves into real trouble and, because they get themselves into enormous misery, wind up stop working because of depression and all the rest of it.

Why don’t we do that? One, this is a very, very powerful lobby group and, two, state governments of course get a lot of revenue from these gambling taxes and they’re very reluctant to pull that down because frankly the people who pay them don’t really notice they’re paying them and, by and large, they’re not very powerful people, they tend to be those who are least well off in our society. And relative to saying we’re going to have a general property tax where everyone will see it happening and they’ll all yell and scream in unison, gambling taxes seem like a pretty easy way to raise revenue politically. So should we restrict gambling in general? I would argue yes. Will that lead to a lower tax take? Yes. Will that mean that we have to raise taxes elsewhere? Yes. Would that be a good thing? Well, given that there’ll probably be a lot less social misery, yes.

SARAH AMOS: I think that’s well said.

AUDIENCE: Just a question in regards to expenses as opposed to revenue. You mentioned on the state government end there’s very little wriggle room to cut expenses further. Across all levels of government, is there any low-hanging fruit that you see that if we had a public conversation around it we could cut expenses rather than constantly talking about revenue?

JOHN DALEY: I’d suggest there are plenty of places we could cut expenses but most of it’s going to be difficulty, it doesn’t mean we shouldn’t try. So for example, my colleague Stephen Duckett in our health program has done a lot of work on what we might do about paying much less for pharmaceuticals, about how we could run our hospitals more efficiently, some hospitals cost much more to do some operations than in other hospitals and there’s no good reason for that variation. Yes, of course there are things that we can do. I guess the point I’d be making is that when the size of the
problem is as large as it is, I mean, it’s worth remembering that for every $10 that the Commonwealth spends it is only collecting $9 in revenue. The gap is enormous. It’s tough to believe we are going to bridge that gap purely on the expenditure side.

I agree with you, we should try and if you ask me where the lowest hanging fruit is, it’s probably in the age pension. Now the only way you would do that realistically is to one way or another figure out a way that we include owner-occupied housing in the age pension. And for those people who in fact didn’t have any other assets again you would have to allow them to capitalise the value of the age pension against their house. That is obviously going to be politically a very difficult sell, but it would be much better policy than where we are at the moment. It’s worth remembering more than half of the age pension expenditure of the Commonwealth Government goes to households, families that have more than $500,000 in assets and most pension households wind up being net savers, or at least not net dis-savers, over their retirement.

So what we’re running at the moment, particularly given the way that we don’t include owner-occupied housing, is not an age pension, it’s a taxpayer funded inheritance scheme. Should we change that? I would argue yes, but I’d be the first to accept that it’s going to be a very difficult ask. Have you got any expenditure bugbears Sarah?

SARAH AMOS: No, but I think the same conclusion that we came to when we were doing some of our original work around tax reform, we said yes, there are opportunities to find savings and that should be something that all states, territories and the Commonwealth should pursue. But those alone are not going to fix the budget issue and then they’re not enough to focus on; you have to start looking at taxes, you have to start looking at revenue. So I’ll probably agree with your point on that.

AUDIENCE: My question is about GST and broadening it. There’s a statement and I’m just wondering what your view is on it in terms of private education and private health. Most of the consumers of that would probably be people in the high income bracket, if we can assume that, so what’s the debate on broadening GST into those areas, like education and health?

SARAH AMOS: To be honest, I think one of the key areas perhaps from an equity perspective you might be able to justify easier the private education and the health. One of the areas of complexity is there is a concern about whether greater GST take might just end up being money cycled back into private health and private education as well. So what you’re seeing is it’s just getting paid in a slightly different way, so instead of the individuals paying, so they’ll now pay GST but then that GST revenue ends up flowing back into those same areas anyway. So it feels a bit churning.

JOHN DALEY: What you say on education is true, so the top quintile of households spends about 3% of their money on education whereas it’s virtually invisible in the bottom 20%. On health surprisingly it’s not true, so the top quintile spends about 5% of their money on health and the bottom quintile spends more like about 7% of their money on health, and that’s because that bottom quintile has quite a lot of pensioners in it and inherently they tend to spend more money. And although we have this view, perhaps encouraged by the debate over co-payments, that Australia has very low levels of co-payment it’s not true. Actually Australians wind up paying quite a lot for their health including, as you can see, people in the bottom 20% and indeed there are real questions around whether we’ve got all the settings right there.
So you’re right on the education front but on the health front it actually turns out that people at the bottom wind up as a percentage of their expenditure spending more on health than people at the top.

AUDIENCE: Much less in total?

JOHN DALEY: Yes, much less in total but that’s true of the GST in general. In absolute terms a GST will always hit high income earners more than it hits low income earners. The debate though is always about the percentages of people’s income that you are taking away from them and inherently a GST on health will essentially take away more of the disposable income in percentage terms of low income earners relative to high income earners.

SARAH AMOS: What I would add to that as well is that they also have a low level of disposable income leftover, so what you might actually see is dis-savings occurring in those low income groups as well, so they actually don’t have the scope to be able to bear any additional tax in that sort of area.

AUDIENCE: I’m over from the UK and it is quite encouraging to hear the debate tonight is a little bit more focused on actually what taxes we can raise and where we can raise those, because the austerity debate in the UK has been drowned out for six years now. Even Osborne might paint a picture that it’s working, but the reality is actually the government debt in the last five years has almost doubled to 1.5 trillion. So the policy of austerity has not worked and it is encouraging to hear tonight a little bit of a different debate.

JOHN DALEY: Thank you.

SARAH AMOS: Thank you.

JOHN DALEY: As part of that, I think it’s worth reinforcing that Australia is not a particularly high taxing country. Even if you include compulsory superannuation, and that’s not really an apples for apples comparison because of course unlike social security contributions or taxes, it really is your money, you really do get to keep it and if you die you really do get to pass it one. So it’s not like normal taxes, but even if you include that Australia is still right down in the bottom third in terms of size of government relative to the rest of the OECD. There’s this belief that’s grown up in some circles that Australia is a high taxing country and the short answer is were only a high taxing country relative to developing countries and if you want to go and live there then great, but the reality is most people would much rather live in a developed country, which by and large means higher tax rates but also by and large means a lot more in the way of government services.

AUDIENCE: You mentioned a little bit earlier with the income splitting about marginal effective tax rates. I was just wondering what your thoughts were on the interaction between the tax system and welfare, particularly those low income earners who come back in and lose their family benefits, or whatever their payment may be, so it does end up being rather a small net impact. I wonder what your thoughts are maybe around an income tax credit or something similar?

SARAH AMOS: I’m quite open-minded to an earned income tax credit, but I haven’t done enough research to give you a good response about the basis for that. I presume that John though will have a view.
JOHN DALEY: No, I’ll confess an earned income tax credit is one of those things that’s on my list of things to work on properly. So it’s clearly an issue, it’s not a horrific issue in Australia, it’s material. The places where they get really bad in Australia are for people who’ve got kids in childcare. That’s the work that we’ve done and that the Productivity Commission, who has done frankly much better than we did with a lot more different scenarios that shows that for a very large variety of families where you’ve got one income earner and then you’ve got a second person who’s thinking about going back to work or thinking about moving from three days to four days or whatever it might be, they face extremely high rates of effective marginal tax or, more accurately, very low rates of take-home pay.

And that’s what we were talking about earlier, a huge number of women who wind up saying to their employers, “I’m not working more than three days a week while the kids are in childcare, it just makes no sense at all”. Indeed, most of the time I wind up giving that speech, particularly in a public servant environment, invariably have someone, invariably a woman at the back of the hall, who’d put her hand up and say, “That’s right, I’ve got the spreadsheet and I work three days a week”.

AUDIENCE: I’m just wondering if either of you have got anything to say about whether the tax system has implications for older workers deciding to stay in the workforce, because my understanding is that, apart from women’s participation, older workers’ participation is one of the other big ticket items that we could look at in terms of driving economic growth?

SARAH AMOS: I’ll let you answer that because I know you’ve done some stuff around this.

JOHN DALEY: Yes. It’s absurdly generous is the answer. It is absurdly generous to older workers at the moment. The seniors’ tax offset essentially means that older people in Australia pay much less tax than everyone else for reasons that are not clear to me. There’s team coming out of my ears, it’s one of those things you just look at and think this is there to kind of keep a happy lobby group happy, it’s not actually serving an economic purpose. And when you actually work through the marginal rates of take-home pay given what you give up in pension and all that kind of stuff, it’s just not a big deal. There are plenty of incentives for people who are older to keep working.

Actually, the real issue is that the age pension cuts in at too low an age and access to superannuation cuts in at way too low and age, and people basically look at it and say, “Well I can afford to retire so that’s what I’m going to do”. Particularly on superannuation, there is no argument in principle for allowing people access to their superannuation a day before they qualify for an age pension other than maybe for people who are on disability pensions. That I get but for people who are otherwise able to work we’ve given you a whole bunch of tax concessions for you to save for your retirement, the theory is we gave you those tax concessions so that we would be, at least in part, reducing age pension liabilities, and then we allow you to spend the money before you make it to age pension age. By definition, every dollar you spend before you hit 65, ultimately going up to 67, out of your superannuation is money that’s had no impact on age pension liability to the Commonwealth whatsoever. So there’s no reason to allow you to do it as a matter of principle.

Then when you look at the numbers, as the Hummer Inquiry did, a third of all super balances, this is not accounts but balances, are being spent before people hit 65 and then when you look at the distribution of that the answer is overwhelmingly by income earners in the top half. So this is a tax
break which essentially goes to the top half of income earners, discourages them from continuing to participate in the workforce and serves no policy outcome. It should go.

SARAH AMOS: How to make friends and influence people, we’re doing well John.

JOHN DALEY: Fortunately I’m not in the business of getting elected.

AUDIENCE: The whole subject of tax has an awful lot of heat and not a lot of light for some of us. After we leave this evening, if you could help us by leading us to if we were read one day a newspaper, “This is happening” what would be a signal to those of us in the room that are not living and breathing it every day that things are moving in the right direction and what would be a signal that things are not? But you must answer action.

SARAH AMOS: I would see a move in the right direction, and to me it comes back to having a really clear notion of what the government’s trying to achieve with this tax reform agenda. If we can start seeing consistent messaging by our leaders and almost that being echoed – it might be wishful thinking – by some of those people in the other parties, I think we’re showing a sign that we’re on the right path. To me, there has to be some coherence in terms of what we’re seeing to achieve and that needs to come from our leadership.

So tax reform, like John has said, it’s a complex and it’s a tough path and it takes a long time before you identify the problem you can actually implement what’s required to make it change. But what we’ve seen in the past where it has happened, so John Howard and his GST for instance, it came through really clear leadership making the case to the general public about why the reform was required and pushing that through. And I think that will be the sign. If we’ve got coherence in our leadership in Canberra saying, “This is the path we’re going down and this is how we’re going to go about it” and that’s starting to be mirrored across their party and starting to be almost understood by other members of parliament as well, I think that’s a good sign.

JOHN DALEY: I might even go further than that Sarah. I think the answer I would provide is at the point that you have someone on television in politics explaining to you why there should be a change and what that change is and you understand them, then that’s where we’re making progress. The point I would make about most of this stuff it sounds hideously complicated when you start and no doubt if you want to get into all of the details that’s what you’ve got professionals for. But at a high level most of this stuff, as I think the discussion illustrates tonight, is not particularly technical and it is actually very values laden. It’s about stuff that really does occasionally make us a bit hot under the collar. And that’s fine and that’s good and it should make us hot under the collar, it matters, it matters to our politics, it matters to the kind of society we are.

And if you look back at that history that Sarah’s just talked about of the Paul Keating reforms, of the John Howard reforms, these were things they argued for in public. And you know you’re making progress when they sand up on Q&A or 7.30 Report or whatever it might be and argue the case in terms that you can understand and, my argument is, it is absolutely possible to do that but it takes a lot of courage. On the other hand, there is no other path to report. At the end of the day, you do have to explain to people what you want to do and why you want to do it and that’s called the democracy and a good thing too.
On that note, I’m acutely aware that we have run to our time so can I first of all thank the State Library of Queensland for the use of this facility and for their ongoing series, we’re running one of these about once every three months here in Queensland with the State Library of Queensland and Grattan Institute. It’s a really fantastic opportunity to talk about matters of important public policy. Of course, thank you to Sarah and we try and run most of these as conversations, it certainly makes it more interesting for us, hopefully it’s interesting for the people who come and hopefully it’s very interesting for you as an audience, as someone who I think has made an enormous contribution to the tax debate and absolutely exemplifies that, talking about these issues in plain English in a way that people can understand, thank you for your insight tonight.

SARAH AMOS: Thanks John,

JOHN DALEY: Its’ been great having you here and indeed for the contribution that PwC I think has made to this debate much more generally, and maybe the other thing I’d is it’s when groups in civil society, and that obviously includes corporates and particularly includes advisory firms. When they get involved in the debate genuinely trying to advance the public interest that I think makes a really big difference in the long run. That’s the kind of conversation we need to have, so thank you. And thank you of course everyone for coming, it’s been a pleasure having you hear and we look forward to seeing you at the next even here in Brisbane.

END OF RECORDING