

## South Australian National Tax Reform Proposal November 2015

On 26 November 2015, the South Australian Premier the Hon Jay Weatherill MP delivered a speech outlining the state of the South Australian economy and a South Australian Government's national taxation reform proposal.

With the release of the South Australian Economic Statement 2015 and a report summarising the results achieved in the first year of the Economic Plan, Mr Weatherill stated that he seeks to foster debate around the creation of jobs.

Mr Weatherill highlighted the need to continue the transformation in South Australia from an "old" to a "new" economy – one that is open, innovative and knowledge based.

Mr Weatherill's speech is available [here](#).

The Hawker Britton Occasional Paper on the South Australian South Australian Economic Priorities Review, is available [here](#).

Mr Weatherill highlighted other economic indicators that demonstrated the volatile period of the past year, including:

- Unemployment remained at 7.5 per cent in South Australia in October;
- The value of Australia's currency fell by 23 per cent against the US dollar;
- The price of Brent crude oil was down 58 per cent;
- Copper and iron ore prices fell by 33 per cent and 44 per cent respectively; and
- The increase in global economic growth has been modest.

### South Australian National Tax Reform Proposal

Earlier in 2015, the South Australian Government undertook and released a review of the State's taxation system.

The Hawker Britton Occasional Paper on the South Australia State Tax Review is available [here](#).

Mr Weatherill stated his belief in the importance of revisiting every detail of that State reform package and outlined the South Australian National Tax Reform Proposal as follows:

- A change in Federal-State relations where States would receive a fixed share – indicatively 17.5 per cent – of the revenue derived from personal income tax. The Commonwealth would retain the ability to set income tax rates.
- The counterpoint to this measure would be for the States to permit an increase in the rate of the GST from 10 per cent to 15 per cent.
- The Commonwealth would take all of the revenue raised by that 5 percentage point increase and not give it back to the States – unlike what it does now with the first 10 per cent.

- Instead, the Commonwealth could use those funds at its discretion after compensating low-income earners affected by the GST rise.
- In return for the States agreeing to share the GST base, the States would be given access to a growing revenue base so that they can better meet their future fiscal needs.
- All non-GST Commonwealth grants to the States – excluding infrastructure payments and on-passed grants – would be converted to a share of the income tax base.
- The sharing arrangements of both the GST and personal income tax would be legislated.
- This addresses the States’ long-term health care needs than the proposed increase in the GST to 15 per cent.
- As the GST is not a growth tax, and even with a 15 per cent rate it will eventually be inadequate to meet South Australia’s health care needs.
- It can be argued, a 15 per cent GST collects too much in the short term and not enough in the long term.
- South Australian Labor does not support extending the GST to health, education and fresh food.

Mr Weatherill has also proposed extending the GST to financial services, with that revenue being provided to the States for the purpose of reducing or eliminating taxes in insurance and stamp duties.

### **Federal Labor Tax Reform Proposals**

On 21 September 2015, Shadow Treasurer the Hon Chris Bowen delivered a speech at the Australian Financial Review Tax Summit, where he acknowledged South Australia’s tax reform processes and discussed issues around GST.

The speech Mr Bowen delivered to the AFR Tax Summit is available in full [here](#).

Mr Bowen stated, “Too often the tax reform debate gets dragged down to a pretty basic level: some people argue that a GST rise is the only meaningful tax reform and that you don’t support tax reform unless you think more should be raised from the GST.”

Different industries and State Governments have weighed into the debate around an increase to the GST and what the amount collected would be used for. Mr Bowen highlighted five rationales of what an increase in the GST could be used for, including:

- New South Wales Premier the Hon Mike Baird’s suggestion the GST be increased to pay the for the States’ health costs;
- Former Treasurer Joe Hockey’s suggestion the GST be increased to pay for personal income tax cuts;
- The Property Council’s suggestion the GST be increased to pay for the abolition of stamp duty;
- The Business Council’s floated the idea of an increase to pay for a reduction in corporate tax; and
- Suggestions that a GST increase could be used to improve the Federal budget bottom line.

Mr Bowen acknowledged however, "...after compensating low and middle income earners, there is not enough money left over from a GST rise to do more than one of the above things," as, "the increase in the GST is permanent...[and] [t]he income tax cuts, eaten away over time by bracket creep would be temporary.'

The tax exemption for financial services was also addressed in Mr Bowen's speech, with the Shadow Treasurer stating he has, "no in-principle objection to applying the GST to financial services," but is, "yet to see a credible plan for sensible implementation of a fiendishly difficult task. That's why financial services were exempted in 1998. And it's why there is typically no value-added tax in the world which applies to financial services."

In his speech, Mr Bowen stated that Federal Labor does not support extending the GST to health, education and fresh food.

Mr Bowen also used the speech to reiterate his motivation to serve on the front bench as a, "Treasurer who delivers real change for our tax system, a senior member of a Labor Government in the tradition of reforming Labor Governments. But it will be principled tax reform, improving efficiency and equity. It will be reform for which have sought and, according to the plan, won a mandate."

#### **Further information**

The Hawker Britton Occasional Paper on the South Australian South Australian Economic Priorities Review, is available [here](#).

Premier the Hon Jay Weatherill's speech delivered AmCham-iiNet Business Luncheon is available [here](#).

Shadow Treasurer the Hon Chris Bowen's speech delivered to the AFR Tax Summit is available in full [here](#).

The Hawker Britton Occasional Paper on the Federal Budget Reply is available [here](#).