

The logo for the Corporate Tax Association (cta) is a white square containing the lowercase letters 'cta' in a bold, sans-serif font. The background of the entire page is a dark blue with a complex, abstract geometric pattern of overlapping planes and lines, creating a sense of depth and structure.

cta

Corporate
Tax Association

Setting the course for tax reform

Laying the foundations
for a better Australia

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ABOUT THE CORPORATE TAX ASSOCIATION

The Corporate Tax Association (CTA) is the peak representative body on tax issues for over 150 large corporates operating in Australia.

The CTA serves as the collective voice for its members, playing a vital role in fostering collaboration between tax professionals, corporations, policymakers and the government to ensure the development of sound and effective tax laws (in particular, those applying to large corporates) and ensuring these laws are administered efficiently and effectively.

A list of the CTA's members and more information on the CTA can be found here: www.corptax.com.au

ACKNOWLEDGEMENT OF COUNTRY

The CTA acknowledges the Traditional Custodians of the Country throughout Australia and their knowledge in caring for land, sea and community. We pay our respects to their Elders past and present.

Sustainable tax architecture is key to a stronger economy

Supporting Australians and laying the foundations for a stronger, more inclusive, resilient and sustainable economy requires a commitment from the government to advance tax reform.

The economic environment in which our tax system operates has changed dramatically over the past 50 years. Over that period, Australia's overall tax mix is heavily weighted towards income taxes on individuals and corporates rather than taxes on consumption (such as the GST) and taxes on saving (such as superannuation). The unsustainability of the tax mix is demonstrated in the [Institute for Management Development \(IMD\) World Competitiveness Report 2023](#) where out of 64 countries, Australia ranked 57th for individual tax burden and 56th for company tax burden and the IMF continually emphasises the need for structural reform that includes rebalancing the tax system towards more reliance on indirect taxes.¹

Tax policy changes over that time have not materially altered the overall mix of income tax compared to indirect tax, despite significant changes in the global economy that may have negative impacts on the flow of financial capital and labour productivity.

Over the past 18 months, the government has focused on delivering the policy decisions from the [October 2022-23 Federal Budget](#) and [2023-24 Federal Budget](#). Many of these measures focus on tax integrity and transparency and tweaks to existing rules rather than setting the tone for more holistic tax reform.

However, the short-term fiscal strength of recent budget outcomes masks the current trajectory of problematic and piecemeal law reform that builds on an already unsustainable tax system. Since 2015, 32 of the 35 amendments to the corporate tax system have been integrity and disclosure measures. None have addressed any of the systemic issues identified in the previous two attempts at tax reform; the [2010 Henry Review](#) and the [2015 Re:think Tax Discussion Paper](#).

In our view, the current 'short-term' approach to tax policy in Australia is unsustainable and adds little to building a more sustainable and inclusive economy as it tends to focus efforts on governments delivering short-term revenue sugar hits, and not sustainable tax policy. The instability that comes with such an approach cannot be understated – it is unquestionably eroding Australia's investment attractiveness with data showing that of 64 countries, Australia was ranked 3rd on legal and regulatory frameworks designed to

encourage competition but has fallen to 19th in 2023.² Investment in our economy delivers millions of jobs and billions in domestic spending and will be key to Australia's energy transition.

Continuing to approach tax policy through a short-term lens will also inevitably result in our tax system failing to address Australia's long-term budgetary challenges associated with projected spending on health, housing, defence and Australia's energy transition, as identified and highlighted in the [2023 Intergenerational Report](#). To put it simply, the tax system in its current form is incapable of raising the revenue required to fund the public services Australians want and expect in the future.

TWO INITIAL STEPS BEFORE EMBARKING ON HOLISTIC TAX REFORM

It is critical the government commit to taking on the challenge of tax reform. To progress reform, two foundational steps must first occur.

1. The government must finalise pending integrity and transparency measures from the [October 2022-23 Federal Budget](#). The immediate finalisation of these outstanding measures consistent with the announcements would reduce the considerable uncertainty that currently exists.
2. The government must address structural deficiencies in our tax policy governance framework. This will ensure the 'governance gap' that has plagued recent measures due to deficient consultation and legislative design is not replicated. It would also support the design of competitive and responsive tax policies rather than reactive ones.

These two steps will set the scene upon which the government can launch a national tax reform strategy that is not beholden to election cycles. It should encourage all stakeholders to engage in designing a tax system that can deliver what is required of it in the future.

This approach is key to laying the foundations for a stronger, more inclusive and more sustainable economy.

1 See IMF report on [Australia: 2022 Article IV Consultation-Press Release; and Staff Report \(imf.org\)](#) at pages 12 and 15.

2 Institute for Management Development (IMD) World Competitiveness Centre Reports 2004 - 2023; Parliamentary Research Brief, ["Australia's Economic Competitiveness In Continuing Decline"](#), 13 November 2023.

Setting the course for tax reform

Numerous reviews of the Australian tax system have happened in the past. The most recent attempts, being the **2010 Henry Review** and the **2015 Re:think Tax Discussion Paper**, articulated that costs of raising revenue in Australia are too high, that our system is too complex and is structured in a way that creates complexity, and that opportunities to improve the operation of our tax system through reviewing concessions and understanding interactions between tax and transfer systems should occur.

Whilst these challenges remain, new challenges are emerging including the role to be played by environmental taxes. The recent High Court's rejection of Victoria's Zero and Low Emissions Vehicles Road user charge demonstrates the inability of the States to raise new sources of revenue which will only add more pressure to the Budget's bottom line and Australia meeting its climate change commitments.

1. FINALISE PENDING INTEGRITY AND DISCLOSURE MEASURES

The **October 2022-23 Federal Budget** saw decisions taken to give effect to election promises and improve the integrity of the tax system, with proposed amendments to the thin capitalisation regime, tax transparency and a commitment to implementing the OECD Pillar Two Minimum Tax. Other Budget revenue measures included increasing ATO resourcing to address non-compliance and various imputation integrity rules.

Once these measures are implemented, concerns around large corporates 'not paying their fair share of tax' should have been addressed. Large corporates paid a record \$83.8 billion in 2021-22 and continue to have the smallest net income tax gap of all markets. After 35 changes to corporate tax over the course of the last 8 years, as well as a further seven amendments since the October 2022-23 Federal Budget, the government must now stand behind and show confidence in what is one of the strongest, most scrutinised corporate tax systems in the world.

Now, more than ever, it is incumbent upon the government to take 'whole of system' forward-looking steps in its tax policy settings. The government's strong stance and action around multinational tax measures places it in a position to move beyond legacy issues and towards a national conversation on tax reform.

2. DEVELOP A TAX POLICY GOVERNANCE FRAMEWORK

The government should commit to developing a policy and legislative framework that underpins any future tax policy discussions. The governance of our tax system is a critical issue for all taxpayers. Having a transparent and accessible process for the development of tax policy results in increased certainty for all taxpayers and limits the chances of new or changed tax policy having unintended consequences.

The absence of a public tax policy framework has been particularly evident over the past 18 months where a suboptimal consultation process has led to policy and legislative development straying from the announced policy intent. This has resulted in unnecessarily protracted debates, confusion and delays, with many measures now having retrospective application. These measures will join the multitude of other announced but unenacted tax measures that remain in limbo.

Effective and timely consultation on tax policy cannot overcome the problems associated with a system that is perpetually stuck in a 'catch-up' cycle. What is needed is a dedicated and effective process that ensures that announced tax policy decisions are legislated within a reasonable time frame, along with a commitment to prospective legislation (with the limited exception of integrity measures) given the significant uncertainty that retrospective application creates.

In our view, Australia needs stronger governance over tax policy development to ensure that both short and long-term tax policy is formulated in the context of ensuring our system remains competitive.

3. COMMIT TO HOLISTIC TAX REFORM AS PART OF THE 2024-25 FEDERAL BUDGET

Tax reform is integral to addressing the well-known challenges restated in the [2023 Intergenerational Report](#) associated with an ageing population, workforce participation rates, productivity, falling terms of trade, the shift from mining investment to broader-based drivers of growth, and our increasing health and infrastructure deficits. The [2023 Intergenerational Report](#) also examined Australia's energy transition where it recognises significant additional investment of an additional \$225 billion may be required by 2050. This is in addition to business-as-usual levels needed to transition the existing energy system and decarbonise heavy industries. This will of necessity require regulatory frameworks to evolve.³

That is why the government should commit to tax reform as part of the 2024-25 Federal Budget. Tax reform is key to unlocking Australia's productivity and generating inclusive growth.

This process should encompass the following key drivers:

1. A continuing commitment from the government to sell the drivers and benefits of tax reform to the community.
2. A genuine and inclusive debate on community aspirations for government expenditures with a focus on the future sustainability of tax arrangements to fund these.
3. Engagement on all aspects of the tax system, including those areas that traditionally engender the most debate and disagreement, such as individual tax bracket creep and reassessing our tax mix so that the tax revenue base is more reliant on stable and less distortive sources of revenue, including indirect taxes, taxes on savings and the role of environmental taxes.
4. Examination of Australia's tax and transfer system to remove the inefficiencies and micro-taxes that have manifested within it.
5. Developing and maintaining a competitive tax system that encourages productivity and growth and generates sustainable levels of taxation revenue for the benefit of all Australians.
6. Eliminating the most economically inefficient taxes from our tax system, stopping the cycle of complexity in our tax system and reducing the cost of compliance.

Agreeing on a path that not only allows but encourages stakeholders to engage in a conversation frankly and fearlessly about how Australia can ensure its tax system can deliver what is required of it in the future is crucial to finding consensus on direction.

These conversations will be inherently difficult and will require courage and commitment from the government and stakeholders. Selective participation and the narrowing of the focus of the debate due to current political pressures should be avoided. An open-minded and participatory process, incorporating genuine debate on the community's medium and longer-term government spending aspirations and how these could best be funded, can only occur if all aspects of the system are on the table. Every effort must be made to focus on the benefits of holistic tax reform for all Australians.

Comprehensive tax reform is of course only one element of how Federal budget challenges can be addressed. Aside from revenue collections, the other element of Budget outcomes is government spending, and we commend the government's recent initiatives to efficiently address its current outlays as the other means to manage short term Budget deficits. However, in the medium to longer term, agreement on what are community expectations on government spending is critical.



Message from Kimberley Simpson, CTA President



A robust tax system must be built on the principles of integrity, transparency and sustainability and support the foundations for a stronger and more productive economy for all Australians now and in the future.

Our tax system is one of the strongest in the world with high levels of scrutiny, oversight and compliance occurring within the system. However, with tax policy settings more aligned with an economic environment of the past, the need for the government to deliver holistic tax reform is a critical enabler to keep Australia innovating and address future drivers of growth. Now is the time for real investment and commitment by the government and all parts of the tax system - personal, corporate and consumption taxes must be on the table for reform.

Australia's tax system is too heavily reliant on corporate and personal income tax and tax policy settings over time, including the recent integrity amendments to the corporate tax system – all have not materially altered that reliance. This means the well documented long term challenges facing Australia with projected budgetary spending on health, housing, defence and energy transition into the future just won't be able to be funded with the current tax policy settings.

Australians expect and deserve a tax system that supports a productive, innovative and growing economy which can fund revenues to support essential public services. Genuine tax reform must be a commitment made by the government to ensure as a nation we realise those goals.

Message from Michelle de Niese, CTA Executive Director



Australia's tax system is a part of all of our lives. It determines the amount of government revenue to be collected and is central to determining how much the government will spend on the essential services we all benefit from.

However, the current trajectory of our already failing tax system is worrying. Our system relies heavily on taxes that impose the highest costs on economic growth – company tax, taxation of individuals and stamp duties. Our progressive personal system has fallen into bracket creep territory as thresholds have not been raised in line with inflation.

Our corporate tax system is also internationally uncompetitive as others use their tax rules to encourage investment. It is also simply incapable of raising the revenue required to fund public services Australians want and expect in the future. Yet, government expenditure is outrunning tax revenues by around 1% of GDP, growing to 2.6% by 2062.

This only amplifies the need for tax reform. The overreliance on inefficient taxes has been highlighted by the recent IMD World Competitiveness Report 2023 which ranked Australia 57th for individual tax burden and 56th for company tax burden out of 64 countries. It also comes at a time when the IMF has ramped up calls for comprehensive tax reform to fix weak productivity, building on earlier calls for Australia to rebalance our tax system towards a greater reliance on indirect consumption taxes.

That is why we are urging the Federal Government to commit to holistic tax reform as part of the 2024-25 Federal Budget.



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