

AFR Big Policy Pitch: Executive Director Michelle de Niese calls for 'safe house' to shield tax system from politics and the introduction of a broad-based full-expensing regime

Corporate Tax Association executive director Michelle de Niese says a short-term approach to corporate tax is unsustainable because it focuses on delivering revenue boosts for governments rather than sustainable tax policy.

What's the pitch?

Our big policy pitch involves two immediate actions and one longer-term commitment.

First, build a corporate tax policy framework under which all policy is formulated. This will ensure policies are developed free from politically driven tinkering and aligned with international tax frameworks. They would still encourage investment, productivity and wages growth.

Second, give productivity and investment an immediate boost by introducing a broad-based, full expensing (or accelerated depreciation) regime for new capital investments. Full expensing allows eligible businesses to immediately deduct the full cost of certain investments.

Full expensing represents a partnership between business and government to invest in our economy by incentivising all businesses to make new capital investments that lead to higher productivity, economic advancements and wages growth. Full expensing better aligns with how businesses make commercial decisions and removes the capital/revenue distinction by treating all expenditures the same for tax purposes.

In the longer term, a safe house – something akin to a commission – should be established under which the tax system and tax policy can be discussed, debated and shielded from parliament and politics.

Why is it needed?

The current short-term approach to corporate tax is unsustainable as it focuses on delivering revenue boosts for governments rather than sustainable tax policy. Developing tax policies using a framework will protect our system from politically driven changes and ensure future policy changes are fit for purpose.

The beauty of full expensing is that it involves no permanent revenue cost – as a timing difference, there is no long-term loss of tax revenue as tax is recouped in later years. It incentivises new investments, whereas a corporate rate reduction provides a free kick to existing investments.

Full expensing regimes have proven to be successful in other jurisdictions, with recent US research showing it increases investment, resulting in 1.7 per cent more capital after 10 years.

Introducing full expensing would send a strong signal that Australia is committed to creating an attractive investment environment, thereby making our economy more resilient to withstanding heightened global turmoil.

A commission will facilitate community engagement on crucial aspects of our tax system, such as bracket creep and optimising our tax mix to align with stable revenue sources. It could examine Australia's tax and transfer system with the view to eliminating inefficiencies and micro taxes. It could also develop competitive tax settings that foster productivity, growth and sustainable taxation revenue for all Australians.

How much would it cost?

Formulating a corporate tax policy framework and establishing a commission to develop principled structural tax reform policy to guide and protect our path to genuine tax reform could be absorbed as part of existing departmental budgets.

As a broad-based full-expensing regime represents a timing difference, there would be no long-term loss of tax revenue as tax is recouped in later years.

What would you scrap to pay for it?

While the CTA's proposal does not require revenue to be found elsewhere, any genuine reform of our fiscal system will require a reining in of existing spending, an assessment of the sustainability of finances and a return of fiscal guardrails. Our lack of fiscal discipline is adding to Australia's looming intergenerational challenges and ignores the need to rebuild a fiscal buffer that will be needed to absorb current and future global economic turmoil.

The 2013 Commission of Audit, while unsuccessful in terms of the implementation of its recommendations, is a good example of how such a process might be conducted.