

25 March 2010

To BCA Members

Business
Council of
Australia



Dear BCA Member

AUSTRALIA NEEDS A PRINCIPLED RESPONSE TO HENRY TAX REFORMS

Ahead of the release of the Henry tax review, I am writing this letter to give notice to all sides of politics on how the BCA will be judging both the review itself and our response to it.

Today the BCA has set out five high-level principles of tax reform to support investment, jobs and growth, and more efficient national wealth creation. The BCA will use these principles to provide an initial response to the Henry review and to judge the tax reform policies of all political parties.

The principles reinforce the once-in-a-generation opportunity provided by the Henry review to make the changes we need to support our economy. In developing them before the review's release, the BCA is emphasising the importance of not allowing the political theatre of an election year to get in the way of honest, determined reform that builds on Australia's current advantages to set us on course for a secure future.

The BCA's five high-level principles for tax reform are based on evidence from around the world that demonstrates how tax settings can affect growth through their impact on economic decisions and the allocation of resources. The design of the tax system is crucial in driving investment, savings and innovation, while supplying governments with the funds they need to provide community services in health, education, infrastructure and welfare.

The BCA's five high-level principles state that:

1. The tax system should support investment and growth through a reduced reliance on taxes on capital and income and a greater reliance on broad-based taxes on consumption.
2. The tax system should be consolidated to contribute to the further growth and development of a seamless national economy, and should also enhance Australia's international competitiveness.

3. The taxation framework should be characterised by stability and predictability. Any changes should be prospective, so as not to adversely affect existing investments or create perceptions of sovereign risk.
4. Tax arrangements should be transparent, simple to administer and minimise the compliance burden imposed on taxpayers.
5. The tax system should raise revenue through taxes that are less exposed to the volatility associated with the business and commodity cycles.

Adopting this framework to assess the Henry review, the BCA will be asking the following questions:

- Will the recommendations result in a growth-oriented change in the tax mix?
- Are the recommended tax rates globally competitive?
- Will the recommended reforms act to encourage investment in Australia, including foreign direct investment?
- Will the recommendations promote decisions by individuals that support greater workforce participation and assist more Australians to move from welfare into work?
- Will the recommendations reduce complexity and administration and compliance costs?
- Will the recommendations provide the government with a more robust and stable revenue base?

By adopting and circulating this framework of principles, I have expressed the hope that others will take the time to examine the review with a similarly long-term perspective. It is my firm belief that politicians should not underestimate the capacity of the electorate to understand sound economic argument. It's hard to imagine the community would not respond favourably, knowing important national reforms are actually part of a comprehensive, well thought-out plan to improve their own and their children's future.

Yours sincerely



Graham Bradley AM
President, Business Council of Australia