



Durability and fiscal sustainability: Federation, health and reform of the tax system

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Miranda Stewart
Professor and Director
Tax and Transfer Policy Institute

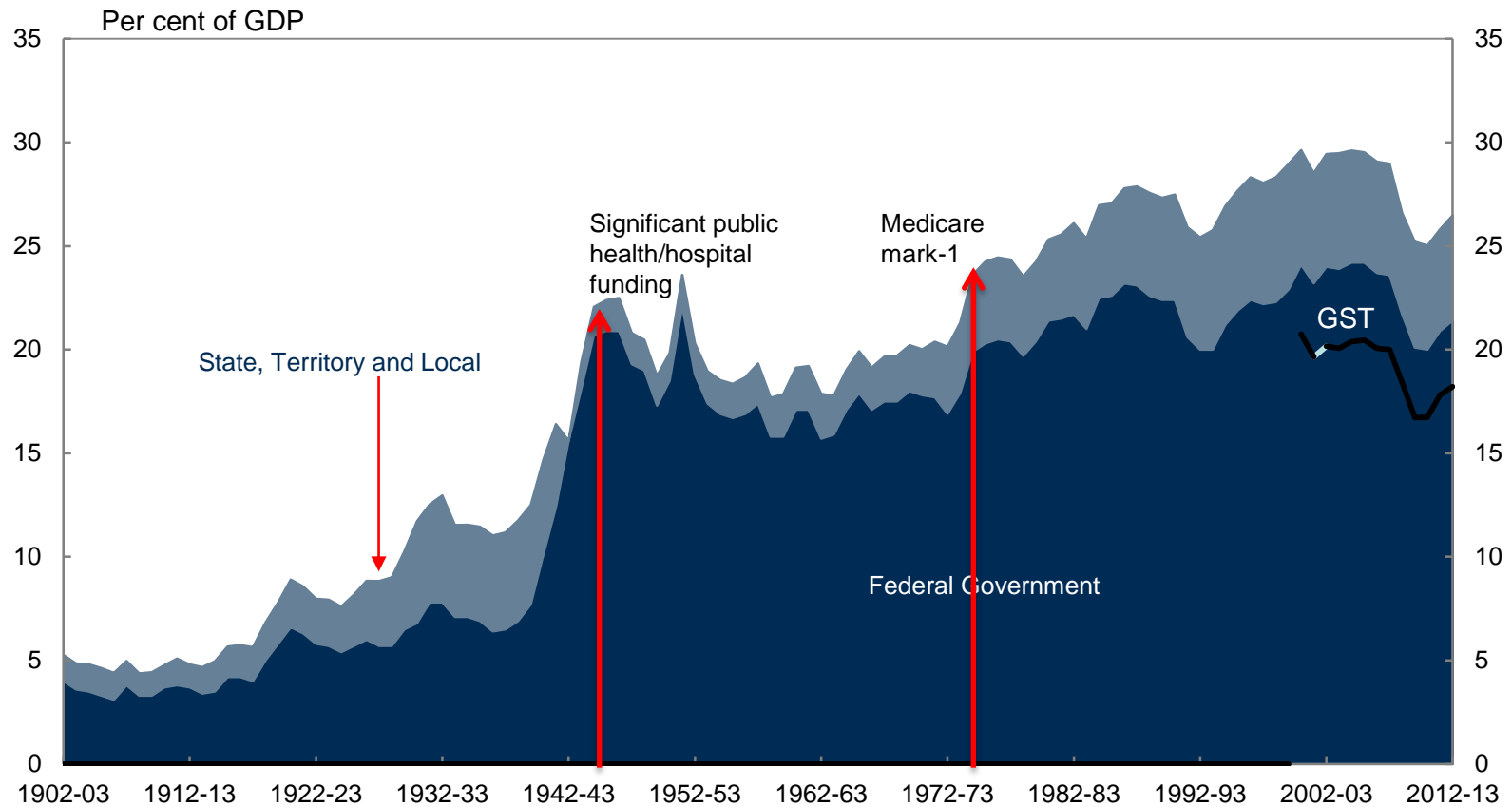
A stocktake of the tax system and directions for reform

- See our TTPI *Stocktake Report* at:
 - <https://taxpolicy.crawford.anu.edu.au/news/5391/we-need-talk-about-tax>

Australia: a liberal social and tax state

- Since federation, Australia has developed as a liberal social state with progressive but highly targeted settings and efficient spending on public goods including health, distributed in an egalitarian way across the nation
- Cth progressive income tax was established 100 years ago in 1915
- The social security and public health system began early (eg in 1910, the age pension) but really developed post-war especially in the last 50 years

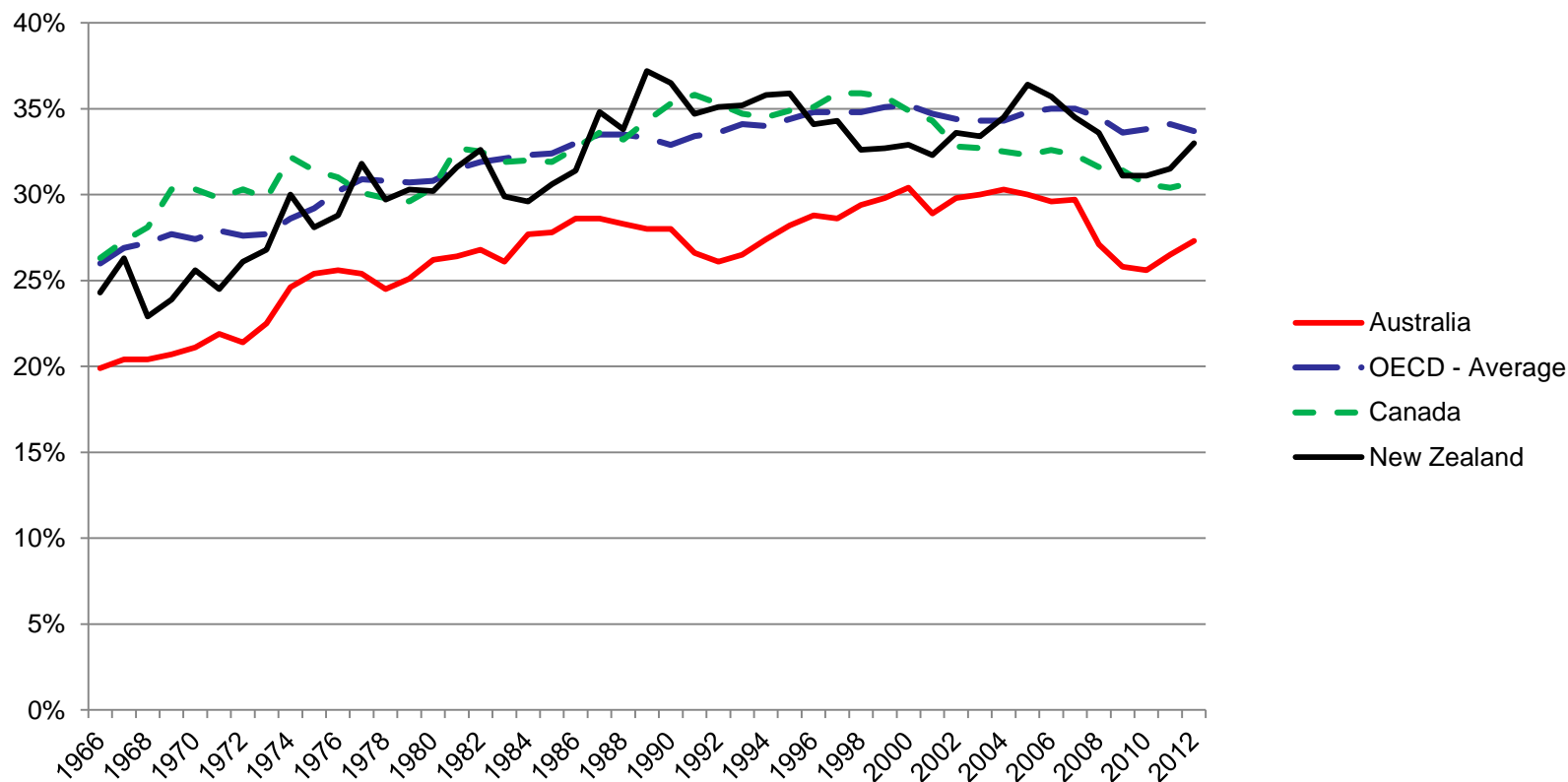
Australian tax as proportion of GDP since federation



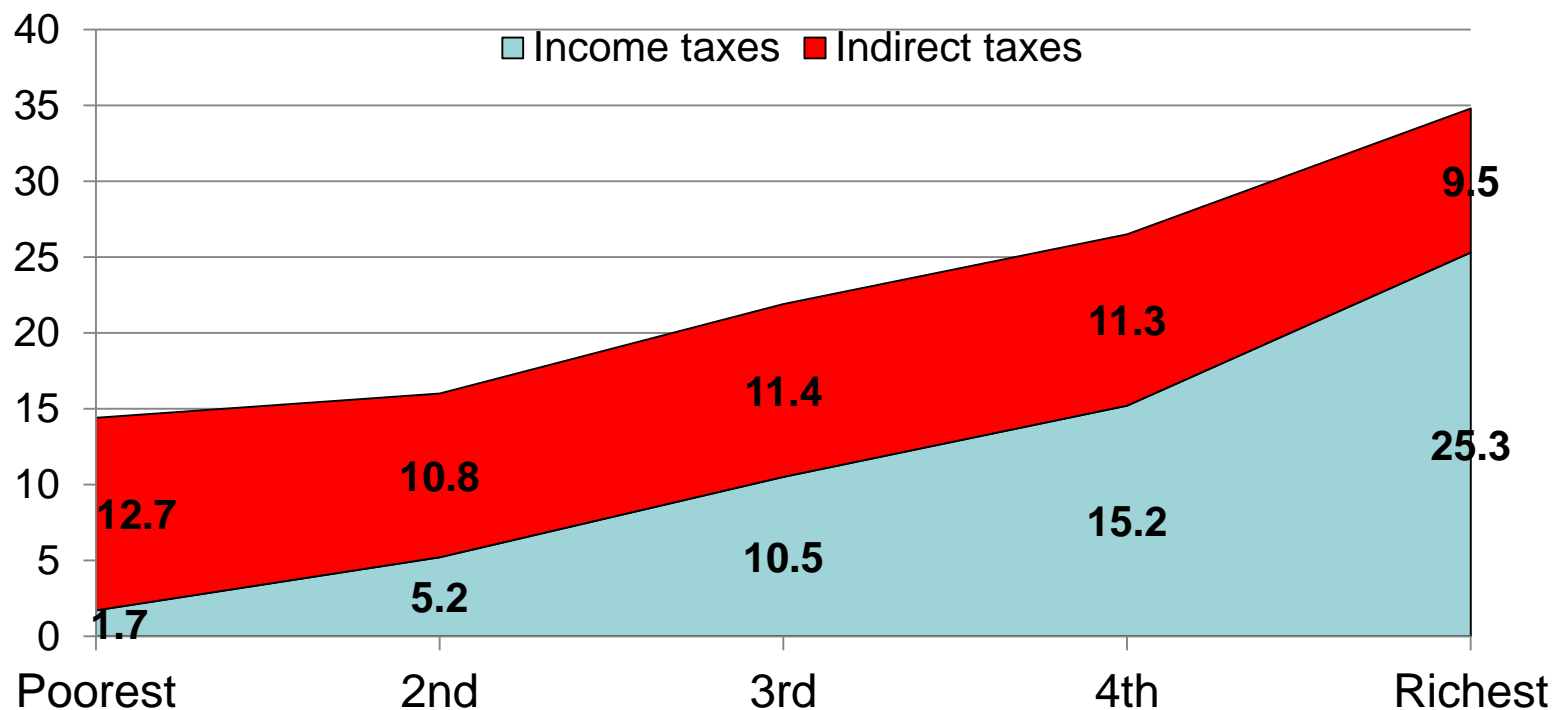
Source: Treasury

Australia tax to GDP ratio compared

Per Cent of GDP

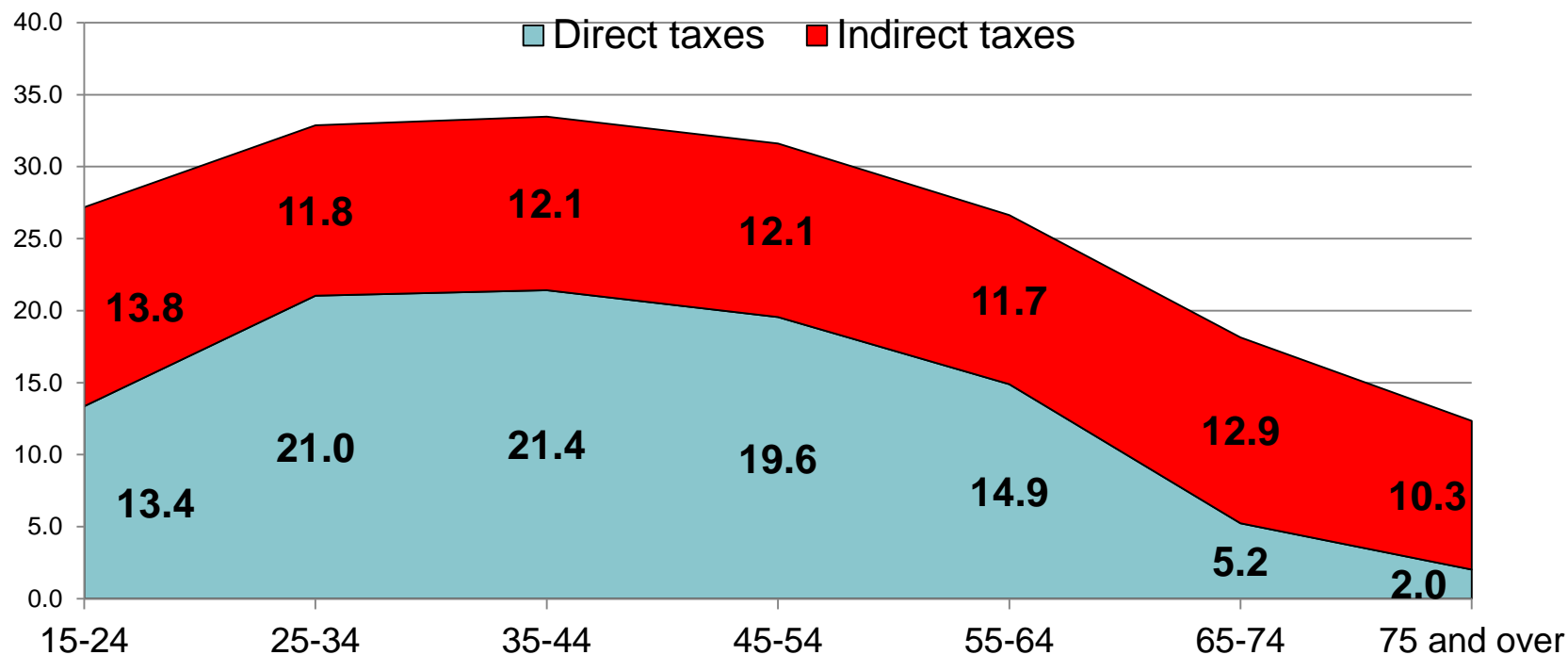


Direct and indirect taxes as % of income by quintiles of equivalised disposable income, Australia, 2009-10



Source: ABS Revenue stats (P Whiteford)

Direct and indirect taxes as % of income by age of household reference person, Australia, 2009-10

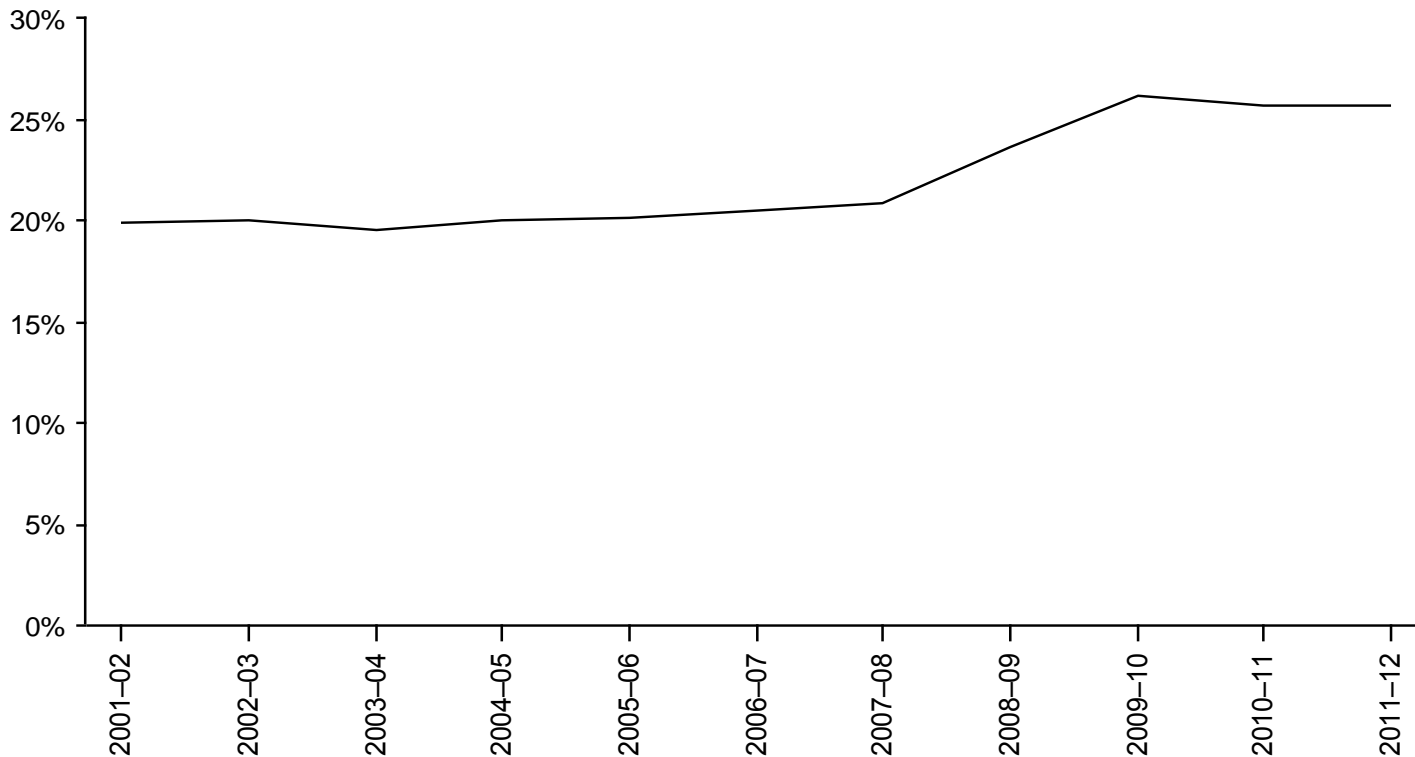


Source: ABS Revenue stats (P Whiteford)

Australia health expenditure to tax revenue trend, 2001 to 2011

Health expenditure is now approximately 9.5% of GDP and on current dollars, more than one third of tax revenues (AIHW estimated 25%)

Expenditure to revenue ratio



AIHW 2011-12

Australia health to GDP ratio expenditure compared (2011)

Health to GDP ratio (per cent)

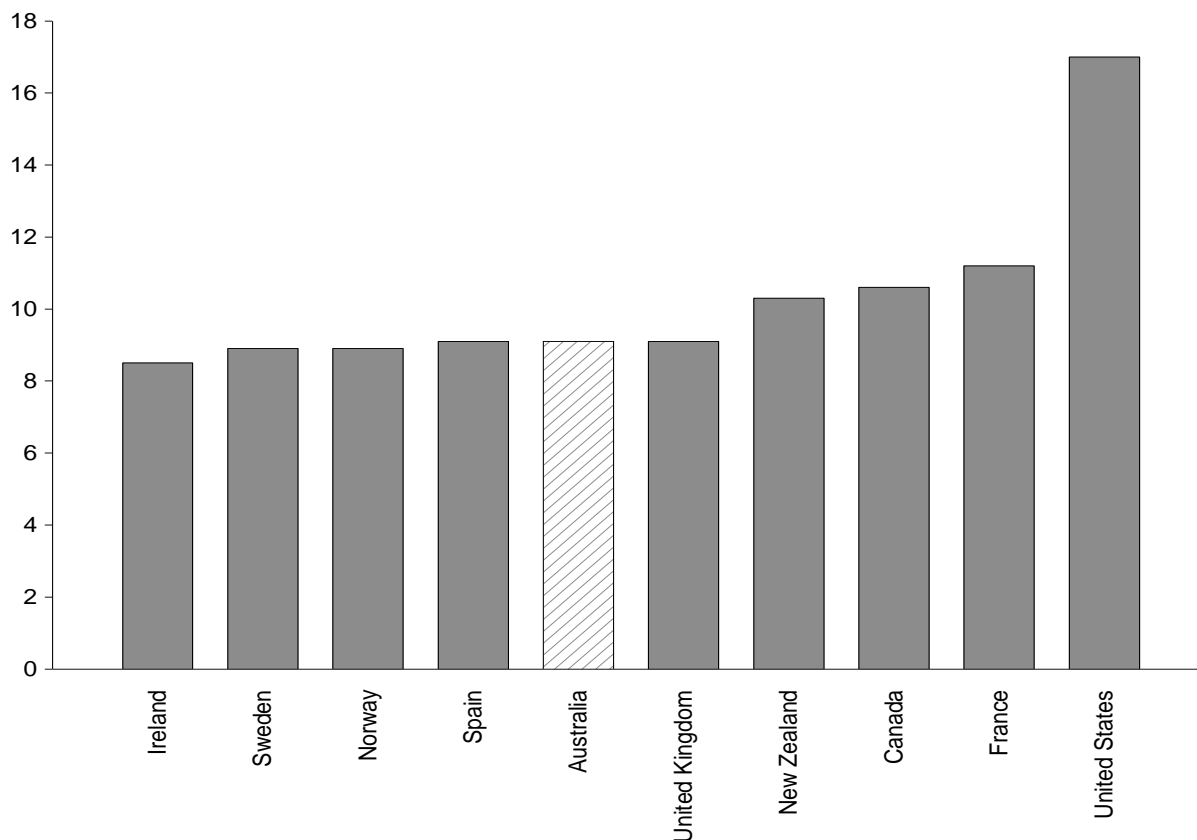


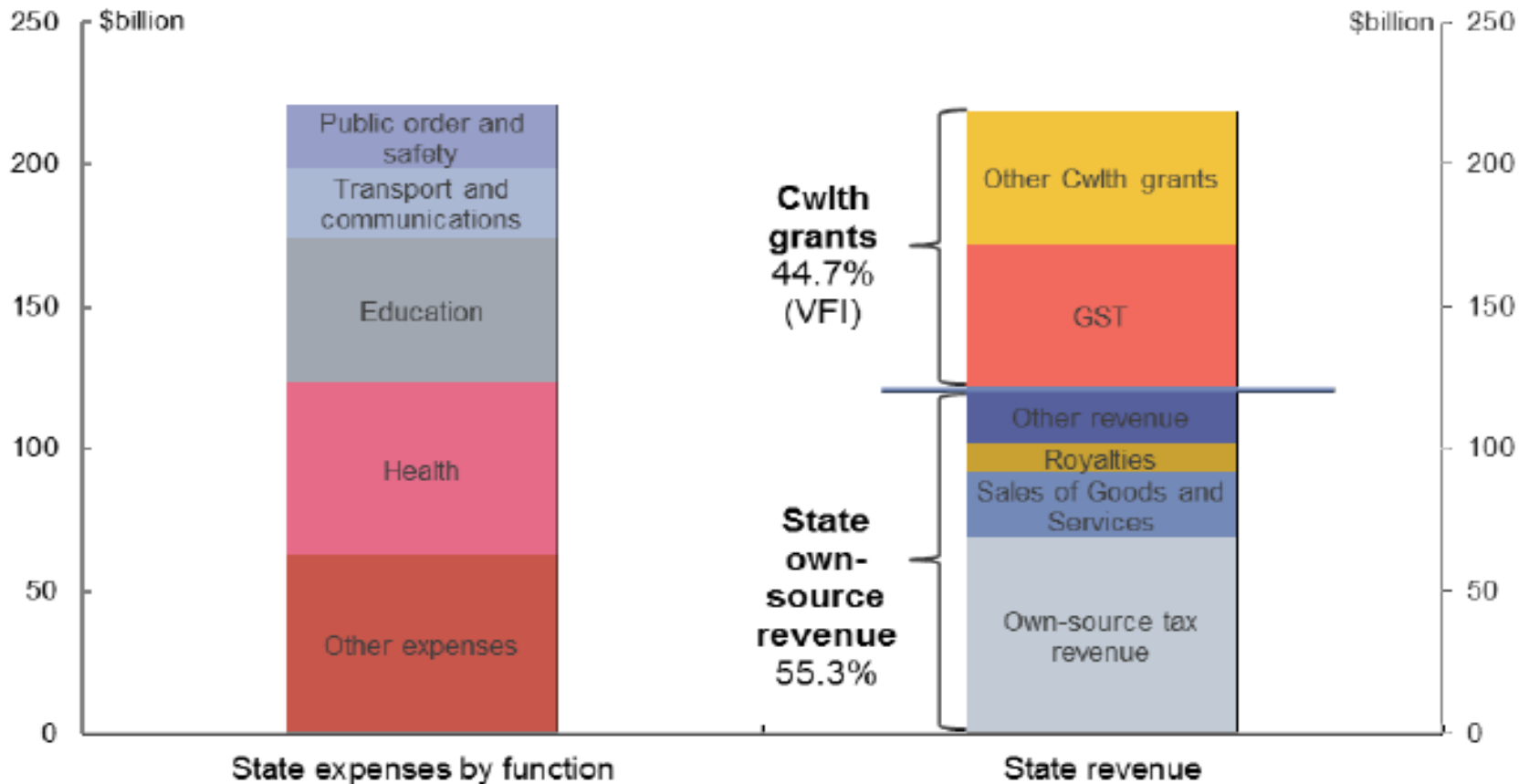
Table 3.3: Largest tax expenditures in personal income tax and GST, 2014-15

Tax Expenditure	Revenue Foregone (estimate \$m)
Income Tax—Main residence CGT exemption (Item E6 discount component)	25500
Income Tax—Main residence CGT exemption (Item E5 exemption component)	20500
Income Tax—Superannuation concessional taxation of employer contributions (Item C3)	16300
Income Tax—Superannuation concessional taxation of earnings (Item C6)	13400
GST – Exemption of fresh food (Item H28)	6400
Income Tax – CGT 50 per cent discount for individuals and trusts (Item E11)	5800
GST – Exemption of education services (Item H16)	3950
GST – Financial supplies input-taxed (Item H2)	3550
GST – Exemption of medical and health services (Item H19) ←	3550
Income Tax—Concessional taxation of termination payments (e.g. redundancy payments) (Item C5)	2700
Income Tax – Exemption of Family Tax Benefit A and B (Item A38)	2220
Income Tax – Medicare Levy exemption for residents with taxable income below the low income thresholds (Item A19) ←	1710
Income tax – Exemption of private health insurance rebate (Item A17) ←	1570
Income tax – Exemption from fringe benefits tax for public benevolent institutions (excluding public and not-for-profit hospitals) (Item D14) ←	1400
Income tax – Exemption from fringe benefits tax for public and not-for-profit hospitals and public ambulance services (D10) ←	1360
Income tax – Philanthropy – Deduction for gifts to deductible gift recipients (Item A54)	1100
GST – Exemption of childcare services (Item H5)	1090
GST – Exemption of water, sewerage and drainage (Item H6)	1010

Source: Treasury (2015).

Source: TTPI Stocktake report

Figure 1: VFI - States spend more than they raise; the Commonwealth fills the gap



2013-14 data Sources: State budget papers, ABS. cat. no. 5512.0 and Commonwealth Budget 2014-15.

We need to **strengthen** our tax system

- Raise more revenues ... and satisfy key goals:
- Economic prosperity
 - Support workforce participation and productivity
 - Innovation and capital investment
- Fairness
 - The tax-transfer-public goods system as a whole
 - Progressivity in tax system design
- Resilience
 - Able to deal flexibly with administrative, digital economy and other challenges

Key tax bases: income, consumption and assets

- **Personal income tax** (40% of all tax revenues)
 - To maintain moderate rates, need to broaden the base
 - Eg, deductions? Salary packaging?
 - Superannuation concessions, rental deductions
- **GST** (13% of tax revenues)
 - Less than half our health budget
 - We could broaden the base and increase the rate
- **State payroll tax** (about 3% of tax revenues)
 - Could be a broad-based tax on workers in each State
- **Land tax and council rates** (about 3% of tax revenues)
 - Stamp duties about 1.5% of tax revenues, highly volatile
 - ACT is leading the charge

How do we fund our social state?

‘It was Alistair who said, on national television, that being a Tax Officer was the most pleasant work imaginable, like turning on a tap to bring water to parched country. It felt wonderful to bring money flowing out of multinational reservoirs into child-care centres and hospitals and social services. He sold taxation as a public good.’

The Tax Inspector
(Peter Carey, 1991,124)