



Andrew Barr MLA

CHIEF MINISTER

TREASURER

MINISTER FOR ECONOMIC DEVELOPMENT

MINISTER FOR URBAN RENEWAL

MINISTER FOR TOURISM AND EVENTS

MEMBER FOR MOLONGLO

The Hon Joe Hockey MP
Treasurer
Commonwealth Government
PO Box 6022
Parliament House
CANBERRA ACT 2600

Dear Treasurer ^{Joe}

Thank you for your letter of the 29 March 2015 attaching a copy of "*Re:think – Tax Discussion Paper*".

I note the Discussion Paper (DP) is intended to form the basis of public discussion and consultation as part of the process of developing a White Paper on National Tax Reform with submissions due by 1 June 2015.

You subsequently invited States and Territories at the meeting of the Council on Federal Financial Relations on 9 April 2015 to respond to the DP, which I have taken the opportunity to do via this letter. I am happy for it to be considered as a submission for listing on the 'better tax' website www.bettertax.gov.au.

At the outset I also note the DP does not canvass specific options for tax reform which I understand will be dealt with in a subsequent Green Paper to be issued later in 2015. It could be expected that the ACT Government will respond to the options canvassed in that Green Paper on its release, via a formal submission.

The DP provides a sound platform for facilitating an open discussion on the full range of possible tax reforms in response to a range of pressures, as identified in the DP, including:

- Falling revenues as a share of national economic output, including a fall in consumption tax share.
- Pressure to decrease the corporate income tax rate to remain competitive in the global economy.
- The future fiscal burden from intergenerational pressures of health and ageing.
- Increasing income tax burden on the average wage earner from bracket creep.
- Maintaining fairness across various saving and investment taxes.

ACT LEGISLATIVE ASSEMBLY

London Circuit, Canberra ACT 2601 GPO Box 1020, Canberra ACT 2601

Phone: (02) 6205 0011 Fax: (02) 6205 0157 Email: barr@act.gov.au

Facebook: [Andrew.Barr.MLA](https://www.facebook.com/Andrew.Barr.MLA) Twitter: [@ABarrMLA](https://twitter.com/ABarrMLA)



There needs to be a balanced approach to any reform agenda between our respective tax regimes. National Tax reform must encompass reform to both Commonwealth and State tax regimes – it must not focus purely on what States and Territories should be doing to reform their taxes. The DP in my view strikes a reasonable balance across the range of issues raised.

I am also heartened that the DP includes reference to these tax reform deliberations working in tandem with the reform considerations under development in the Federation White Paper space. The Tax White Paper and the Federation White Paper must be linked, with the Tax White Paper looking at the revenue-raising side of the equation (optimal tax mix), while the Federation White Paper will examine spending and service delivery (most efficient allocation of roles and responsibilities).

These two key policy debates are fundamental to any meaningful reform in the federal financial relations sphere. Changing the tax mix must be an important objective. Without reform States will become more reliant on inefficient taxes, damaging growth in the long term and the ability to absorb further fiscal consolidation efforts.

More specifically, any rebalancing in the funding and service provision responsibilities of the Commonwealth and the States – in particular in the key areas of health and education – will require strengthening the revenue avenues for the States and Territories, through own source revenue or through access to a broader (Commonwealth) revenue base.

I acknowledge the reference, albeit brief, to the ACT's tax reform program in the DP. From an ACT Government perspective tax reform was embarked upon in July 2012 with the aim of achieving significant gains in economic growth and welfare for the citizens of the Territory in the longer term:

- The ACT Government commissioned the ACT Taxation Review following the release of the *Review of Australia's Future Tax System* in 2010. The Review Panel found that the ACT faces the same challenges as the other States and Territories – narrow taxation bases, an eroding GST revenue base and escalating costs of services (particularly health services).
- The Panel made a number of recommendations aimed at providing the ACT with a stable and sustainable revenue base into the future. In line with these recommendations, the ACT Government has been implementing a program of tax reforms based on the announcements in the 2012-13 Budget.

The main reform is the abolition of volatile and inefficient conveyance duties (over a 20 year period) and insurance duties (over a five year period). The revenue lost through the abolition of these taxes will be replaced through the general rates system levied on commercial and residential properties. Increases in general rates will provide the ACT with a stable and progressive revenue base in the future. Overall the taxation reform program is designed to be revenue neutral, with a more efficient rates base replacing other, less stable revenue sources. Importantly, taxation per capita will not increase as a result of this reform program. These reforms are consistent with the recommendations of the *Review of Australia's Future Tax System*.

There have already been significant reductions in conveyance duty payable for all property transfers in the ACT. For example, as announced in last year's budget as a result of taxation reform the saving in conveyance duty for a property valued at \$500,000 is \$4,700.

Conveyance duty in the ACT is now lower for all property values compared with Victoria. For large properties valued at over \$6 million purchasers will pay less conveyance duty in the ACT compared with NSW.

Duty on insurance will be abolished entirely by 1 July 2016.

In effect, the ACT has shown the way with its Tax Reform program premised on a comprehensive strategy:

- Broad consultation with the community in developing and implementing the reform process - reform comes with considerable risk and effort. Substantial political capital is required to embark on major tax reform, recognising that it creates both winners and losers.
- Public debate encouraged by the ACT Government – explaining the benefits of tax reform is achievable but can be challenging. Benefits also often take time to be realised and are shared across large, dispersed groups of individuals.
- Availability of factual information to assist that debate.
- Transitional arrangements and adjustments to concessions programs, recognising changes in the tax mix will require policies to assist those least able to adjust to the changes.

These are key fundamental principles for all parties to consider as the national discussion proceeds. It must also be accepted from the outset that significant tax reform will be a long term endeavour, and will require careful public management.

Finally, there is a growing risk that reform options could be closed off early in the process. I consider it crucial that all parties to the Reviews seek to maintain a neutral view on reform options as the deliberations progress to the Green Paper stage.

Yours sincerely



Andrew Barr MLA
Chief Minister

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