01 | ACTION PLAN FOR ENDURING PROSPERITY

Tax, fiscal policy and the federation
About this publication

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia’s leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

This is a chapter of the Business Council of Australia’s *Action Plan for Enduring Prosperity*. The full and summary reports, and a full list of recommended actions put forward in the action plan, are available as separate publications and can be downloaded from the BCA website at [www.bca.com.au](http://www.bca.com.au).
The Business Council of Australia has developed an action plan for Australia’s future with the overarching vision of securing enduring prosperity for all Australians.

We believe Australia’s future can be prosperous in every way, but this will depend on maintaining strong economic growth and policies that support businesses to do well.

The actions, decisions and choices we make now will either support or inhibit Australia’s prospects.

Our plan identifies nine policy areas that can deliver prosperity through well-managed growth. Across the nine areas, depicted at the end of this booklet, our plan makes a total of 93 recommendations that should be viewed as mutually interdependent actions to restore Australia’s competitiveness and lift productivity.

This booklet is focused on one of those nine areas.
What do we have to get right?

Australia’s fiscal policy settings need to be strengthened to place them on a more sustainable footing for the long run. Our tax system has to be reformed to keep pace with the changing global economy and to keep us competitive. We need the federation to function more smoothly with less argument between the national and state and territory governments and better financial relations between the different levels of government.
Key facts at a glance

Australia will not be able to deliver on the prosperity–inclusiveness compact that underpins well-managed growth if we don’t put government spending on a more sustainable footing.

A major fiscal challenge is unfolding and unless we take action now, the combined fiscal deficit across all levels of government in Australia could reach 5 per cent of GDP by 2050.

Australia has too many taxes that are detracting from the overall efficiency of economy. Our overall tax mix is not right for a small, open economy and does not offer the right incentives.

Our national prospects would be better if we could reconfigure the tax system to make it more competitive. This can be done in a way that still raises enough revenue but is less harmful to economic growth and the climate for enterprise.

The allocation of Australia’s taxing and spending responsibilities is highly imbalanced across different levels of government, compared to other federations.

Better alignment could enhance governments’ accountability to citizens and improve government service delivery.

Figure 1: Projected fiscal balance: All governments

Source: Deloitte Access Economics, 2011a
Note: years refer to financial years.
Figure 2: Australian taxes by revenue, 2011–12

10 taxes = 90% of revenue

~115 taxes = just 10% of revenue

Source: ABS, 2013m

Figure 3: Imbalances in the federation, 2011–12

Taxation revenue
Total expenditure

Source: ABS, 2013g; ABS, 2013m
Fiscal policy

Why do we need to strengthen Australia’s fiscal policy settings?

Fiscal policy is the backbone of Australia’s public policy architecture. Fiscal policy determines the size of government and how governments raise and spend money. It plays an essential role in providing a policy buffer to protect us from major economic shocks.

Policy that delivers a stable and predictable macroeconomic environment contributes to economic growth. Disciplined fiscal policy helps underpin an attractive environment for businesses and allows firms to make investment decisions with greater confidence.

Keeping fiscal policy in good order means that it can be used effectively and aggressively in response to major economic downturns (as occurred at the time of the global financial crisis) and thereby lessen the impacts on economic activity and unemployment. As the international economic environment becomes more volatile and as Australia is more exposed to movements in global commodity prices the risks of such shocks occurring is only likely to rise.

Too much public debt carried by governments leaves countries exposed to shifting sentiment in financial markets and unsustainable debt levels can bring countries unstuck very quickly with dramatic consequences for social cohesion.

On the other hand, strong and prudently managed public finances also play a wider role in helping to build confidence within the community both among households and businesses.

Australia will not be able to deliver on the prosperity—inclusiveness compact if we don’t put government spending (including the various entitlement programs that underpin our safety net) on a more sustainable footing. Strong and disciplined fiscal policy ensures that we will be better placed to deal with the consequences of demographic ageing on public finances.

Australia has relatively good public finances, but we also have a good appreciation of the challenges that lie ahead. Increased demand for age-related payments and services along with expected technological advancement in health and demand for higher-quality health services will create substantial pressure on government’s fiscal balances at both the Commonwealth and state levels.

The 2010 Intergenerational Report suggested that by 2050 total Commonwealth spending as a share of GDP would increase significantly, resulting in a projected primary fiscal gap (excluding interest payments) of around 2¾ per cent of GDP by that time.

With state and territory governments also exposed to significant obligations in the delivery of healthcare services they will also bear a heavy load on their budgets from health costs. Over the longer term, the shortfall on state and territory finances from rising intergenerational spending pressures is expected to reach 2½ per cent of GDP by 2050, a shortfall much the same size as that of the Commonwealth.

In total, therefore, the combined fiscal challenge at all levels of government across Australia will be to address an overall budget shortfall that could be over 5 per cent of GDP by 2050. Today, a budget deficit of this size would be equivalent to around $75 billion.
**Figure 4: Projected fiscal balance: Commonwealth**

Per cent of GDP

Source: Deloitte Access Economics, 2011

Note: years refer to financial years.

**Figure 5: Projected fiscal balance: States and territories**

Per cent of GDP

Source: Deloitte Access Economics, 2011

Note: years refer to financial years.
If forced to deal with a shortfall of this size today, it would be necessary to take drastic and difficult decisions. By way of illustration, a gap that size could be filled by raising the company tax rate from 30 per cent to 67 per cent; or lifting the GST to 25 per cent; or by increasing all marginal personal tax rates by almost a half.

Or on the spending size, plugging a gap that size could be done by eliminating all pensions and family benefits; or by eliminating all Commonwealth payments for health and to the disabled; or eliminating all Commonwealth payments for education, defence and hospitals.

Clearly such an outcome would present Australia with some stark choices and as a nation we will have to decide what we can do about this now. If we don’t then future generations of Australians will be required to bear a disproportionate burden.
Exhibit 1: Projected growth in government expenditure on health and ageing

The share of government expenditure on health and ageing would increase substantially from around a quarter to a half over the next 40 years if current health and ageing policies continue.

As this increased expenditure would need to be funded by more government debt, tax or a combination, it is projected that by 2050:

- close to half of total Australian government expenditure would be allocated to health and ageing
- the proportion of state territory expenditures allocated to health and ageing would increase to around 40 per cent.

Projected government spending on health and ageing as percentage of total government spending

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<thead>
<tr>
<th></th>
<th>Australian Government</th>
<th>All state and territory governments</th>
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<tr>
<td>Health</td>
<td>12.5%</td>
<td>20.7%</td>
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<tr>
<td>Ageing</td>
<td>15.4%</td>
<td>25.1%</td>
</tr>
<tr>
<td>Total</td>
<td>27.9%</td>
<td>45.8%</td>
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</table>

The higher proportion of Australian Government expenditure projected to be spent on health and ageing is because it is responsible for age pensions and most government aged care expenditure.

The state and territory shares of government expenditure allocated to health and ageing vary to some extent with differences in their demographic profiles and health and ageing policies.

Private expenditure on health (not ageing), which is health expenditure by individuals and insurers, is projected to stay around 2.8 to 2.9 per cent of GDP over the next 40 years, assuming current patient co-contribution rules continue.

Source: Deloitte Access Economics, 2012

How do we strengthen Australia’s fiscal policy settings?

Fiscal policy in Australia should be predicated on a strategy that delivers budget surpluses on average over the medium term. Australia’s finances are in better shape than other economies but we should be doing more now to build up the nation’s long-term financial strength and resilience. We cannot afford for Australia to squander its relative fiscal advantage in the future.

Instead, a deliberate and steady fiscal path must be set that ensures that barring economic shocks, governments do not stray from the central task of improving the budget bottom line over time, paying down debt and beginning to provision for future budgetary pressures.
What is needed is a clear strategy for repairing and strengthening Australia’s fiscal position over the medium term.

The strategy will be assisted by governments holding to commitments to restrain growth in expenditures, without slippage. Holding to a commitment to cap the annual growth in government spending to 2 per cent of GDP in real terms consistently would go a long way to strengthening the nation’s finances.

Governments also need to make inroads into structural savings and be prepared to make changes to arrangements that underpin many of Australia’s entitlement programs. We need to make sure that Australia’s welfare system remains sustainable and that means ensuring it is appropriately targeted to those who need assistance most.

Improving the efficiency and effectiveness of government spending is no easy task. Piecemeal and ad hoc examination of spending and administration are unlikely to provide the depth of structural savings required to place finances on a sustainable footing over the longer term. Short-term budgetary fixes involving timing changes or exploiting deft accounting treatments only serve to undermine the very credibility and certainty that fiscal policy should promote.

A comprehensive audit on the size, scope and efficiency of government spending should be undertaken. Such a review is needed because already existing long-term fiscal pressures are being compounded by community expectations that governments will provide new services and spend more on existing ones.

This audit, consistent with those done in the past, should assess whether there is in fact a role for government in certain areas of service delivery, and where there is, which level of government should provide the services. Assessments are also needed on the effectiveness with which government services are being delivered and how to better prioritise the spending that occurs.

We need to get a better handle on which level of government is best placed to deliver services and make sure there is appropriate funding support. The overlap of the Commonwealth and state and territory governments must be addressed.

Having a well-based and widely accepted set of fiscal rules can help ensure that the government’s fiscal strategy is better anchored and more likely to deliver sustainable outcomes over the medium term. They do this by preventing excessive spending and the build-up of unsustainable debt.

Australia has been a pioneer in introducing reforms to fiscal policy and in the past adherence to fiscal rules has served us well. Improving and enhancing our fiscal rules would, however, be timely given the consequences of undisciplined fiscal policy that are currently playing out in many developed countries.

Strengthened fiscal rules would also allow governments to better deliver on future fiscal policy objectives against the background of an economy in transition and the growing intergenerational pressures.
Fiscal policy

**Action 1.1**
A ‘whole-of-nation’ Intergenerational Report should be prepared. The analysis outlined in the action plan highlights the full cost of government at a Commonwealth, state and territory level and the potential for a very large fiscal challenge to unfold over coming decades if action is not taken now.

- The federal Treasury, in cooperation with representatives from the states and territories, would prepare the report, which should be completed within 12 to 18 months of being commissioned.

**Action 1.2**
An independent, whole-of-government audit should be commissioned to examine government spending and program efficiency. This audit must come to terms with the appropriate size of government. A fundamental issue to be examined must also be the roles and responsibilities of the Commonwealth and the states and territories. The audit should: identify current activities that should not be performed by government; recognise the need for stability and certainty for some programs (including defence); and address the level of debt that could be sustained, including to fund productive infrastructure.

- The review would be undertaken by an independent panel and conducted in a number of stages comprising near-term actions and recommendations, medium-term actions and institutional reforms.

- It would investigate and identify any overlap between the Commonwealth and the states in health and education, aged care, Indigenous welfare and environmental approvals.

- It would also be required to identify options for a clearer delineation of responsibilities for policy and service delivery.
Action 1.3

Australia’s existing fiscal rules should be refreshed and further strengthened. New rules could in effect define a set of boundaries in which fiscal policy will work – and provide a corridor of stability for the longer-term budget position. The rules would continue to provide for flexibility in the annual budget process, but give certainty that, barring major shocks, the government would not stray markedly from the central task of improving the budget bottom line over time, paying down debt and beginning to provision for future pressures. Improved reporting arrangements should be put in place to properly and transparently account for the full assets and liabilities of the government.

Australia’s fiscal rules would be strengthened at the federal level by:

» placing a hard cap on the size of the federal government by holding tax as a share of GDP below 23.7 per cent, such that future budgets do not see any slippage

» specifying a new objective that targets a percentage surplus based on ‘recharging’ fiscal readiness around every 13 years such that fiscal policy is able to make a 3 per cent of GDP contribution to the economy should the need arise

» targeting a modest proportion of the surplus – to be known as an ‘intergenerational surplus’ – to provision for the projected fiscal gap that is expected to arise as a consequence of demographic pressures.

Action 1.4

State and territory governments should introduce or recommit to fiscal rules directed towards delivering prudent net operating balance outcomes as well as stabilising net financial liabilities.
Taxation framework

Why do we need to adopt a more competitive tax system?

The tax system plays a vital role underpinning fiscal policy and provides the revenue that helps support Australia’s broader social fabric. However, the imposition of taxes affects the choices people and businesses make by altering their incentives to work, save, invest and consume certain goods and services. To the extent that taxes influence incentives they have the potential to significantly impact productivity and economic growth, which in turn have material consequences for living standards.

Another important dimension to the tax debate is the ongoing structural change to the economy that sees it now more exposed to movements in commodity prices and the terms of trade than was the case in the past. A consequence of this is a potential for greater volatility including in the budget position. Australia’s fiscal policy and tax settings need to be set in a way that can better accommodate this volatility.

The vast bulk of taxes that are raised depends on the successful operation of businesses and enterprises in Australia. Businesses employ workers, pay wages, supply goods and services and process transactions – all of which gives rise to tax obligations that generate revenue for the government (from income tax, company tax, payroll tax, GST, excise, fringe benefits tax and so on).

A fundamental requirement therefore is to ensure that Australia’s tax system can raise sufficient revenue to fund government, but it should do so in a way that is least harmful to economic growth and better able to contain inevitable volatility.

As the Henry review noted, Australia has too many taxes and too many complicated ways of delivering multiple policy objectives through the tax system. With around 90 per cent of Australia’s tax revenue raised through just 10 taxes and 115 other taxes levied on businesses and individuals accounting for the remaining 10 per cent, there is considerable scope for reform of the system to make it more competitive and less onerous.

While we do want a more simple and competitive tax system, taxation arrangements need to have the support of the local community. The tax system should be fair and should be seen to be fair. This means that people and businesses who are in similar circumstances should be treated in a similar way and that there is an element of progressivity such that those individuals who earn more should pay relatively higher rates of tax than those who earn less.

The challenges of an ageing population highlight the importance of maintaining an efficient tax system, particularly as it affects incentives to work in the face of a relative decline in the working population. Fairness concerns will also arise both in relation to
sharing the costs of an ageing population – particularly between generations – as well as who will bear the burden of the costs of an ageing population among the working population.

The process of globalisation also brings sharp relief to the urgency of getting our tax system right. In particular this process of globalisation has resulted in an environment of increasing mobility of economic activity and mobility of workers and investment.

As a result, countries like Australia that are small and open have to deal with the reality that their tax base will be mobile. In these circumstances, there is intuitive logic to move to a tax system that relies less on taxing the more mobile factors of production through income taxes and more on taxes that target the less mobile factors – that is, indirect taxes.

At a broader level, for many businesses location choices, activity levels and taxable incomes are sensitive to local tax rates so governments around the world are under intensifying international pressure to reduce tax burdens on business activities and investors.

We are also seeing today that multinational corporations are playing an increasingly prominent role in the international economy (accounting for a quarter of global GDP) as are intangible assets including brands, intellectual property, customer lists and internal business processes.

This is posing particular challenges as previously accepted international tax standards have not kept pace with changes in global business practices. The current ‘source’ based system of corporate tax – predicated on where a company’s assets or production activities are located – is under pressure especially from those companies which rely heavily on intellectual property.

Moving to a system which taxes company earnings based on where its products and services are sold – a so-called destination-based system – may be a better approach to taxing the earnings of some multinational companies. An approach to dealing with base erosion and profit-shifting strategies needs to be developed in a comprehensive and coordinated way. As the OECD has noted, because of the interface between the tax rules of different countries it is difficult for any single country acting alone to fully address the issue. Unilateral and uncoordinated actions by governments responding in isolation could result in the risk of double taxation for business and would have a negative impact on investment, growth and employment globally.
How can we move to a more competitive tax system?

Australia needs a tax system that is able to meet future revenue requirements yet one that fosters economic growth by ensuring that tax rates and our tax bases keep us competitive and minimise the extent of distortions.

Improving our current arrangements will be difficult and require the broader support of the community. A more competitive tax system can be achieved if we are prepared to take a principles-based approach to tax reform and if we can have a mature debate within the community in accepting that trade-offs will be required. Reform to get a more competitive tax system can be achieved by recognising and meeting a number of tax policy fundamentals.

» The tax system must support and complement overall fiscal policy.

» Ensuring that the overall tax system raises enough revenue must be the highest priority. But also, governments at all levels must be efficient in their spending, recognising that the tax system alone won’t be able to meet the growth in government expenditures that is currently projected.

» The tax system must be configured to promote productivity, competitiveness and economic growth.

» The tax system must continue to be progressive and based on the capacity to pay.

» Efforts must be made to improve the simplicity, certainty and transparency of the system.

» Those taxes directed at addressing social and environmental issues should actually bring about changes in behaviour, rather than having revenue raising or income redistribution as their main objective.

Moving to a more competitive tax system will require coordinated action on a number of fronts. This means being prepared to control growth in government spending, addressing major fiscal imbalances in the federation and being prepared to embark on a process that comprehensively overhauls the tax system in Australia over time.

The new architecture of a reformed tax system should recognise that a system whereby the most inefficient state taxes are abolished has the potential to deliver significant increases in productivity. But if these taxes are to be abolished then alternative revenue sources will be needed. To ensure that the states and territories have access to adequate revenue, consideration needs to be given to raising more revenue from other more efficient tax bases such as consumption and land.

Moving to a tax system architecture broadly in the direction of the Henry review will be in Australia’s long-term national interests. The new tax system architecture needs to be one with a different mix of taxes. We need to vastly reduce the number of taxes and also seek to reduce our reliance on direct taxes and over time increase reliance on indirect taxes including the GST.
**Tax policy**

**Action 1.5**
The Australian Government should undertake a comprehensive overhaul of Australia’s taxation system.

- The tax system needs to be reconfigured in a way that is able to raise sufficient revenue and better accommodate the inherent volatility in the economy and budget.
- A forward work program for long-term tax reform should be determined in support of this aim with all options open for consideration.
- The tax system should be made more competitive through the replacement of those taxes that impose the largest distortions on economic activity, including many state taxes such as stamp duties, payroll tax and insurance levies. Alternative sources of revenue to the states will need to be identified as part of this process.
- An objective should be to reduce the number of taxes in Australia and simplify the tax system.
- The overhaul should consider how to improve the tax mix with a view to moving, over time, to a system where there is less reliance on capital and income taxes and more reliance on efficient and less volatile indirect taxes. Business tax concessions should be re-examined.
- Consideration should be given to raising the rate of GST as well as broadening its base as a means of providing additional revenue to replace revenue forgone from the abolition and reduction of other taxes. This process should include arrangements to provide appropriate compensation for households.

**Action 1.6**
The government should commit to lower the company tax rate to 25 per cent as a priority as and when fiscal circumstances permit. This recognises that the growing mobility of investment and increasing sensitivity of capital flows to tax settings have important implications for Australia’s long-term growth prospects.

**Action 1.7**
Australia should participate in global discussions on international tax issues, including around base erosion and profit shifting, through our participation in the G20. However, Australia should not seek to be a world leader in combating base erosion and profit shifting, reflecting the difficulty for any single country acting alone to fully address the issue. While there is little evidence to suggest that base erosion and profit shifting are significant issues for Australian tax collections at present, the Australian Taxation Office should keep the issue under review.

**Action 1.8**
A process should commence immediately to progress administrative simplification of the tax system, including making personal income tax returns optional for the majority of taxpayers. There should be a concerted effort to reduce the cost and complexity of the community’s interface with the tax system. Actions should also be taken to simplify the company tax system, including the requirement to pay monthly.
Fixing the federation

**Why do we have to place the federation on a more sustainable footing?**

There are growing fiscal pressures on all levels of government. This has significant implications for the functioning of the federation.

With the states having responsibility for delivering many high-demand services including health care over the decades ahead, they will need more predictable and stable sources of funding. This should facilitate and encourage efficient service delivery.

The states also need to see more of the fiscal dividends that come from putting in place reform policies that grow their economies and allow them to deliver services more efficiently.

Our system of federal–state financial relations sees the Commonwealth collect over 80 per cent of tax revenues, while the states have responsibility for delivery of services in the fastest-growing areas of expenditure such as health and education.

The extent of this vertical fiscal imbalance and the effectiveness of mechanisms in place to address it have a significant impact on the incentives and accountability of governments across the federation to their citizens. It also has major implications for their capacity to addressing future budgetary challenges.

Firstly, vertical fiscal imbalance runs the risk that the accountability mechanisms between the raising of revenue and the way money is spent can become blurred. This is, in effect, the source of the ‘blame game’ that is often observed in Commonwealth–state relations. For example, the Commonwealth could avoid accountability for expenditure of funds because it is the states that have actual responsibility for disbursing the funds. Similarly, states could argue that they are not able to deliver services adequately due to a lack of funding from the Commonwealth.

If a government is not accountable for the revenue it raises, it may not face the full cost of how it spends the revenue and may have less incentive to be disciplined in how it spends that revenue.

Secondly, the current mechanisms applied to address vertical fiscal imbalance – namely a redistribution of GST revenues to the states and direct payments to support specific services provided by state governments – are not working as effectively as they could be. The arrangements should be ensuring that states have appropriate flexibility and autonomy in discharging their responsibilities but are at the same time held accountable.

If states are to be encouraged to do everything they can to pursue sensible reforms and facilitate economic growth – and put themselves in the best position to address future challenges – then they will need greater autonomy over revenues. They should also be able to reap the dividend of increased tax revenues that arise from a stronger economy which follows successful economic reform.
Vertical fiscal imbalance in Australia

**Figure 7: Commonwealth taxes**

![Bar graph showing Commonwealth taxes]

Source: ABS, 2013m

**Figure 8: Commonwealth expenditures**

![Bar graph showing Commonwealth expenditures]

Source: ABS, 2013g

**Figure 9: State taxes**

![Bar graph showing State taxes]

Source: ABS, 2013m

**Figure 10: State expenditures**

![Bar graph showing State expenditures]

Source: ABS, 2013g
At the present time, fiscal equalisation through the redistribution of the GST does not provide adequate revenue autonomy. Australia has a very detailed and sophisticated process of fiscal equalisation to equalise just over 1 per cent of all tax revenues in Australia, yet it has multiple shortcomings.

It can hamper the incentive for states to undertake reforms to improve service delivery and boost economic growth, by distributing gains away to other states. The current process can also result in unexpected shocks to state finances, undermining the ability of states to plan their budgets on the basis of stable revenues; and the methodology underpinning the process is complex and not easily understood by taxpayers.

The other mechanism to address fiscal imbalances – direct payments to support specific state services – represents the largest expenditure program in the federal budget and it is projected to stay that way for the foreseeable future.

The conditions under which these payments are administered is critical to states delivering services with the maximum level of autonomy and in the most efficient manner possible, with significant implications for the long-term strength of all governments’ budget positions and the quality of services delivered to the community.

Despite reforms to the architecture for these payments in 2008 directed at reducing prescriptions on states and clarifying the roles and responsibilities of the Commonwealth and the states, a high degree of Commonwealth direction over funding remains. This has a number of implications:

» There is increased potential for duplication of effort, with a prescriptive and detailed approach to administering funds at the Commonwealth level likely to be much more resource-intensive than a high-level outcomes and outputs monitoring approach.

» There is likely to be inefficient administration. A prescriptive approach to funding results in a proliferation of intergovernmental bodies and agreements – since 2008 we have seen 125 national partnership agreements formed and the formation of four to five new intergovernmental bodies each year.

» By prescribing services and inputs rather than outcomes, there is a risk that states lack the flexibility to deliver services in a way that meets local community expectations and which utilises more efficient service delivery models.

While a level of imbalance between access to tax bases and expenditure responsibilities is a reality in all federations, the imbalance in Australia’s case is relatively high by international standards. Regardless of their effectiveness, the mechanisms addressing this imbalance will always be a poor substitute for greater fiscal autonomy and clearer accountability to taxpayers for the services that governments provide.

The states are relatively constrained in their ability to effect substantial reform of their taxes, with the possible exception of a small number of relatively efficient tax bases that could be applied more broadly. In the absence of access to income and sales taxes, the states have limited effective tax levers that they can utilise to replace inefficient taxes or fund an increasing level of services in their own right.
How to place the federation on a more sustainable footing

It will be necessary to reconfigure arrangements associated with the federation to ensure that Commonwealth and state government roles, responsibilities and fiscal arrangements do not act as a handbrake on growth and prosperity.

We must also ensure that there are appropriate institutional arrangements so that governments can focus on, and deliver on, the most important challenges facing the nation and not just be seen to be responding to the pressing topic of the moment.

If taxes are better aligned with expenditure responsibilities, then efficient service delivery becomes institutionalised as business-as-usual, with intergovernmental relations focusing less on micromanagement of service delivery and more on meaningful periodic reform in the national interest.

Before actions to address these areas can be undertaken, a whole-of-government audit must be undertaken as a basis for identifying options for a clearer delineation of responsibilities for policy and service delivery. Once this is complete, it becomes easier to configure the tax system to more evenly match those responsibilities across the federation, creating the right system for more effectively institutionalised efficient service delivery.

Recommended actions

Operation of the federation

**Action 1.9**
Roles and responsibilities within the federation, the Council of Australian Governments (COAG) and federal fiscal relations should be reviewed and put on a sustainable footing.

**Action 1.10**
The revenue-sharing arrangements among the states and territories should be changed by moving to an equal per capita distribution of GST. This would be done progressively over time with a floor placed on distributions to recipient states and distributions grown in ways that would be consistent with realising an equal per capita distribution within 10 years. This recommendation must be actioned in tandem with comprehensive reform of the tax system.

**Action 1.11**
Introduce a new system of National Productivity Payments to the states and territories to progress critical reforms across the federation. These payments would be made available as an incentive for the states and territories to progress difficult but nationally significant structural reform, including further competition and regulatory reform. The National Productivity Payments Scheme would be established by way of an intergovernmental agreement between the Commonwealth and the states and territories.
The Business Council of Australia Action Plan for Enduring Prosperity outlines 93 recommended actions across nine policy areas that we believe will help to set Australia on the right course.

While these recommendations are intended to be actionable, it would not be possible to complete them all simultaneously. Rather, we propose that they be prioritised and implemented in three phases:

**Phase One:** those actions that should be implemented over the next one to two years, reflecting their capacity to build trust and confidence

**Phase Two:** those actions whose implementation will help consolidate our economic position over three to six years

**Phase Three:** those actions that will see the benefits of reform bear fruit and help to achieve an optimal economic performance over a six to 10-year timeframe.

Some recommendations will be easier to implement and progress than others, and some will have greater significance in terms of their potential influence on Australia’s growth prospects. As with much of public policy, a balance will need to be struck in terms of reform effort and payoff.

A suggested approach to the phasing of the recommendations contained in this booklet – and an assessment of their ease of implementation versus their overall importance – follows below.
### TAX, FISCAL POLICY AND THE FEDERATION

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<td>1.5 Overhaul of Australian tax system</td>
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VISION

Enduring prosperity for all Australians

GOALS AND ASPIRATIONS

A strong economy and full employment

A strong society and improving standard of living

Growing sustainably and using our resources efficiently

RESPONDING TO A CHANGING WORLD: THE CASE FOR CHANGE

Rise of emerging economies

Technology and digitisation

Natural resource consumption

Restructuring of the Australian economy

Growth and ageing of population
THE NINE THINGS WE MUST GET RIGHT

- Tax, fiscal policy and the federation
- Planning for population and cities
- Providing infrastructure
- Realising the potential of people and workplaces
- Rethinking our approach to regulation and governance
- Embracing global engagement
- A strong, stable and competitive financial system
- A coherent and comprehensive energy policy
- Creating the right environment and systems for innovation

PHASES FOR POLICY ACTION

- Phase One (1–3 years): Building trust and confidence
- Phase Two (3–6 years): Consolidating and growing the economy
- Phase Three (6–10 years): Realising our full economic potential and reaping the benefits

MEASURES OF SUCCESS

- A strong economy and full employment
  Australia to be ranked in the top five in the world for real GDP per capita
- A strong society and improving standard of living
  Maintain a reasonable distribution of wealth and income
- Growing sustainably
  Continue to reduce the resource intensity of our overall economic activity
ACTION PLAN FOR ENDURING PROSPERITY

Tax, fiscal policy and the federation

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