Tax Reform
not a new tax
a new tax system

The Howard Government's Plan for a New Tax System

Overview

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Tax reform: not a new tax, a new tax system

The tax reform plan set out in this document adds an important new dimension to the Coalition Government's policy framework for securing Australia's economic future. It is a framework designed to achieve stronger sustainable growth, higher productivity, more jobs and rising living standards.

Tax reform is not an end in itself. It is an indispensable part of a broader co-ordinated policy approach that has as its goals greater incentive, security, consistency and simplicity. It also provides for fairer outcomes, greater choice and greater opportunity.

As part of that broader co-ordinated policy approach, tax reform is essential if Australia is to be able to achieve its full potential as a nation in the twenty-first century.

The tax reform which is necessary for Australia — and to which the Coalition Government is committed — is not reform narrowly focussed on establishing a new tax, but reform which delivers a new tax system: a system which is built on a lower tax burden and which is fairer, more internationally competitive, more effective, and less complex.

It is a new tax system that has as its central priorities not only the efficiency and effectiveness of our national economic policy framework but also the sense of equity and fairness that has always been part of the Australian way.

This document reproduces the Foreword and Overview from the more detailed policy document *A New Tax System* circulated by the Honourable Peter Costello M.P., Treasurer of the Commonwealth of Australia, August 1998.

Overview

A tax system for realising Australia's potential

The tax reform plan set out in this document constitutes generational change in the Australian taxation system. The changes proposed in personal income tax rates and thresholds, in business tax, in assistance for families, in Commonwealth-State financial relations, in simplifying and streamlining the indirect tax system, in reducing business costs (including reducing fuel costs), in making private health insurance more affordable, and in many other areas constitute historic breakthroughs.

Together with other priorities of the Coalition Government in economic policymaking, the new tax system will establish a framework for economic activity in Australia that is relevant to the twenty-first century, rather than the 1930s and 1940s. It will enhance Australia's prospects for growth, investment and job-creating exports in the global economy.

The alternatives to this plan for a new tax system are to either do nothing, or to simply tinker with the existing system by addressing its increasing failings only as they become obviously unsustainable. Both alternatives would serve Australia very poorly.

To do nothing would be blatant irresponsibility. It would require blanket denial of the way in which the current tax system is failing Australia. It would also require denial of the changed and changing realities that are now influencing Australia's economy.

To tinker and respond sporadically to the more obvious inadequacies of the existing tax system would be equally irresponsible. Partial and stopgap remedies would not address the fundamental problems of a failed tax system and would make complexity and compliance difficulties even worse.

The choice is vital for Australia's future because the taxation system affects all of us.

Choosing a new tax system means refusing to accept the inequities, inefficiencies and unfairness of the current system. It entails a recognition that a modern tax system is one of the keys to Australia's future economic growth and dynamism.

Choosing to do nothing or trying to patch up parts of the existing system would condemn Australians to a future of higher tax rates, ever greater reliance on income taxes, more evasion and avoidance, greater unfairness, more complexity and higher penalties for Australian exports.

The choice is critical not just for today's generation of Australians, but for the next.

A new tax system will help gear up the Australian economy to meet the challenges of the twenty-first century.

If we succumb to inertia or pretend that tinkering is good enough then we will ensure that Australians enter the new millennium shackled with a tax system based on the economy of the 1930s — the costs for all Australians would be immense.

Why a new tax system is a clear national priority for Australia

Australia's economy and society have changed fundamentally over the past sixty to seventy years. Our tax system has not changed with them.

A modern and dynamic Australian economy needs a modern, fair and transparent taxation system.

Such a system needs to deliver lower and fewer taxes, and reduced business costs.

It needs to provide more incentives to work, save, invest and compete.

It needs to reward growth and employment.

It needs to avoid input taxes cascading through the production process thus penalising Australian exports, reducing our ability to compete in world markets, and holding back job growth.

It needs to be built on simplicity, consistency and certainty in law.

It needs to be fair and non-discriminatory between different sectors of the economy.

It needs to provide revenue security to the States[1] so that they are not forced to rely on narrowly based, distorting taxes.

As far as practicable, our tax system needs to avoid exemptions and loopholes that distort investment decisions and consumer choice.

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1 The term ‘States’ is used to refer to both States and Territories.

Australia's current taxation system achieves none of these outcomes. No amount of further tinkering and 'band-aid' repairs will enable it to do so. Its unfairness and inefficiencies have been made increasingly worse by decades of continual patching and filling.

It is a system crying out for comprehensive reform in the national interest.

It is a system that hinders Australia's developing as a modern, dynamic and flexible economy which can meet the regional and global challenges of the next century.

We need a new tax system not only because the current one is failing Australia, but also because a new one offers a better, fairer and more dynamic way forward.

How the current tax system is failing Australia

The existing taxation system is out of date, unfair, internationally uncompetitive, ineffective and unnecessarily complex. It is a system that is preventing the development of a more efficient, relevant and accountable framework for Commonwealth-State financial relations.

An out of date system

The current tax system is more appropriate to the 1930's economy for which it was designed than to the 1990s and beyond.

The wholesale sales tax was introduced at a single rate of 2.5 per cent in the 1930s and applied to goods which at that time accounted for the bulk of Australia's economic activity. Given the structure of the economy at that time it provided a robust and stable source of revenue to fund government services.

Today the story is very different. The standard wholesale sales tax rate is now 22 per cent, the highest is 45 per cent and there are no less than six different rates. The production of goods now constitutes less than one-third of the national economy. The only way to maintain revenue as a share of total tax revenue under the existing wholesale sales tax system is to increase the rates because the tax base on which it is predicated is declining as a proportion of economic activity.

There is simply no logic in basing the Commonwealth's indirect tax system and business tax laws on the type of Australian economy which existed between the two World Wars — an economy which was dominated by goods rather than services and by a manufacturing sector targeted at domestic markets and isolated from the rest of the world by high tariff barriers.

There is simply no basis for a system of State indirect taxes on business that are highly distortionary, penalise certain sectors and have only evolved because of the various restrictions on State indirect tax powers.

There is simply no sense in persisting with a system designed when modern business structures and financial transactions, and globalised economic activity, were not even in prospect.

The Australian economy has been transformed, but the tax system has not.

An unfair system

The current tax system is unfair not only to individual taxpayers but also to the businesses which employ them.

The current personal income tax system combines high marginal rates and low thresholds. The result is that the system has eroded the incentive for many Australians on average incomes to work harder, and earn more for themselves and their families.

In the 1950s a taxpayer had to be earning 19 times average weekly earnings before paying the top marginal rate of tax. Unless there are systemic changes, by the year 2000 a taxpayer will have to earn only 1.2 times average weekly earnings to pay the top marginal tax rate.

Without any changes, a taxpayer on average earnings, shortly after the turn of the century, will be paying almost one dollar in tax for each two in additional income.

The tax mix in the Australian economy has been moving over the past two decades towards a higher share of direct taxation and a lower share of indirect taxation. Over the 1980s, indirect tax (comprising principally excise and wholesale sales taxes on goods) represented 7.2 per cent of Gross Domestic Product (GDP) compared with 5.8 per cent of GDP over the 1990s. The direct taxation of individuals and companies increased from 16.4 per cent of GDP to 17.2 per cent over the same period.

As revenue from indirect taxes has declined, more of the burden has had to be carried by the income tax system, and principally by wage and salary earners. The share of indirect tax as a proportion of revenue to the Commonwealth Budget has fallen from 27 per cent in the 1980s to 24 per cent in the 1990s, while the share of income tax revenue has risen from 63 per cent to 70 per cent over the same period.

Without comprehensive tax reform, the tax mix will continue to shift automatically towards a greater reliance on direct taxation. Those who can afford expert advice or who (because of the size of their income) have more options open to them to minimise their direct tax will continue to have an advantage over those Australians who cannot afford such advice or do not have tax minimisation options available to them.

In short, under the current tax system, ordinary Australian wage and salary earners will carry an ever greater share of the tax burden.

The unfairness of the current system is accentuated by the disincentives built into the interaction between the tax and social security systems.

As personal income rises, more tax is paid and income support from the Government is withdrawn. The combined effect means that the highest effective marginal tax rates are paid not by the highest income earners but by low and middle income earners in receipt of some government assistance. They currently face effective marginal tax rates of 85.5 per cent or more. This destroys the incentive for low and middle income earners to get a job, earn more income or save for the future.

The current system ensures that some people are better off not looking for a job or earning more income.

A system that penalises Australian exports and discourages investment

At a time when the global competition for jobs, markets and investment is intensifying, the current tax system puts Australian exporters at a significant disadvantage in competing in overseas markets. It also disadvantages Australian firms competing with imported goods.

Australia is virtually alone in the world operating a wholesale sales tax system. Only Botswana, Ghana, Swaziland and the Solomon Islands share with Australia a persistence with this form of tax.

Australia's exports and import-competing goods and services have to bear the burden of wholesale sales taxes which cascade throughout the production and value-adding processes, while no such burden is applied to the traded goods and services sectors of our competitors. More than half the revenue from the wholesale sales tax comes from taxing goods purchased by business. It thus imposes a hidden tax on Australian exports and firms competing with imports.

The current business tax system distorts business decisions and imposes excessive compliance costs on businesses. The choice of business structures and investment is all too often determined by variations in taxation treatment rather than the underlying profitability of the investment. These distortions are reducing the total gains to Australia from investments.

A more competitive business tax system with fewer distortions would result in the Australian investment dollar going further and in reducing Australia's reliance on overseas savings.

Australia is outdated and unique in the taxes it imposes on financial transactions to the disadvantage of our financial sector and users of financial services.

Current tax arrangements put Australian enterprises at an increasing disadvantage, and the cost of persevering with them will only get greater.

An ineffective system

The current tax system is ineffective. It provides a crumbling base from which to derive the necessary revenue to fund essential government services, including those provided to rural and regional areas as well as those provided through the social security system.

It is totally inconsistent to be committed to maintaining or increasing current levels of expenditure on social security but to be opposed to fair and systemic reform of a crumbling tax base.

In the absence of comprehensive reform, the existing tax system will only become even more ineffective. The Commonwealth will become increasingly reliant on income taxation directly levied on individuals and companies if it is to maintain funding for government services. Tax rates would rise and the system become even more unfair as those individuals and companies who had the opportunity to avoid or minimise their tax increasingly did so. The indirect tax base would continue to decline, rates would need to be increased again, and this debilitating cycle would continue.

Furthermore, under the current system the tax base of the States will become even more inadequate and more inefficient in terms of funding necessary services.

A complex system

The current tax system is unnecessarily complex. Income tax legislation has grown from about 120 pages to more than 7,000 as a result of 60 years of patching and filling. Over the past fifteen years there have been over 650 different tax policy changes announced.

The income support system has become equally complex. There are currently over 30 major different types of income support payments and supplements under the tax and social security regimes, with variable tax requirements, income thresholds and delivery mechanisms.

The complexity of the tax system has resulted in over 70 per cent of tax returns being handled by tax agents. It also imposes high compliance costs on business and distorts investment decision-making by encouraging investments on the basis of tax effects rather than economic merit.

As the complexity of the tax system has grown, so too has the incentive for tax avoidance and minimisation.

Investments subsidised from the tax system rather than being determined by real economic returns simply transfer wealth from the general community to the investor. Resources and wealth are wasted and, as a result, our standard of living is diminished.

The benefits of a new tax system for Australia

Australia needs, and deserves, a new tax system because there are real national advantages that can flow from such a change.

A new and properly structured tax system can fix the problems of unfairness, uncompetitiveness, ineffectiveness and complexity that plague the existing system. It can do so in a way that will enable Australia to fulfil its unique potential.

The Coalition Government is committed to a new tax system because it is committed to lower, fairer and more efficient taxes.

A new tax system is necessary to give Australians more choice, more incentive and more opportunity.

A new tax system is an important element of promoting a more prosperous, more egalitarian and fairer Australian society.

A new tax system is vital if Australia is to encourage expanding, job-creating investment in our businesses, both large and small.

A new tax system is essential if Australia is to lift the tax burden on our exports to enable Australian enterprises to compete more effectively in global markets for goods, services, capital and labour.

A new tax system is essential if we are to reform antiquated Commonwealth-State financial relations and get rid of some of the State indirect taxes that are the most inefficient of all.

The revolutions in transport and communications have broken down many of the old barriers to the free flow of trade, finance and information.

An internationally competitive economy is no longer a matter of choice for countries aspiring to rising living standards into the twenty-first century. A competitive economy is essential to achieve that goal — competitive in the strength of its macroeconomic fundamentals, competitive in its production and value-adding processes, competitive in the attributes of its financial sector, competitive in its framework of corporate governance, competitive in its national infrastructure, and — very significantly — competitive in its system of taxation.

The economic crisis in Asia over the last twelve months has highlighted those realities.

No nation, including Australia, can pretend that it is immune from the forces of change that are re-shaping the global economy. The indices of national wealth and prosperity in the 1990s are very different to those of the 1970s, let alone those of the 1930s.

Australia's economic policy framework must adjust to these changed realities. The price of our failure to do so will be living standards that fall relative to the richest countries, lower economic and jobs growth, and greater unfairness in our economic and social structures.

A new tax system for Australia is a product of economic commonsense. It is a recognition of economic realities that will directly affect Australia's economic and social strength into the next century.

The tax reform plan to which the Coalition Government is committed is not aimed at additional revenue. The Commonwealth Budget has already been restored to surplus.

Once fully implemented, the Government's tax reform plan will, in fact, reduce the tax take but collect revenue in a fairer, simpler and more open way. It will do so in a way that benefits families, businesses and the wider community.

The Coalition Government's tax reform plan will deliver higher economic growth and more jobs for Australia as a result of:

- lower effective income tax rates (lifting incentives to work and save);
- lower, less distorted industry input costs;
- abolition of distorting indirect taxes;
- lower tax compliance costs;
- more secure revenue (removing the need for ad hoc tax redesign); and
- business tax reform (lifting capital productivity).

The tax reform plan: building on achievements to date

The Government's plan for a new tax system builds on its achievements to date, and reinforces its priorities for the future, in strengthening the Australian economy. Since coming to office in March 1996, the Government's key economic objectives have been to:

- restore the fundamentals of the Australian economy as the essential base on which growth, jobs, investment and opportunities could expand;
- overturn the legacy of debt and deficit which was inherited;

- ensure the strongest position possible for Australia in withstanding the impact of the largest downturn in economic growth in the Asia-Pacific region since the oil shocks of twenty five years ago;
- give greater recognition to the costs of raising a family;
- encourage innovative, export-oriented and entrepreneurial Australian businesses that can take advantage of the new growth industries that are emerging;
- facilitate an Australian economic infrastructure that is aimed at world best practice so that our producers, manufacturers and service providers can take on, and beat, the best in the world without one hand tied behind their backs;
- liberate the potential of Australia's unique human and natural assets through removing the dead hand of centralised control; and
- uphold the proud Australian tradition of a fair and open society which ensures both incentives to achieve and protection for the disadvantaged.

To achieve these objectives, the Government has pursued a clear set of policies.

Restoring economic fundamentals

A difficult but necessary process of fiscal consolidation has transformed an inherited underlying budget deficit of just over two per cent of GDP in 1995-96 into an underlying budget surplus in 1997-98 achieved without any increase in income tax rates, the company tax rate, the wholesale sales tax or petrol excise.

Budgetary reforms, including a Charter of Budget Honesty, have established world-best practice in government accountability and transparency to the electorate.

Our underlying economic environment is strong:

- underlying inflation is near its historic low;
- interest rates are at their lowest levels in over twenty five years;
- unemployment, which peaked at 11.2 per cent in December 1992 is currently around 8 per cent;
- Commonwealth net debt to GDP remains on track to be halved by the turn of the century compared to the ratio of around 20 per cent inherited in March 1996; and
- real business investment was at a record level in the March 1998 quarter.

Industrial relations

The modernisation of Australia's industrial relations system, particularly through the *1996 Workplace Relations Act*, is transforming relations between employers and employees by promoting their shared interests in building efficient, cohesive, profitable and competitive enterprises: it has led to higher productivity and sustainable real wage growth consistent with low inflation.

Financial sector

The innovative reform of Australia's financial system following the *Financial System Inquiry* is building a world-class framework for financial sector regulation that will enhance Australia's credentials as a financial centre. New competition in the financial sector is lowering costs for consumers and bringing benefits for business.

Business measures

The $1.26 billion *Investing for Growth* industry policy statement in December 1997 provided specific incentives to encourage research and development, boost investment and help Australian business capture new export markets.

The Government's strategic policy commitment to harnessing the potential of the information age will improve government services, foster new industries and get Australia online for the twenty-first century.

The modernisation of Australia's communications infrastructure has created new opportunities, expanded competition and broadened consumer choice.

The commitment to building Australia as one of the leading share-owning democracies in the world has dramatically expanded community involvement in great Australian enterprises such as Telstra.

Small business deregulation has cut red tape and reduced compliance burdens.

Microeconomic reforms, particularly in the transport sector, are creating new opportunities for Australian exporters and greater potential for growth.

Sectoral policy measures, including comprehensive policy packages in the automotive, pharmaceuticals and textile, clothing and footwear industries, are encouraging renewed investment, greater competitiveness and continued reform.

Education and training

Education and training policy is being made more relevant to the changing nature of the Australian workforce into the next century through the Government's focus on high levels of national literacy and numeracy, the revitalisation of apprenticeships and traineeships, the Work for the Dole Scheme and the provision of a genuine pathway to jobs.

Other structural reforms

A programme of Corporate Law Reform will make Australia one of the most efficient, stable and reliable places in the world to do business.

A framework for sustainable development and natural resource protection has been significantly strengthened through the $1.25 billion Natural Heritage Trust, Regional Forest Agreements, the Supermarket to Asia Council and the $525 million Agriculture-Advancing Australia package.

All these priorities are essential building blocks for ensuring an Australian economy that is growing, dynamic and competitive in the world.

Taxation

But realising Australia's full potential into the twenty-first century also demands the reform and modernisation of a taxation system that is outdated, unfair and uncompetitive.

Since March 1996, the Coalition has implemented a range of measures to reduce the tax burden, to strengthen compliance, to increase the system's fairness and to encourage investment and entrepreneurial activity. The tax reform plan outlined in this document builds on those very significant measures which include:

- changes to personal income tax including measures such as the Family Tax Initiative, incentives for private health insurance, and a tax rebate for Low Income Aged Persons to assist low income self-funded retirees;
- the Superannuation and Medicare Levy Surcharges for high income earners;
- improving the existing concessions for employee share schemes;
- a range of measures to provide assistance targeted at small business, including reducing the provisional tax uplift factor and tying it to GDP growth, reducing the Fringe Benefits Tax compliance burden for small business, capital gains tax (CGT) relief on the sale of small

business assets, and CGT exemption on the sale of a small business for retirement;

- introducing a tax concession for business expenditure incurred in detecting and remedying software problems associated with the Year 2000 millennium bug, a tax rebate for landcare works, an Infrastructure Borrowings Rebate (to replace the previous tax concession); and
- a number of measures to address tax avoidance including: ending the exploitation of R&D syndicates and infrastructure borrowings tax concessions; funding for the Australian Taxation Office's High Wealth Individuals Task Force; extending the general anti-avoidance provisions; clamping down on dividend streaming and trading in franking credits; measures to prevent trafficking in trust losses; tightening thin capitalisation and residency rules to address foreign companies minimising their tax; stopping abuse of luxury car leasing; and measures to address tax avoidance through overseas charitable trusts.

Building on the base of these specific reforms, the comprehensive plan for a new tax system outlined in this document addresses the key remaining area of microeconomic reform necessary to gear up our national economy for the challenges of a new era.

A new tax system for Australia: priorities, principles and features

On 13 August 1997, the Prime Minister announced five principles of taxation reform:

- that there should be no increase in the overall tax burden;
- that any new taxation system should involve major reductions in personal income tax with special regard to the taxation treatment of families;
- that consideration should be given to a broad-based indirect tax to replace some or all of the existing indirect taxes;
- that there should be appropriate compensation for those deserving of special consideration; and
- that reform of Commonwealth-State financial relations must be addressed.

The new tax system set out in this document fulfils all of these principles, and does so through simpler and fairer arrangements.

It is a new tax system which enhances both fairness and incentive; it promotes Australian exports instead of penalising them; it is more effective; and it is simpler.

The Government's tax reform plan builds on four pillars to achieve a fairer tax system: incentive, security, consistency, and simplicity.

Incentive: a fairer tax system with greater reward for effort

The new tax system will be fairer. It provides stronger incentives to work and save.

It entails dramatic reductions in personal income tax of over $13 billion a year. This constitutes a 14 per cent reduction in personal income tax collections. It will mean that around 81 per cent of taxpayers will have a top tax rate of 30 per cent or less, compared to around 30 per cent of taxpayers currently.

The new system will also give much greater recognition to the costs of raising a family. Family benefits will be significantly increased in real terms.

From 1 January 1999, a new 30 per cent tax rebate/benefit will be available on private health insurance premiums.

Work incentives for low and middle income families will be greatly improved.

Social security recipients and lower income groups will be provided with extra assistance to ensure that they are more than just protected from the impact of tax reform on prices.

The income test for pension payments will be eased. The pensioner tax rebate and the tax rebate for low income aged people will be increased.

Special payments will be made to older Australians — pensioners and self-funded retirees — to protect the value of their savings and their retirement income after the tax reform package is implemented.

Specific anti-avoidance provisions targeted at tax avoidance through trusts will be implemented immediately.

A broad based goods and services tax (GST) will be introduced to replace existing indirect taxes and remove anomalies and complexity

The Fringe Benefits Tax system will be made fairer by stopping abuses of welfare entitlements and avoidance of income tax surcharges.

Tax cheats and tax avoiders will be made to pay their fair share of tax by reducing opportunities to operate in the cash economy.

A luxury car tax will be applied.

A transitional price oversight regime will be established under special legislation which will give the Australian Competition and Consumer

Commission (ACCC) special powers to ensure that price changes by business are consistent with changes in tax rates.

Security: sounder finances for government services

The new tax system will deliver higher economic growth through more competitive Australian exports and import competing products, as well as through higher investment driven by lower industry costs.

The Coalition Government's new tax system envisages that a range of existing indirect taxes will be abolished (eg the wholesale sales tax) or reduced (eg excises on petroleum and diesel).

Nine types of State taxes will be abolished. These include a range of stamp duties and taxes on transactions with financial institutions.

Provisional tax and the provisional tax uplift factor will be abolished.

A GST at a rate of 10 per cent will be introduced to replace the wholesale sales tax and the State taxes to be abolished. Some prices will fall and others will rise after the introduction of a GST. On average, excluding new house prices (which will be compensated by a new First Home Owners' Scheme) and tobacco, prices will rise by only 1.9 per cent by the second year of the package. But pensions and benefits will be increased by 4.0 per cent when the GST commences, and the Government will ensure that over time this increase remains at 1½ per cent above the actual Consumer Price Index (CPI) impact.

Purchases of business inputs will in effect bear no GST**.**

The costs of government are estimated to be reduced by more than $1 billion a year as a result of reduced prices for goods and services purchased by governments.

Some sectors will be excluded from the GST (eg virtually all of the health, education and childcare areas, local government rates, water and sewerage rates and charges, and public benevolent institutions in their non-commercial activities).

The impact of the GST on residential housing will be reduced by a new First Home Owners' Scheme.

All GST revenue will go to the States providing them with access to a secure and growing source of revenue and the capacity in the medium to long term to allocate additional funding for services, such as health and education.

The annual Premiers' Conference to determine funding arrangements between the Commonwealth and States will no longer be required.

The GST rate will be locked in and will only be able to be changed by a unanimous request of State Governments and agreement by the

Commonwealth Government and both Houses of the Federal Parliament.

Consistency: a tax system which boosts business and investment, and promotes Australian exports

The new tax system will lift the tax burden on Australian exports. Costs facing Australia's exporters should fall by around 3½ per cent or about $4½ billion a year. Costs will also fall for Australian firms competing with imported goods and services.

Implementation of the package of indirect tax reforms will reduce business costs by more than 3 per cent.

The Government will consult on the implementation of consistent taxation of trusts like companies under a clear, fair and simple regime of redesigned company taxation, with:

- a simplified imputation system involving full franking of all profits paid to individuals or other entities outside group structures;
- refunds of excess imputation credits for resident individual taxpayers and complying superannuation funds;
- maintenance of current tax status for distributions out of the following amounts from businesses and assets held in trusts at the commencement of the entity tax regime (including gains accrued after the start date):
  - — realised gains on pre-CGT assets;
  - — realised inflationary gains on post-CGT assets; and
  - — realised gains subject to the exemption of 50 per cent of CGT otherwise applying to goodwill on the sale of a small business;
- maintenance of current tax status for distributions by trusts out of other tax-preferred income earned prior to the new regime (excluding unrealised gains on trust assets);
- maintenance of current tax status for distributions out of realised profits freed from tax by the 50 per cent goodwill exemption after the commencement of the new regime for businesses in existing and future trusts;
- income distributed from existing and future trusts continuing to attract the primary producer averaging provisions and the farm management deposit arrangements after the commencement of the entity regime; and
- apart from the primary producer provisions, maintenance of current tax status for distributions out of the above profits by adding the amounts to contributed capital — usually at the time of sale of the associated assets.

The Government intends to broaden the benefits of the reformed company tax arrangements by applying them to other business entities offering limited liability to owners: limited partnerships, co-operatives and life insurers.

The Government will consult with business on the extent of reform of the treatment of investments, with the prospect that provides of moving towards a company tax rate of 30 per cent, as well as the prospect of CGT relief.

The payment arrangements for a GST will deliver a cash flow benefit to most businesses.

Fuel excise will be reduced by around $3½ billion a year.

The CGT rollover relief and retirement exemption for small business will be extended.

Simplicity: making the tax system easier to deal with

The structure and administration of family assistance will be revamped and consolidated to simplify arrangements and reduce confusion and inconsistencies in current arrangements.

Businesses will be able to deal with the whole of government through one business number.

Business payment and reporting systems will be simplified and standardised.

The design of tax laws will be improved and streamlined.

Key measures in the Howard Government's tax plan in more detail

Personal income tax cuts and family benefits

Personal income tax cuts totalling over $13 billion per year from July 2000.

Tax cuts to be provided to all taxpayers, with reductions in marginal tax rates for about 95 per cent of all individual taxpayers.

The tax free threshold for all taxpayers to be increased from $5,400 to $6,000 with the greatest proportionate benefit to low income earners.

A doubling of the tax free thresholds under the Family Tax Initiative to result in:

- all single income families (including sole parents) with a child under 5 years having an effective tax free threshold of $13,000, more than double the new general $6,000 threshold;
  - this provides additional assistance of $490 a year;
  - for those with two children (one of whom is under 5 years) the additional assistance is $630 a year;
  - for those with three children (one of whom is under 5 years) the additional assistance is $770 a year; and
- dual income families with one child (and single income families with no children aged under 5 years) having an increase in family tax assistance of $140 a year (a 70 per cent increase); for those with two children an increase of $280 a year; and for those with three children an increase of $420 a year.

The 20 per cent marginal tax rate to be reduced to 17 per cent.

The 34 per cent and 43 per cent marginal tax rates to be reduced to 30 per cent, with the result that over 80 per cent of taxpayers will face a marginal rate of no more than 30 per cent (compared with only 30 per cent of taxpayers now).

The threshold of the top 47 per cent marginal tax rate to be increased by 50 per cent so that it cuts in at $75,000 (almost twice projected full-time average weekly earnings in 2000) but the highest income earners still to pay an unchanged marginal rate.

Additional incentives to work and save by reducing the family benefits withdrawal rate from 50 per cent to 30 per cent and increasing the income threshold for family payments from $24,350 to $28,200. These measures will benefit around 375,000 families.

The effective marginal tax rate of low income working families to be reduced from 85.5 per cent to 61.5 per cent over a substantial range of income.

A new simpler Child Care Benefit worth up to $390 per year more than current benefits.

The overall cost of the enhanced family measures in the new tax system to be over $2 billion.

Private health insurance

From 1 January 1999, a 30 per cent tax rebate/benefit for the cost of private health insurance premiums (equal to the 30 per cent marginal tax rate) — worth approximately $600 a year for a family with a $2,000 health policy will be paid either as a rebate on tax or a direct payment from the government. Under the new tax system, the new tax rebate/benefit is as generous or more generous than full tax deductibility for health insurance premiums for more than 80 per cent of taxpayers.

Pensions and benefits

Increased rates of assistance to raise the maximum level of all income support payments by more than the impact of tax reform on prices as measured by the CPI.

A 4.0 per cent increase in the maximum rate of all income support payments provided to social security and veterans pensioners, other social security recipients and students in receipt of Commonwealth income support, including additional payments and allowances such as Child Disability Allowance and Mobility Allowance.

The continuing Government commitment to ensure that the single rate of pension does not fall below 25 per cent of male total average weekly earnings.

A 2.5 per cent increase in the income test free areas applied to social security, veterans and student income support payments.

The income test for pensions eased by reducing the taper rate from 50 per cent to 40 per cent, a measure which will:

- enable all 845,000 part-rate pensioners to keep an extra 10 cents of pension for every dollar of income they receive above the income test free areas;
- benefit self-funded retirees with modest incomes who will become eligible for a part-rate pension; and
- improve incentives to save for retirement by increasing the returns from such saving at the time that people retire.

The overall cost of increases in, and adjustments to, pensions and benefits will be over $3 billion in 2000-01 and around $1.8 billion per year thereafter.

Specific benefits for older Australians

A 4.0 per cent increase in age and service pensions.

Access to a new 30 per cent private health insurance tax rebate/benefit.

The pension withdrawal rate to be reduced from 50 per cent to 40 per cent.

A one-off untaxed Aged Persons Savings Bonus of up to $1,000 per person (available to retired people over 60 years of age and subject to an income test).

An additional untaxed and upfront lump sum Self-Funded Retirees Supplementary Bonus of up to $2,000 for retirees not in receipt of government benefits (available to retirees of age pension age and subject to an income test).

Both the Aged Persons Saving Bonus and the Self-Funded Retirees Supplementary Bonus, costing $1.3 billion, to be calculated on the basis of a dollar of Bonus for each dollar of income from savings and investments in 1998-99 or 1999-00.

Both Bonuses to be targeted to lower income groups with taxable incomes less than $20,000 in 1998-99 or 1999-00 and phasing out between $20,000 and $30,000.

The personal income tax free threshold to be increased to $6,000.

The 20 per cent marginal tax rate to be cut to 17 per cent.

The 34 per cent and 43 per cent marginal tax rate to be reduced to 30 per cent.

The Pensioner and Aged Persons Tax Rebates to be increased by $250 for singles and $175 per person for couples, resulting in 70,000 additional part-pensioners and self-funded retirees paying no income tax and providing an extra tax cut to 330,000 older Australians.

Provisional tax and the provisional tax uplift factor to be abolished and replaced with a new pay as you go system of tax payments.

Cash refunding of excess imputation credits paid in respect of dividends and other relevant investment income — worth up to $563 per $1,000 of dividend income based on the current 36 per cent company tax rate.

Indirect tax reform

A GST to replace the existing indirect tax mess

The wholesale sales tax to be abolished.

In consultation with the States, the following nine types of taxes to be abolished:

- Financial Institutions Duty;
- debits tax;
- stamp duty on marketable securities;
- conveyancing duties on business property;

- stamp duties on credit arrangements, instalment purchase arrangements and rental (hiring) agreements;
- stamp duties on leases;
- stamp duties on mortgages, bonds, debentures and other loan securities;
- stamp duties on cheques, bills of exchange and promissory notes; and
- 'bed taxes'.

Introduction of a 10 per cent broad based GST to replace the wholesale sales tax, State taxes on bank transactions, stamp duties on business related transactions and 'bed taxes'.

Registered persons to be able to claim input tax credits for the GST paid on purchases of business inputs.

Activities to be GST-*free* include:

- exports of goods and services;
- international air and sea travel, and domestic air travel, purchased overseas by non residents;
- virtually all the health, education and childcare services;
- charitable activities;
- religious services; and
- taxes and charges leveled at all levels of government (including local government rates and water and sewerage rates and charges).

Very small businesses with a turnover less than $50,000 per year and non-profit organisations with a turnover of less than $100,000 a year will not have to register (but may choose to do so).

A First Home Owners' Scheme to be introduced to offset the net impact of the GST on the price of new homes (excluding land ie construction costs only) and entitling those eligible to a lump sum payment of $7,000 from 1 July 2000.

Legislation to provide the ACCC with special transitional powers to formally monitor retail prices and Commonwealth-State consultations to give the ACCC the power to take action, including imposing penalties up to $10 million against businesses that adjust prices in a way that is inconsistent with changes in tax rates.

A Tax Consultative Committee chaired by a distinguished Australian, including selected community representatives, will be appointed to assist the Government in targeted consultation on outstanding GST design issues.

Petroleum fuels

Excises on petrol and diesel to be reduced at the time of the GST's introduction so that pump prices need not rise.

Businesses to pay less for petrol and diesel because they will be able to claim an input tax credit on the GST payable on fuel used for business purposes — businesses will save around 7 cents per litre relative to what they pay now.

A new comprehensive diesel fuel credit delivered through the GST system to be introduced for registered businesses, removing the need for the Diesel Fuel Rebate Scheme, with the effect that:

- effective excise payable on diesel fuel used in heavy transport and rail to be reduced from around 43 cents per litre to 18 cents per litre; and
- all other off-road use of diesel (including marine business use) to qualify for a full credit of all diesel excise.

The overall cost of petroleum fuel measures in the new tax system to be around $3½ billion.

Alternative fuels to remain excise free on the introduction of the GST.

Alcoholic beverages

Wine, and beverages consisting primarily of wine, to become subject to a Wine Equalisation Tax to replace the difference between the current 41 per cent wholesale sales tax and the proposed GST, with the concessional taxation treatment of the alcohol content of cask wine to be preserved.

Changes in the excise on beer to be limited so that the retail price of a carton of full strength beer need only increase by the estimated general price increase associated with indirect tax reform. The retail price of a carton of low alcohol beer should not increase and in some cases may fall slightly.

Tobacco

A ‘per stick’ excise on cigarettes to be introduced from 1 July 1999 without reduction in tobacco excise — a reform long advocated by health experts.

Luxury car tax

A retail tax of 25 per cent on luxury cars (above a GST inclusive $60,000 threshold) to be applied after the introduction of the GST to ensure that luxury cars fall in price only by the same amount as a car just below the luxury threshold.

Gains for businesses

Business costs to be reduced by more than 3 per cent as a result of the indirect tax reform package.

The cost of private investment goods expected to fall by around 7 per cent.

Costs facing Australian exporters should fall by about 3½ per cent or around $4½ billion. The costs facing Australian firms competing with imports will also fall.

Payment arrangements for the GST to deliver a cash flow benefit to most businesses.

A range of existing inefficient and distorting indirect taxes to be abolished (see 'Indirect tax reform' above).

Provisional tax and the provisional tax uplift factor abolished and replaced by a new pay as you go system (see 'Tax simplification' below).

More generous CGT rollover relief and retirement exemption to be extended for small business to include land and buildings integral to a business when these assets are owned separately.

Simpler tax administration for businesses with a single quarterly tax statement and payment for most businesses, together with a single Australian Business Number for all Commonwealth Government compliance and registration requirements (see 'Tax simplification' below).

Consistent tax treatment between companies and trusts, with refunding of excess imputation credits and special grandfathering arrangements for trusts to avoid an inappropriate impact of the new arrangements on existing trusts.

Consultations with the business sector on the extent of reform of the business investment base, and the prospect of further CGT relief and of moving towards a 30 per cent company tax rate, subject to the need to maintain revenue neutrality.

A special Small Business Consultative Committee will be involved in consultations to ensure that financial incentives, worth up to $500 million, for small and medium businesses to minimise the start-up costs of a GST are delivered in the most effective way.

Gains for rural and regional Australia

Acknowledging the high cost of transport particularly for rural and regional Australia, a new diesel fuel credit scheme to effectively reduce diesel excise for all off-road (including marine) users from 43 cents per litre to zero, and for larger transport users (including rail) from 43 cents per litre to 18 cents per litre.

This is on top of savings of 7 cents per litre for business users of petrol and diesel through their access to a refund of the GST paid on fuel.

For other consumers, there need be no rise in petrol and diesel prices as a result of the GST.

Reduces exporters' costs by a total of $4½ billion — to the particular benefit of primary producers.

Other changes in business taxation (see ‘Gains for businesses’ above).

Transformation of Commonwealth-State financial relations

The budgetary position of the States to be enhanced over time by the new tax system, with the States projected to gain about $370 million in 2003-04, $1.25 billion in 2004-05, with commensurately larger gains in subsequent years.

From 1 July 2000, the Commonwealth to provide States with a stable and growing source of revenue by giving them all the revenue from the GST, conditional on the States abolishing inefficient taxes (such as the Financial Institutions Duty, the debits tax and various stamp and conveyancing duties), and not re-introducing them, with Financial Assistance Grants to be abolished.

The States, better-resourced through the new tax system, to take responsibility for the payments of general purpose assistance to local government currently made by the Commonwealth. The Commonwealth will make the payment of GST revenue conditional on the States making these payments in accordance with existing conditions. This will ensure that local government is not worse off in that respect. In fact, overall local government will gain from the removal and reduction of Commonwealth and State taxes that currently increase their running costs.

Locking in the GST rate

Any request for a change to the GST rate would need to be made to the Commonwealth unanimously by all State Governments: it would need to be endorsed by the Commonwealth Government of the day; and relevant legislation would need to be passed by both Houses of Federal Parliament.

Tax simplification

Family assistance

The structure of assistance for families to be simplified from July 2000 after community consultations with the aim of consolidating the types of assistance for families through the tax and social security systems from twelve to three.

The delivery of family assistance to be simplified and integrated through a new Family Assistance Office within the Tax Office — a joint venture between Centrelink and the Tax Office.

Business payment and reporting

Each business to have only one number (the Australian Business Number) to identify a business for all Commonwealth purposes. The number can be adopted for State registration if the States agree to do so.

Each business to be able to deal with all Commonwealth agencies and obtain information and assistance through one, or as few as possible, entry points.

Five payment and reporting systems (Pay As You Earn, the Prescribed Payments System, the Reportable Payments Scheme, provisional tax and company tax instalments) to be replaced by one new comprehensive pay as you go system.

More certainty to be provided about which payments made by businesses for work are subject to withholding arrangements.

Other measures

To reduce uncertainty and compliance costs, the period in which the Tax Office can amend assessments of wage and salary earners to be reduced from four to two years.

Oral advice on simple tax issues to be binding on the Tax Commissioner.

The Tax Office rulings system will be made more comprehensive and its scope more certain.

The tax laws to be brought together in a code that supports a more cohesive approach to compliance and administration.

Measuring the benefits from reform

Impacts on individual taxpayers

The Government's reforms to personal tax and family benefits will more than compensate for the effect of the small net increase in indirect taxes.

Special assistance will also be provided to other groups deserving of special consideration, including low income earners who rely on government benefits and self-funded retirees.

Table O.1:
Weekly cash gain from reform after the GST and inflation effect

	Individual		Couple, no children*				Sole parent	
Private	Single Person		Single income		Dual incomes		1 child (<5yrs)	
income	$ gain	%	$ gain	%	$ gain	%	$ gain	%
$0	$2.54	1.5%	$4.59	1.5%	$4.59	1.5%	$25.97	9.3%
$5,000	$5.44	2.5%	$7.49	2.1%	$7.26	1.9%	$26.68	7.4%
$10,000	$7.61	3.3%	$9.25	2.5%	$10.67	2.7%	$18.40	4.5%
$15,000	$5.82	2.3%	$11.35	2.9%	$12.13	2.9%	$21.11	4.7%
$20,000	$4.28	1.3%	$9.02	2.2%	$13.36	3.0%	$22.40	4.7%
$25,000	$5.10	1.3%	$13.82	3.3%	$14.43	3.2%	$26.77	5.3%
$30,000	$7.78	1.7%	$7.30	1.5%	$5.25	1.0%	$50.92	10.0%
$35,000	$10.46	2.0%	$9.98	1.8%	$5.46	0.9%	$28.90	5.1%
$40,000	$16.66	2.9%	$16.17	2.7%	$8.28	1.3%	$35.10	5.6%
$45,000	$28.13	4.4%	$27.64	4.2%	$10.63	1.5%	$46.57	6.8%
$50,000	$39.60	5.8%	$39.11	5.5%	$12.91	1.7%	$58.04	7.9%
$55,000	$45.39	6.2%	$44.90	5.9%	$15.19	1.8%	$63.83	8.1%
$60,000	$51.18	6.5%	$50.69	6.2%	$21.34	2.4%	$69.62	8.3%
$65,000	$56.97	6.8%	$56.48	6.5%	$27.42	2.8%	$75.41	8.5%
$70,000	$62.76	7.1%	$62.27	6.8%	$36.02	3.5%	$103.42	11.3%
$75,000	$68.55	7.3%	$68.06	7.1%	$44.86	4.2%	$101.61	10.6%
$80,000	$67.62	6.8%	$67.14	6.6%	$49.62	4.4%	$93.45	9.2%
$90,000	$65.78	6.0%	$65.29	5.9%	$59.15	4.8%	$91.60	8.2%
$100,000	$63.93	5.4%	$63.44	5.2%	$68.67	5.1%	$89.76	7.4%
$125,000	$59.31	4.1%	$58.83	4.0%	$86.45	5.3%	$85.14	5.8%
$150,000	$54.69	3.2%	$54.21	3.2%	$102.29	5.5%	$80.52	4.7%

* Dual income couple, assumes earnings split 67%:33%

Table O.1:
Weekly cash gain from reform after the GST and inflation effect (continued)

	Single income family				Dual income family *			
	1 child (<5yrs)		2 children (1:<5yrs, 1:5-12yrs		1 child (<5yrs)		2 children (1:<5yrs, 1:5-12yrs)	
Private income	$ gain	%	$ gain	%	$ gain	%	$ gain	%
$0	$12.80	3.4%	$14.47	3.4%	$12.80	3.4%	$14.47	3.4%
$5,000	$15.70	3.7%	$17.38	3.7%	$11.95	2.7%	$13.63	2.7%
$10,000	$17.46	4.0%	$19.13	3.9%	$15.28	3.3%	$16.95	3.3%
$15,000	$19.56	4.3%	$21.23	4.1%	$28.99	6.1%	$30.67	5.8%
$20,000	$33.31	7.1%	$34.99	6.7%	$31.89	6.5%	$33.56	6.1%
$25,000	$24.99	5.1%	$21.82	3.9%	$30.16	5.9%	$33.99	5.9%
$30,000	$43.63	8.4%	$55.79	9.9%	$35.21	6.7%	$47.37	8.3%
$35,000	$18.74	3.2%	$57.85	9.7%	$7.85	1.3%	$46.96	7.7%
$40,000	$24.93	3.9%	$35.27	5.4%	$10.67	1.6%	$21.01	3.1%
$45,000	$36.40	5.2%	$38.79	5.5%	$13.02	1.8%	$15.40	2.1%
$50,000	$47.88	6.4%	$50.26	6.6%	$15.30	1.9%	$17.68	2.2%
$55,000	$53.67	6.7%	$56.05	6.9%	$17.58	2.0%	$19.96	2.3%
$60,000	$59.45	7.0%	$61.84	7.2%	$23.73	2.6%	$26.11	2.8%
$65,000	$75.01	8.4%	$67.63	7.4%	$29.81	3.0%	$32.19	3.2%
$70,000	$93.26	10.1%	$83.19	8.7%	$50.86	5.0%	$40.79	3.9%
$75,000	$91.45	9.4%	$121.70	12.5%	$52.10	4.8%	$82.35	7.6%
$80,000	$83.28	8.1%	$97.76	9.6%	$49.62	4.4%	$64.10	5.7%
$90,000	$81.44	7.2%	$81.44	7.2%	$59.15	4.8%	$59.15	4.8%
$100,000	$79.59	6.5%	$79.59	6.5%	$68.67	5.1%	$68.67	5.1%
$125,000	$74.97	5.1%	$74.97	5.1%	$86.45	5.3%	$86.45	5.3%
$150,000	$70.35	4.1%	$70.35	4.1%	$102.29	5.5%	$102.29	5.5%

* Dual income couple, assumes earnings split 67%:33%

Table O.1:
Weekly cash gain from reform after the GST and inflation effect (continued)

	Pensioners				Self-funded retirees (a)			
Private	Single		Couples*		Single		Couples*	
income	$ gain	%	$ gain	%	$ gain	%	$ gain	%
$0	$2.89	1.5%	$4.81	1.5%	$0.00	0.0%	$0.00	0.0%
$5,000	$9.43	3.5%	$6.17	1.5%	$3.00	3.1%	$7.51	6.6%
$10,000	$19.05	6.5%	$23.48	5.1%	$1.21	0.6%	$5.94	3.0%
$15,000	$25.00	7.6%	$27.73	5.7%	$8.01	2.9%	$4.21	1.4%
$20,000	$25.06	7.0%	$36.51	7.1%	$9.70	2.8%	$2.42	0.6%
$25,000	$24.84	6.3%	$45.68	8.4%	$7.50	1.9%	$16.24	3.5%
$30,000	na	na	$53.14	9.2%	$7.78	1.7%	$18.06	3.4%
$35,000	na	na	$64.57	10.6%	$10.46	2.0%	$19.76	3.4%
$40,000	na	na	$50.42	7.6%	$16.66	2.9%	$18.16	2.7%
$45,000	na	na	$23.03	3.2%	$28.13	4.4%	$13.59	1.9%
$50,000	na	na	na	na	$39.60	5.8%	$15.00	1.9%
$55,000	na	na	na	na	$45.39	6.2%	$15.28	1.8%
$60,000	na	na	na	na	$51.18	6.5%	$15.56	1.7%
$65,000	na	na	na	na	$56.97	6.8%	$18.24	1.9%
$70,000	na	na	na	na	$62.76	7.1%	$20.92	2.0%
$75,000	na	na	na	na	$68.55	7.3%	$23.60	2.1%
$80,000	na	na	na	na	$67.62	6.8%	$33.31	2.9%
$90,000	na	na	na	na	$65.78	6.0%	$56.26	4.4%
$100,000	na	na	na	na	$63.93	5.4%	$79.20	5.8%
$125,000	na	na	na	na	$59.31	4.1%	$108.15	6.7%
$150,000	na	na	na	na	$54.69	3.2%	$137.09	7.3%

* Dual income couple, assumes earnings split 50%:50%.
(a) Gains for self-funded retirees will be larger to the extent they benefit from refundable imputation credits and the new private health insurance tax rebate / benefit.

Price and distributional impacts are described in detail in Chapter 5 of the document *A New Tax System*.

Impact on Government finances

The following table summarises the budgetary impact of the Government's reforms. For both revenue and outlays, a positive number indicates a positive impact (improvement) in the Budget balance.

The figuring in the package includes the cost of the new private health insurance initiative. Two indirect impacts on government budgets are also incorporated. The first is the reduced cost of Commonwealth and State government operations due to indirect tax reform (eg removal of wholesale sales tax and fuel tax reforms), estimated at more than $1 billion from 2000-01. The second indirect impact captures the effect on revenue of enhanced GDP flowing from the lower cost of investment and a more efficient allocation of resources. This impact has been estimated conservatively at some $500 million a year.

The GST revenue numbers contained in the package are consistent with assuming 95 per cent compliance on a tax base which incorporates an ATO estimate of some $18 billion of cash economy activity. The package also factors in up to $1½ billion a year in enhanced income tax compliance due to the administration reforms detailed in Chapter 4 of the document *A New Tax System*.

Table O.2:
Impact of measures on the Budget

Commonwealth	1999-00 ($bn)	2000-01 ($bn)	2001-02 ($bn)	2002-03 ($bn)
Direct tax				
Personal	0.72	-11.69	-11.86	-12.78
Business	0.12	1.67	0.97	0.65
Administration	0.21	1.72	4.03	2.86
Indirect tax	-0.31	-9.39	-11.53	-12.42
Other revenue	0.00	1.05	0.85	0.99
Outlays (incl. PDI)	-1.90	11.89	12.74	13.46
Impact on underlying Commonwealth budget (a)	**-1.16**	**-4.76**	**-4.80**	**-7.25**
States, Territories and local government				
Indirect tax				
GST revenue	0.00	27.20	31.96	32.81
Taxes abolished/reduced	0.00	-8.19	-12.38	-12.76
Other revenue (b)	0.00	-17.98	-17.57	-18.74
Outlays	0.00	-1.72	-1.32	-1.31
Impact on State, Territory and local government budgets (a)	**0.00**	**-0.69**	**0.69**	**0.00**

(a) As a consequence of the Commonwealth's one year interest free loan to the States in 2000-01, the net financing requirement of the States will be unaffected by tax reform in each of the years 1999-00 to 2002-03. The impact on the headline balance for the Commonwealth is -$1.16 billion in 1999-00, -$5.45 billion in 2000-01, -$4.12 billion in 2001-02 and -$7.25 billion in 2002-03.

(b) Principally due to the abolition of Financial Assistance Grants.

A timetable and process for reform

A reform package of the scope contemplated by the Government requires considerable time to implement. Legislation needs to be drafted and enacted. There is the need to develop, in some cases, new computer and other administration systems. Taxpayers need to be informed about their obligations under the new system and given time to adjust.

Post-election	Consultation on outstanding design and implementation issues will commence immediately after the next Federal election and continue over the following months. A Special Premiers' Conference will be held to discuss Commonwealth-State issues.
January 1999	Commencement of private health insurance initiative.
First Half 1999	Legislation to enact the GST and remove/reform other Commonwealth indirect taxes.
Mid 1999	ATO to begin to assist entities with registration for GST and set-up advice on obligations.
July 1999	Introduction of a per stick excise on tobacco to replace the existing weight based excise.
Second Half 1999	Legislation for the consistent treatment of different business entities including taxing trusts under the proposed redesigned company tax arrangements.
May 2000	Final day for GST registration and allocation of an Australian Business Number for existing entities.
July 2000	Payment of the Aged Persons Savings Bonus and Self-Funded Retirees Supplementary Bonus to eligible people. New personal income tax rates take effect. Additional assistance to families through extending the Family Tax Initiative and easing the income test for Family Allowance. Reduction in the number of different types of family assistance from 12 to 3. Increases in social security and veterans' pensions and allowances and student income support payments and adjustment of income tests (see *A New Tax System* for a full listing). Reduction in pension income test taper takes effect. Wholesale sales tax ceases and GST commences with GST revenue going to the States. Luxury car tax commences. Financial Assistance Grants abolished. State ‘bed taxes’ abolished. ATO sends out electronic returns to monthly GST remitters (ie those firms with sales greater than $20 million). Temporary arrangements which replaced the previous State business franchise fees on petrol, alcohol and tobacco cease. Introduction of the new entity tax regime to apply to companies, trusts, life insurers, limited partnerships and cooperatives.
August 2000	Earliest date for first lodgment of electronic GST monthly returns.
September 2000	ATO sends out paper and electronic GST returns to quarterly payers.
October 2000	Earliest date for lodgment of first quarterly GST returns.
January 2001	State abolition of Financial Institutions Duty and debits tax.
July 2001	Selected State stamp duties removed.

An ongoing process of consultation

The breadth of reform the Government is pursuing increases the need for ongoing and targeted consultation following the next Federal election to ensure successful implementation.

Consultation is required to ensure the final design and draft legislation deliver the Government's policy objectives. Some reform proposals are already well advanced in design, while with others the policy intent is clear but the design would benefit from consultation with those most affected. There are four elements of the post-election consultation and implementation strategy.

- The Prime Minister and Treasurer will meet with all **Premiers, Chief Ministers and State Treasurers** shortly after the next Federal election to discuss the proposed reform to Commonwealth-State financial relations. This process will be assisted by a Working Group of Commonwealth and State officials under the chairmanship of the Commonwealth Treasury.
- The **Taxation Task Force** will continue, supported by a group of working committees, and will consult on outstanding areas of policy and associated legislation.
- A Tax Consultative Committee chaired by a **distinguished Australian**, including selected community representatives, will be appointed to assist the Government in targeted consultation on outstanding GST design issues. Secretariat support for this committee will be provided by the Commonwealth Treasury.
- A **CEO reporting group** will be established at the Commonwealth level to report to government on the progress of implementation and delivery systems for tax reform.

A process will be established for consultation on business tax reform.

In addition, a Small Business Consultative Committee will be involved in consultations on the best way of delivering the GST start up incentives to business.

More details on the areas for consultation are contained in the relevant chapters of the document *A New Tax System*.

Revenue measures table: the complete package*

Commonwealth	1999-00 ($bn)	2000-01 ($bn)	2001-02 ($bn)	2002-03 ($bn)
Personal tax				
Personal income tax cuts	0.00	-13.06	-13.52	-14.49
Delivery of half of family package (a)	0.00	-1.16	-1.22	-1.28
Increase in pensioner and self-funded retiree rebates	0.00	-0.08	-0.08	-0.08
Tax rebate / benefit for private health insurance (b)	-0.07	-0.16	-0.18	-0.20
Abolish Savings Rebate	0.79	2.04	2.14	2.24
Fringe Benefits Tax (c)	0.00	0.72	0.76	0.78
Income tax effect of other policy measures nei (d)	0.00	0.00	0.24	0.26
Total	0.72	-11.69	-11.86	-12.78
Business tax				
Consistent treatment of entities				
Trusts	0.07	0.90	0.76	0.43
Deferred company tax	0.07	0.19	0.39	0.42
Refundable imputation credits	0.00	0.00	-0.55	-0.55
Life insurers	-0.02	0.59	0.67	0.65
Share buy-backs and liquidations	0.00	0.00	-0.30	-0.30
Total	0.12	1.67	0.97	0.65
Administration				
Company payment arrangements	0.21	2.35	2.60	2.42
Abolition of provisional tax (e)	0.00	-1.44	0.00	-0.92
Enhanced compliance	0.00	0.80	1.43	1.35
Total	0.21	1.72	4.03	2.86
Indirect tax				
WST abolition (f)	-0.56	-15.32	-17.75	-18.75
Petrol excise (g)	0.00	0.44	0.48	0.50
Diesel excise (g)	0.00	0.33	0.35	0.37
Alcohol excise (g)	0.00	1.22	1.27	1.30
Tobacco excise (g)	0.25	3.16	3.22	3.22
Luxury car tax	0.00	0.18	0.21	0.21
Wine Equalisation Tax	0.00	0.60	0.70	0.72
Total	-0.31	-9.39	-11.53	-12.42

Revenue measures table: the complete package* (continued)

	1999-00 ($bn)	2000-01 ($bn)	2001-02 ($bn)	2002-03 ($bn)
Other revenue				
Receipts from States for GST administration (h)	0.00	0.70	0.30	0.29
Growth dividend - Commonwealth's share	0.00	0.35	0.55	0.70
Total	0.00	1.05	0.85	0.99
Outlays				
Reduction in Financial Assistance Grants	0.00	18.18	18.81	19.46
New States' responsibility toward local governments	0.00	1.34	1.38	1.43
Increased assistance for social security recipients (i)	0.00	-1.79	-1.65	-1.72
Delivery of half of family package (a)	0.00	-1.16	-1.22	-1.28
Aged Persons Savings Bonuses	0.00	-1.30	0.00	0.00
Reduction in pension taper rate	0.00	-0.38	-0.40	-0.42
Tax rebate / benefit for private health insurance (b)	-0.95	-1.02	-1.09	-1.16
Fringe Benefits Tax (c)	0.00	0.01	0.03	0.03
Replacement of Diesel Fuel Rebate Scheme	0.00	1.59	1.70	1.79
Diesel fuel rebate for remote power	0.00	-0.01	-0.01	-0.01
Diesel credits administered through GST	0.00	-3.58	-3.84	-4.05
GST policy / administration costs	-0.35	-0.35	-0.30	-0.29
GST business startup package	-0.50	0.00	0.00	0.00
Grants to balance State budgets (j)	0.00	0.00	-0.94	-0.32
Reduced costs to government from indirect tax reform (k)	0.00	0.54	0.57	0.60
Total	-1.80	12.07	13.04	14.06
Public debt interest	-0.10	-0.18	-0.30	-0.60
Impact on underlying Commonwealth budget (l)	**-1.16**	**-4.76**	**-4.80**	**-7.25**

Revenue measures table: the complete package* (continued)

States, Territories and local government	1999-00 ($bn)	2000-01 ($bn)	2001-02 ($bn)	2002-03 ($bn)
GST				
GST revenue (m)	0.00	27.20	31.96	32.81
Taxes abolished/reduced				
Reduced gambling taxes	0.00	-0.48	-0.56	-0.59
Abolition of FID / debits tax	0.00	-0.97	-2.39	-2.46
Abolition of business stamp duties	0.00	0.00	-2.33	-2.41
Abolition of accommodation taxes	0.00	-0.08	-0.06	-0.06
Abolition of business franchise fee replacement taxes	0.00	-6.65	-7.04	-7.24
Total	0.00	-8.19	-12.38	-12.76
Other revenue				
Reduction in Financial Assistance Grants	0.00	-18.18	-18.81	-19.46
Commonwealth grants to balance State budgets (j)	0.00	0.00	0.94	0.32
Growth dividend - States' share	0.00	0.20	0.30	0.40
Total	0.00	-17.98	-17.57	-18.74
Outlays				
New States' responsibility toward local governments	0.00	-1.34	-1.38	-1.43
First Home Owners' Scheme	0.00	-0.81	-0.83	-0.85
Reduced costs to government from indirect tax reform (k)	0.00	0.54	0.57	0.60
State rebates for off road diesel	0.00	0.58	0.63	0.66
Payments to Commonwealth for GST collection (h)	0.00	-0.70	-0.30	-0.29
Total	0.00	-1.72	-1.32	-1.31
Impact on State, Territory and local government budgets (l) (n)	**0.00**	**-0.69**	**0.69**	**0.00**

Revenue measures table: the complete package* (continued)

*	A positive revenue or outlays number implies a positive impact on the budget balance.
(a)	The family package consists of measures which affect both revenue and social security outlays.
(b)	The tax rebate / benefit for private health insurance has a start date of 1 January 1999. It influences both revenues and outlays and is estimated to have a part year budgetary cost of around $330m in 1998-99. The fiscal impact includes the removal of the existing Private Health Insurance Incentive Scheme and the impact on health outlays of the new initiative.
(c)	The proposal to include fringe benefits on group certificates will influence revenues and social security outlays. It commences with respect to the 1999-00 FBT year.
(d)	Includes income tax effect of abolition of FID / debits tax, reduced pension taper rate and increased social security assistance.
(e)	Revenue impact of moving provisional tax payers onto the new pay as you go scheme.
(f)	Includes abolition of wholesale sales tax, collection of outstanding wholesale sales tax debt, the wholesale sales tax phase down in 1999-00 and response effects associated with replacing the wholesale sales tax with a GST.
(g)	Refer to reconciliation tables at the end of Chapter 2 of the document *A New Tax System* for more detail on this measure.
(h)	The payment in 2000-01 reflects costs associated with GST administration incurred in 1999-00 and 2000-01.
(i)	Includes one and a half per cent real increase.
(j)	Payments to States to offset negative early year impacts of GST implementation.
(k)	This reflects the removal of embedded wholesale sales tax and excises on purchases by Australian governments.
(l)	The Commonwealth will provide a one year interest free loan to the States to offset the increase in their net financing requirement that arises in 2000-01 as a result of early year impacts of GST implementation. As a consequence of this arrangement, the net financing requirement of the States is unaffected by tax reform in each of the years 1999-00 to 2002-03. The impact on the headline balance for the Commonwealth is -$1.16 billion in 1999-00, -$5.45 billion in 2000-01, -$4.12 billion in 2001-02 and -$7.25 billion in 2002-03. The public debt interest costs associated with the loan are included in the Commonwealth public debt interest item.
(m)	Includes GST revenue, the phased input credit on motor vehicles, credit for wholesale sales tax paid stock, and response effects associated with replacing the wholesale sales tax with a GST.
(n)	Tax reform is projected to make a positive contribution to the net budgetary position of the States and local government in 2003-04 of around $0.37 billion. Beyond 2003-04 real per capita incomes will result in faster growth in indirect tax revenues than in the Commonwealth grants being abolished.

Authorised by the Hon. Peter Costello, M.P., Commonwealth Treasurer, Parliament House, Canberra, ACT 2600.
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