Excerpt from

Address to the Institute of Chartered Accountants (ICAA) at the 2011 National Tax Conference

Assistant Treasurer, Bill Shorten, 6 April 2011

The mechanics of the tax system

Indeed, through my role as Assistant Treasurer I have come to appreciate that there are two great streams of Government interaction with the taxation system. And your profession has an integral role in both. First, there is the significant reform agenda by which the Gillard Government, through the taxation system, is addressing some of the major macroeconomic and public policy challenges facing Australia today.

Reforms such as the Minerals Rent Resource Tax, which will greatly improve the efficiency with which the Australian people obtain a share of the mineral wealth that they collectively own through their governments, and at the same time help to address the challenges of a two speed economy. And the importance of your profession to this reform was highlighted recently by the appointment of the Institute's Tax Counsel to the Resource Tax Implementation Group announced last week by the Treasurer and Resources Minister.

But there is also an equally significant role for Government in managing what I would call the ‘care and maintenance' of the tax system. We know that people are constantly adapting to increasingly complicated society. And, just like those people and businesses that innovate, learn, develop and evolve as society progresses, the tax system must be flexible and willing to evolve in order to keep pace. Hence you will notice a steady stream of media releases, consultation papers and draft legislation emanating from my office.

Often these aren't issues that will make the front page of the Herald-Sun, and indeed in some cases even the ‘tax-omnipresent' Financial Review might struggle to give the issue a run. Yet the policy tweaks and reforms that are achieved through this process are vital to keep the tax machine working. And it is your profession that both Government and individuals turn to for advice on how to maintain and navigate the system. It might be said that accountants are akin to the motor mechanics of the tax regime.

Nearly every family owns and drives a car – but few would know how to maintain or improve the performance of their vehicles. And every family interacts with the tax system on a daily basis - yet few would even have the accounting-equivalent ability to change a tyre should their tax arrangements need repair. And so Australian families and businesses turn to your profession when their financial vehicles break down, or when they want to rev up their tax affairs

Macroeconomic context

It will come as no surprise to many of you to hear that Australia is currently going through the most pronounced economic shock it has experienced for many years — certainly since the oil shock of the 1970s. Huge increases in the prices we receive for our mineral exports have taken Australia's terms of trade to around their highest sustained levels in 140 years, adding billions of dollars to Australia's national income. Be in no doubt: this is a positive shock. Most Australians' real incomes are considerably higher than they would have been without the massive increase in demand for our mineral exports.

But it also brings some economic challenges with it. The real exchange rate — measured by the trade weighted index — is now at its highest point since before the float of the dollar. This is good for Australian consumers because imports and overseas travel are now more affordable than they have been for a generation. But it also means that times are tougher for Australian exporters outside the mining sectorand for Australian businesses that compete with imports — in sectors like agriculture, manufacturing, tourism and overseas education.

And it means that, in the regions that depend most on those industries, many businesses, and the families who depend on them, are finding the going pretty hard. It's important then that we use the Australian public's share of the mining boom to help businesses and families across Australia work, save and invest to the full extent of their capacities. Indeed this is not just important – it's essential.

That is the thinking behind the Government's tax reform agenda — that public policy should help Australia take best advantage of the higher real incomes that stem from the mining boom by encouraging investment in, and saving for, a high productivity and high participation economy in the long term.

The tax base for the MRRT is restricted to the profits that remain after workers, suppliers, lenders and shareholders have all been fully compensated for the resources that they contribute to the project. The remaining profits are rightly attributed to the one contribution that remains uncompensated — access to the natural resources themselves, which are non-renewable, finite and the property of all Australians.

Tax reform for investment

Tax reform has a central role to play in encouraging great investment. If Australia is to take the best advantage of our abundant natural resources and highly skilled workforce we need physical capital as well: the computers, electronics, industrial machinery, trucks, trains and all the other equipment that powers a modern economy.

We also need to continually innovate our technologies - hence research and development, and the adequate capital to fund it, is crucial. Indeed our wealth of natural resources is so considerable and our workforce so skilled (and relatively small), that our domestic savings have not often been able to fund all the viable projects that this country has to offer. For this reason, we have always depended, to a significant extent, on foreign capital to fund investment in Australia.

It is to all our benefit that we remain able to attract investment from overseas. With more and better tools at their disposal, working Australians are more productive and command higher wages. The Government's tax reform agenda has a strong focus on ensuring that Australia remains an attractive place to invest. And that Australian business have the availability of capital to be businesses of innovation and sharp market penetration.

Cutting the company tax rate is an important step along this road. This recognises the benefits to investment and growth from lower company tax rates and a trend to lower rates across the OECD over the past 30 years. As I'm sure this audience is aware, because of the MRRT the Australian corporate tax rate will be reduced to 29 per cent for the 2013-14 income year.

Small business companies will also benefit from getting a head start to the company tax rate cut in the 2012-13income year. There are approximately 770,000 companies that can benefit from the corporate tax reduction. Of those approximately 720,000 are small business sized enterprises that can benefit from the early start.

Making depreciation rules for small businesses more generous and simplifying them at the same time will encourage small businesses to invest in productive assets and reduces the red tape with which they have to contend.

From the 2012-13 income year, small businesses will be able to:

- immediately write-off assets costing up to $5,000 (up from $1,000 under the present law); and
- write-off all other assets (except buildings and other capital works) in a single depreciation pool at a rate of 30 per cent.

The tax burden in Australia

Can I say here that some people, including our conservative political opponents, want to publicly pretend that we are a high taxing nation, but the facts show that overall Australia is a relatively low taxed country.

As part of our fiscal strategy, the Gillard Government has committed to keeping the tax burden (taxation as a share of GDP) on average below the 2007-08 level to ensure budget surpluses are delivered through disciplined spending and not higher taxation.

The tax-to-GDP ratio has dropped from 23.5 percent in 2007-08, when we came to office, to 20.3 percent in 2009-10. A single person with $40,000 of taxable income will pay $1,800 less in combined tax and Medicare levy in 2010-11 than they would have had the 2007-08 tax scales still applied. And a single person with $65,000 of taxable income will pay $1,150 less in combined tax and Medicare levy.

Among the 30 OECD countries, Australia's tax to GDP ratio is the sixth lowest. Chile, Mexico and Turkey have ratios a few percentage points lower than Australia's. Korea and the US are lower but by no more than one percentage point of GDP. The other 24 OECD countries all have higher total tax burdens that Australia does.

We're determined to keep Australia a lowed taxed OECD economy where taxes are fair, simple, sustainable and pro-growth.

Tax cuts and participation incentives

We want to keep the tax burden low for Australian families for many of the same reasons we want to keep it as low as reasonably possible for business – it all comes down to incentives. One of the best ways of ensuring that all Australians have a chance to share in a prosperous economy is to ensure that they have good incentives to go out and work.

In this context it's important to remember that our Government has delivered, in full, the tax cuts it announced before the 2007 election. As well as cutting rates, we have increased the 30 per cent threshold from $30,000 to $37,000 and doubled the Low Income Tax Offset from $750 to $1,500. We are determined to make participation pay.

In the long term it is also important that the higher real incomes that Australian households will enjoy as a result of the mining boom are not simply ploughed into current consumption. It is important that Australia increases its savings for the future to make sure that the quality of life we lead continues.

Superannuation

Some decisions in Government, once you cast a wide and long lens over the competing arguments, are not particularly hard decisions. Indeed the public policy rationale for a certain reform can be simply compelling.

The gift of longer life should be celebrated. But an ageing population does have very significant financial and budgetary implications. The amount of people aged 65 years or older as a proportion of people of working age is projected to double by the middle of the century. There will be fewer people of working age to support older and younger people.

And the already rising costs of health and aged care (and state pension provision) are expected to account for a sizeable part of the projected increase in government spending. Our 'Stronger, Fairer, Simpler' tax plan will help prepare for the fiscal effects of an ageing population and ensure more Australians enjoy a comfortable retirement:

- we will do this by increasing Superannuation Guarantee contributions to 12 percent;
- we will do this by providing higher concessional contributions caps;
- we will do this by providing up to $500 per annum into low income earner super accounts; and
- we will do this by raising the Superannuation Guarantee age limit from 70 to 75.

On the household side, the Gillard Government is encouraging Australians to save more through superannuation. We are talking about the biggest reform to the superannuation system since compulsory super was introduced in the early 1990s will kick in on 1 July 2013, when we start to progressively increase the super guarantee from 9 per cent to 12 per cent.

This will significantly increase the future retirement incomes for many Australian workers. For example, a 30 year old earning average full-time wages will have an additional $108,000 in retirement savings. Around 8.4 million employees are expected to benefit from this measure.

On top of this, there's the increase in the super contribution caps for over 50s with lower balances, and the start of a new contribution of up to $500 for 3.5 million low-income earners who currently get little or no concession on their compulsory super. This is a reform undertaken with an eye to the future.

While the concessional tax treatment of super means that these reforms come at a cost to the bottom line,, it is clearly a cost worth bearing. It's called getting the vision thing right. Something our Prime Minister is persistently focused upon.

Consultation

While few, I imagine, would disagree with that as a set of objectives for any country's taxation system, it's also clear that in tax matters — perhaps more than most domains of public policy— the devil is in the detail. So I should also say something about how the Government has gone about firming up the implementation of its agenda, and the role of the ICAA in that work. Careful consultation obviously enables the Government to be better informed about stakeholders' views and about the full implications of particular policy proposals.

The process recognises that industry participants have a working day-to-day knowledge of the system in a way that is simply not accessible first-hand to bureaucrats or ministerial advisers. Genuine industry input is likely to result in a much better final product.

The consultation process also ensures that if there are well founded concerns with policy announcements then the Government is in a position to seek appropriate advice before the policy is debated in Parliament. Consultation on draft legislation, in particular, provides us with a better understanding of the law and how it might impact on other areas of the tax system.

Upon checking with my Department before this speech, I was impressed to find that the total number of official consultations on tax reform this Government has actioned in the lifetime (to date) of this Parliament is some 216 consultations. I very much appreciate the time and careful thought that the ICAA has recently devoted to a number of consultation processes.

One important area has been the Government's reforms to Australia's foreign source income attribution rules, including the modernisation of the CFC rules. These reforms are necessary to remove unnecessary complexity and compliance costs for Australian businesses competing in the global economy. The ICAA's ongoing involvement in this process has made a substantial contribution to the design of the rules.

Can I also just say that whatever comes of the Tax Forum later this year, I do here the voice of your profession in saying that simplicity needs to be the key test - including simplicity in compliance. The consistent messages I get from you are those of the need for certainty in the tax system, quality service levels from the ATO and the importance of integrity in capital markets.

Conclusion

My talk today has perhaps been a matter of two scales of public policy thinking. On one hand, there is the big picture, based on global developments and long term trends. On the other, we have a robust appreciation of the need to get the implementation right.

I'd like to thank the ICAA for contributing to the policy debate on both these counts and, of course, for hosting the impressive conference we are part of here today.

Thank you.

Read the full speech on the Treasury website:
http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=speeches/2011/011.htm&pageID=005&min=brs&Year=&DocType=