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Where next for Australia's tax system?

How our tax system can help reboot prosperity for Australia

Key findings

Prior to COVID-19, Australia's tax system was ill-equipped to support a growing economy, due to:

- an over-reliance on personal and corporate taxes
- inequities, particularly intergenerational
- a reliance on unsustainable tax bases
- a misalignment between revenues and responsibilities
- a reliance on distortionary and inefficient taxes
- high compliance costs
- an inability to keep up with global business
- tax-avoidance throughout the cash economy.

As outlined in PwC's recent Australia Rebooted report, steps taken to address the COVID-19 pandemic (e.g. shutting down certain activities, social distancing measures, and border restrictions) have created a deep (but hopefully relatively short) recession and have exacerbated the ongoing challenge of raising economic growth over coming years.

Steps taken to support businesses and individuals during this time of disruption have resulted in:

- ballooning government expenditure
- shrinking government revenue
- increased government debt.

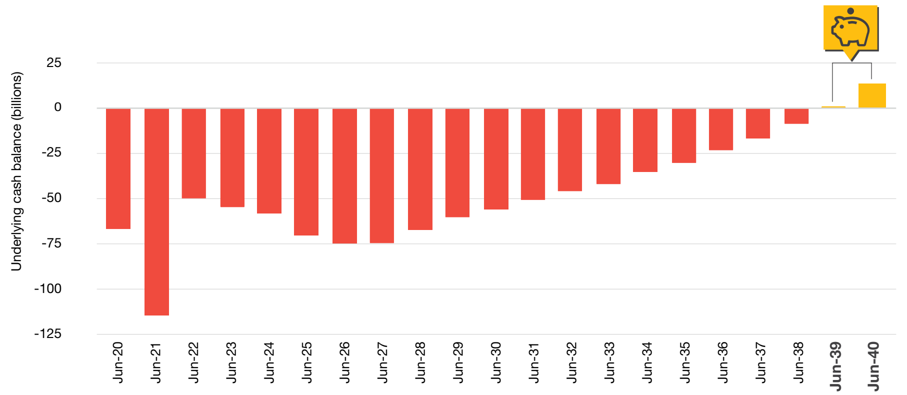
Combined, these factors mean that, without changes to Australia's tax system, PwC estimates that the nation will not return the Commonwealth budget to balance for the next 19 years (see figure on the right), let alone generate the surpluses needed to pay down the new debt. In the 2020 Commonwealth budget it was projected that Australia would reach zero net debt in 2029-30; with the projected deficits shown in the figure PwC now forecasts this to occur in 2056-57.

An 18 year old entering the workforce this year could have expected to work under consecutive federal budget surpluses for the foreseeable future, and to see the Commonwealth achieve zero net debt by the time they were 28 years of age. Now that same worker cannot expect a budget surplus until they are 37 years old, and net debt is not predicted to reach zero until they reach 55.

In a post-COVID-19 Australia, tax reform will become even more important because of the need to:

- generate revenue to support ongoing government expenditure
- improve equity, particularly intergenerational equity given that the costs of The Great Lockdown will be borne disproportionately by the young
- support economic growth.

Projected Commonwealth budget position*



* These estimates are highly uncertain and need to be refined as more information becomes available on: the path of the COVID-19 pandemic; the near-term hit to the economy; the shape of recovery; and the take-up of key stimulus measures

Australia should be planning comprehensive tax reform now, but the implementation of this reform should wait. Tax reform in the middle of an economic shock will pose another level of disruption to businesses that are already being asked to change in so many ways, and may give rise to reforms that will need to be recalibrated once some stability returns. That does not mean, however, that Australia's leaders shouldn't act; now is the time to plan for reforms, ready for when Australia emerges from the immediate crisis.

Emergency and temporary taxation and spending measures are already in place to deal with some of the immediate challenges of COVID-19. These measures are not 'tax reform' in the traditional sense, and will not address the inherent systemic flaws in the tax system.

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