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Post-war tax reviews and the Asprey Blueprint

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Abstract

After World War II, international attention turned to economic reconstruction and the transition back to peace-time. As Australia settled into the 1950s and 1960s 'golden years' there wasn't an obvious imperative to tackle basic economic reform and tax design issues. Underlying structural problems were building, though, that would ultimately call for an economic reform agenda and tax would be part of that. This paper tracks these developments, looking at some limited tax reviews along the way but the main focus will be on the 1975 Asprey review which provided a blueprint for reform of the Australian tax system. Its recommendations for a capital gains tax, a fringe benefits tax, a foreign tax credit system, dividend imputation and a value added tax would take 25 years to implement.

Keywords: tax, reform, economic, public finance, government

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POST-WAR TAX REVIEWS AND THE ASPREY BLUEPRINT

Introduction

After World War II, international attention turned to economic reconstruction and the transition back to peace-time. In Australia, the government pursued a full-employment objective and also retained an extensive social welfare role, and hence an ongoing need for substantial revenue. As Australia settled into the 1950s and 1960s 'golden years' there wasn't an obvious imperative to tackle basic economic reform and tax design issues. Underlying structural problems were building, though, that would ultimately call for an economic reform agenda and tax would be part of that.

This paper tracks these developments, looking at some limited tax reviews along the way: the Spooner, Hulme and Ligertwood committees and the Downing study. The main focus, though, will be on the 1975 Asprey review and the associated Mathews review.

Tax Reform Criteria

I will use the criteria set out in the previous paper to evaluate these tax reviews and assess whether they suited their circumstances.

1. The *terms-of-reference and panel* indicate the government's ambition – an open, searching inquiry as opposed to a narrow remit if particular recommendations are expected.
2. The extent of *gathering of evidence and calling of witnesses* indicates the panel's reliance on external experts as opposed to its own expertise/predetermined views.
3. *Timeliness and relevance* indicate likely influence – a quick, focused review for immediate implementation, but a more open one as a platform for subsequent reform exercises.
4. The *approach to analysis of issues* indicates the rigour of the public finance framework and its framing against the standard tax policy criteria of efficiency, equity and simplicity.
5. The *quality of tax policy outcomes* is the ultimate test of a reform exercise, although this is dependent on government actions.

The Golden Years

Australia's Economy in the 1950s and 1960s

In the post–World War II years, with the Chifley government pursuing full employment policies and strong demand forces anyway, the economic policy challenge soon became containing inflation. In a situation of excess demand, the Keynesian prescription called for fiscal policy tightening but, reluctant to raise taxes or reduce spending, governments resorted to regulatory controls.

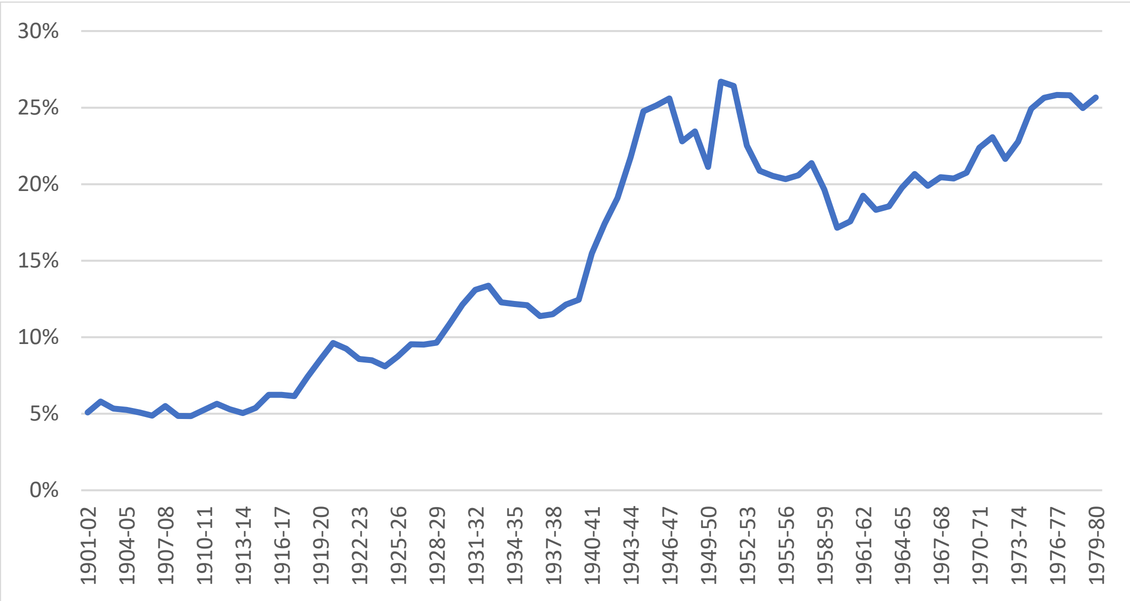
After a bout of high inflation and then recession in the early 1950s, the Menzies government oversaw a period of relative social and economic stability – Australia's so-called 'golden years'. Tax policy was used as an instrument of Keynesian macroeconomic management at times, but there was no economic 'burning bridge' crisis to drive a microeconomic tax reform agenda. With inflation generally low and economic growth relatively steady, the costs of structural rigidities in the Australian economy weren't readily apparent. A strong protectionist culture endured, and with Australia riding on the sheep's back, national income remained robust.

The heavily regulated Australian economy, however, was not well equipped to adjust to shocks. Steady increases in the size and role of government over the 1960s added to demand pressures and crowded out aspects of the private sector, stoking debates over the costs of protectionist policies. Treasury, now a strong economic policy agency, used its publications to articulate the costs of inefficient resource allocation and move the focus from managing short-term demand fluctuations to the supply side of the economy and long-term growth sustainability.[1]

Australia's Tax System in the 1950s and 1960s

As its war finance needs receded, Australia's overall tax burden fell, but not back to pre-war levels. As Figure 1 shows, tax/GDP, which had been around 12 per cent before the war, increased sharply to around 25 per cent during the war, a combination of increased revenue and a fall in GDP. In the immediate post-war years, it initially fell as GDP recovered but rose again as revenue boomed with an early 1950s inflation spike. It then averaged around 20 per cent through the 1950s and 1960s (although increasing through the 1960s).

Figure 1: Tax/GDP since Federation, Commonwealth and States Combined

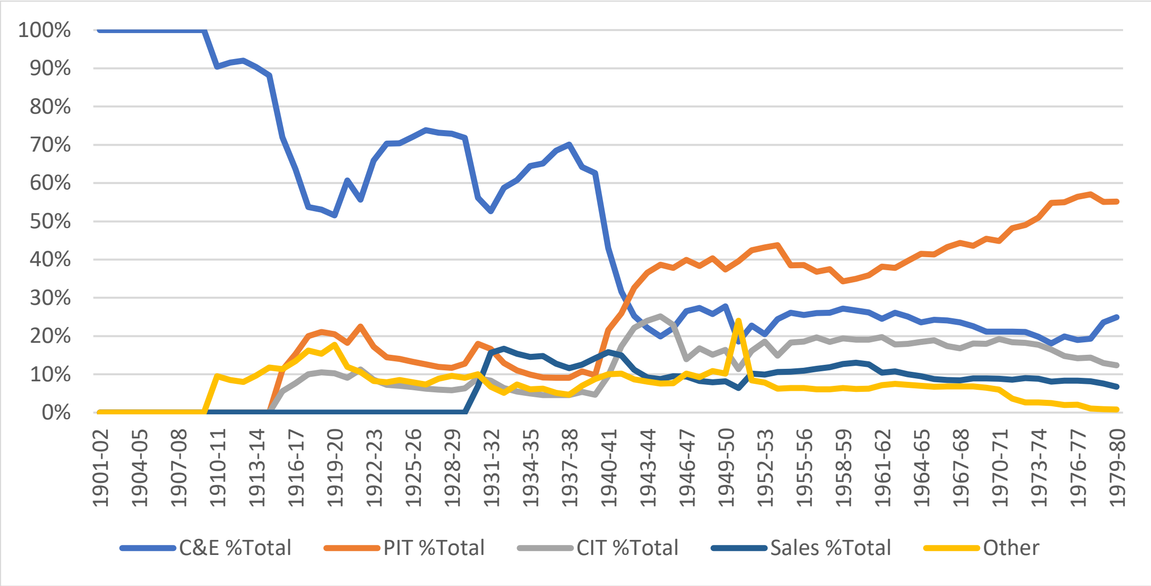


Source: Commonwealth Bureau of Census and Statistics (CBCS) and Australian Bureau of Statistics (ABS) publications

There was also a significant change in the tax mix, with income tax becoming the dominant revenue raiser. The Chifley government had not returned income tax to the states after the war, but the Menzies government commissioned an officials' report on how it might be done without sacrificing the gains of uniformity. This was discussed at a February 1953 Premiers Conference, but not all states were in favour and agreement could not be reached on how it would be done.[2] A second constitutional challenge by some states failed in 1957.[3]

Income tax thus remained with the Commonwealth and, as Figure 2A shows, it replaced customs and excise duties, which had limited growth in the war years, as the largest tax base. Sales tax revenues were limited as exemptions increased[4] and payroll tax revenues were also modest. Commonwealth tax collections were boosted in the early 1950s, though, by the wool deduction, a 20 per cent tax on the wool clip. Figure 2B shows that, having lost income tax, the states were limited to more ad-hoc taxes such as land tax, probate duties, stamp duties and motor taxes.

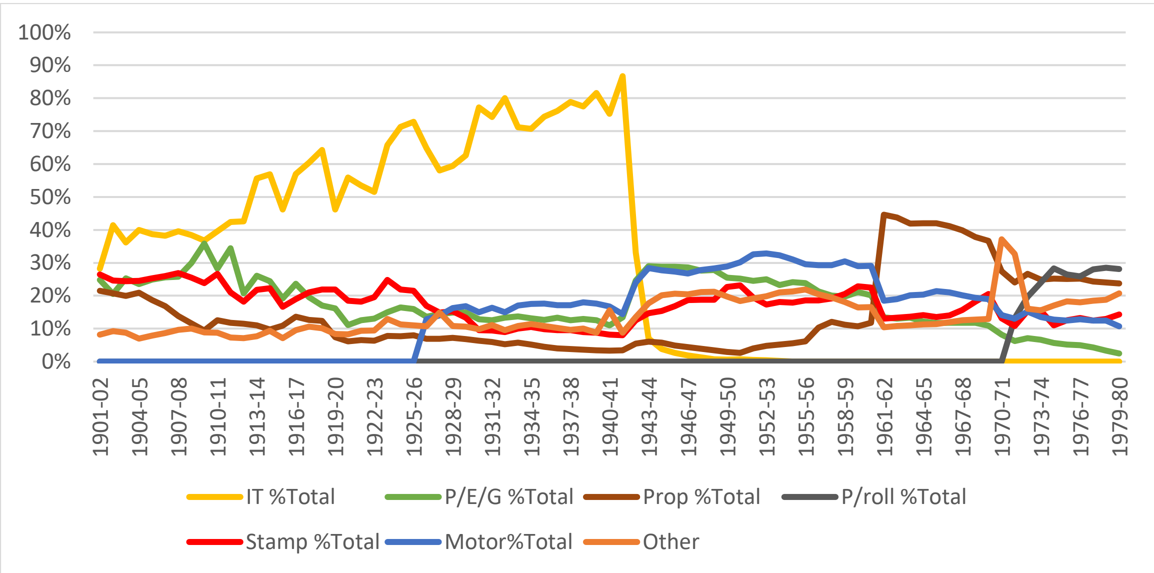
Figure 2A: Tax Mix since Federation (Commonwealth), Percentage of Total



* C&E (customs and excise); PIT (personal income tax); CIT (company income tax)

Source: CBCS and ABS publications

Figure 2B: Tax Mix since Federation (States), Percentage of Total

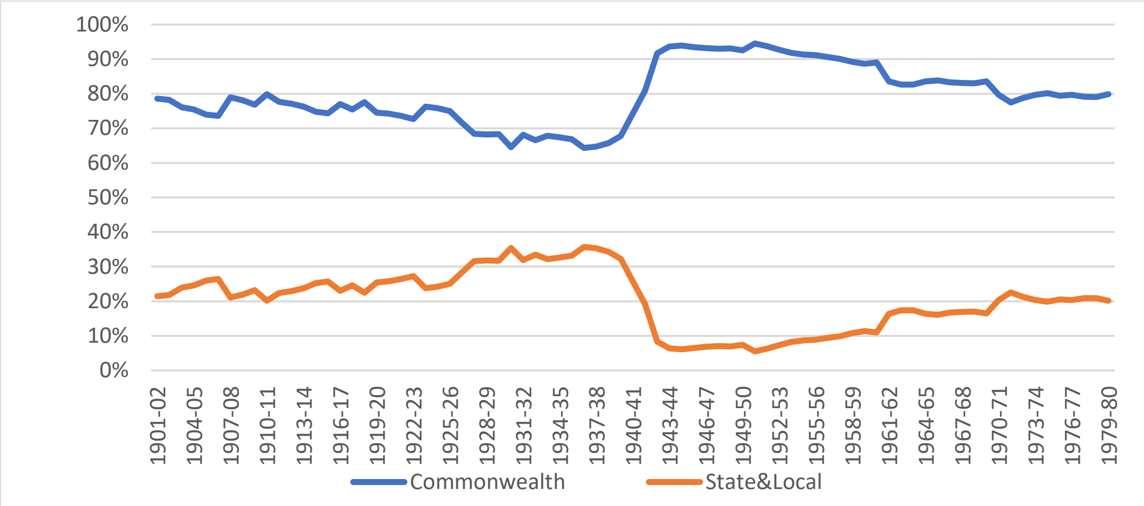


* IT (income tax); P/E/G (probate/estate/gifts)

Source: CBCS and ABS publications

Figure 3 shows the Commonwealth's dominance in revenue collections, with the states thus remaining financially dependent on its distributions. This vertical fiscal imbalance was an ongoing feature of the Australian Federation.

Figure 3: Commonwealth and State Tax Shares since Federation, Percentage of Total



Source: CBCS and ABS publications

Beneath these aggregate trends, though, lay structural problems in Australia's main taxes. At the Commonwealth level, there were substantial gaps in the income tax and sales tax bases that necessitated high tax rates to raise the necessary revenues, while the states' taxes were mostly narrow-based or transactional.

Some Limited Reviews

Through this period, with no clear imperative, there was only a limited constituency for tax reform. What pressures existed were around complexity and compliance costs, and in that context the Menzies government commissioned three reviews of aspects of the tax system. While each was partial and did not fully comprehend the dimensions of the problem, I will review them briefly.

Spooner Committee (1950–54)

The Commonwealth Committee on Taxation was established by the newly elected Menzies government in 1950 as a standing committee to advise on tax law simplification[5] with more than 50 issues referred to it over several years (see Appendix B). It was chaired by Eric Spooner, an accountant and ex-parliamentarian who had been a member of the 1942 Committee on Uniform Taxation. Other members included John Gunn (author of a book *Private Company Taxation* and the renowned *Gunn's Commonwealth Income Tax Law and Practice*); Dr Hannan (barrister) who died and was replaced by Gordon Wallace (later a judge on the NSW Court of Appeal); and Joseph Hughes (NSW Deputy Commissioner of Taxation).[6] The Opposition criticised the committee's composition as representing the vested interests of big business.[7]

The committee's overarching terms-of-reference said matters would be referred to it on ways to simplify the tax laws and taxpayers' compliance costs, remove anomalies, and provide an adequate and equitable basis of taxation (see Appendix A). Most references concerned specific, technical tax matters, but I will focus on two substantive issues: the personal income tax rates schedule, and the taxation of company income.

Personal Income Tax Rates Schedule

Reference no. 1 asked the committee to consider: 'The advantages or disadvantages of substituting for the existing schedule of rates graduated in steps of £1 of taxable income a schedule of rates graduated in steps of, say, £100 of taxable income, or some other graduation.'[8] The committee noted the government had already decided to merge the separate income tax and social services contributions (that had been in place since 1945) and to replace concessional tax rebates with deductions.[9]

In its May 1950 report, the committee concluded that the existing continuously increasing scale of tax rates was unnecessarily complex and recommended its replacement by a comparable stepped rate scale. This scale could then be printed on the back of assessment notices, enabling taxpayers to check their assessments.[10] The committee also argued that having a separate rate scale for property income was also unnecessarily complex and, if a higher tax rate on property income was desired, this could be achieved more simply with a surtax on personal tax rates.[11]

Taxation of Company Income

Reference no. 15 asked the committee to consider whether 'the systems of assessing the incomes of companies and of shareholders at present in force … should be replaced … or otherwise amended with a view to the removal of anomalies, the clarification of the statutory provisions, or the simplification of administrative procedures.'[12]

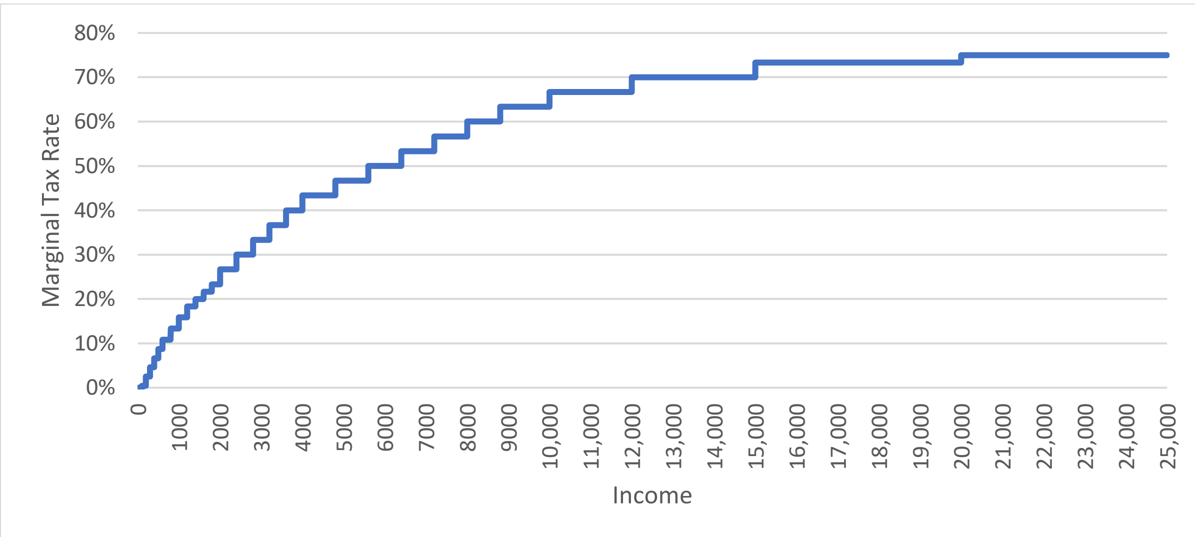
In its December 1950 report, the committee concluded it was unnecessarily complex to have three separate taxes applying to public company income: the primary tax, the super tax and the undistributed profits tax. It recommended that they be unified into one primary company tax, with the rate set to raise the same aggregate revenue.[13]

The committee, though, did not support changing the classical system of taxing companies and shareholders with its double taxation of dividends, which had been in place since 1940. It argued that restoration of the rebate for shareholders would require an increase in tax rates to maintain revenues (a stipulation of its terms-of-reference). It also argued the existing system would have been absorbed into share values and a change may give an undesirable impetus to share values in the prevailing economic conditions.[14]

Government Response

A tax simplification package was announced in the 1950 Budget.[15] It merged the income tax and social services contributions[16] and reverted to the pre-1942 system of concessional deductions rather than rebates.[17] It also replaced the continuously increasing income tax rate scale, which had been in place in some form since 1915, with an equivalent 28-step marginal tax rate system (see Figure 4). The tax-free-threshold of £104,[18] with additional amounts for dependants, remained.

Figure 4: The 28-Step Marginal Tax Rate Scale, 1950–51



Source: *Income Tax and Social Services Contribution Act 1950*

Introducing the Bill as Treasurer, Sir Arthur Fadden argued that the previous scale sought equity at too great a cost to simplicity, making it incomprehensible to taxpayers who were subsequently unable to check the accuracy of their assessments:

> It has become increasingly obvious that, for the sake of simplicity, taxpayers are willing to sacrifice the precise equity of the present system. It has long been recognised as a maxim of taxation systems that equity should be tempered to simplicity, and it is such a system which the Government now proposes.[19]

The tax rate differential between property income and personal exertion income was removed two budgets later in a package to support the economy's recovery from the early 1950s recession.[20]

With company income tax, in the 1951 Budget the three separate taxes – the primary tax, the super tax and the undistributed income tax – were unified, with the combined public company rate increasing from 6s to 7s in the pound (from 30 to 35 per cent).[21] A special levy of 2s in the pound (10 per cent) was also introduced to combat inflationary pressures, but this was removed in 1953 to likewise support the recovery from recession.[22] The committee's support for the classical company tax system meant it continued.

Lessons in Tax Reform

While the Spooner Committee was limited in policy ambition, it gave the government a vehicle to consult on a range of tax law simplification matters. It would seem to have had some influence in the early years of the Menzies government.

Hulme Committee (1954–55)

The Commonwealth Committee on Rates of Depreciation was established on 21 September 1954. It was chaired by Sir Alan Hulme (Liberal MP and previously an accountant), with the other members being F. E. Hitchins, S. B. Holder, B. R. Orr and A. M. Simpson. Its terms-of-reference sought advice on specific aspects of the tax depreciation provisions (see Appendix A).

The committee received more than 100 submissions and held consultations in the capital cities (see Appendix B).[23] Much of its March 1955 report dealt with detailed issues but I will consider two substantive ones: depreciation valuation methods and depreciation allowances for buildings.

Prime Cost and Diminishing Value Depreciation Methods

Depreciation rates were set by the Taxation Commissioner's estimates of effective life. Both prime cost and diminishing value methods were allowed,[24] but with the same depreciation rate under each. The committee recommended increasing the diminishing value rates by 50 per cent to achieve approximate equivalence in value to the taxpayer with the prime cost method.[25]

Depreciation Allowances for Buildings

Depreciation for buildings had not been provided for in the original Commonwealth income tax Act. The 1934 Royal Commission on Taxation reviewed this but recommended no change. The Hulme Committee argued, though, that a building should be considered separately from the land it was on, and recommended the extension of depreciation tax provisions, based on original construction cost, to buildings used for business purposes.[26]

Government Response

The government did not initially adopt the committee's substantive recommendations. In the 1955 Budget, Fadden said that 'while the committee produced a most able report containing recommendations which I believe, have gained a very wide measure of support', in the context of a strong economy with signs of inflation, a tight budget was sought and so 'the wisest course is to defer action at this time'.[27]

A 50 per cent higher depreciation rate for the diminishing value method was, however, adopted in the 1957 Budget.[28] The extension of depreciation to buildings would not be taken up until 1982.

Lessons in Tax Reform

The committee was given a narrow remit but consulted widely, using good analysis to reach its recommendations – although they did involve a cost to revenue. It reported in good time, but its substantive recommendations were not initially accepted in the context of a budget seeking to constrain economic activity.

Ligertwood Committee (1959–61)

A second Commonwealth Committee on Taxation was established on 3 December 1959, chaired by George Ligertwood (South Australian Supreme Court Judge) with D. B. Lewington, D. G. Molesworth, F. C. Bock and J. A. Neale the other committee members. The committee's terms-of-reference were broad in coverage but limited in policy ambition. It was to ascertain anomalies, inconsistencies or complexities in Commonwealth tax laws and recommend ways to simplify them, while maintaining revenue levels (see Appendix A). The committee consulted widely, receiving 519 submissions, and was assisted by the Tax Office (see Appendix B).[29] It reported in June 1961.

The committee's limited policy ambitions were stated up-front: 'Matters of Government policy arising from economic, social or overall Revenue considerations were outside the sphere of our enquiry.'[30] In that vein, the bulk of its recommendations concerned specific technical matters, largely dealing with tax avoidance, and it was hence regarded in academia as excessively narrow in focus.[31] I will consider two substantive issues: the taxation of companies and shareholders; and the minimum taxable income for individuals.

Taxation of Companies and Shareholders

The committee broadly defended the classical system of company income taxation, but nonetheless proposed a 10 per cent rebate for distributed income to provide some relief from the double taxation of dividends. 'A company and its shareholders are, in fact as well as in law, quite separate taxpayers, each properly taxable on the income derived as a separate entity, but some relief should be granted in recognition of the combined incidence of tax on the company and the shareholders.'[32]

The committee also recommended the removal of the lower tax rate for company income below £5000, which had been introduced in 1948, noting the potential for 'company splitting' and that 'large companies may be owned by many small shareholders, and vice versa'.[33]

The committee supported, though, maintaining the lower tax rate for private companies, which had been in place since 1953. It argued that the existing retention allowance provision, which imposed an additional 10 per cent tax on the undistributed income of private companies that retained more than an allowed portion of their income, maintained sufficient pressure to distribute.[34]

Minimum Taxable Income for Individuals

The committee recommended increasing the £104 tax-free threshold, last adjusted in 1943, to £209 to compensate for the effects of inflation.[35] It also pointed to administrative savings from reducing the number of taxpayers, referencing estimated administration costs of 17s 9d per assessment (10s or 12s for lower-income earners) – so if 200,000 fewer returns were processed[36] there might be an administrative saving of around £100,000.

Government Response

The government tabled the committee report in August 1961, accepting a number of anti-avoidance recommendations but flagging others that were 'tax policy' in nature for further consideration.[37] In the 1963 Budget, the minimum taxable income for individuals was raised from £105 to £209.[38] On company income tax, the rebate proposal was not adopted, and the lower tax rate for private companies and for public companies' income below £5000 remained until 1973.

Lessons in Tax Reform

While the committee's remit steered it away from substantive tax policy issues, it did consult widely and provided detailed analysis and recommendations on technical issues across the tax system. Supported by the resources of the Tax Office, it produced a timely report.

The committee's limited policy ambition and the government response, though, were seen as a missed opportunity for needed tax reforms.[39] Fundamental underlying problems and significant gaps in the tax base, such as inadequate taxation of capital gains, necessitated high marginal tax rates. While these were temporarily obscured by a benign economic environment – the burning bridge wasn't obvious – they would be exposed by high-inflation conditions later in the decade.

A Long Period without Reform

Benign Neglect

Apart from the Menzies government's initial income tax modifications and minor changes from the committee processes, there was little tax reform in its tenure. The Commonwealth did, however, abolish its land tax in 1952, leaving that tax to the states. Land tax had been introduced in 1910 to break up large rural properties, but it was not raising significant revenue, and most of what it did raise came from city properties.[40] The Commonwealth also abolished its entertainment tax in 1953.[41]

There was also some erosion of the income tax base with additional concessional deductions, particularly for agriculture and mining. These were most pronounced for personal income tax over the second half of the 1950s and for business income tax over the first half of the 1960s.[42] Sales tax exemptions were similarly expanded.[43]

There was little change, though, in the personal income tax rate structure (see Table 1). After the 1950 move to a stepped marginal tax rate scale, large tax rate cuts were provided in 1953[44] and 1954[45] – a cumulative 20 per cent - on the back of the early 1950s inflation-driven increase in income tax and to support the economy's recovery from recession. The personal income tax rate scale then remained unchanged, apart from some special levies and rebates, until 1970.

Table 1: Personal Income Tax Rate Scale, Marginal Tax Rates 1950-51 to 1972-73

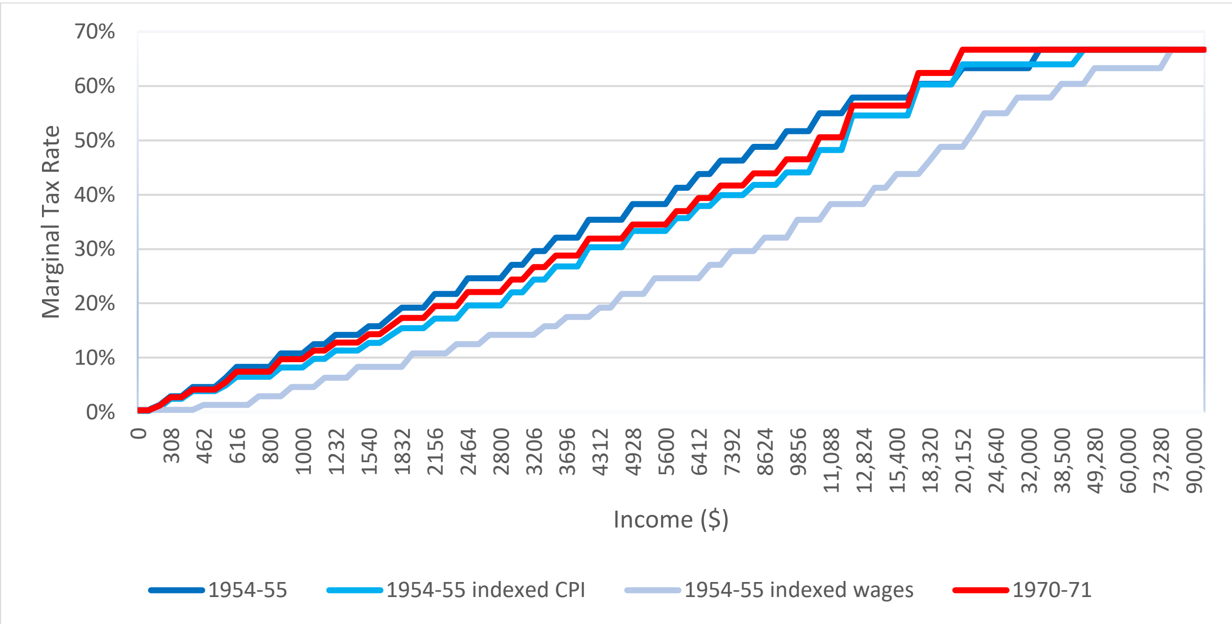
Annual taxable income ($)	1950–51	1953–54	1954–55	1970–71	1972–73
Up to 200	0.4%	0.4%	0.4%	0.3%	0.2%
300	2.5%	1.7%	1.3%	1.2%	0.8%
400	4.6%	3.8%	2.9%	2.7%	2.4%
500	6.7%	5.4%	4.6%	4.1%	3.8%
600	8.8%	7.1%	6.3%	5.5%	4.9%
800	10.8%	9.2%	8.3%	7.4%	6.5%
1000	13.3%	11.7%	10.8%	9.7%	8.2%
1200	15.8%	13.8%	12.5%	11.3%	9.8%
1400	18.3%	15.8%	14.2%	12.8%	11.3%
1600	20.0%	17.5%	15.8%	14.3%	12.7%
1800	21.7%	19.2%	17.5%	15.8%	14.1%
2000	23.3%	20.8%	19.2%	17.3%	15.4%

2400	26.7%	23.3%	21.7%	19.5%	17.2%
2800	30.0%	26.7%	24.6%	22.1%	19.6%
3200	33.3%	29.6%	27.1%	24.4%	22.0%
3600	36.7%	32.5%	29.6%	26.7%	24.4%
4000	40.0%	35.4%	32.1%	28.8%	26.8%
4800	43.3%	38.8%	35.4%	31.9%	30.3%
5600	46.7%	41.7%	38.3%	34.5%	33.3%
6400	50.0%	44.6%	41.3%	37.0%	35.7%
7200	53.3%	47.5%	43.8%	39.4%	37.9%
8000	56.7%	50.4%	46.3%	41.7%	39.9%
8800	60.0%	53.3%	48.8%	43.9%	41.8%
10,000	63.3%	56.7%	51.7%	46.5%	44.1%
12,000	66.7%	60.0%	55.0%	50.6%	48.2%
15,000	70.0%	62.9%	57.9%	56.4%	54.6%
20,000	73.3%	65.8%	60.4%	62.4%	60.3%
25,000	75.0%	68.8%	63.3%	66.7%	64.0%
32,000	75.0%	68.8%	63.3%	66.7%	64.0%
40,000	75.0%	70.0%	66.7%	66.7%	64.0%
Above 40,000	75.0%	70.0%	66.7%	66.7%	66.7%
Steps	**28**	**29**	**29**	**28**	**29**
Tax-free threshold ($)	**208**	**208**	**208**	**416**	**1040**

Sources: *Income Tax and Social Services Contribution Act* (1950, 1953) and *Income Tax Act* (1970, 1972)

With cumulative inflation of over 50 per cent in this time,[46] taxpayers were pushed onto higher tax rates even without increases in real income. Figure 5 shows how the 1954–55 tax rate scale would have changed if its thresholds had been indexed for inflation or wage growth. With cumulative wage increases of over 100 per cent across the period,[47] a taxpayer on average annual earnings of around $1400 in 1954-55 faced a marginal tax rate of 14.2 per cent, compared with 27.1 per cent for those on average earnings of around $3000 in 1969-70.

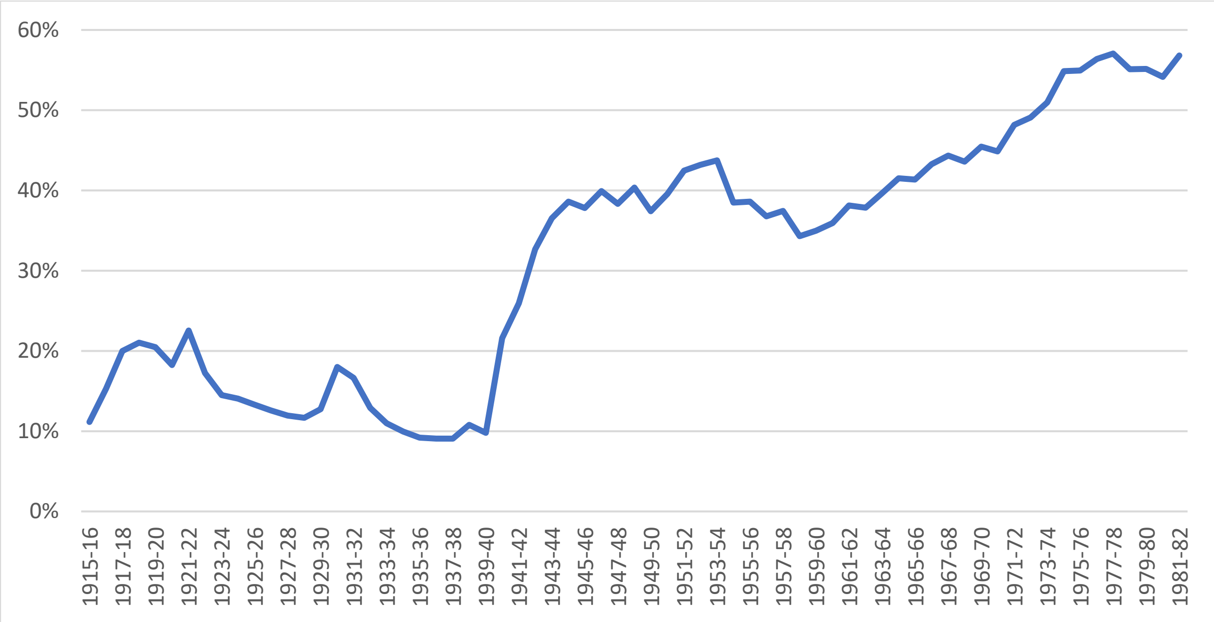
Figure 5: Personal Income Tax Rate Scale, 1954–55 and 1970–71



Sources: Income tax and social services contribution Acts (1950, 1953) and income tax Acts (1970, 1972)

The ‘fiscal drag’ of taxpayers being pushed onto higher tax rates meant that, after the base erosion in the second half of the 1950s, the share of personal income tax in total tax revenue increased from 35 per cent in 1959–60 to 45 per cent in 1969–70 (see Figure 6).

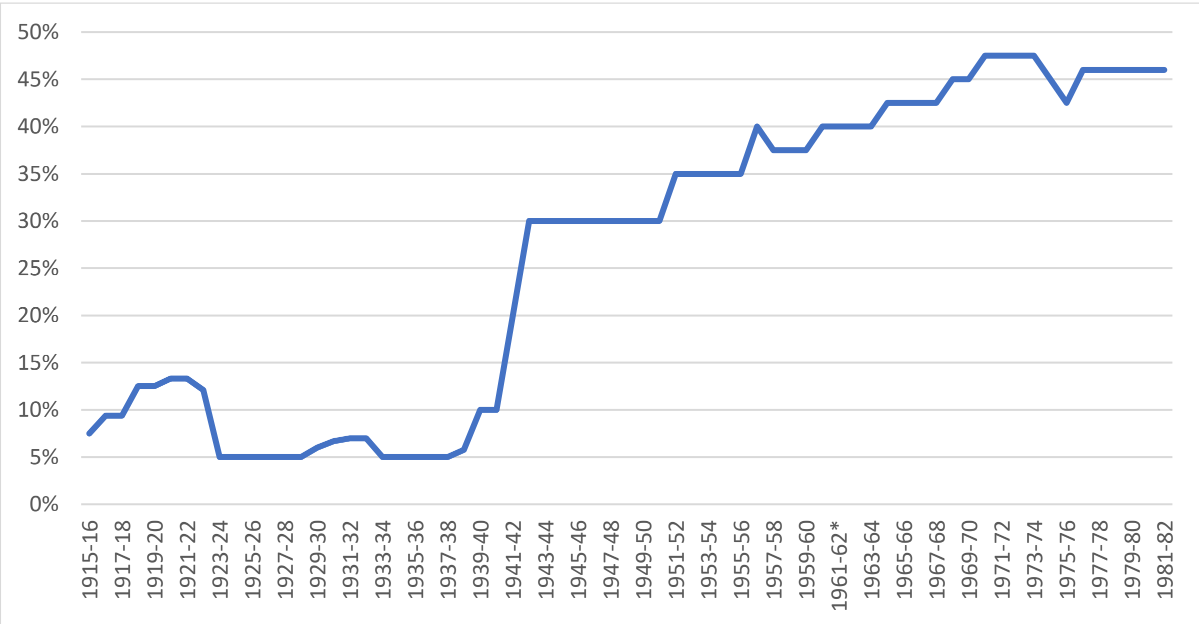
Figure 6: Personal Income Tax Share of Total Commonwealth Tax, 1915–16 to 1981–82



Source: CBCS and ABS publications

Company income tax also remained a significant post-war revenue source. While the war-time profits tax was removed in 1946, the general rate was maintained at 30 per cent, then steadily increased to 47.5 per cent by 1970 (see Figure 7).

Figure 7: Company Income Tax Rate, 1915-16 to 1981-82



Sources: Gunn’s Commonwealth Income Tax Law and Practice; various income tax Acts

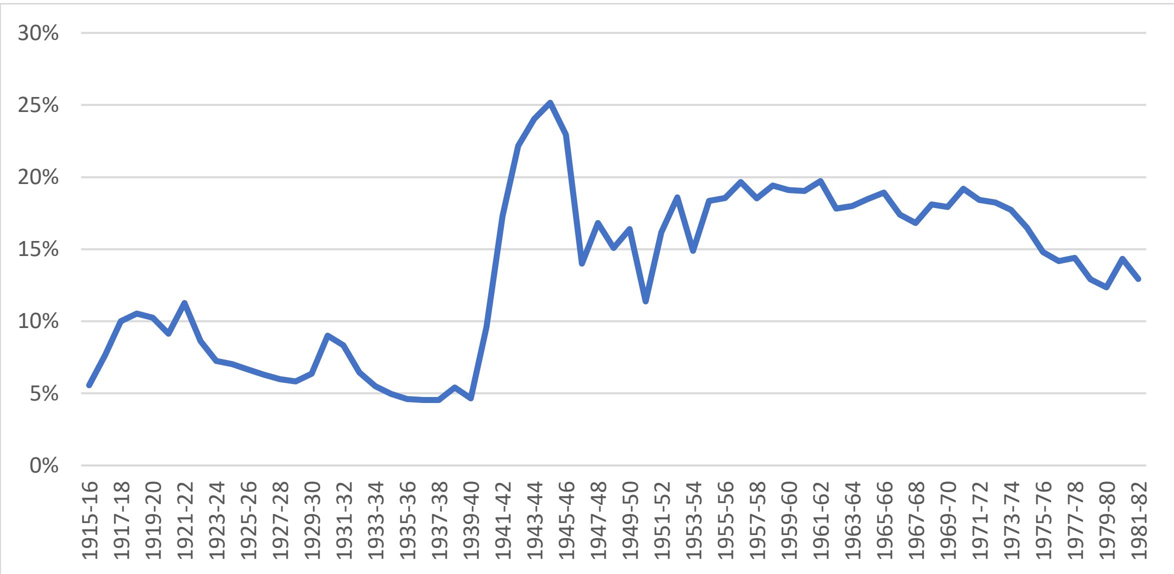
As Table 2 shows, these company tax rate increases occurred as fiscal policy sought to contain inflation and imports, and to match steady increases in government expenditure.

Table 2: Post-war Company Tax Rate Changes

Year	Rate increase	Reason
1951	30 to 35%	Amalgamation of primary tax, super-tax and undistributed profits tax for public companies (as recommended by Spooner Committee).[48]
1956	35 to 40%	Tax increases to reduce imports and constrain inflation. 'impose a check on investment spending' and because 'weight of company taxation is … lower in Australia than in overseas countries'.[49]
1957	40 to 37.5%	Budget package of tax cuts with reduced imports and inflation: 'The years we have had to increase taxation have been years in which inflationary conditions prevailed.'[50]
1960	37.5 to 40%	Budget package of tax increases to reduce demand pressures: 'The pace of expansion has become too fast and we have to ease it off a little.'[51]
1964	40 to 42.5%	Budget package of tax increases to match increased spending and prevent inflationary pressures. Also justified by tax concessions provided to companies, such as investment allowance.[52]
1968	42.5 to 45%	Budget package of tax increases 'to offset the rise in Commonwealth expenditures'.[53]
1970	45 to 47.5%	Budget package of personal income tax cuts balanced by other tax increases.[54]

Figure 8 shows, though, that with the size of government and hence total revenue growing steadily over the 1950s and 1960s, the share of company income tax in total tax revenue stayed fairly steady at around 15–20 per cent post-war (compared with 5 per cent pre-war and a war-time peak of 25 per cent). While the growth in revenue from personal income tax over this period came from 'bracket creep' the increases in the company income tax rate were discretionary.

Figure 8: Company Income Tax Share of Total Commonwealth Tax, 1915–16 to 1981–82



Source: CBCS and ABS publications

Revenue from customs and excise duties also recovered after the war and remained around a quarter of Commonwealth tax revenues. Customs duties played a continuing role as a trade barrier, while excise collections grew in relative importance as the Australian economy developed.

With the Commonwealth's three main tax bases – personal income tax, company income tax, and customs and excise duties – all continuing to grow, Commonwealth tax/GDP rose over the 1960s, from 15 per cent in 1962–63 to 18 per cent in 1970–71. The states, however, lacked a growth tax, so the Commonwealth passed payroll tax to them in 1971. The states increased payroll tax rates in the initial years but have since competed a large part of the base away.

The Case for Change

Through this period, with no major reforms, structural rigidities in the Australian economy and gaps in the tax system were obscured by the generally benign economic times. The focus of the one major economic inquiry, the 1965 Committee of Economic Inquiry chaired by Sir James Vernon, was on tariff policy, with other tax issues receiving little attention. From the late 1960s, though, Australia faced high inflation, and by the early 1970s stagflation, with high inflation and unemployment. The golden years had ended and a difficult deregulatory transition lay ahead for the Australian economy.

With high inflation pushing individuals onto higher tax rates, there were increased incentives to avoid and evade tax, and structural flaws in the tax base, such as inadequate provisions for taxing capital gains and fringe benefits, provided numerous opportunities to do so. Court interpretations accentuated the trend. With fundamental inequities and inefficiencies in the tax system increasingly apparent, Australia faced the consequences of what Peter Groenewegen described as a period of 'benign neglect'.[55]

As Australia's 'taxpayer morality'[56] frayed, there was growing recognition of the problems and agitation for action. There remained a lack of consensus, though, on the appropriate reform agenda. With the government's limited appetite in commissioning and responding to the Ligertwood Committee, the initiative to define that came from elsewhere.

Downing Report (1964)

The most noteworthy body of work at this time was by the academics Richard Downing (Chair), Heinz Arndt, Alan Boxer and Russell Mathews, who were commissioned by the Social Science Research Council of Australia to establish a basis for reform of the Australian tax system.[57] Their 1964 book *Taxation in Australia: Agenda for Reform* would influence the path ahead.

Tax Reform Criteria

The group proposed three criteria for tax reform: economic stabilisation; distribution of income; and allocation of resources and efficiency of the economy.[58]

Economic stabilisation was about the role of tax policy in macroeconomic management. The academics noted, though, that tax reform 'is not primarily concerned with the total amount of government revenue to be raised. It is concerned very much with the methods by which revenue is raised.'[59]

Distribution of income was about fairness: 'a fair system of taxes is one which deals out similar treatment to persons in similar positions'. It was also about income inequality: 'the community has long accepted that the tax system should operate to reduce inequalities in the distribution of income and wealth'.[60]

Allocation of resources and efficiency of the economy was about minimising market distortions: 'It is clearly desirable that taxation policy should, as far as possible, minimize adverse general effects on the incentives to work, to save and to invest.'[61] This was the first tax policy review in Australia to recognise allocative efficiency so prominently.

The group also recognised the importance of simplicity and certainty, saying 'we take it as generally agreed that a tax system must be administratively practicable, must not be too expensive to operate, must not leave too much scope for avoidance and evasion, and must permit the taxpayer to know with some certainty his liability for taxation.'[62]

Equity, though, was their 'touchstone', and this had significance in the framing of their conclusions: 'This report submits for consideration a number of proposals designed primarily to improve the equity of the Australian tax system.'[63]

Assessment of the Australian Tax System

The group took income as the best benchmark to assess individuals' capacity to pay tax and hence supported personal income tax as the core of the tax system. With equity the priority, they favoured 'a substantial move over the next decade in the direction of increasing the relative importance of such direct personal taxation at the expense of the more regressive indirect taxes'.[64]

The group did not, however, propose significant reforms of the income tax base. While accepting the conceptual case for a comprehensive measure of income, along the lines espoused by Henry Simons in 1938,[65] they baulked at that for pragmatic reasons. With capital gains tax, for example, while the equity arguments were strong the administrative difficulties were considered too great.[66] They did recommend, though, a net worth tax at a low rate of, say, 1 per cent.[67]

The group did not discuss a broad-based indirect consumption tax and in fact proposed some reduction in indirect taxes on equity grounds.[68] They did consider a direct expenditure tax, along the lines of Nicholas Kaldor's 1955 proposal,[69] but concluded the tax exemption of savings would unduly subsidise the accumulation of personal wealth.[70]

With company income tax, the academics identified the inequities and distortions inherent in the double taxation of dividends, but argued that, as it was embedded in share values, a change would yield windfall gains to existing shareholders. Instead, they favoured lowering the company tax rate and imposing additional tax on undistributed profits.[71] They saw this measure, together with their net worth tax proposal, as an alternative to a capital gains tax.

Overall, the group established a strong public finance framework for analysing the Australian tax system but baulked at key income tax reforms for pragmatic reasons. While equity was their touchstone, they were concerned about the disruption of change arousing 'more sleeping dogs than is necessary' and pragmatically accepted that 'an old tax is a good tax'.[72]

Impact of the Report and Lessons in Tax Reform

In conducting a non-government review, without specific terms-of-reference, the group was free to articulate a conceptual basis for tax reform in Australia. While baulking at substantial reform options, they at least established a more rigorous public finance framework for the assessment of the tax system.

The report was criticised, though, for being too timid. ANU academic David Bensusan-Butt described the Australian tax system as a 'peculiar affair', likening it to 'some great medieval palace in the centre of a modern city, now long let out for offices and shops and flats, and tinkered with and added to and subtracted from by many generations of tenants of diverse tastes and interests'. He described the authors' recognition of the problem but baulking at the solution as being 'warned of a bomb and handed a currant bun'.[73] These criticisms were of some note, as Bensusan-Butt would later be appointed to the Asprey Committee.

The report did not seem to have much influence on government, although the share of personal income tax was allowed to continue to rise. The case for comprehensive reform of the Australian tax system was building, though, and an important step had been taken for the much larger and official reform process that was to come.

Asprey Taxation Review Committee (1972–75)

By the early 1970s, dissatisfaction with the Australian tax system was acute. With inflation pushing taxpayers onto higher tax rates, the flawed income tax base was increasingly exposed to attack. Tax avoidance and evasion flourished by those who could manipulate the form of their income, while wage and salary earners had little opportunity to reduce their tax obligations. There was a strong case for reform but a lack of consensus on what that entailed.

The states were also struggling with their tax bases. They extended stamp duties to a wider range of commercial transactions in the 1960s but a 1970 High Court ruling found those taxes to be in contravention of the Commonwealth's exclusive constitutional right to impose excises.[74] The Commonwealth paid additional grants to the states as compensation for the lost revenue.

As part of a growing constituency for tax reform, Leslie Bury as Treasurer was an early advocate of a broad-based consumption tax.[75] His 1970 Budget had some tax mix switch with cuts in personal income tax funded by excise duty and sales tax increases.[76] He was not a strong advocate, though, and was replaced by Sir Billy Snedden in the March 1971 McMahon government.

Commissioning the Committee

In April 1972, Snedden announced a full review of the Commonwealth tax system, acknowledging the widespread dissatisfaction and saying the government wanted a complete assessment:

> There is a consensus that what is wanted is tax reform. That, however, is as far as the consensus goes. ... The Government has decided, therefore, to set up a high level expert body to conduct a full-scale public inquiry into the taxation system ... The inquiry will thus … put the Government in a position to have an overall look at tax policy.[77]

The terms-of-reference, published the following month, were broad. They sought a wide-ranging examination of the Commonwealth tax system's impact on the social, economic and efficient use of resources, having regard to the need to meet the government's revenue needs, ensure a fair distribution of the burden of taxation and minimise complexity (see Appendix A).

The Chair, Kenneth Asprey (NSW Supreme Court Judge), was appointed in August 1972 and the other members – Peter Lloyd (Tasmanian businessman), Ross Parsons (University of Sydney Professor of Law), Kenneth Wood (tax accountant) and David Bensusan-Butt (ANU economist)[78] – in September. The review was based in Sydney, with M. C. Kahl (on secondment from the ATO) as secretary, and a secretariat which included Alan Boxer as Chief Economist and Geoffrey Brennan (on secondment from the ANU). The committee consulted widely, received 605 written submissions and commissioned several expert studies (see Appendix B).

The committee work got underway shortly before the December 1972 election, at which the Whitlam government was elected and set about implementing an expansive policy reform program. It confirmed the review's continuation.[79]

Treasury's Role

As an established policy agency, Treasury was well positioned to contribute to the debate. Taxation policy had been created as a separate branch in 1969 under the direction of Sam McBurney.[80] While Treasury wasn't represented on the Asprey secretariat, it did prepare 13 Treasury Taxation Papers for the committee, providing substantial analysis, historical data and international comparisons. Key themes were: concerns with the weight of personal income tax; non-neutralities from primary producer and mining tax concessions; support for a broad-based consumption tax; reservations about a dividend imputation system; and reservations about a capital gains tax.

The Committee's Approach

The 1970s Australian tax system was not a deliberately conceived and integrated structure. Rather, it had developed piecemeal. Key features were established in the early decades after federation for short-term reasons, in particular the World Wars and the Great Depression, with subsequent ad-hoc changes leaving numerous anomalies and inequities.

The committee aimed to provide a blueprint for the Australian tax system rather than a road map of further piecemeal changes: to 'first settle the broad outline of the kind of tax system it would like to see established eventually and work back from that to the changes in the present system that would have to be made before that long-term aim could be realised.[81]

The importance of reviewing the tax system as a whole and not simply the component parts was emphasised by Bensusan-Butt in particular. Alan Henderson recalls[82] Alan Boxer saying that at an early meeting of the committee, Asprey as chair proposed they break up the work and each member focus on a particular part of the tax system – he would focus on sales tax given his familiarity with that. Bensusan-Butt objected, arguing that reforms to individual taxes needed to be considered in the context of the equity, efficiency and simplicity of the overall system. Asprey accepted that and the objective of designing an integrated blueprint became an important part of how the committee operated.

Broad social consensus was considered necessary to underpin long-term reform: 'Moreover, and above all, when a tax system becomes somewhat ossified and somewhat incoherent as has the Australian, and when rather sweeping reforms are under consideration, much public discussion and understanding are essential before large changes can be attempted.'[83]

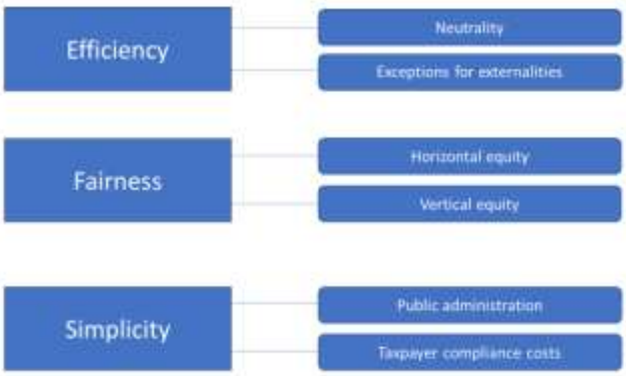
With size of government increasing, the committee was mindful of its remit 'to recommend a structure of taxation capable of meeting present and future revenue needs' and was especially concerned about the impact of inflation: 'The Australian tax structure was not designed for, and is still not adapted to, an economy in the throes of inflation.'[84] The committee astutely observed, 'Thus the tax reformer in Australia does not need to feel deprived of possibilities to explore.'[85]

Efficiency, Fairness and Simplicity

The committee drew on its terms-of-reference to establish its 'big three' criteria for assessing the tax system (see Figure 9):

> Thus, the Committee is to consider the effects of the system upon the 'economic and efficient use of the resources of Australia', the desirability that there should be a 'fair distribution of the burden of taxation', and that revenue-raising be 'by means that are not unduly complex and do not involve the public or the administration in undue difficulty, inconvenience or expense'. For brevity, these aims may be referred to as efficiency, fairness and simplicity.[86]

Figure 9: The Big 3 Tax Criteria



The committee's conception of these criteria was steeped in public finance theory.

Efficiency starts with an assumption that markets generally allocate resources optimally: 'In so far as it can be presumed that, left to their own devices, individuals will spend their incomes wisely, and business will choose the most efficient means of production, the minimisation of waste requires that the tax system should not influence individual and business choices. That is the requirement that the tax system should be neutral.'[87] The committee recognised, though, circumstances when socially optimal decisions are not made, such as where there are externalities.

Fairness is considered in its two dimensions: horizontal equity and vertical equity. 'It is fair that persons in the same situation should be equally treated, and those in different situations differently treated, with those more favourably placed being required to pay more.'[88] The committee referenced 'well-being' as the conceptual basis to determine comparative equity, but accepted measurement practicalities warranted the use of income as an imperfect proxy.[89]

Simplicity also takes two dimensions: official administration costs and taxpayer compliance costs. 'A tax will be called simple, relative to others, if for each dollar raised by it the cost of official administration is small, and if the "compliance costs", the costs in money and effort of all kinds to taxpayers, are also small.'[90]

The committee recognised the potential conflicts between criteria, and that judgements about necessary trade-offs are cardinal in assessing tax policies.[91] It felt such conflict need not be great between simplicity and efficiency but may be between simplicity and equity.[92] To illustrate, it compared two tax bases. Personal income tax, with its ability to be progressive, is an admirable vehicle for fairness but ranks low for simplicity. A broad-based consumption tax, with its flat rate structure, is unsuitable for vertical equity but inherently neutral and ranks high for simplicity.[93]

Two polar extremes were considered, one that prioritised simplicity and the other equity. At the 'ultra-simple' extreme would be a broad-based goods and services tax at a high tax rate. At the 'ultra-complex' extreme would be a sharply progressive personal income tax buttressed by capital gains and wealth taxes. With neither extreme likely to find broad social consensus, the real alternatives lay in-between with a mix of tax bases.[94]

In contrast to the Downing Report's equity touchstone, the Asprey committee preferred a relatively simple tax system and sought to define a socially acceptable level of fairness. It believed there was broad community support for a tax system that was progressive at the upper end of the income and wealth scales and that provided relief at the other extreme for poverty and special needs but that over the middle band, where the majority of people were, most Australians accepted an approximately proportional taxation system as fair.[95]

The committee thus recommended that, as a long-term target, 'a tax system towards the simple end of the spectrum just described would suit the facts and values of the Australian community'[96] and a shift in weight from personal income tax to a broad-based consumption tax would be acceptable to a broad spectrum of public opinion.[97]

This view was supported by international comparisons[98] which showed Australia's higher dependence on income taxes and lower use of goods and services taxes (see Table 3). The committee noted that 'by international reckoning, Australian income tax (especially on companies) is a heavy impost', and 'in many countries a broad based value added tax is the major domestic levy on goods and services, whereas Australia mainly relies on excise duties and wholesale sales tax which weigh heavily upon only a restricted range of goods and services'.[99]

Table 3: International Comparison of Tax Mix in 1965 and 1971: Percentage of Total Taxes

	Goods and services	Income tax: persons	Income tax: companies	Social security contributions	Total taxes as % of GNP
Australia 1965	34.3	33.9	15.6	–	23.9
OECD countries 1965	36.7	24.7	8.5	20.4	27.7
Australia 1971	31.6	36.9	16.6	–	26.6
OECD countries 1971	33.9	26.9	7.3	22.7	31.8

Source: Reproduced from Taxation Review Committee, *Full Report*, p. 9

Geoffrey Brennan, recalling his time on the secretariat,[100] says that it was Bensusan-Butt, working with Alan Boxer (co-author of the Downing Report) on the secretariat, who shaped the committee's public finance framework.[101] Their tax mix switch support also sought to reduce reliance on one tax base (income tax) and counter income tax's difficulties with the symmetric treatment of capital income. Ross Parsons was also an influential committee member, credited with ensuring the legal technical competence of the report.[102]

Having established its public finance framework, the committee analysed Australia's main taxes.

Personal Income Tax Base

The committee addressed whether income or consumption was conceptually superior as a tax base. It recognised the advantages of a Fisher-Kaldor expenditure tax in avoiding the double taxation of savings and the problems inflation caused for taxing asset returns, but baulked at the administrative challenges. It said, though, that 'the philosophy underlying an expenditure tax has much to recommend it, and the Committee has allowed itself to be influenced by this philosophy in certain of its proposals.'[103]

While accepting income as the preferable tax base, the committee saw major flaws in the existing Australian income tax. The committee's starting point measure of net income for tax purposes, for individuals and businesses, was the Haig-Simons net accretions of economic power irrespective of form[104], defined by Simons as the 'sum of the individual's consumption expenses and accumulation during the accounting period'.[105] It then pursued this conceptual framework to propose substantial reforms of the income tax base.

The ineffective taxation of fringe benefits provided to employees was a significant gap in the income tax base, and improvements in coverage and administration were proposed.[106] An optional standard tax deduction for employment expenses was also recommended.[107]

With investment income, the committee favoured some tax relief for savings in recognition of the distortion between current and future consumption inherent in income tax's double taxation of savings.[108] This thinking particularly influenced its recommendations on superannuation and owner-occupied housing, discussed below.

On the choice between the individual and the family as the tax unit to assess ability to pay, the committee noted that other countries had used both while Australia had largely adopted the individual. It favoured allowing a choice.[109] 'The compulsory family unit would be unfair to some; the compulsory individual unit is unfair to others. A grade set of alternatives being self-evidently impracticable, to give a choice between the two bases is at least better than to give none.'[110]

On the choice between cash and accrual accounting for the measurement of income, the committee considered that an accrual approach, where practicable, best matched expenses with income. Hence it favoured effective-life depreciation tax deductions for assets, but with a loading for obsolescence.[111]

The role of social security contributions in funding social services was also considered, along the lines of European retirement benefit schemes and Australia's 1940s National Welfare Fund. The committee did not favour such specific labelling but did see a need for greater visibility and understanding by taxpayers of their transactions with government.[112]

While income was accepted as the main tax base, the committee nonetheless supported a shift in the weight of tax from personal income tax to a broad-based consumption tax (discussed below), primarily on simplicity grounds. It was also concerned about the inflation-driven 'tax drift' pushing taxpayers into higher-income tax rate brackets,[113] and in its final report noted the establishment of the Mathews Committee to examine those issues.

Personal Income Tax Rates

At the request of Frank Crean, as Treasurer, the committee provided a preliminary report in June 1974 to inform that year's budget preparations.[114] Australia then had a 29-step personal income tax rate scale, a hangover from the original continuously increasing scale. The committee noted Australia's scale was more progressive and had more steps than other countries, arguing so many steps weren't necessary to achieve vertical equity and proposing a reduction as a simplification. In the September 1974 Budget, the scale was restructured to 14 steps.

The committee's final report argued even the 14 steps could be reduced, as the income tax revenue share fell and a broad-based consumption tax was built up.[115] It also favoured retaining the $1040 tax-free threshold, to keep a significant number of individuals out of the income tax system, and lowering the top tax rate to 50 per cent, to reduce avoidance and evasion incentives.[116]

The committee was 'not persuaded of the need for statutory indexing' of the rate scale, saying it would lock in the current unsatisfactory scale and would not be warranted in a period of lower inflation.[117] It did, though, recommend more frequent adjustment of the marginal tax brackets and concessional allowances for the effects of inflation.

On equity and simplicity grounds, the committee recommended removal of the investment income surcharge, which had replaced the separate rate scale for property income in 1952.[118] With income averaging provisions, which had been available for all taxpayers from 1922 to 1937 and just primary producers since, the committee accepted it would be equitable to provide them for a greater range of taxpayers, but was concerned about the complexity of that and so did not support an extension beyond primary producers.[119]

Company Income Tax

The committee criticised Australia's 'classical' company income tax system, with its separate taxation of the company and shareholders and consequent double taxation of dividends, on equity and efficiency grounds.

On equity, the committee held that 'In low income ranges, it discriminates against those who invest relatively more of their savings in equity shares; in very high income ranges, it probably discriminates the other way. It discriminates between individuals on the same incomes with identical savings according to the different distribution policies of the companies whose shares they hold. It substantially defeats the general progressivity of the income tax.'[120]

On efficiency, the committee argued that the 'separate system favours retention of profits, as retained profits bear income tax only at the company level … [and] is clearly not neutral as between equity and debt financing'.[121]

The committee accepted the case for applying tax to both companies and shareholders, but with an allowance for distributed profits. In a choice between a split-rate system, where the company is taxed on undistributed but not distributed income (the original system in Australia), and an imputation system, where the shareholder receives a credit for company tax paid, the committee favoured the latter as better facilitating the taxation of foreign shareholders. It hence did not support extending imputation credits to non-resident shareholders.[122]

As a transition, the committee proposed a partial imputation system with an initial dividend credit in the range of one-quarter to one-third. To ameliorate the revenue loss, it proposed an increase in the company tax rate to 50 per cent, accepting that the need to maintain a rate not out of line with other countries meant there would be a gap between the company tax rate and the top personal tax rate (around 67 per cent at the time).[123]

The committee also favoured retention of the undistributed profits tax on private companies, given the incentive to retain earnings created by the gap between the company rate and the top personal rate.

The committee, it would seem, was not influenced by the Treasury Taxation Paper that defended the classical system. While acknowledging the classical system's problems with the double taxation of dividends, the Treasury paper argued that the main alternatives, a split-rate system or a tax-credit system, had countervailing difficulties:

> So far as administration and the international effects are concerned, the alternative systems appear to have drawbacks, rather than benefits, compared with the classical system. A balancing of the benefits and drawbacks is necessary to judge which system would be best for our situation. Unlike many countries for which international considerations may be relatively unimportant in the choice of company tax system … Australia as a significant debtor country must reckon with both domestic and international implications.[124]

International Aspects of Income Tax

The committee sought a more systematic approach to how Australia taxed on the basis of 'residence' and 'origin'. With the foreign-source income of Australian residents, the committee favoured a foreign tax credit system, arguing that the added complexity of providing credits for foreign tax paid was outweighed by the efficiency and equity advantages. With the Australian-source income of non-residents, the committee supported the continued use of withholding taxes, given their relative simplicity.[125]

A model under which Australia seeks to tax all income earned by Australian residents and all income of non-residents sourced in Australia, of course means overlapping tax claims with other countries, and double tax treaties seek to resolve these. The committee endorsed use of the 1963 OECD model convention for this purpose.[126]

Superannuation

Superannuation was subject to little tax, a feature of Commonwealth income tax Acts since 1915. Contributions to superannuation funds by employers or employees were tax-deductible (tax-free), the fund's earnings were not taxed, and just 5 per cent of lump sum benefits was included in individuals' taxable income. Income streams, though, were taxed as normal income, creating a strong incentive to take retirement benefits as lump sums.

Other countries applied similar tax treatment to contributions and earnings, but the committee noted 'Australia virtually stands alone in the generosity of its treatment of lump-sum retiring allowances paid to employees'.[127]

The committee acknowledged the bias against saving inherent in income tax but concluded that the generosity of the superannuation (and life insurance) arrangements went beyond merely correcting for that. It favoured continuing the tax exemption of contributions and earnings but including end-benefits fully in taxpayers' assessable income (with lump sums subject to spreading arrangements) – an Exempt, Exempt, Taxed (EET) system.[128] A 25–40-year transitional period was proposed.[129]

Capital Gains Tax

The ineffective taxation of capital gains had sustained a gap in Australia's income tax base since 1915, and the committee proposed to correct that:

> On balance, while recognising that a capital gains tax, by the complexity of the calculations it inevitably involves, must be troublesome to investors, the Committee believes that there is a case for it on efficiency grounds. It is on the grounds of equity that, in the Committee's view, the arguments for a capital gains tax may reasonably be held to be so strong as to overwhelm the admittedly strong case against it on grounds of simplicity.[130]

The committee accepted a capital gains tax could only feasibly be levied on realisation, with the theoretical merit of taxing accruing gains outweighed by the practical problems of valuation and liquidity. To address the issues with bunching[131] for a realisations capital gains tax in a progressive income tax system, it proposed spreading gains over five years. Capital losses would only be allowed as an offset to capital gains.[132]

The committee accepted some allowance was needed for illusory inflation gains and evaluated the two main approaches used elsewhere. While a separate flat tax rate for capital gains had the advantage of simplicity, it lacked progressivity. The committee favoured inclusion of a fixed proportion of gains, set by reference to the rate of inflation, in assessable income as the 'less unsatisfactory' method. For illustrative purposes at the time the inclusion of half the gain was suggested.[133]

Regarding transitional provisions, the committee proposed that only capital gains arising after the introduction date should be liable to tax. 'The Committee, however, rejects the view that only gains on assets acquired after the introduction of the tax should be liable. Such an approach would be inequitable and would have a very powerful lock-in effect for existing owners of appreciating assets.'[134]

The committee supported the principal residence remaining tax-exempt on practical and conceptual grounds, including that 'a home is regarded as more than simply an investment'.[135]

Estate Duties and Wealth Taxes

The committee recognised the sensitivities around estate duties but argued they played an important role in a tax system, with gift tax a necessary accompaniment.[136] It also considered an annual wealth tax but was concerned with its administrative measurement complexities, arguing that its estate duty and capital gains tax proposals achieved broadly the same objectives.[137]

The political tide, however, was turning against estate duties and they were abolished by both the states and the Commonwealth shortly after, a further casualty of state tax competition.

Taxation of Goods and Services

The committee had established its in-principle support for a tax mix shift from personal income tax to indirect consumption tax, but saw significant shortcomings with Australia's existing consumption taxes. It was concerned with the narrowness of the wholesale sales tax base, with 60 per cent of personal consumption expenditure not directly taxed. With excises, though, it accepted the externalities case for higher taxation of alcohol, tobacco and petrol, despite the regressivity.[138]

The committee proposed replacement of the wholesale sales tax with a broad-based indirect consumption tax. A uniform tax rate was recommended with a base encompassing all tangible goods, including sensitive items such as food and clothing, and services to the extent possible: 'To keep all goods in the base and to apply a uniform rate are aims not to be relinquished.'[139]

The committee supported a value-added tax (VAT), with the advantages of its invoice system in control and enforcement outweighing the disadvantage of increased administration for suppliers.[140] To counter the regressivity of a VAT, the committee argued that countervailing tax and transfer measures could be taken:

> In considering any individual tax, account must be taken of its place in the tax structure as a whole. If a broad-based tax covering food and clothing introduces an element of regressivity, that element can be counterbalanced by increasing the progressivity of other taxes in the system.[141]

The committee expected only a minimal impact on inflation from the tax mix shift that would result from its recommendations, with an increase in VAT and a decrease in direct taxation, and suggested management of price effects through a prices and incomes policy.[142]

To manage the political and administrative challenges of introducing a major new tax such as a VAT, the committee recommended a significant lead time: 'There is much evidence of overseas experience to show that, after initial troubles, VAT can become a readily accepted tax and be allowed to play an increasing part in revenue-raising.'[143]

Committee Conclusions

The committee's central conclusion was 'that the weight of taxation should be shifted towards the taxation of goods and services and away from the taxation of income'.[144] It believed that this tax mix switch from personal income tax to a broad-based consumption tax, in combination with the reforms it proposed to estate duties and capital gains tax, best balanced its tax policy criteria of efficiency, fairness and simplicity.

Beyond that, the committee had laid out a comprehensive tax reform agenda. While not intended for immediate implementation, a full blueprint for the Australian tax system had been articulated.

Government Response

The Asprey Committee submitted its final report on 31 January 1975. Crean had been replaced as Treasurer in December 1974 by Jim Cairns, who was in turn replaced by Bill Hayden in June 1975, as the Whitlam government descended into political turmoil preceding its dismissal in November 1975. In that environment, the report had limited initial impact, although it did inform some aspects of the 1974 and 1975 budgets.

The interim report had informed the 1974 Budget reduction in the number of personal income tax rate steps from 29 to 14, in a restructure that left the tax distribution across income levels broadly similar (see Table 4 and Figure 10). The 1974 Budget also proposed a capital gains tax along the lines proposed by the committee,[145] but this was not implemented.

The final report presumably informed preparations for the August 1975 Budget, but Hayden as Treasurer commissioned a separate report on the personal income tax rate structure by a group chaired by Trevor Swan from the ANU,[146] with equity issues as the 'guiding star'.[147]

The Swan Report informed the budget's further restructuring of the personal income tax rate scale from 14 to 7 steps,[148] which included a significant decrease in tax rates around average earnings (about $8000 in 1975[149]).

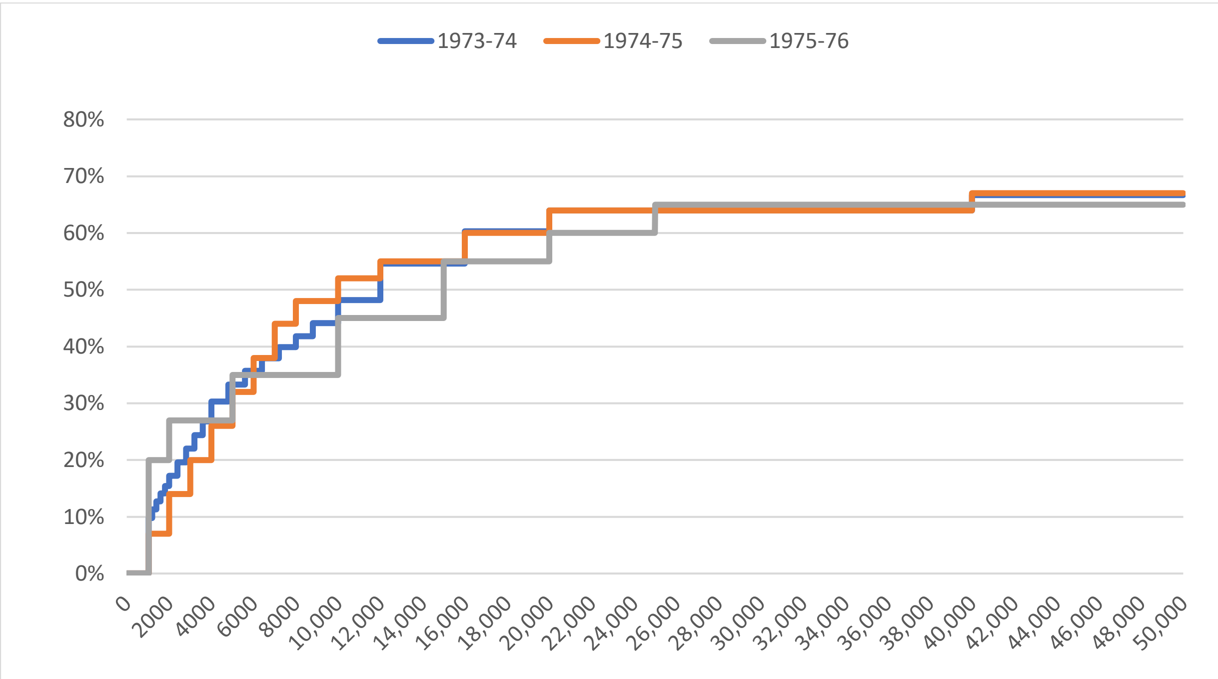
Table 4: Tax Scale Steps Transition from 29 (1973–74) to 14 (1974–75) to 7 (1975–76)

Taxable Income ($)	1973–74	1974–75	1975–76
Up to 200	0.2%		
300	0.8%		
400	2.4%		
500	3.8%		
600	4.9%		
800	6.5%		
1000	8.2%	1.0%	
1200	9.8%		
1400	11.3%		
1600	12.7%		
1800	14.1%		
2000	15.4%	7.0%	20.0%
2400	17.2%		
2800	19.6%		
3000	22.0%	14.0%	
3200	22.0%		

3600	24.4%		
4000	26.8%	20.0%	
4800	30.3%		
5000	33.3%	26.0%	27.0%
5600	33.3%		
6000	35.7%	32.0%	
6400	35.7%		
7000	37.9%	38.0%	
7200	37.9%		
8000	39.9%	44.0%	
8800	41.8%		
10,000	44.1%	48.0%	35.0%
12,000	48.2%	52.0%	
15,000	54.6%		45.0%
16,000	60.3%	55.0%	
20,000	60.3%	60.0%	55.0%
25,000	64.0%		60.0%
40,000	64.0%	64.0%	65.0%
Above 40,000	66.7%	67.0%	65.0%
Steps	**29**	**14**	**7**
Tax-free-threshold ($)	**1040**	**1040**	**1040**

Source: Income tax Acts (1973, 1974 and 1975)

Figure 10: Progression of Marginal Tax Rates, 1973–74 to 1975–76



Source: Income tax acts (1973, 1974 and 1975)

The 1975 Budget also replaced a range of concessional tax deductions with tax rebates, calculated at 40 per cent of the deduction amounts previously allowed. A minimum concessional rebate of $540 was provided to all taxpayers which effectively raised the tax-free-threshold from $1041 to $2520.[150] (Average earnings were around $6,000.)

The change from deductions to rebates reflected a longstanding debate about the trade-off between equity and simplicity, with deductions being of more value to higher-income earners but simpler to administer. The original Commonwealth income tax Act provided for concessional deductions. The Curtin government replaced these with rebates in 1942 as an equity measure which the Menzies government changed back to deductions in 1950 as a simplification measure.

While the Asprey Report's main recommendations were not actioned in the short term, it had provided a seminal tax blueprint that would inform future tax reforms.

Tariffs

One other revenue change of note made by the Whitlam government, which was outside the Asprey terms-of-reference, was a large tariff reduction. Tariffs (customs duties) had long been part of Australian policy, both as an industry protection measure and a revenue source.

The new Whitlam government, though, saw a tariff reduction as an anti-inflation strategy, and in June 1973 commissioned a report by a group led by Alf Rattigan,[151] who was chair of the Tariff Board and known to favour tariff cuts. Three weeks later, the group recommended a 25 per cent across-the-board tariff reduction, which the government accepted and implemented.

This was an important economic reform, reducing a tax on imports and increasing the level of competition for Australian industry, hence putting downward pressure on prices for consumers. It was also an erosion of the revenue base. After this one-off cut, though, there weren't significant further tariff reductions until the 1980s reforms, which I will discuss in the next paper.

Lessons in Tax Reform

The Asprey Report had, for the first time in Australia, laid out a full blueprint for reform of the Commonwealth tax system. I will assess it as a tax reform exercise against the five criteria described at the start of this paper.

Terms-of-Reference and Panel

The terms-of-reference were deliberately broad, with the government saying it wanted to 'have an overall look at tax policy'.[152] The independent panel was a good mix of lawyers, an economist, an accountant and a businessperson.

The open terms-of-reference and independent panel indicated the government was serious about embarking on a full review of the Commonwealth tax system.

Gathering of Evidence and Calling of Witnesses

The gathering of evidence was extensive, with 605 submissions, commissioned studies, Treasury and ATO background papers, and evidence from overseas tax systems. There were no public hearings or general calling of witnesses, but the committee had discussions with some submission authors.

The report was well researched and informed by previous work and submissions. The committee appears to have used the expertise of its members and a strong secretariat to good effect to compile a high-quality report.

Timeliness and Relevance

The report took just over two years to complete, but a preliminary report was provided to inform the 1974 Budget measures. The final report was provided in good time to inform the 1975 Budget and had some impact with the further personal income tax rate restructure. Overall, though, the report had a limited, short-term impact, which was understandable given the political environment at the time.

Approach to Analysis of Issues

The analysis and conclusions in the report are presented in a full public finance framework using the criteria of efficiency, fairness and simplicity. The analysis is strong across economic, legal and accounting concepts. The report then uses this conceptual framework to address all aspects of the tax system.

One limitation of the report is the lack of substantial economic, or even fiscal, quantitative modelling to underpin its key recommendations. In part, this reflects the period, with the availability of such modelling limited in the 1970s.[153] The report, regardless, reaches strong conceptual positions.

A related issue is that the report's central recommendation, for a shift in the tax weight from direct personal income tax to indirect consumption tax, doesn't clearly distinguish the two main changes in that shift. The first change is from income to consumption, which the report does identify. The other is from direct to indirect, which is the difference between a progressive tax and a flat-rate tax. It is this change, more so than the switch from income to consumption, that is key to the efficiency and equity impacts of the shift. Table 5 illustrates this taxonomy.

Table 5: Direct/Indirect Income/Consumption Taxonomy

	Income	**Consumption**
Direct	Personal income tax	(Owner-occupied housing)*
Indirect	Payroll tax	Value-added tax

* The long-standing treatment of owner-occupied housing, with its tax exemption for imputed rent and capital gains, but no concessions for purchase price or loan repayments, is equivalent to consumption tax treatment.

A further issue was that, because the separate Mathews review was dealing with the interactions between inflation and the tax system, there was some lack of consistency and coherence in the analysis of the taxation of capital income and the impact of inflation.[154]

Quality of Tax Policy Outcomes

The report's most important contribution was to provide a blueprint for reform of the Australian tax system that would inform future review processes. It would underpin the tax reform agenda for the following 25 years - with a capital gains tax, a fringe benefits tax, a foreign tax credit system, superannuation tax reform, an imputation system and (eventually) a value-added tax all being implemented (as I will discuss in the next two papers).

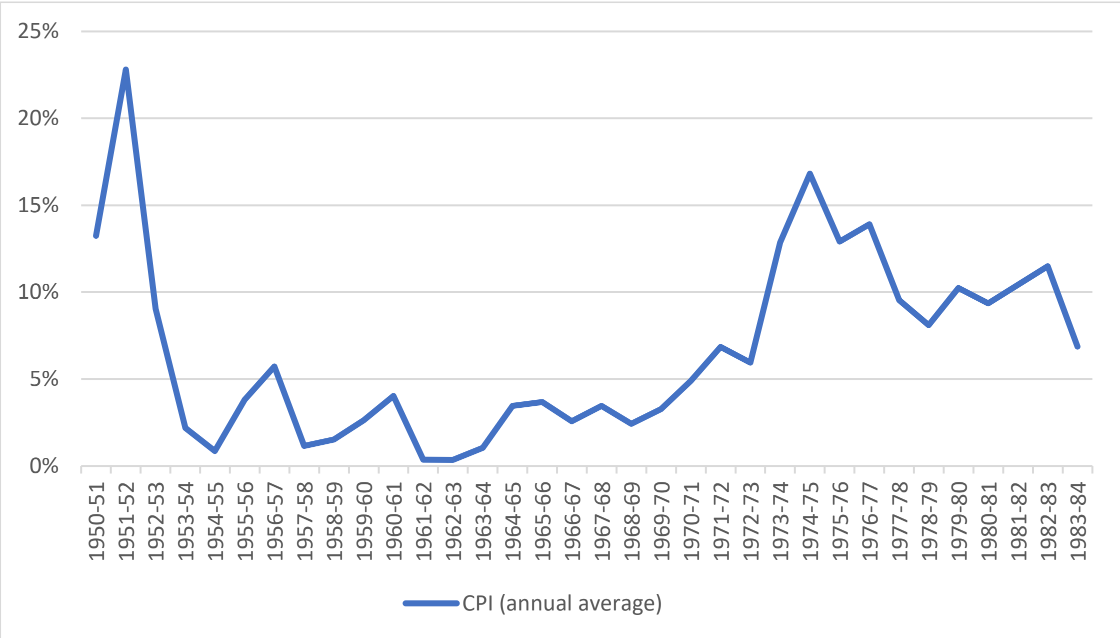
Conclusion

The Asprey report stands as Australia's most comprehensive tax review. The Australian tax system was in poor shape and the report set out a blueprint for a substantially different system. While it would take 25 years to implement, its main value was as a foundational review that would guide future, more determinative tax-reform exercises.

Committee of Inquiry into Inflation and Taxation (1975)

With inflation at double-digit levels in 1974 (see Figure 11), policymaking was increasingly difficult. There was significant angst among individuals being pushed into higher-income tax brackets and businesses seeing their capital and stock tax valuations degraded.

Figure 11: Inflation, 1950–51 to 1982–83



Source: RBA.

The government had received the Asprey preliminary report in June 1974 but wanted some specific advice on the impact of inflation on the tax system. Two factors were considered to make reform imperative: the rapid rate of inflation, and the increased weight of personal tax in government revenue.

Commissioning the Committee

On 8 December 1974, the Whitlam government, with Crean as Treasurer, established a committee to examine the effects of inflation on the tax system. Russell Mathews (ANU academic) was appointed as chair, with the other members being David Block (accountant), Jim Canny (former Deputy Commissioner of Taxation) and Rob Jolly (ACTU Research Officer and Industrial Advocate). Its terms-of-reference were to consider the effects of inflation on taxes paid by individuals and businesses and recommend ways to index the tax system to ameliorate that (see Appendix A).

The committee secretariat included Treasury staffers Daryl Dixon as Research Director and David Morgan as Research Officer and drew on the resources of the ATO, the ABS and commissioned research studies. The committee received 154 submissions as well as papers from government bodies, including two Treasury Taxation Papers, but in the short time frame consultation was limited to meetings with key groups (see Appendix B).[155] It reported on 22 May 1975.

The Committee's Approach

Formally, the committee's task was to examine the distorting effects of inflation on the tax system and recommend ways to alleviate that. Essentially, though, it was being asked to advise on how to index the tax system for inflation, rather than whether to. The committee acknowledged the economic damage being caused by inflation:

> When the rate of inflation passes a critical level, its effects on the taxation system change in kind as well as degree, and it becomes difficult for the economic system to adapt in

conventional ways. The threshold of adaptation has now been passed, and substantial changes need to be made on the bases of both personal and business taxation.[156]

As well as the impact of inflation on the amount of tax paid by individuals and businesses, the committee was concerned about the consequential impact of reductions in after-tax income in accelerating wage claims.[157] Rob Jolly recalls that the context for commissioning the Mathews Report was the attempts to manage high inflation with the wage indexation system of the time, and that the ACTU was encouraging the government to consider a prices and incomes policy.[158]

The committee noted the overlap with the Asprey Committee and that the two reviews had shared their work.[159]

Personal Income Tax Rates and Deductions

The committee identified two ways in which inflation affects the amount of income tax individuals pay: the interaction with the progressive rate scale and the devaluing of concessional deductions. With fixed marginal tax bracket thresholds in Australia's stepped, progressive personal income tax scale, increases in nominal incomes due to inflation pushed individuals onto higher tax rates[160], even in the absence of real income increases. Likewise, with concessional deduction amounts set in dollar terms, inflation devalued them in real terms.

The committee argued that these effects had unintended redistributive consequences. 'The principal effects of inflation on the distribution of the tax burden are: (a) it results in a different distribution from that which is intended or was legislated, and (b) the low income, large family taxpayer categories are likely to be the groups most adversely affected.'[161]

The committee then examined ways to index the personal income tax rate structure and concessional deduction amounts to correct for these consequences; that is, to neutralise the effect of inflation on the distribution of the tax burden so as to preserve the intended equity judgements implicit in the legislated tax schedule.[162] Jolly recalls the objective was to prevent inflation driving increases in real tax rates in the absence of real income increases.[163]

The committee favoured indexing for changes in prices, rather than nominal incomes, as the best way to maintain the personal tax equity objectives. Real income increases would still result in tax rate increases, but the committee argued that the objective of indexation was maintenance of relative, not absolute, tax burdens: 'Indexation schemes do not aim to freeze the *absolute* level of real tax burdens; they do aim to maintain legislated *relative* tax burdens until a conscious decision is taken to change them.'[164]

The committee recommended CPI indexation of the personal income tax brackets and dependant deduction amounts.[165] It said there was overwhelming support from all sectors of the community for indexation and noted that a number of other countries had adopted such provisions.[166]

Business Income Tax Base

The interaction of historical cost accounting with inflation meant that for some expenses, such as in regard to trading stock and fixed assets, when revenue and expenses were measured to assess profit in a later period they would be expressed in different prices.[167] As such, stock values and depreciation deductions would be devalued in real terms. To counter this, the committee recommended the use of replacement cost for stock valuations and depreciation provisions,[168] which required two valuation adjustments.

For trading stock, a cost-of-sales valuation adjustment, calculated as the difference between opening stocks valued at their actual prices and valued at the same price as closing stocks, would be allowed as a deduction from assessable income.[169]

For depreciation, a depreciation valuation adjustment, calculated using the ABS' Implicit Price Deflator for Gross Fixed Capital Expenditure to index depreciation allowances, would be allowed as a deduction from assessable income.[170]

Government Response

The Whitlam government did not introduce indexation in the 1975 Budget. Hayden, as Treasurer, said, 'It would not be possible to introduce tax indexation this year because of the very great revenue cost. In any case, the present scale is wholly unsatisfactory as a basis for indexation.'[171] Instead, the 1975 Budget further restructured the personal income tax rate scale, taking it from 14 to seven steps.

At the December 1975 election, though, the Coalition promised to introduce indexation, as informed by the Mathews and Asprey reports. The Fraser government then introduced full indexation of the personal income tax rate scale and some rebates from the 1976–77 income year, justified both as a tax decrease and for wage policy reasons.[172] A stock value adjustment was also introduced but the depreciation value adjustment was not implemented. Indexation did not, however, stand the test of political time and was ceased in 1979–80.[173]

Lessons in Tax Reform

The Mathews Committee had been commissioned to advise on indexation of the tax system and did so in a short timeframe. I will assess it as a tax-reform exercise against the five criteria.

Terms-of-Reference and Panel

The committee's terms-of-reference were specific, asking it to consider how to index the tax system, rather than whether to. The report was structured in that way. The panel and secretariat had relevant expertise and so were competent to assess the substantive issues without relying on external experts.

Part One of the report, on personal income tax, was drafted by Morgan who was doing his PhD on the effect of inflation on a progressive income tax system, while Dixon was responsible for organising the committee's research program and also played a major role in drafting the report.[174] The work was overseen by Mathews in particular who was an academic expert in the field.

Gathering of Evidence and Calling of Witnesses

There was insufficient time, and probably limited need, for extensive consultation. Substantial evidence had already been assembled by previous processes, including the Asprey review, and the committee was able to draw on that as well as its own expertise.

Timeliness and Relevance

This was a quick, focused review, reporting five months after commissioning, that was designed to facilitate immediate implementation. While that didn't happen under the Whitlam government, the report did form the basis for the Coalition's 1975 election platform. With high inflation being a major concern for policymakers at the time, the report was highly relevant.

Approach to Analysis of Issues

The committee used strong economic and accounting frameworks to support its analysis and reach its recommendations. While the report was lengthy and not especially well written, this reflected the short time frame in which it was prepared.[175]

The report's main shortcoming was the partial nature of its business tax recommendations with indexation proposed only for trading stock and asset depreciation and not other forms of capital, in particular monetary assets and liabilities.[176]

Quality of Tax Policy Outcomes

The Fraser government implemented indexation of the personal income tax rate scale, so in that sense the committee fulfilled its purpose. That indexation was undone within a few years, though, and has not been fully implemented since. In reality, governments want the fiscal flexibility, including to design (and announce) tax cuts on a regular basis, rather than be locked into a set income tax distribution.

Further, with inflation relatively low in Australia since the early 1990s, the issues have been less obvious.

Conclusion

The Mathews review was fit-for-purpose. It was tasked with designing methods to index aspects of the tax system at a time of high inflation, and it did that in a robust and timely way.

Post-Asprey/Matthews Tax Directions

After the reformist but tumultuous years of the Whitlam government, the Fraser government's tenure was a period of less reform. Indexation of the personal tax scale lasted only a few years, as the government eyed opportunities to announce tax cuts.

Structural rigidities in the economy remained largely unactioned. Treasury was advocating a fight-inflation-first policy using macroeconomic policy levers – wage restraint, budget consolidation, tight monetary policy and an overvalued exchange rate – not yet fully recognising the need for major microeconomic reforms.

Gaps in the tax base likewise remained largely unactioned, and high rates of personal income tax at the top end of the scale continued to incentivise tax avoidance and evasion. The most audacious face of this was the bottom-of-the-harbour schemes that involved stripping companies of their assets and profits before tax liabilities fell due. The government legislated against these schemes prospectively in 1980 and retrospectively in 1982, but it was seen to be slow to act against parts of its own constituency. There was a serious degradation of taxpayer morality in Australia.

The next opportunity for the consideration of genuine tax reform came with the 1981 Committee of Inquiry into the Australian Financial System (the Campbell Committee). While mainly inquiring into the operation of Australia's financial system, its report addressed some related tax issues and provided further support for reform. Also of relevance to the tax-reform debate was the expanding social welfare system, in particular the 1976 introduction of family allowance payments. I will return to these issues in the next paper.

Final Observations

The post-war period in Australia was a time of relative stability, but also a time when fundamental problems in the economy, including the tax system, went largely unactioned. The Asprey review identified the flaws in the Australian tax system and provided a blueprint for its reform. While it did not lead to substantive policy reforms in the short term, it laid important foundations for the more determinative reform processes that were to come in 1985 and 1998. The Asprey Report stands as Australia's most important and influential foundational tax review.

Appendix A

Review Terms-of-Reference

The Spooner Committee's overarching terms-of-reference were as follows:

> The functions of the Committee will be to examine and inquire into such matters as are, from time to time, referred to the Committee by the Treasurer of the Commonwealth in connexion with income tax and other taxation laws of the Commonwealth, and to report to the Treasurer on those matters. In respect of those matters, the Committee will recommend any changes in law or procedure which it considers necessary to achieve the following objects:- (1) making the laws as simple and intelligible to the taxpayer as the nature of the legislation admits; (2) simplifying the duties of taxpayers under those laws, especially in preparation of returns; (3) removing anomalies in those laws; and (4) providing an adequate and equitable basis of taxation.[177]

The Hulme Committee's terms-of-reference were as follows:

> To inquire into and report upon – (1) whether the effective lives of units of property as estimated by the Commissioner of Taxation as required by section 55 (1) of the *Income Tax and Social Services Contribution Act* 1936-1953 are fair and reasonable; (2) whether the bases of depreciation provided by the said Act ensure that the cost of each unit of property is deducted in a reasonable manner over the effective life of the unit; (3) whether it is practicable and desirable, in determining annual rates of depreciation, to take into account possible obsolescence of a unit of property before the effective useful life of that unit is complete; (4) whether it would be desirable to provide, by way of an amendment of the law, for an option whereby the taxpayer might claim depreciation at a standard rate per annum on all units of property in respect of which depreciation is allowable to him, and, if so, what rate should be specified as the maximum standard rate of depreciation; and (5) whether it would be desirable to extend deductions for depreciation to any classes of assets not subject to such allowances under the present law.[178]

The Ligertwood Committee's initial terms-of-reference were as follows:

> (1) The functions of the inquiry are, subject to paragraphs (2) and (3) of these Terms of Reference – (a) to examine and inquire into the existing laws of the Commonwealth relating to taxation of income, and the operation of those laws, for the purpose of ascertaining any anomalies, inconsistencies, unnecessary complexities and other similar defects that exist in, or arise out of the operation of those laws, and to formulate proposals for remedying those anomalies, inconsistencies, complexities and other defects and for simplifying those laws; and (b) to enquire into any matters relating to the taxation laws of the Commonwealth, other than the laws relating to duties of Customs or of Excise that are, from time to time, referred to the Committee by the Treasurer of the Commonwealth; and (c) to report and make recommendations to the Treasurer of the Commonwealth concerning the matters dealt with by the Committee.
>
> (2) In making recommendations with respect to the laws relating to the taxation of income, the Committee shall have regard to the cost to Consolidated Revenue of giving effect to the recommendations and shall take it to be necessary for the Commonwealth to continue to receive, from the taxation of income, Revenue not less than the Revenue that might be expected to be received under the existing laws.
>
> (3) The functions of the Committee do not extend to the matters dealt with in the report made by the Commonwealth Committee on Rates of Depreciation appointed in 1954, or,

except as approved by the Treasurer, to any matter dealt with in a report of the Commonwealth Committee on Taxation appointed in 1950.

On 17th December 1959, the Committee met the Right Honourable the Treasurer and his officers in Sydney to discuss the terms of reference and particularly the extent to which the Treasurer proposed to enlarge the Committee's functions under paragraph (3). Towards the end of January, 1960, the Committee was instructed that by way of enlargement of paragraph (3) and for the purposes of paragraph (1) (a) of the Reference, the Committee was empowered to inquire into the whole of the laws relating to income tax subject to three main exceptions. Those exceptions were - (1) that the Committee was not to review the basic principle of the present Assessment Act, namely that to arrive at taxable income, the commencing point is assessable income, from which is to be deducted – (a) all losses and outgoings incurred in gaining that income, except to the extent that such losses or outgoings are of a capital, private or domestic nature; and (b) such other amounts as are specifically allowed as deductions under the Act; (2) that the Committee was not to review the provisions in the Act relating to depreciation as that subject had been adequately covered by previous enquiries; (3) that the Committee was not to consider the subject of Zone Allowances.[179]

The Asprey Committee's terms-of-reference were as follows:

1 The functions of the Committee of Inquiry are –
   (a) to examine and inquire into the structure and operation of the present Commonwealth taxation system;
   (b) to formulate proposals for improving the Commonwealth taxation system, either by way of making changes in the present system, abolishing any existing form of taxation or introducing new forms of taxation; and
   (c) report to the Treasurer of the Commonwealth accordingly.

2 The Committee of Inquiry shall, in carrying out its functions, do so in the light of the need to ensure a flow of revenue sufficient to meet the revenue requirements of the Commonwealth and have regard to –
   (a) the effects of the present Commonwealth taxation system, and of any proposals formulated by the Committee, upon the social, economic and efficient use of the resources of Australia; and
   (b) the desirability of the Commonwealth taxation system being such that, so far as is practicable, there is a fair distribution of the burden of taxation, and revenue is raised by means that are not unduly complex and do not involve the public or the administration in undue difficulty, inconvenience or expense.

3 For the purposes of these terms of reference, the present Commonwealth taxation system shall be taken to be the system under which the Commonwealth raises revenue by means of the following forms of taxation: Income Tax; Sales Tax; Estate Duty; Gift Duty; Duties of Excise imposed for the purpose of raising general revenue, and duties of Customs that correspond with duties of Excise so imposed.[180]

The Mathews Committee's terms-of-reference were:

1 To examine the effects of rapid inflation on taxation paid by persons and in particular –
   (a) to examine methods which could be used to apply indexation to the personal income tax system;
   (b) to assess their relative merits in terms of:

(i) effectiveness in providing an up-to-date adjustment for price increases,
(ii) practicality of administration;

(c) to recommend:
(i) the method considered most suitable, and
(ii) the price index considered most suitable if the Government should wish to apply indexation to personal income tax.

2 To examine the effects of rapid inflation on taxation paid by companies and other enterprises and in particular –

(a) to examine the various choices available to taxpayers under the provisions of the income tax law relating to the valuation of trading stock and to assess the advantages and disadvantages of providing other bases of stock valuation for income tax purposes;
(b) to consider the advantages and disadvantages of alternative methods of providing allowance for income tax purposes for depreciation of plant and equipment, including allowance of deductions for depreciation calculated at flexible or accelerated annual rates;
(c) to make recommendations in relation to these matters.[181]

Appendix B

Comparison of Reviews

	Time	Submissions/witnesses	Hearings	Report size	Type
Spooner Committee	Several years			Over 50 references	Determinative
Hulme Committee	6 months	Over 100 submissions	Capital cities	156 pages	Determinative
Ligertwood Committee	6 months	519 submissions	Submission writers	185 pages	Determinative
Asprey Committee	3 years	605 submissions	Not public. Some submission authors.	594 pages	Foundational
Mathews Committee	5 months	154 submissions	Key groups	747 pages	Determinative

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Notes

[1] From 1964, Treasury published a series of policy papers as supplements to the *Treasury Information Bulletin*, with these replaced in 1971 by a series of *Treasury Economic Papers* (see Tilley (2019), pp. 74 and 92).
[2] Parliamentary debates: 26 February 1953; 9 September 1953.
[3] The first challenge was at the time of the Commonwealth income tax takeover in 1942 (Aitken and Orr, p.71).
[4] Due, p. 186.
[5] Governor-General's speech, opening of parliament, 22 February 1950.
[6] Hill, p. 12.
[7] Chifley, Address-in-Reply to Governor-General's speech, 23 February 1950.
[8] Commonwealth Committee on Taxation (1950), Reference no. 1, p. 3.
[9] Commonwealth Committee on Taxation (1950), Reference no. 1, p. 10.
[10] Commonwealth Committee on Taxation (1950), Reference no. 1, pp. 3-5.
[11] Commonwealth Committee on Taxation (1950), Reference no. 1, p. 4.
[12] Commonwealth Committee on Taxation (1950), Reference no. 15, p. 1.
[13] Commonwealth Committee on Taxation (1950), Reference no. 15, p. 8.
[14] Commonwealth Committee on Taxation (1950), Reference no. 15, pp. 11-12.
[15] Fadden, Arthur, Budget Speech 1950–51, 12 October 1950, Hansard, pp. 775-778.
[16] But retaining the double-barrelled name 'income tax and social services contribution'.
[17] This issue involved a trade-off between equity and simplicity, with deductions being of more value to higher-income earners but simpler to administer.
[18] The terminology used at the time was 'general exemption'.

[19] Fadden, Arthur, Budget Speech 1950–51, 12 October 1950, p. 980.

[20] *Income Tax and Social Services Contribution Assessment Act 1953*, Schedule 1.

[21] Fadden, Arthur, Budget Speech 1951–52, 26 September 1951, p. 60, and *Income Tax and Social Services Contribution Bill 1951*, Second Reading speech, Hansard, 11 October 1951, p. 533.

[22] Fadden, Arthur, Budget Speech 1953–54, 9 September 1953, p. 48.

[23] Commonwealth Committee on Rates of Depreciation, p. 1.

[24] Prime cost allows a set percentage of the original value of the asset to be depreciated each year (so the same dollar amount each year), while diminishing value allows for a set percentage of each year's depreciated value (so reducing dollar amounts each year).

[25] Commonwealth Committee on Rates of Depreciation, p. 6.

[26] Commonwealth Committee on Rates of Depreciation, pp. 14–17.

[27] Fadden, Arthur, Budget Speech 1955–56, 24 August 1955, pp. 14–15.

[28] Fadden, Arthur, Budget Speech 1957–58, 3 September 1957, p. 13.

[29] Commonwealth Committee on Taxation (1961), p. xi.

[30] Commonwealth Committee on Taxation (1961), p. x.

[31] Boxer, p. 366.

[32] Commonwealth Committee on Taxation (1961), p. xv.

[33] Commonwealth Committee on Taxation (1961), paras 49–55.

[34] Commonwealth Committee on Taxation (1961), paras 56–61.

[35] Commonwealth Committee on Taxation (1961), paras 436–58.

[36] Commonwealth Committee on Taxation (1961), para 444.

[37] Harold Holt, *Hansard*, 17 August 1961, pp. 182–4.

[38] Holt, Harold, Budget Speech 1963–64, 13 August 1963, pp. 18–20.

[39] Evans and Krever, p. 2.

[40] Fadden, Second Reading speech, Land Tax Abolition Bill 1952, *Hansard*, 25 September 1952.

[41] Fadden, Arthur, Budget Speech 1953–54, 9 September 1953, p. 49.

[42] Treasury Taxation Paper no. 1, pp. 10–13.

[43] Due, p. 186.

[44] Fadden, Arthur, Budget Speech 1953–54, 9 September 1953, p. 45.

[45] Fadden, Arthur, Budget Speech 1954–55, 18 August 1954, p. 390.

[46] ABS, Consumer Price Index.

[47] MeasuringWorth, Australian Wages Series.

[48] Fadden, Arthur, Budget Speech 1951–52, 26 September 1951, p. 60.

[49] Menzies, pp. 788–90.

[50] Fadden, Arthur, Budget Speech 1957–58, 3 September 1957, pp. 11–16.

[51] Holt, Harold, Budget Speech 1960–61, 16 August 1960, pp. 43–5.

[52] Holt, Harold, Budget Speech 1964–65, 11 August 1964, pp. 8–9.

[53] McMahon, William, Budget Speech 1964–65, 13 August 1968, pp. 16–17.

[54] Bury, Leslie, Budget Speech 1970-71, 18 August 1970, pp. 17–18.

[55] Groenewegen (1980), p. viii.

[56] Taxpayer morality is a term to describe acceptance by taxpayers of their obligation to pay tax and the broad fairness of how the tax system applies across the community to raise the necessary government revenues.

[57] The Social Science Research Council was founded in 1952 as the national organisation of Australian social scientists.

[58] Downing et al., pp. 39–49.

[59] Downing et al., p. 5.

[60] Downing et al., pp. 42–3.

[61] Downing et al., p. 45.

[62] Downing et al., p. 46.

[63] Downing et al., p. v.

[64] Downing et al., p. 53.

[65] Simons defined income as the increase in economic power over a period of time.

[66] Downing et al., p. 125.

[67] Downing et al., p. 111.

[68] Downing et al., p. 184.
[69] Under the Irving Fisher/Kaldor/James Meade expenditure tax approach, taxable expenditure is calculated as receipts minus change in wealth.
[70] Downing et al., p. 54.
[71] Downing et al., p. 102.
[72] Downing et al., p. 62.
[73] Bensusan-Butt, pp. 226–7.
[74] *Western Australia v Chamberlain Industries Pty Ltd* (1970) 121 CLR1 (see Aitken and Orr, p. 71).
[75] Hawkins, p. 121.
[76] Bury, Leslie, Budget Speech 1970-71, 18 August 1970, pp. 17–18.
[77] Snedden, p. 1430.
[78] Bensusan-Butt resigned from the committee after the completion of the preliminary report.
[79] Taxation Review Committee, p. xix.
[80] Sam McBurney was head of the Taxation Policy Branch from its creation in 1969 to the establishment of the Taxation Policy Division in 1984, when he became head of the Business Taxation Policy Branch, or acting division head, until his retirement in 1986.
[81] Taxation Review Committee, p. 3.
[82] Alan Henderson, 7 October 2020.
[83] Taxation Review Committee, p. 3.
[84] Taxation Review Committee, pp. 2-3.
[85] Taxation Review Committee, p. 10.
[86] Taxation Review Committee, p. 12.
[87] Taxation Review Committee, p. 16.
[88] Taxation Review Committee, p. 12.
[89] Taxation Review Committee, p. 13.
[90] Taxation Review Committee, p. 15.
[91] Taxation Review Committee, p. 21.
[92] Taxation Review Committee, pp. 20–1.
[93] Taxation Review Committee, pp. 17–20.
[94] Taxation Review Committee, pp. 35–7.
[95] Taxation Review Committee, p. 33.
[96] Taxation Review Committee, p. 37.
[97] Taxation Review Committee, p. 530.
[98] International comparisons became more accessible and meaningful after Australia joined the OECD in 1971.
[99] Taxation Review Committee, p. 9.
[100] Geoffrey Brennan, 26 May 2020.
[101] Bensusan-Butt had come to the ANU from Cambridge, where he had been a student of Keynes (and had in fact prepared the index for Keynes' *The General Theory of Employment, Interest and Money*).
[102] Hill, p. 15.
[103] Taxation Review Committee, p. 15.
[104] Haig, p. 59.
[105] Simons, p. 206.
[106] Taxation Review Committee, pp. 117–24.
[107] Taxation Review Committee, p. 128.
[108] Taxation Review Committee, p. 129.
[109] The Chair, Keith Asprey, dissented from this view, arguing for maintenance of just the individual as the income tax unit.
[110] Taxation Review Committee, p. 135.
[111] Taxation Review Committee, pp. 82-90.
[112] Taxation Review Committee, p. 182.
[113] Taxation Review Committee, pp. 48–9.
[114] Taxation Review Committee, p. xix.
[115] Taxation Review Committee, p. 185.
[116] Taxation Review Committee, pp. 188–92.
[117] Taxation Review Committee, p. 195.
[118] Taxation Review Committee, p. 187.

[119] Taxation Review Committee, p. 199.
[120] Taxation Review Committee, pp. 226–7.
[121] Taxation Review Committee, p. 227.
[122] Taxation Review Committee, pp. 230–238.
[123] Taxation Review Committee, p. 232.
[124] Treasury Taxation Paper no. 9, pp. 36–7.
[125] Taxation Review Committee, pp. 260-265.
[126] Taxation Review Committee, p. 270.
[127] Taxation Review Committee, p. 360.
[128] EET is consumption tax treatment, while Taxed, Taxed, Exempt (TTE) is income tax treatment.
[129] Taxation Review Committee, pp. 349-367.
[130] Taxation Review Committee, p. 414.
[131] Bunching refers to the issue where if many years of capital gain are all taxed in one year they may incur a higher tax rate than would apply if the gain had been taxed incrementally as it accrued year by year.
[132] Taxation Review Committee, pp. 416-429.
[133] Taxation Review Committee, pp. 418–19.
[134] Taxation Review Committee, p. 419.
[135] Taxation Review Committee, p. 426.
[136] Taxation Review Committee, pp. 440-443.
[137] Taxation Review Committee, p. 510.
[138] Taxation Review Committee, p. 513.
[139] Taxation Review Committee, p. 515.
[140] Taxation Review Committee, p. 520.
[141] Taxation Review Committee, p. 516.
[142] Taxation Review Committee, p. 521.
[143] Taxation Review Committee, p. 522.
[144] Taxation Review Committee, p. 530.
[145] Crean, Frank, Budget Speech 1974–75, 17 September 1974, 1974, pp. 1288–9.
[146] The full group was Trevor Swan (Chair), Fred Gruen (ANU), Brian Brogan (Whitlam's office), Peter McAuley (Hayden's office), Bill Cole (Treasury) and Keith Brigden (ATO).
[147] Hayden, Bill, Budget Speech 1975–76, 19 August 1975 (1975), p. 222.
[148] Hayden, Bill, Budget Speech 1975–76, 19 August 1975, pp. 22–4.
[149] ABS cat. no. 6302, Average Weekly Earnings, June quarter 1975.
[150] Hayden, Bill, Budget Speech 1975–76, 19 August 1975, p. 24.
[151] The other members of the group were Fred Gruen and Stuart Harris.
[152] Snedden, p. 1430.
[153] Treasury was still developing its National Income Forecasting macroeconomic model at this time.
[154] Head (1986), p. 146.
[155] Committee of Inquiry into Inflation and Taxation, pp. iii–v.
[156] Committee of Inquiry into Inflation and Taxation, p. vii.
[157] Committee of Inquiry into Inflation and Taxation, p. viii.
[158] Rob Jolly, 28 August 2020.
[159] Committee of Inquiry into Inflation and Taxation, pp. 2–3.
[160] This effect will increase individuals' average tax rates, and some will be pushed across a rate threshold and so also face higher marginal tax rates.
[161] Committee of Inquiry into Inflation and Taxation, pp. vii–viii.
[162] Committee of Inquiry into Inflation and Taxation, p. 111.
[163] Rob Jolly, 28 August 2020.
[164] Committee of Inquiry into Inflation and Taxation, p. 113.
[165] Committee of Inquiry into Inflation and Taxation, pp. ix-xii.
[166] Committee of Inquiry into Inflation and Taxation, pp. 109–10.
[167] Committee of Inquiry into Inflation and Taxation, p. 2.
[168] Committee of Inquiry into Inflation and Taxation, p. xvi.
[169] Committee of Inquiry into Inflation and Taxation, p. 646.
[170] Committee of Inquiry into Inflation and Taxation, pp. 647–8.
[171] Hayden, Bill, Budget Speech 1975–76, 19 August 1975, p. 23.

[172] Lynch, Phillip, 'Fiscal Policy Decisions', Press release, 20 May 1976, pp. 52–6.

[173] Howard, p. 2392.

[174] Committee of Inquiry into Inflation and Taxation, p. v.

[175] Committee of Inquiry into Inflation and Taxation, p. 7.

[176] See Tilley (1990), pp. 54-56.

[177] Hill, pp. 12–13.

[178] Commonwealth Committee on Rates of Depreciation, p. 1.

[179] Commonwealth Committee on Taxation, 1961, pp. ix–x.

[180] Taxation Review Committee, p. xvii.

[181] Committee of Inquiry into Inflation and Taxation, pp. i–ii.