Tax reform can make nation more competitive

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In brief

Australia's tax regime continues to act as a huge handbrake on the Australian economy in terms of growth and investment.

We already know the nation enjoys myriad natural advantages when it comes to attracting international talent as well as overseas corporates. Besides our obvious attributes such as geographical beauty, clean air and produce and a wonderful climate we also offer world-leading education and healthcare but one particular area where we do lag behind the rest of the world is our taxation system.

It's one of the largest challenges the nation needs to confront if we want to flourish in a globalised digital economy. In conversation with our clients, they all want to pay their fair share of taxes but what they want is for the system to be simplified.

In detail

Importantly, it must be noted that tax reform doesn't always mean huge cuts to the company tax rate or more for the wealthy. As it stands, our top marginal income tax rate is affecting middle income earners more than high net worth individuals, who are usually taxed on their business income rather than through the PAYG system. In figures released just over a week ago by the Parliamentary Budget Office (PBO), the Australian government's budget bottom line will primarily improve at the expense of taxpayers.

In fact, most of the increase in revenue will fall upon the top two tax brackets in the next decade with the top bracket being responsible for more than 40 per cent of government revenue. To put that further into context, the amount of people in the top tax bracket will triple.

Uncompetitive rate

At present, Australia's top marginal tax rate cuts in at 2.2 times average earnings, compared with four to eight times earnings of some of our closest trading partners. Put simply: our top marginal rate is uncompetitive.

Just across the Tasman Sea, New Zealand has managed to implement comprehensive tax reform in recent years with a top personal rate now sitting at just over 33 per cent compared to Australia's 47 per cent. What sets them apart is they have managed to introduce a broader-based consumption tax. In the New

Zealand government's eyes, they made the decision that they trusted their citizens to spend money more wisely than the government and the government was then able to improve its bottom line through increased consumption spending.

Yet beyond personal income tax rates, corporate tax rates also need to be reduced. It's a hotly debated issue driven by a lot of emotion but in a global market, Australia's 30 per cent rate that continues to apply to many companies impedes growth and affects the flow of foreign capital into homegrown industries. A good example of how lower tax rates affect business can be seen in Australia already where charitable organisations, which compete with for-profit businesses, enjoy a significant advantage over their rivals. Translate that onto a global stage and Australia as a destination is at a disadvantage. We're already seeing a number of the nation's key industry sectors struggling to attract investment and part of the reason is capital coming into Australia is not tax competitive.

The takeaway

For Australia, it's a huge challenge as we need to bring our rates down to attract and retain capital and key talent. Unfortunately, many of our political leaders aren't able to communicate a clear narrative as to why simplifying and making our tax system competitive would benefit everyone. At present, most tax discussions centre around increasing revenue rather than how comprehensive tax reform will free up investment and domestic spending.

What we need more than ever is strong leadership and honest dialogue with the Australian people on what we need to ensure our future prosperity.

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Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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