



Tax reform

Stronger budgets – stronger productivity growth

For further information or to discuss this submission, please contact:

Ismo Rama

Principal – Policy and Strategic Projects
Research, Policy and Advocacy, BSL
Phone: 0482 184 523
Email: Ismo.Rama@bsl.org.au

Nicole Bieske

Director
Research, Policy and Advocacy, BSL
Phone: 0491 159 255
Email: Nicole.Bieske@bsl.org.au

Proposed reform

Tax reform can support budget sustainability and productivity while reducing poverty and disadvantage and improving equity.

Successive Intergenerational Reports (IGR) have highlighted growing fiscal pressures flowing from an aging population, increased service demand and climate change.¹ The most recent comprehensive review of the Australian tax system ([the Henry Review](#)) also identified that tax settings directly influence productivity - for example through reduced workforce participation - and contribute to poverty. Inequality can also erode social cohesion,² and a more cohesive society is likely to be more cooperative, innovative and productive.

The Brotherhood of St. Laurence (BSL) recommends that government develop a broad package of tax reform to strengthen budget sustainability and productivity growth. Reform should be shaped by principles including:

- the scope of reform should include all tax bases – income, wealth, consumption and rents
- tax changes should be assessed against criteria including equity, efficiency and simplicity
- overall progressivity in the tax system should be preserved – where individual tax changes may be regressive, measures should be put in place to maintain overall progressivity
- there should be wide consultation to ensure reforms are understood and more likely to endure.
- Tax reform that involves states and territories is also an opportunity to review jurisdictional roles and responsibilities in areas including early childhood and post-secondary education to achieve further productivity gains.

¹ Treasury 2023, *Intergenerational report 2023: Australia's future to 2063*, Treasury, Canberra.

² O'Donnell J & Guan Q with Prentice T 2024, *Mapping Social Cohesion*, Scanlon Institute.

Particular issues to examine include:

- **Rationalisation and reduction of tax expenditures** – the most recent [Tax Expenditures and Insights Statement](#) estimates annual revenue forgone to the budget exceeds \$200 billion. Specific tax expenditures that merit focus include:
 - further reducing superannuation tax concessions that cost the budget some \$50 billion per year and disproportionately flow to older and wealthier Australians. Two thirds of superannuation tax breaks benefit the top 20 per cent of income earners well placed to save for retirement³
 - curbing capital gains tax concessions and negative gearing, which reduce housing affordability⁴, saving up to \$7 billion per year.⁵
- **Economy-wide carbon tax** – with offsets from carbon reduction programs no longer required.
- **Reform the GST** – to broaden the base (correcting for base-erosion) and/or increase the rate. Compensation should be provided to low income earners to offset any negative impacts.
- **Natural resources and wealth** – resource rent taxes and wealth taxes (e.g. inheritance taxes) should be examined, given the corrosive impact of inequality on social cohesion/productivity.
- **Supporting state and territory tax reform** – for example, by replacing more costly taxes (such as stamp duty) with less costly taxes (such as land tax).
- **Simplification and rationalisation of taxes** – the Henry Review found around 90 per cent of Australian tax revenue is raised from only 10 out of 125 taxes.

How this will advance productivity and resilience

Tax reform can influence productivity and resilience directly (through, for example, increasing workforce participation) and indirectly (by funding productivity reforms).⁶

How it will be budget neutral/positive

Tax reform can be budget neutral or positive – BSL considers that budget positivity will likely be required to fund productivity reforms and meet pressures identified in the IGR. The need for additional revenue may be partly offset where government can reduce poorly designed and poorly targeted spending.

³ Coates, B & Moloney, J 2023, *Super savings: practical policies for fairer superannuation and a stronger budget*, Grattan Institute, Melbourne.

⁴ Coates, B & Tom Crowley, T 2021, *How to make housing more affordable: submission to the parliamentary inquiry into housing affordability and supply in Australia*, Grattan Institute, Melbourne.

⁵ Daley, J & Wood, D 2016, *Hot property: negative gearing and capital gains tax reform*, Grattan Institute.

⁶ Australia's Future Tax System Review 2009, *Final report: part 1 – overview*, (Mr Ken Henry, chair), p. xviii, Treasury, Canberra.