



Australian Government

The Treasury

Some local government issues and Australia's Future Tax System review

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Australia's Future Tax System

➤ Panel

- Secretary of Treasury, Ken Henry
- Greg Smith, ACU
- Heather Ridout, AIG
- John Piggot, UNSW
- Jeff Harmer, FaHCSIA

➤ Architecture Paper (August 2008); Consultation Paper (Dec 2008);

➤ Final Report due December 2009

AFTS Review

- The comprehensive review of Australia's tax system will examine and make recommendations to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental outcomes of the 21st century and enhance Australia's economic and social outcomes.
- Review will consider:
 - Simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian federation.

Sustainability

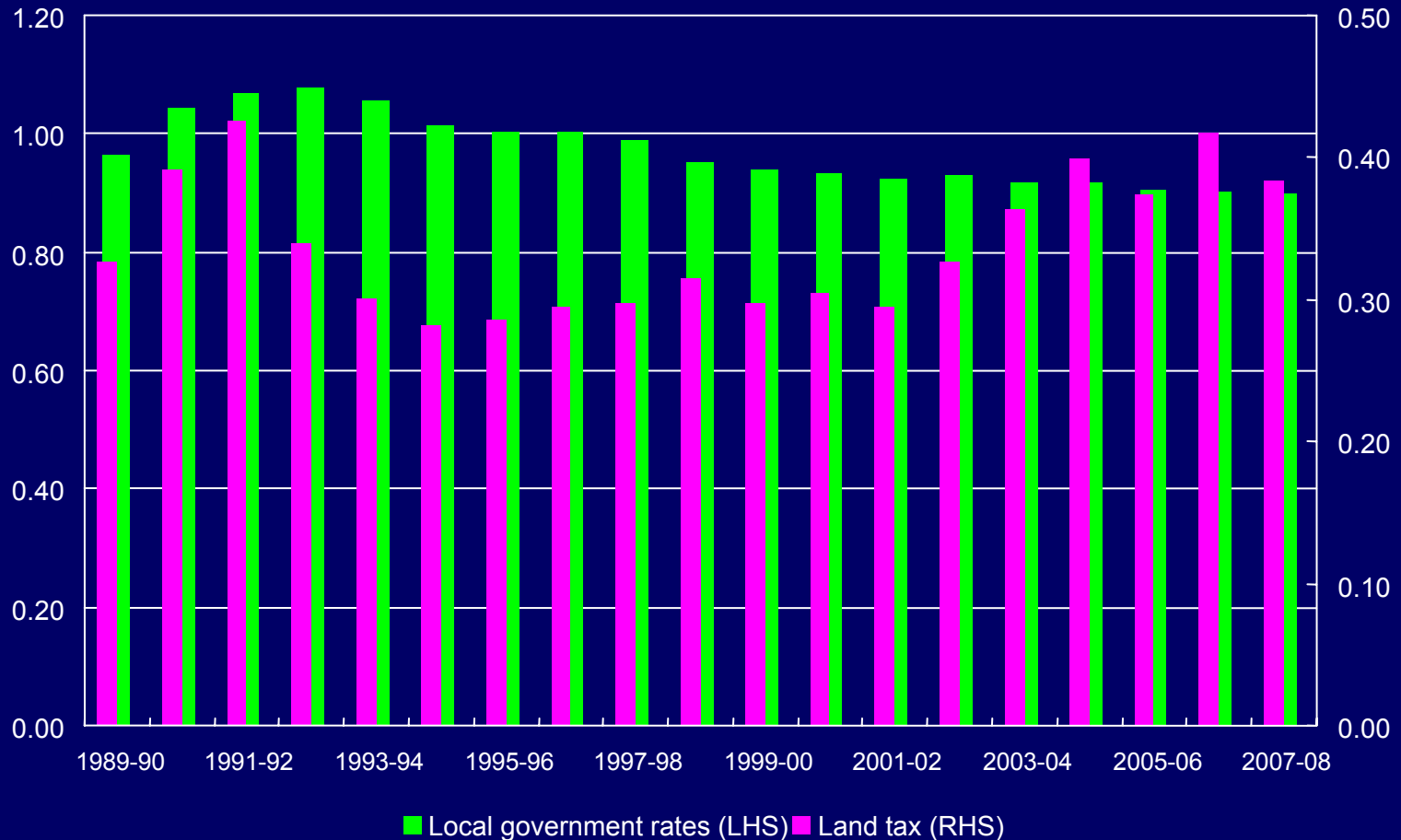
- Each level of government should be able to raise revenue (or receive revenue) and make expenditure decisions on a sustainable basis.
 - This will mean different things for different levels of government
- What do we mean by sustainable?
 - Institutionally acceptable
 - Flexible to changing circumstances
 - Conceptually coherent

Institutionally acceptable

- Local government rates are relatively broad-based when compared with the more narrow land taxes imposed by the States.
 - Local government rates are relatively free of controversy and accepted as well as any tax can be (Carling 2008).
- Closer connection and acceptance to services provided by local governments.
 - Acceptance of tax may depend on quality of expenditure.

Flexible to changing circumstances

Tax revenue as a percentage of GDP



Rates appear to have been a more stable revenue source than the States' land tax

Conceptually coherent

- Rates arguably an appropriate tax base for local governments in Australia
 - Immobile base
 - Link between services provided and property values
- But not the only revenue source for local governments
 - Uneven capacities of local governments
 - Role for efficient user charging

Summary

- Property rates appear to be a sustainable tax base for local governments.
- But need to consider interactions with other levels of government:
 - Many state tax bases are not as sustainable.
 - Which level of government should finance local government grants?

Housing affordability

➤ What does it mean?

– Access to housing regardless of means;

- Ability to enter the housing market (first home buyers)?
- Minimum standard (income or capabilities)?
- Some income left for consumption other than housing (all income earners)?

➤ What makes housing special?

Roads and Transport

Current arrangements

Target

Instrument

General revenue raising

Fuel taxes, state taxes on motor vehicles

Introduction of CPRS

Target

Instrument

Climate change

CPRS

General revenue raising

Fuel taxes, state taxes on motor vehicles

System based on targeted taxes and charges

Target

Instrument

Climate change

CPRS

Congestion

Location & time based charges

Road usage

Mass, location and distance based charges

Other social costs

Specific taxes, charges or regulations

Efficient revenue raising

Fuel tax, annual registration