A federal Budget surplus, but at what cost?

by Robert Jeremenko, FTIA

The government's commitment to achieving a Budget surplus must not be at the expense of sound policy decisions with a vision for Australia's future needs.

At the time of writing, the federal Budget is weeks away, but members will be receiving their journal after its release. So be sure to refer to The Tax Institute's special Budget edition of TaxVine (in your email inbox or via our iPad app) with all of the latest content.

This year, The Tax Institute has again been active in discussions with the government ahead of the finalisation of the 2012-13 federal Budget. In addition to our ongoing dialogue, we formally responded to the invitation from the Treasurer to submit our ideas and priorities for the Budget. We trust that our submission has assisted in providing an insight into the challenges faced across the country and the opportunities to improve tax policy outcomes for all Australians.

The Tax Institute has long called for the government to give a sustained commitment to tax reform for the benefit of all. This requires a measured and structured approach to reform that includes a timeline and a process for advancing priority issues.

Despite global economic uncertainty and its flow-on effects for the Australian economy, it is crucial that our economic and budgetary situation is not used as an excuse to delay the hard work on policy formulation that is required to improve our tax system. To ensure that Australia is well positioned for the challenges of the next 40 years, we must do preparatory work now to ensure that the tax reform debate continues and that there is a medium-term plan for reform in the coming years as the nation's balance sheet improves.

The benefits of tax reform will flow to all in the form of a stronger economy. The tax system should be efficient, equitable and simple. It should encourage savings and investment and make Australia an attractive destination for foreign investment.

In this context, The Tax Institute recommended to the government that it pursue a number of tax reforms as a priority in 2012-13, including:

- **Reform state taxes:** The Commonwealth should take the lead and work with the states through the Council of Australian Governments process to abolish the raft of inefficient and inconsistent state taxes such as stamp duties and payroll tax.
- **Establish an independent tax body**: Establish a new independent body to construct the blueprint for implementing tax reform. A new Tax Reform Commission would develop the Henry Review vision into a detailed, workable and affordable set of reforms.
- **Simplify the taxation of trusts:** Progress legislative reform of the taxation of trusts to provide certainty for the many businesses in Australia that operate through trusts.
- **Roll out a new professional standards regime for financial planners providing tax advice:** Ensure that the start date for the new regulatory regime for financial planners that provide tax advice is not delayed beyond the announced start date of 1 July 2012.
- **Superannuation contributions:** Allow taxpayers greater flexibility when contributing to superannuation and increase superannuation caps to their 2008/09 levels (with increases staggered over several years) to help individuals better determine their own savings plan for self-funded retirement.
- **Bolster Treasury resources to enhance industry consultation:** The Department of the Treasury should be exempt from the government's "efficiency dividend", ensuring that it is adequately resourced to provide policy advice and engage in essential consultation on tax reform.

In addition to the above, it is crucial that any changes to Australia's tax system are analysed thoroughly and with due recognition of the potential regulatory and compliance impact on affected businesses (and individual taxpayers).

When tax changes are announced, the community has the not unrealistic assumption that the government will proceed down a path leading to their enactment into law. However, the implementation timeline is often far from transparent, which serves to increase the uncertainty for those trying to deal with the impacts of the proposed changes.

We encourage Treasury to pursue a model of an open, public legislative timeline. By outlining consultation objectives and principles, followed by detailed next steps with indicative timeframes and approximate legislative timing, the community knows where it stands. An open and transparent timeline for legislative change gives taxpayers that extra level of certainty when it comes to dealing with that change.

Of course, there is nothing more rapid than the announcement of a change that applies to a period before the announcement itself: retrospectivity. Taxpayers enter into transactions on the basis of the law as it is, not the law as it is rewritten after transactions have occurred. Retrospective changes in tax law are likely to interfere with bargains struck between taxpayers who have made every effort to comply with the prevailing law at the time of their agreement.

If you would like to read further on our Budget submission, it is available on our website, as is the special Budget edition of TaxVine with all of the latest Budget content.