

TTPI

Tax and Transfer Policy Institute

1985 reform of the Australian tax system

TTPI - Working Paper 7/2021 April 2021

Paul Tilley

Visiting Fellow Tax and Transfer Policy Institute,
Crawford School of Public Policy
The Australian National University

Abstract

After the tumult of the Whitlam government, the Fraser government (1975-1983) saw consolidation with less reform. The 1975 Asprey report remained largely unactioned, despite the fundamental problems that burdened the Australian tax system. The 1983 election of the Hawke government, however, set in train a series of economic reforms, and tax would play a big part in these. This paper tracks those developments, starting with the tax avoidance and evasion issues that plagued the era and the 1981 Campbell Committee financial system review. The main focus, though, is on the 1985 draft white paper and tax summit that delivered the first instalment of the Asprey blueprint. While the broad-based consumption tax didn't get up, the package reformed Australia's income tax system, with a capital gains tax, a fringe benefits tax, a foreign tax credit system and a dividend imputation system.

Keywords: tax, avoidance and evasion, reform, economic, public finance, government

** Sincere thanks to Greg Smith, Matthew Ryan and Bob Breunig as referees for the paper and to Diane Paul at the TTPI for organising its publication and the seminar. Author contact is paulamtilley@gmail.com*

Tax and Transfer Policy Institute
Crawford School of Public Policy
College of **Asia and the Pacific**
+61 2 6125 9318
tax.policy@anu.edu.au

The Australian National University
Canberra ACT 0200 Australia
www.anu.edu.au

The Tax and Transfer Policy Institute (TTPI) is an independent policy institute that was established in 2013 with seed funding from the federal government. It is supported by the Crawford School of Public Policy of the Australian National University.

TTPI contributes to public policy by improving understanding, building the evidence base, and promoting the study, discussion and debate of the economic and social impacts of the tax and transfer system.

The Crawford School of Public Policy is the Australian National University's public policy school, serving and influencing Australia, Asia and the Pacific through advanced policy research, graduate and executive education, and policy impact.

1985 REFORM OF THE AUSTRALIAN TAX SYSTEM

Introduction

After the tumult of the Whitlam government, the Fraser government (1975-1983) saw consolidation with less reform. The 1975 Asprey Report remained largely unacted, despite the fundamental problems that burdened the Australian tax system. The 1983 election of the Hawke government, however, set in train a series of economic reforms, and tax would play a big part in these.

This paper tracks those developments. It starts with the Fraser government, covering the tax avoidance and evasion issues that plagued the era, and the 1981 Campbell Committee financial system review. The focus then moves to the Hawke government's 1985 draft white paper and tax summit that delivered the first instalment of the Asprey blueprint, and the follow-up 1988 economic statement reforms.

Tax Reform Criteria

I will use the criteria set out in the first paper to evaluate these tax reviews:

- 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.

Context for Tax Reform

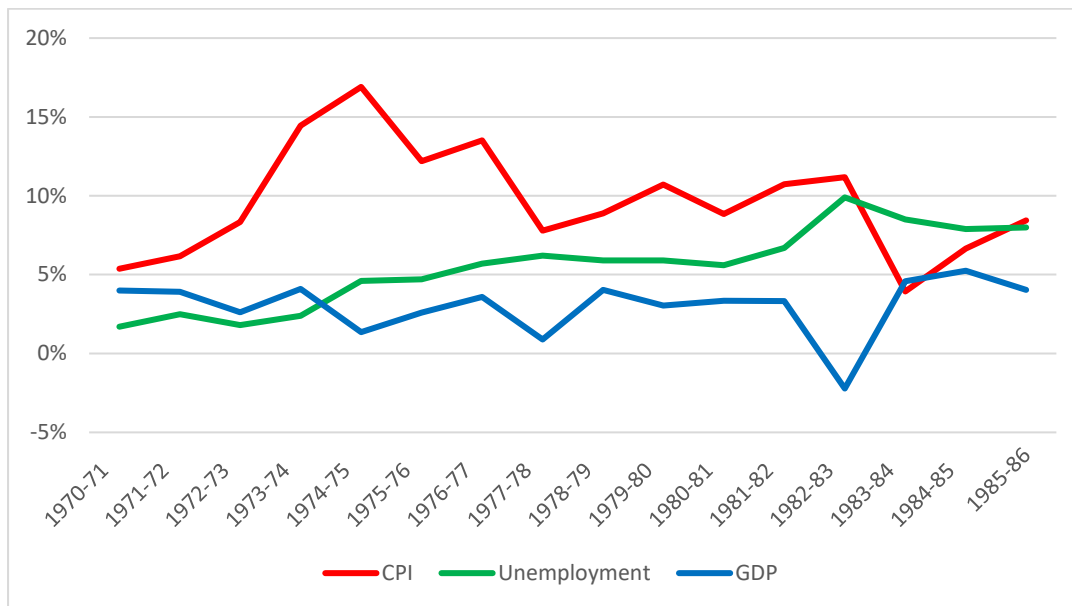
By the late-1970s, the Australian economy and tax system were both in disrepair, buffeted by high inflation and structural rigidities.

The Economy

The focus of economic policy in the second half of the 1970s was on containing inflation. The main policy instruments in play were macroeconomic: wage indexation, money supply targeting, fiscal policy and the exchange rate. Some inroads were made into inflation, with restrictive budgets in 1978 and 1979 subduing economic growth, but the second oil price shock in 1979 rekindled inflation and wage pressures. Then, in the early 1980s, with the global economy slowing down and the added effects of a drought, the Australian economy went into recession.

As Figure 1 shows, the Australian economy was in poor shape at this time, lurching from stagflation to recession. The problems were fundamentally structural and not solvable by the manipulation of macroeconomic levers. A microeconomic reform agenda was needed, but that was yet to be fully realised.

Figure 1: Stagflation



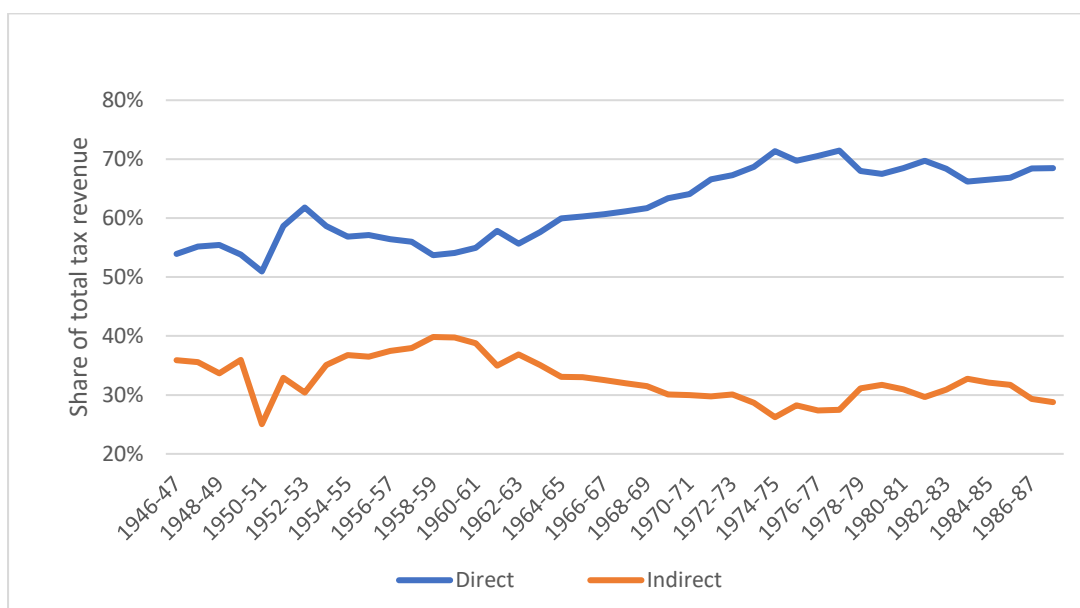
Sources: RBA (CPI and unemployment) and ABS (GDP) publications

The Tax System

After the step-up in the size of government under Whitlam, the Fraser government underwent a period of fiscal consolidation, with taxes allowed to rise as part of that. The 1978 Budget raised substantial additional revenue, with a temporary surcharge on the standard personal tax rate, increases in excise and customs duties, and a crude oil production levy. Commonwealth tax/GDP increased from 20 per cent in 1975–76 to 22 per cent in 1981–82.

There was also a modest shift in the tax mix from direct income taxes to indirect consumption taxes, temporarily reversing the post–World War II trend. As Figure 2 shows, as a share of Commonwealth tax revenue, total income taxes fell from 71 per cent in 1976–77 to 68 per cent in 1982–83, while indirect consumption taxes rose from 27 per cent to 31 per cent.

Figure 2: Direct Versus Indirect Commonwealth Taxes, Post–World War II*



* Direct: personal income tax, company income tax. Indirect: customs and excise, sales tax.

Sources: CBCS and ABS publications

The Fraser Government

While the Fraser government's tenure did not feature major economic reforms, there were some financial sector advancements, such as the 'dirty float' of the exchange rate and tenders for issuing government bonds, and some tax and welfare changes, which are discussed below.

Tax Indexation

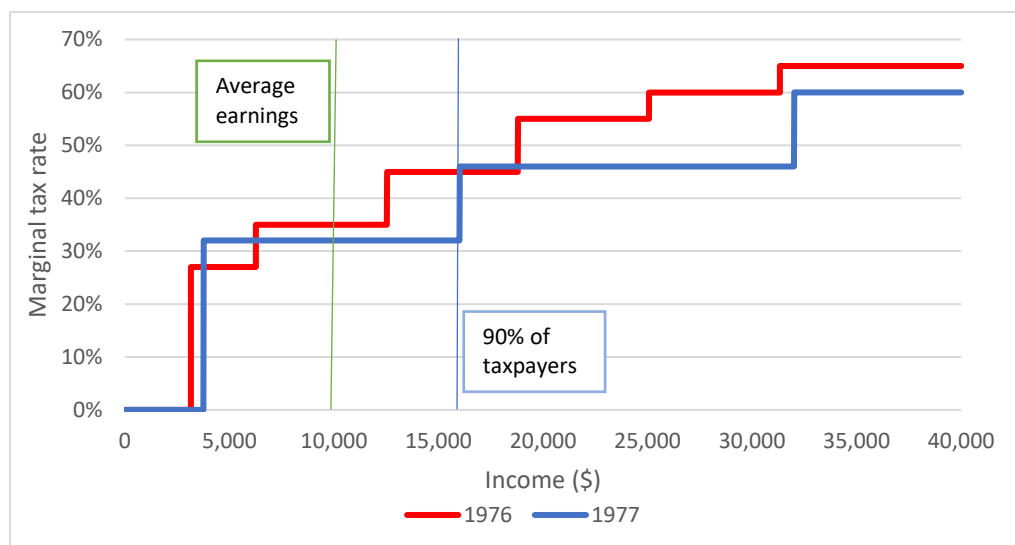
The incoming government had made an election commitment to index the tax system, based on the 1975 Mathews review. In a May 1976 economic statement, Treasurer Phillip Lynch announced full indexation of the personal income tax rate scale and some rebates for the 1976–77 income year, presented both as a tax decrease and for wage policy reasons.¹ The indexation factor for that first year was 13 per cent. A partial trading stock value adjustment was also provided,² but not a depreciation value adjustment.

Indexation did not, however, stand the test of political time and ceased in 1979–80.³ Partial indexation of the personal income tax rate scale was provided in 1980–81 and 1981–82.

Income Tax Rate Scale

The 1977 Budget simplified the personal income tax rate scale, reducing it from seven to three steps (see Figure 3). The general concessional rebate, introduced by Whitlam, was also abolished and the tax-free-threshold was raised to \$3750.⁴ A standard tax rate of 32 per cent then applied up to \$16,000, which covered 90 per cent of taxpayers.⁵ The top tax rate was reduced from 65 per cent to 60 per cent, cutting in around three times average earnings.

Figure 3: Personal Income Tax Rate Scale, 1977–78



Source: 1977-78 budget papers, statement 4

These changes constituted a substantial tax cut, which was presented as a 'fistful of dollars' at the 1977 election campaign. The tax cuts, however, were regarded as not affordable,⁶ and they were partially reversed after the election with a one-off increase in the standard rate and the subsequent cessation of indexation.

The company tax rate was increased from 42.5 per cent to 46 per cent from the 1976–77 income year, justified by the generous concessions, such as the investment allowance and trading stock indexation, that had been provided to business.⁷

Family Allowance

Families with children have been provided with financial assistance in Australia since 1912 through a mix of payments and tax concessions.⁸ The Fraser government replaced the tax concessions with the

Family Allowance in 1976 to target assistance to low-income earners,⁹ consistent with the 1975 Henderson Poverty Inquiry recommendations.¹⁰ This change recognised that assistance to disadvantaged groups, particularly low-income earners, was better targeted through the transfer system than the tax system.

Crude Oil Production Levy

Until the 1970s, in Australia, domestically produced oil was priced well below international prices. In 1975, the Whitlam government introduced a limited crude oil levy, and in the 1977 and 1978 budgets, that levy was increased to establish international purchasing power parity for all oil produced in Australia, the levy ensuring that the increased price accrued to public revenue.

As well as raising significant revenue, this improved the efficiency of Australia's use of its energy resources.¹¹ It did mean, however, that while Australia had been partly protected from the 1973 oil price shock, this would not be the case when the 1979 oil price shock hit. There would be consideration of a resource rent tax with the election of the Hawke government.

Indirect Consumption Tax

After the 1980 election, Treasurer John Howard announced an examination of the tax system, including contemplation of a broad-based consumption tax and reductions in personal income tax: 'The examination initiated will, in particular, focus on whether or not a different mix of taxation, most particularly greater reliance on indirect taxation, would improve the efficiency and the fairness of the taxation system'.¹² That work didn't proceed far, though, before Prime Minister Malcolm Fraser effectively ruled out a consumption tax, much to Howard's annoyance.¹³

There were, however, shifts from personal income tax to indirect consumption tax over subsequent budgets. Each of the wholesale sales tax (WST) rates was increased by 2.5 percentage points in both the 1981 and 1982 budgets,¹⁴ and personal income tax cuts were provided in the 1982 (pre-election) Budget. A bank accounts debits (BAD) tax was also introduced from 1983.¹⁵ The elevated WST rates on fragmented bases and the BAD tax would help sell the GST in 1998.

Accelerated Depreciation

A 40 per cent investment allowance was introduced after the 1975 election, which was reduced to 20 per cent four years later. With the Australian economy struggling in the early 1980s, a July 1982 tax statement introduced further tax breaks to stimulate investment.¹⁶ Accelerated depreciation was provided for all plant and equipment, over either three or five years – hence it was called 5/3 depreciation. Depreciation was also provided for all non-residential, income-producing buildings.

This was followed by large spending increases and personal income tax cuts in the 1982 pre-election Budget, which included reducing the standard tax rate to 30 per cent.

Avoidance and Evasion

The most politically sensitive tax issue during this period, though, was tax avoidance and evasion. With inflation pushing more taxpayers onto the top personal income tax rate of 60 per cent, and with a company tax rate of 46 per cent, tax avoidance and evasion became pervasive. This was politically damaging for a government that was seen as slow to act against its own constituency.

The High Court, with Garfield Barwick as chief justice, facilitated these practices in rulings that upheld the rights of taxpayers to minimise their tax liabilities. The court ruled against the ATO's application of the section 260 anti-avoidance provisions, enabling the commercial marketing of tax-avoidance schemes.¹⁷

The most prominent and audacious of these activities were the 'bottom-of-the-harbour' schemes whereby companies were stripped of their assets and profits before their tax liabilities fell due. The schemes were legislated against prospectively in 1980 and, after sustained political

pressure, retrospectively in 1982. The extent and brazenness of such tax avoidance and evasion impacted on broader taxpayer morality, as wage and salary earners with limited opportunities to artificially reduce their taxes saw how others were able to do so.

Broad anti-avoidance provisions were also legislated, with part IVA introduced in 1981 to replace the ineffective section 260 arrangements. This issue, though, would figure prominently in the developing case for tax reform.

Federalism

Reforms that addressed Commonwealth–state financial relations were also implemented, with the 1976 new federalism policy providing a proportion of personal income tax revenue to the states in a way that equalised their financial capacity. This system of ‘horizontal fiscal equalisation’, administered by the Commonwealth Grants Commission, replaced the more ad-hoc special grants for states with relatively weak financial positions,¹⁸ and it remains the guiding principle for distributing GST revenue to the states.

Campbell Committee (Tax Issues)

Due to increasing recognition that Australia’s heavily regulated financial system needed reforming, John Howard established the Australian Financial System Inquiry in January 1979 to ‘inquire into and report on the structure and methods of operation of the Australian financial system’.¹⁹ (The terms-of-reference are presented in Appendix A.)

Keith Campbell (Hooker Corp.) was appointed as Chair of the inquiry committee, with Alan Coates (AMP), Keith Halkerston (financial adviser), Richard McCrossin (Australian Resources Development Bank) and James Mallyon (Reserve Bank of Australia) as the other members. Fred Argy (Treasury) was named secretary to the committee, with a secretariat drawn from the RBA and Treasury.

An interim report was tabled in August 1980, and the Campbell Committee presented its final report to the federal government on 29 September 1981. While principally reporting on the operation and regulation of financial markets, the inquiry also made recommendations about relevant aspects of the tax system, particularly company tax.

The Committee’s Approach

The committee took the view that ‘the most efficient way to organise economic activity is through a competitive market system which is subject to a minimum of regulation and government intervention’.²⁰ Consideration of the tax system came from concerns it was impinging on that: ‘As an Inquiry requested to recommend improvements to the structure and operations of the financial system, the Committee found it could not ignore the persistent claims that many of the present tax arrangements were adversely affecting the efficiency of the financial system’.²¹

Company Taxation

The committee was critical of Australia’s ‘classical’ company income tax system, with its double taxation of dividends. It did not accept that because companies and shareholders are separate legal entities, they should be treated as separate taxation entities. Rather, it argued that all taxes ultimately fall on individuals and that what matters is the total amount of tax a particular income stream bears.²²

The classical tax system, it was argued, introduced non-neutralities into the pattern of business funds flows, favouring retained earnings over distributions and creating a bias towards debt rather than equity financing.²³ Further, combined with inadequate capital gains tax laws, it was both horizontally and vertically inequitable, taxing individuals on similar income differently depending on

their shareholdings, and overtaxing lower-income earners in particular, discouraging them from investing in shares.²⁴

The committee recommended full integration of the company and personal tax systems, with all company income notionally allocated and included in shareholders' taxable income, as with the treatment of partnerships. Companies would then only pay tax as an in-year administrative withholding arrangement. Partial integration options were considered, such as split rate and dividend imputation systems, but it was argued that full integration more completely removed the non-neutralities and inequities inherent in the classical system.²⁵

The committee's position was informed by papers commissioned from Peter Swan and Bob Officer, which argued that full integration best supported an efficiently operating financial sector, and that the revenue cost and administrative issues were manageable.²⁶

Superannuation

The committee was concerned about the 'conspicuously non-neutral' taxation of superannuation,²⁷ with contributions and earnings enjoying tax-free status, and with only 5 per cent of lump-sum benefits included in assessable income. It favoured taxing all the income of superannuation funds (contributions and net earnings) at a rate representative of the average of the marginal rates of members. End-benefits, both pensions and lump sums, would then be exempt from tax.²⁸

This 'taxed, taxed, exempt' (TTE) approach represented income tax treatment. The alternative 'exempt, exempt, taxed' (EET) approach, which previously applied to income stream end-benefits, represented consumption tax treatment.

Stamp Duties

The committee criticised stamp duties, arguing that such transaction taxes were non-neutral and interfered with the efficient operation of the financial system. It believed there was much to commend the total abolition of stamp duties in the financial area. However, recognising the revenue needs of the states, the committee recommended that the existing array of state duties be replaced by a uniform, Australia-wide duty for financial transactions and instruments.²⁹

Inflation and Taxation

The committee critiqued the Mathews Report's review of the interaction of inflation with the business tax base, and the proposals to adopt a current-value approach for both stock valuations and depreciation provisions. It expressed concerns about the partial nature of those proposals, arguing that complete neutrality could only be achieved if indexation was applied to financial as well as physical assets.³⁰

Recognising the complexity of the issues, and that action in this area could not be pursued in isolation from the rest of the tax system, the committee did not make specific recommendations. However, given the significance of these issues for the financial system, it urged the government to again review the taxation of income in an inflationary environment.³¹

Government Response

The Campbell Report was not substantively actioned by the Fraser government,³² which was concerned about the political implications of deregulatory policies.³³ The process of formulating a government response consequently became bogged down and ultimately ran into the 1983 pre-election period. The tax issues were not acted on.

Lessons in Tax Reform

While its recommendations were not substantively actioned in the short term, the Campbell Report did provide important further support for tax reform, particularly regarding the company income tax

system. Like all good reports, it stood the test of time and provided a reform foundation for the incoming Hawke government, not just for floating the exchange rate and financial sector deregulation, but also for the transformation of business tax.

This support for tax reform from a respected committee was an important reinforcement of the Asprey Report. As John Head noted, 'a somewhat unexpected bonus was the detailed attention devoted to the issue of company tax reform and also retirement saving by the Campbell Committee'.³⁴ These two seminal reports would underpin the 1980s reforms of Australia's financial and tax systems.

Change of Government

With the Australian economy in recession, the Hawke government was elected in 1983 with Paul Keating as treasurer. Its first term was dominated by a period of recovery from the recession, the establishment of the Prices and Incomes Accord, the floating of the exchange rate, and the removal of the ban on foreign banks. Its second term would be dominated by tax reform.

Reform of the Australian Tax System

The Hawke government did enact some tax measures in its first term. A May 1983 economic statement detailed how superannuation lump sums were to be made taxable in respect of service after 30 June that year, generally at the standard rate of 30 per cent.³⁵ The rebate for basic health insurance premiums was abolished and a 1 per cent levy was introduced in the 1983 Budget to help finance Medicare. The 1984 Budget introduced a new five-step scale that was to replace the previous three-step scale, 'to make the tax system more progressive and fair'.³⁶

Other measures sought to counter tax avoidance and evasion, including the introduction in 1983 of a prescribed payments system (PPS) which deducted tax at source from payments for work in industries where evasion was known to be significant, such as construction. There was also a restructuring of the taxation of wine and beer, with the excise on light beer lowered and wine made subject to WST.

However, the Australian tax system was facing greater challenges. Narrow tax bases and policy design flaws required the maintenance of high tax rates to provide for the growing revenue requirements of government. Fundamental base-broadening reforms were needed.

Pathway to the Draft White Paper

While the parlous state of Australia's tax system had been well recognised, and the Asprey Report had provided the necessary reform blueprint, the political sensitivity of tax reform made progress challenging. The Labor Party, now in government, attacked the Coalition for allowing tax avoidance and evasion to flourish. The Coalition, now in Opposition, gained political mileage by claiming the government had a secret agenda for the imposition of capital gains, death and wealth taxes.

The level of community resentment about tax avoidance and evasion by high-income earners, though, offered potential support for a government prepared to take on tax reform, even with the unpalatable prospect of new taxes. The push to do this came in particular from academia and subsequently Treasury and other stakeholders.

The case for tax reform had long been vigorously argued by academics, especially since the 1964 Downing review. In the 1980s, Professor John Head, as Australia's leading public finance academic, organised conferences for Australian and international tax policy experts, with the published papers providing strong support for changes to the tax regime. In the overview he prepared for the 1983 volume, Head described the quasi-constitutional character of a tax system, explaining that changes to it would disrupt longstanding cost-sharing arrangements in society; hence, major tax reform should be undertaken relatively infrequently. He added:

Having said this, let me emphasise that there are nevertheless occasions in the fiscal history of a country when it is extremely important, if not absolutely essential, to engage in a fundamental rethinking of the tax structure with an eye to reforming an outdated and ramshackle system ... Our experience on the tax front during the 1970s ... clearly illustrates the serious dangers involved if we continue to ignore the basic principles of tax design. Design deficiencies that could be lived with under stable growth and a smaller public sector have contributed substantially, I believe, to the progressive decline of taxpayer morality and the so-called taxpayer revolt which we witnessed under the inflationary and stagflationary conditions of the 1970s.³⁷

Treasury was also recognising the need, as well as the opportunity, for tax reform, and its limited tax resources were expanded in 1984 by the creation of a standalone Taxation Policy Division, headed by David Morgan. At Treasury's most senior levels, Bernie Fraser, Ted Evans and Morgan had experience dealing with tax policy principles and implementation, while Sam McBurney, who had been the main source of tax policy advice previously, was a walking encyclopedia on the tax system. Others, such as Allan Boxer, Ian McKenzie and Wayne Mayo, had expertise in their areas, while Greg Smith in the treasurer's office had a significant tax background. If tax reform was to be seriously tackled, though, even more firepower, including quantitative capabilities, was needed.

With the reform window potentially open during a second-term Hawke government, Morgan brought Jim Wright into Treasury in mid-1984 to start the process of mapping out a tax-reform program, followed by Ken Henry, enticed from academia, in September 1984. A formal government imprimatur had not yet been provided, but work on a possible reform package proceeded behind the scenes.

The Economic Planning Advisory Council (EPAC) also played a role in developing the case for tax reform. EPAC, which had grown out of the 1983 National Economic Summit, brought together representatives of government, business, unions and community groups. As the flagship vehicle for the government's consultative and consensus approach it was able to facilitate public debate of the tax reform issues³⁸, including with the publication of submissions by business and other groups, without making the government commit to ruling things in or out.

Commissioning the Tax Review

During the 1984 election campaign, Hawke committed the government to holding a tax summit to seek consensus on a reform package.³⁹ The government's subsequent *Taxation Policy Statement* then set out the process for 'an overhaul of the Australian taxation system' based on 'wide-spread community discussion'. It described how a draft white paper (DWP) on taxation would be available for discussion at a national taxation summit in the third quarter of 1985, leading to a possible tax reform package later that year. The policy statement provided nine principles for the review:

- First, there must be no increase in the overall tax burden, as measured by the share of Commonwealth Government tax revenue in gross domestic product, next year or through the Government's next term of office.
- Second, any reform must continue the process already begun by this Government, and provide further cuts in personal income tax.
- Third, taxation changes must contribute to smashing tax avoidance and evasion, which remain as features of the tax system which the Government inherited.
- Fourth, any reform must lead to a simpler system, which therefore all Australians can understand more easily, and which therefore makes tax avoidance and evasion more difficult.
- Fifth, any reform package must result in a tax system which is fairer, so that Australians are only required to pay tax according to their capacity to pay, and the overall tax system must be progressive.
- Sixth, any tax reform must not disadvantage recipients of welfare benefits, and should reduce or remove 'poverty traps'.

- Seventh, if any reform package which includes changes in indirect taxes is contemplated, it must be acceptable to the various groups in the Australian community whose response will determine whether we can maintain moderation in wage movements.
- Eighth, any reform must provide the best possible climate for investment, growth and employment in Australia.
- Ninth, any reform package must have widespread community support, including support at a widely representative National Tax Summit of economic organisations and community groups.⁴⁰

The Hawke government was returned at the December 1984 election, but with a reduced majority which affected the amount of political capital it had when it came to the crunch on the negotiation of a tax package. The tax reform processes, though, had been set in train.

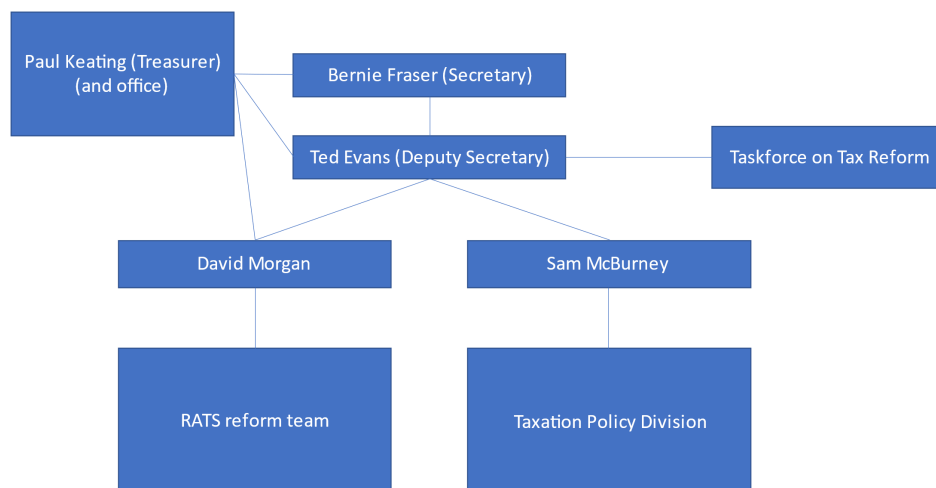
Tax Reform Team

After the election, a Taskforce on Tax Reform was formally commissioned to oversight the process of developing a comprehensive tax reform package by the middle of 1985, with all aspects of the Commonwealth tax system in scope.⁴¹ Its membership was Ted Evans (chair), David Morgan (Treasury), Ed Visbord (PM&C), Brian Nolan (ATO), Ross Garnaut (PMO) and Greg Smith (TO).

A Treasury team of around a dozen people was established to do the work, located in the D-block ‘bunker’. The work was overseen by Bernie Fraser as secretary and Evans as deputy secretary, with Morgan leading the reform team. The main drivers of the team’s work were Jim Wright, who was an expert in the input-output tables that would underpin the modelling, and Ken Henry, who brought his academic experience. Martin Parkinson also joined to take on the capital gains tax work, and Alan Henderson came in later to help pull the products together.

The reform team worked with the Taxation Policy Division, with Sam McBurney as acting division head, though each was in a separate part of the Treasury building. The team also worked with Treasury’s Economic Group, led by Chris Higgins, on the fiscal and macroeconomic implications of the tax proposals. (Figure 4 provides an overview of the people and groups involved in this work.)

Figure 4: Tax Reform Governance Structure



Other Players

The preparation of the DWP was largely done internal to government, although with Keating leading an external consultation process (discussed below). The case for reform and its blueprint had been

established in previous debates and reviews, most particularly the foundational Asprey Report. This was to be the determinative review for implementing the necessary changes in the available electoral window. Nonetheless, several parties influenced the DWP's direction.

Decisions on what options the government would proceed with were made by Keating in the first instance, but then Hawke and ultimately the Cabinet. The Labor caucus was also briefed early in the process. The work of preparing the DWP was done mainly by the Treasury tax reform team, working with the Taxation Policy Division and oversighted by the Taskforce on Tax Reform.

Other public service agencies were involved to some extent in the design of the reforms and the ultimate negotiations. PM&C directly influenced the work, coordinating government processes and, of course, advising the prime minister. Finance played a role as well, including supporting its own minister, Peter Walsh. And the ATO advised on tax administration issues, including the timeframe within which new taxes could be implemented.

The Treasurer's office, with Greg Smith as tax adviser, was closely involved in the work at all stages. The Prime Minister's office, with Ross Garnaut as economic adviser, would have a good deal of influence too in advising Hawke come decision time.

Groups external to government were also keen to help shape the reforms. The ACTU was central to this, with negotiations progressed through the Accord arrangements for managing prices and wages. Welfare groups had strong views on aspects of the proposed reforms but largely sought to exert their influence through the ACTU.⁴² Business groups had been calling for tax reform, with the BCA a key body whose support would be needed.

All up, many organisations and individuals wanted to play a part in the reforms – there was a lot at stake politically and in regards to public policy – and inevitably tensions arose during the development of the reform package. The tax summit would ultimately provide the forum to test broader community views and whether conflicting objectives could be reconciled.

Treasury's Approach

Given the magnitude of the reforms being considered, along the lines recommended by Asprey and including a tax mix switch from personal income tax to a broad-based consumption tax, the Treasury team early on needed to make some strategic decisions about its analysis and modelling approach.

Models

Substantial modelling capacity was needed to assess the impacts of the reforms, particularly the tax mix switch. The options were to use an input-output model that assumed no changes in taxpayer behaviour, or to use a general equilibrium (GE) model that was technically more difficult to build but would reflect behavioural changes. After consideration of the timeframe, and given that all the parameters had to be assumed anyway, it was decided that the gains in accuracy with a GE model did not warrant the extra time and work.⁴³ TAXIO, an input-output model, was built instead.⁴⁴

This was the first use of such modelling capacity in a major reform exercise in Australia, with TAXIO used to estimate individual price movements and distributional effects of reform options. To estimate the inflationary effects of a tax mix switch, Treasury drew on its macroeconomic model, NIF10,⁴⁵ which initially had been developed in the 1970s on Chris Higgins' arrival from the ABS – again, this was a chance to use this model in a major reform exercise.

A Hard Day's Night

With not much time available to prepare the DWP, the work of the Treasury reform team was intense. Designing a tax reform package of the dimension imagined, close to the full Asprey blueprint, was a mammoth task and the team worked seven days (and nights) a week to get that done.

Stories abound of all-night efforts, kids sleeping on makeshift beds and takeaway being the staple food. Wright and Henry recall having only two days off in the first half of 1985.⁴⁶ Morgan recalls having only four days off in the whole of 1985.⁴⁷ Treasury’s annual report noted: ‘The draft White Paper was completed in less than five months, during which time extraordinarily long hours were worked by many members of the Task Force secretariat and of the Division generally’.⁴⁸

Draft White Paper Preparation

The product of all this work was the June 1985 DWP titled ‘Reform of the Australian Tax System’ – ‘RATS’ for short. The term ‘draft white paper’ denoted a document that was in-between a green paper (a discussion of proposals that are still at the formative stage) and a white paper (a statement of intended government policy). It was a compromise between Keating’s desire for a statement of the government’s position and Hawke’s desire to keep his options open.

Broaden the Base, Lower the Rate

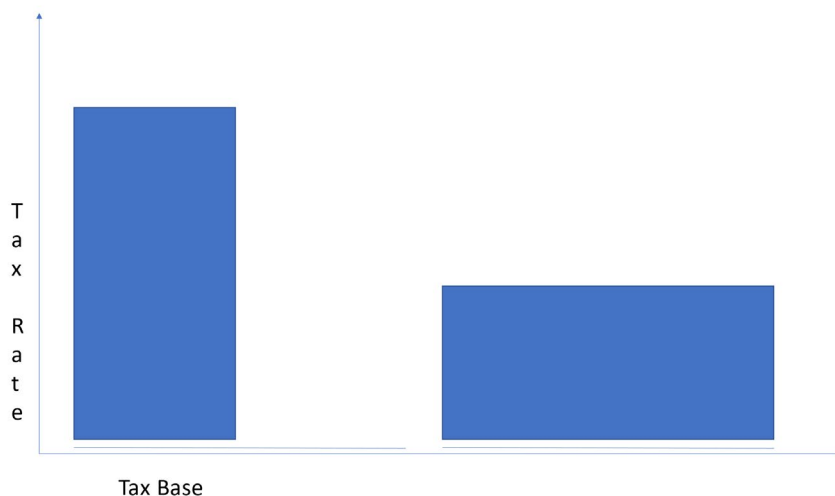
The terms-of-reference were effectively provided by the government’s nine principles. Of those, the second, providing further cuts in personal income tax, and the third, smashing tax avoidance and evasion, would especially influence the reform proposals, while the ninth, that any reform package must have widespread community support, would shape the ultimate package.

The Asprey ‘big three’ tax reform criteria of fairness (or equity), efficiency (or neutrality) and simplicity guided the policy thinking which, consistent with the weight of academic literature at the time, predominantly favoured the pursuit of comprehensive tax bases.

Two features of Australia’s tax system over the preceding 30 years particularly informed the DWP. First, the personal income tax share in total revenue had increased, while company tax, WST, and customs and excises had declined. Second, the narrowing of tax bases through an array of concessions had required higher tax rates, which in turn had led to increased tax avoidance and evasion, thus compounding the narrowing of the base.⁴⁹

To illustrate, Figure 5 depicts narrow-based and broad-based taxes that raise similar revenue (the two areas are the same). The narrow-based tax requires a higher tax rate and hence would be expected to cause greater distortion, with the extent of the economic inefficiency varying with the square of the tax wedge.⁵⁰ It would also most likely create inequities and provide increased incentives, and opportunity, for tax avoidance and evasion.

Figure 5: Narrow Versus Broad-based Tax



The DWP argued for a structural broadening of both the income and consumption tax bases, and the lowering of tax rates to improve equity and efficiency. On equity, it said ‘there is wide

agreement that a fair tax system is unlikely to be achieved without a comprehensive tax base'. On efficiency, it said that any

tax will tend to discourage the activity on which it is imposed; it follows that the more comprehensive the tax system is, the less distortion there will be ... That is to say, efficiency, like equity, is generally enhanced by the adoption of a comprehensive tax base.⁵¹

While developments in public choice theory, which allowed for the realities of political decision-making, and in optimal tax theory, which sought tax-rate variations across income sources and consumption uses,⁵² were well known and used in some areas, economic neutrality remained the dominant tax paradigm. The DWP mantra, thus, was to broaden the tax bases and lower the tax rates, with its reform proposals cast in a revenue-neutral framework, to raise the same total revenue in a better way.

Such reforms, it was argued, were overdue and now urgent: 'It is clear also that the main thrust of reform should be to significantly broaden the income and consumption bases, using the additional revenue (net of compensation adjustments) to substantially reduce tax rates'.⁵³

Shortcomings of the Australian Tax System

Having established comprehensiveness as its ideal framework, the DWP chronicled the myriad shortcomings of the Australian tax system:

Taxation is never popular but, until the late 1960s and early 1970s, Australia had a tradition of taxpayer compliance. This tradition is being threatened, in large part because increased revenue demands are being placed on a system that contains some basic structural flaws and a tax base that has been whittled away through special concessions and tax minimisation arrangements.⁵⁴

A central problem was that inflation had pushed taxpayers onto higher income tax rates. As Table 1 shows, compared to average earnings the top tax rates cut in much earlier than previously, leaving greater proportions of taxpayers facing them. The share of income tax actually paid by high-income earners, though, had fallen - high tax rates and a flawed tax base had provided the incentive, and opportunity, to avoid or evade tax.

Table 1: High Income Earners

	1954	1977	1984
Marginal tax rate at average earnings	19.2%	34%	46%
Average tax rate at average earnings	10%	22%	25%
Full-timers facing a marginal tax rate of 46% or more	1%	-	39%
Top tax rate cut-in/average earnings	18	3	1.6
Share of income tax paid by high income earners*	54%	23%	21%

* More than 1.6 times average earnings

Source: Commonwealth of Australia, pp. 19, 31-33.

The capital income tax deficiencies were especially acute, with different forms taxed at widely divergent rates, distorting investment decisions and creating inequities. Interest income was fully taxed, capital gains were largely untaxed, and the returns from physical assets benefited from accelerated depreciation. The use of tax shelter provisions, such as hobby farms and rental properties, and different business structures, such as trusts, compounded these problems.

The DWP was also critical of Australia's classical system of company income taxation. The double taxation of dividends distorted payout ratios and encouraged the use of alternative business structures, such as private companies and trusts. Taxpayers with the same total income but different asset structures were hence taxed differently, with those on lower incomes and personal tax rates below the company rate impacted most severely.

A significant amount of foreign-source income was not taxed at all in Australia, with section 23(q) of the tax law generally providing an exemption for income subject to any tax in the source country. The DWP argued this was inequitable for taxpayers with Australian versus foreign-sourced income, and inefficient because it provided a tax-induced incentive for investment abroad.

Australia's consumption taxes also suffered from narrow tax bases and high tax rates. WST applied to only 10 per cent of private consumption, requiring rates of 7.5–32.5 per cent to raise its revenue. Further, applying at the wholesale level, it excluded value-added at the retail level, hence generally precluding services. It thus distorted consumption and production decisions and was inequitable for consumers of different products.

These legislated gaps in the tax base facilitated, and were compounded by, pervasive tax avoidance and evasion.⁵⁵ In addition to the direct loss of revenue, this contributed to the perceived unfairness of the tax system by those who were paying their taxes. Overall, the DWP painted a picture of a tax system in despair: 'Taken together, the trends over the past couple of decades call into question the ability of the present tax system to raise the revenue needed by the Government in a fair, efficient and relatively simple way'.⁵⁶

The Reform Issues

The DWP's central conclusion was that a structural broadening of the income and consumption tax bases was required to finance substantial reductions in tax rates.⁵⁷ It also argued for a shift in the tax mix, from personal income tax to indirect consumption tax, to further counter tax avoidance and evasion,⁵⁸ and to enable a greater reduction in personal income tax rates.⁵⁹

The specific reform issues were considered in three groups: personal income taxation, consumption taxation, and the business taxation system.

Broadening the Income Tax Base

Gaps in Australia's personal income tax base, which had existed from the very beginning, had become major tax-minimisation avenues as taxpayers' ability to manipulate the form of their income grew. Capital gains and fringe benefits, in particular, expanded as sources of income, distorting investment decisions and remuneration arrangements. Increased community awareness of the use of these loopholes fanned a growing sense of unfairness regarding Australia's tax system.

Capital Gains Tax

The lack of a general capital gains tax (CGT) in Australia violated horizontal and vertical equity and distorted investment decisions.⁶⁰ The existing tax law, with section 26AAA taxing gains on assets sold within a year of purchase, and section 25A taxing gains on assets acquired 'for the purpose of profit making', left most capital gains untaxed.

The DWP favoured the introduction of a general CGT.⁶¹ Under the Haig–Simons comprehensive income benchmark, gains would be taxed as they accrued, but practical realities dictated taxing only upon realisation, despite the issues with deferral, bunching, lock-in and the treatment of losses. However, the DWP also proposed deemed realisation on disposal by gift or death, to limit deferral, and allowing losses to be offset against gains in the current year or carried forward.

Only real capital gains represent an increase in purchasing power, so an adjustment to remove the element of nominal gains due to inflation is appropriate. This can be done in an arbitrary

way – either partial inclusion of the gain or a flat tax rate – or by specifically indexing the asset cost base for inflation. The DWP favoured indexation, with the real capital gains then taxed as ordinary income.

Ideally, inflation adjustments would be made for all assets and liabilities, real and monetary, but that raised difficult practical issues which the DWP flagged for future consideration.⁶² On the related issue of depreciation, the DWP argued that, without comprehensive inflation adjustments of all assets and liabilities, 5/3 depreciation provided a rough adjustment and could remain.⁶³

Exemptions for the principal residence, superannuation and life insurance policies, and some small-value, personal-use items, were proposed. As a transition, for existing assets the CGT would apply to gains accruing after the date of commencement (consistent with Asprey).⁶⁴

Fringe Benefits Tax

The ineffective taxation of fringe benefits also violated the basic tax principles of equity and efficiency. While the existing section 26(e) provision technically required their inclusion in employees' assessable income, practical difficulties led to almost universal non-inclusion.⁶⁵ As more individuals were pushed into higher tax brackets, there was a growing incentive, and opportunity, for them to receive part of their remuneration (for example, cars and low-interest loans) in such tax-free fringe benefits.

While the policy case for taxing fringe benefits was clear, the main design issue centred on whether a fringe benefits tax (FBT) should be levied on employees or employers. Levying it on employees was optimal in principle, but the valuation and disclosure challenges made this largely unenforceable. Levying it on employers was simpler but required a single tax rate. On balance, the DWP favoured levying FBT on employers at a rate based on the personal tax scale or the company tax rate.⁶⁶

A related area of difficulty was excessive employment-related expense claims that combined elements of business and private expenditure, such as entertainment, travel and cars. The line between business and private expenses was especially blurred when it came to entertainment expenses, epitomised by long, boozy business lunches, and a complete disallowance of tax deductions was considered the only practical option, as is the case with clothing.⁶⁷ Stronger substantiation requirements were proposed for other areas.

Tax Shelters

Tax shelters were features of the law seen to favour particular activities, such as 'Pitt Street' farming and the negative gearing of rental properties. These investments were structured so that deductible expenses in the early years exceeded income, with the excess being offset against other income, while a positive return was ultimately expected courtesy of a non-taxable capital gain. The DWP proposed quarantining arrangements to limit primary production or rental property deductions to being offset against income from the corresponding source.⁶⁸

The DWP also considered the increased use of trusts for avoiding the two-tier company taxation and as an income-splitting vehicle. This issue, however, was intertwined with considerations of replacing the classical company taxation system with full or partial integration with the personal income tax system, and it was flagged for future consideration in that context.⁶⁹

Broadening the Consumption Tax Base

The DWP favoured replacing Australia's WST with a broad-based consumption tax (BBCT), with the dual objectives of broadening the consumption tax base and facilitating a tax mix switch from direct personal income tax to indirect consumption tax. It argued this would counter tax avoidance and evasion by ensuring 'that income which currently avoids or evades income tax will bear some tax liability when it is spent'.⁷⁰

In a choice between a multi-stage value-added tax (VAT) or a single-stage retail sales tax (RST), the DWP on balance favoured a RST, supposedly because of its greater simplicity, but in reality because the longer lead-in time required to implement a VAT was problematic for the government's electoral window. The ATO advised that a RST could be implemented during 1986–87.⁷¹

The DWP argued for the coverage of a BBCT to be as comprehensive as possible and based on the use to which goods and services were put, with those for private use to be taxed and those for business use to be exempt. Some items which were not amenable to being directly taxed, such as financial services where it is hard to identify payment for service, would need an input-taxing approach.⁷²

The regressive nature of a BBCT⁷³ was acknowledged, but it was argued that overall progressivity could be maintained with a comprehensive compensation package involving adjustments to other elements of the tax/transfer system.

Inflationary Impact

The DWP estimated that a 12.5 per cent BBCT that replaced the WST would cause a one-off CPI increase of 6.5 per cent.⁷⁴ With the additional revenue being used to fund income tax cuts and compensation for low-income earners, it was argued that this initial price increase need not be built into subsequent wage and price increases.⁷⁵

Business Taxation System Issues

Despite company tax rate increases, company income tax as a share of total revenue had declined, from 17 per cent in the early 1970s to 10 per cent in 1983–84, as a consequence of lower profits, legislated concessions, the increased use of trusts, and other tax avoidance and evasion practices.

Integration of Company and Personal Tax Systems

The efficiency and equity issues within the classical company income tax system were well established.

The complete solution was full integration of the company and personal tax systems, whereby all of a company's income would be notionally allocated to shareholders and taxed at their personal tax rates, as recommended by Canada's Carter Commission and Australia's Campbell Committee. Company tax would then merely be a withholding payment, and it would be credited to shareholders against their tax liabilities. Full integration, though, would be administratively challenging and come at a cost to revenue when compared with the classical system, and as such this was not considered feasible.⁷⁶

The DWP was, however, attracted to partial integration in the form of a dividend imputation system to achieve such integration for distributed income, more along the lines of Asprey.⁷⁷ Under this system, a company is taxed on all of its income but the dividends are taxed in the hands of shareholders, with imputation credits provided for the company tax paid on that income stream. Table 2 compares the three systems.

Table 2: Classical Company Tax, Dividend Imputation and Full Integration

	Classical		Dividend Imputation		Full Integration	
	Company	Shareholder	Company	Shareholder	Company	Shareholder
Distributed	T*	T*	E**	T	E**	T
Undistributed***	T		T		E**	T

* Double taxation of dividends under the classical system

** Company tax applied as a withholding tax but credited to shareholders

*** Share sales may be subject to CGT

Working with a CGT, this partially achieved the objectives of integration without confronting the difficulties of allocating undistributed income to shareholders. Imputation credits would be denied to non-resident shareholders, leaving them to pay the company tax rate in Australia.

The DWP did not reach a firm conclusion on these issues but rather said the government would examine options to allow partial or full imputation credits for resident shareholders – on a revenue-neutral basis that would require some increase in the company income tax rate.⁷⁸

Foreign-source Income

To remedy the lack of effective taxation of foreign-source income, the DWP proposed a foreign tax credit system (FTCS), under which the foreign-source income of Australian residents would be subject to Australian tax and a credit would be provided for foreign tax paid on that income. This approach had been recommended by Asprey and already existed in several other countries.⁷⁹

Administration Issues

The DWP pointed to the effectiveness of good withholding systems to support the collection of taxes, in particular pay-as-you-earn (PAYE) and the PPS. To bolster these, it proposed the introduction of a national identification system whereby individuals would be issued a unique identity card to enhance information reporting.⁸⁰

Reform Approaches

Having established the preferred reforms for each aspect of the Commonwealth tax system, the DWP set out three possible approaches to a tax reform package. Income tax base–broadening was common to all three approaches, with consumption tax base–broadening building on that in the second and third approaches.

Approach A

- Approach A only incorporated measures to broaden the income tax base. It included a CGT, a FBT, the quarantining of negative gearing and primary production losses, the taxation of income from goldmining, a FTCS, and a national identification system.
- While the DWP argued that gains in equity and efficiency would result from these measures, they would not raise substantial revenue, especially in the early years. As such, only modest personal income tax cuts could be provided and targeted at middle- and higher-income levels, where the impact of the base-broadening measures would predominantly fall.

Approach B

- Approaches B and C built on approach A by also broadening the consumption tax base. Broadening both the income and consumption tax bases, it was argued, would more effectively reduce tax avoidance and evasion and enable larger personal income tax cuts.
- Approach B included a 5 per cent BBCT in addition to maintaining a 10 per cent WST on some items, such as passenger motor vehicles. It would enable larger personal income tax cuts than approach A but still not at the scale the government desired. It would not have a significant inflationary effect, though, thus not requiring extensive compensation arrangements.

Approach C

- Approach C incorporated a substantial broadening of both the income and consumption tax bases. In addition to the income tax base–broadening measures of approach A, it replaced the WST with a 12.5 per cent BBCT, raising substantial additional revenue to finance large

personal income tax cuts and other transfer system compensation. It was argued that this tax mix switch would best reduce tax avoidance and evasion, and produce a 'fiscal dividend' whereby income that avoided or evaded income tax would pay the BBCT when it was spent.

- The DWP argued that this approach best met the key reform objectives of making the tax system fairer and more conducive to economic growth. However, due to the comprehensive broadening of both the income and consumption tax bases and the tax mix switch, it would involve significant distributional issues and macroeconomic effects that would need to be managed.

Distributional Issues

Each of the three approaches was assessed as having overall positive vertical equity effects. The income tax base–broadening measures and the expansion of welfare payments were expected to be highly progressive, outweighing the anticipated regressive effects of any expansion of the consumption tax base. Approach C, in particular, with its compensation arrangements and large personal income tax cuts, was assessed as providing gains at all income levels, particularly around \$30,000 (1.5 times average earnings).⁸¹

Macroeconomic Effects

The main economic challenges were presented by approach C, where replacing the WST with the BBCT was estimated to cause a 6.5 per cent CPI increase. The DWP argued, though, that if this initial price rise was not built into subsequent wage and price movements – and with the proposed tax cuts and compensation payments, it shouldn't be – the macroeconomic effects were manageable. It was noted that discussions under the provisions of the Prices and Incomes Accord had proved useful and the issues were flagged for consideration at the tax summit.⁸²

Determining the Government's Preferred Approach

Approach C, with its centrepiece BBCT, was preferred by Keating and Treasury, but getting that agreed to as the government's position in the DWP required convincing Hawke and the Cabinet. Keating had to persuade his colleagues to adopt such an ambitious reform plan.

There were differences of opinion within government, with some seeing the political risks of approach C as being too great. In the prime minister's office (PMO), Ross Garnaut argued against approach C. He did not dispute the policy credentials of approach C but his support was conditional on two things: management of the macroeconomic issues and political timing. Without clear ACTU support for wage restraint, he considered the macroeconomic issues couldn't be managed.⁸³

PM&C, with Ed Visbord as deputy secretary, likewise believed approach C to be politically unachievable and so supported approach A.⁸⁴ Finance, with Ian Castles as secretary and Peter Walsh as the minister, also argued for a less ambitious package, more along the lines of approach B.⁸⁵ The Labor Party left generally opposed the BBCT, but the right was more supportive.

Crucial to the considerations was whether support could be secured from external stakeholders, including for moderation in wage demands to prevent the initial CPI spike from building into subsequent wage and price movements. Keating was authorised to have discussions with the ACTU, which was supportive of the income tax base–broadening measures but concerned about the regressive nature of the BBCT. It indicated, however, that it would be prepared to join a consensus for approach C if that could be reached at the tax summit.⁸⁶

Keating led consultations with others as well. The discussions with the business groups were limited, though, as it was expected they would be supportive of an overall reform package with a tax mix switch from income to consumption tax.⁸⁷ In hindsight that would prove to be a mistake.

Cabinet met finally in May 1985 to settle the government's position. But after four days of bruising meetings, culminating on 22 May, a consensus still hadn't been reached. John Edwards

recorded that Hawke was oscillating between support for Keating's advocacy of approach C and opposition from his office and some Cabinet members.⁸⁸

With Hawke reluctant to make a definitive Cabinet call, Keating made the decision to send the DWP to the printers. His own recollection of the conclusion of the debate was that, in response to Stewart West's assertion that there wasn't majority Cabinet support for approach C, he had said:

'but do you have a majority to stop me walking out the door with a decision? ... Meaning that Bob didn't want to put it to a vote, and I was claiming Cabinet had agreed to it. And when I walked out with the Treasury officers – Bernie Fraser, Ted Evans, David Morgan, Greg Smith and Ken Henry – Ted said, 'Christ, that was the toughest meeting I've ever been in!'⁸⁹

The DWP was duly released on 4 June 1985, containing the government's support for approach C:

The Government's clearly preferred position, having regard to the nine principles set out in the overview to this paper and all the subsequent analysis, is to implement a tax reform package with the following four elements:

- (i) A major broadening of the direct tax base through the introduction of a capital gains tax and effective closure of major avenues for tax avoidance and minimisation;
- (ii) A significant reduction in all marginal income tax rates;
- (iii) Introduction of a broadly-based consumption tax on goods and services and removal of the present wholesale sales tax system; and
- (iv) Effective mechanisms to compensate pensioners, other beneficiaries and needy income earners for any adverse price effects flowing from the implementation of a broadly-based consumption tax.

It is the present view of the Government that if the issues raised in the discussion of approach C, including its macroeconomic implications, can be addressed satisfactorily, and we believe that this can be done, then this approach is the one best calculated to achieve the basic objectives of tax reform.⁹⁰

Keating then spent three weeks selling the package. Hawke said he gave Keating 'free rein to win over the community and the summit's constituent groups', while he was 'off on what became tagged as his "tax cart", flogging his consumption tax proposal with near-missionary zeal ... with a plane load of journalists, he criss-crossed the country looking for converts'.⁹¹

The National Tax Summit

The National Tax Summit at (the old) Parliament House was scheduled to run for five days, starting on Monday 1 July 1985. There were 160 delegates, including the state premiers, the ACTU, business groups, welfare groups and tax academics (see Appendix C). This was to be the Hawke government's effort to consult with the Australian community, through its representatives, to test the nature and strength of community support for reform.

There were differences of view, though, over having such a process. It was a creature of Hawke's consensus approach,⁹² but others, such as Keating, were less positive about negotiating something as complex and sensitive as tax reform so publicly.⁹³ And indeed, things did not go as well at the 1985 tax summit as they had at the 1983 economic summit.

Hawke opened the proceedings, asking the participants to temper their sectional interests in favour of the national interest. Then came the first speaker, Bob White, Chair of the Business Council of Australia (BCA). White was emphatic concerning the business community's rejection of the income tax base-broadening measures in any of the packages:

'The Business Council, after very careful consideration and reflecting what it believes to be widespread business views, does not support approaches A, B or C. We are not on the Government's cart.'⁹⁴

The BCA supported a BBCT but it opposed the imposition of a FBT on employers, a CGT and the FTCS. It wouldn't accept a package with both income tax and consumption tax base-broadening elements. Representatives of other employer groups would speak in a similar fashion.

The second speaker was Cliff Dolan, President of the ACTU, who spoke in support of reforms to tackle tax avoidance and evasion, and to reduce the personal income tax on wage earners. He questioned whether a package containing a regressive BBCT could produce an overall progressive tax system,⁹⁵ but he did not rule out supporting it.

Welfare groups spoke strongly against a BBCT. They argued for a more progressive tax system and additional expenditure on low-income people, and they were adamantly opposed to a tax mix switch from personal income tax to an indirect consumption tax. The state premiers were also not supportive of a BBCT, which made pursuing it politically difficult for the federal government – a lesson that would be relevant when the consumption tax issue was revisited in 1998.

With the prospects for consensus dwindling, the government emphasised that the compensation arrangements would ensure the overall progressivity of the approach C package and committed itself to establishing an independent monitoring authority to assess this. But it was to no avail. By the end of the summit's first day, hopes of any substantial consensus emerging looked remote. In summing up, Keating described the first day as an 'opportunity to get some of the dirty water off our respective chests' and noted that 'the general tone of many of the comments has been divided, sectional and uncompromising'.⁹⁶

The following two and a half days of the summit were spent discussing specific income tax avoidance/evasion and consumption tax and business tax issues. Most speakers signalled their support for the need to address tax avoidance and evasion, and there was some support for the approach A measures such as a CGT and FBT. The business groups, however, were adamant in their opposition, and on day three they released a joint statement: 'The Business Community believes tax evasion should be eradicated but is unanimous in rejecting Option A'.⁹⁷

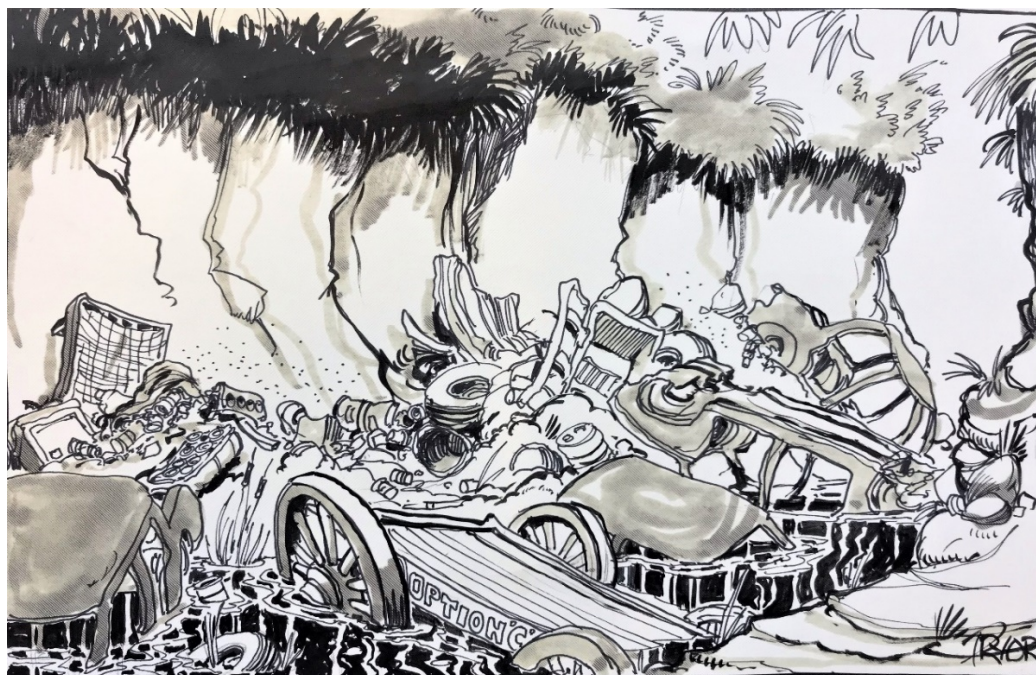
Business groups instead argued for smaller government, seeing new taxes as extra charges on their members – in a leviathan⁹⁸ sense they were suspicious of instruments that made revenue raising easier. Even approach C, with its new BBCT, had little appeal for them. In the business tax discussions there was support for a dividend imputation system, but the business groups opposed an increase in the company tax rate to pay for it – again, they argued for spending cuts.

Overall, while participants in the summit agreed that reform of the Australian tax system was imperative, there was no agreement on what that reform should involve. The business groups opposed the approach A income tax base-broadening measures, even in a package with a BBCT. The welfare groups, and the premiers, opposed the approach C consumption tax base-broadening. The ACTU, meanwhile, had not yet fully revealed its hand.

As the official proceedings ran their course in Parliament House, the real negotiations took place behind the scenes. While the ACTU opposed the BBCT, it had privately agreed to join a consensus around approach C if this could be achieved. This would require, at the very least, the clear backing of the business community, but that wasn't forthcoming. Keating continued to fight for approach C, but as the summit approached its conclusion, Hawke, after consultation with Peter Walsh⁹⁹, withdrew the government's support.

John Edwards recorded: 'In a late Wednesday night meeting with the ACTU at Canberra's International Hotel, Hawke, without Keating's knowledge, agreed to dump Option C'.¹⁰⁰ (Figure 6 tells the story.) Ted Evans recalled: 'We had put a lot of effort into getting the ACTU on side, and had a promise of their support, but hadn't bothered as much with the business community and that was a mistake. Because they opposed it. A great pity'.¹⁰¹

Figure 6: The Tax Cart



Source: Geoff Pryor

Both Keating and Treasury were deeply disappointed that Hawke had abandoned approach C, believing that it was still possible to get such a package up. Hawke's view, though, was that it was his responsibility as prime minister to decide what was politically achievable: 'If I had not dumped Option C in 1985 Labor would have lost the 1987 election'.¹⁰²

With approach C now abandoned, Hawke moved to conclude the summit a day early. By the time of their closing speeches, Hawke and Keating's language had changed from that of seeking a consensus to that of the summit being an input into a government decision. Hawke said:

We have not come to a point of endorsing a package – let that be clear – but I think we have come to a position where this Government is now able, in integrity, to proceed on the basis of broad principles which have clear majority support. We will now undertake that final act of the process. Having involved the Australian people through their representatives and having listened to what you have had to say, we will now, as a cabinet and a Party, go about the process of drawing together that package which will then be put to the Parliament.¹⁰³

Keating acknowledged the demise of approach C and indicated that approach A would be the focus of a government package: 'It is true to say that the White Paper is a very ambitious document. While we have not adopted option C, nevertheless that change is quite massive in terms of the change to the direct tax base'.¹⁰⁴ After a discussion with Hawke, he also indicated the government's support for a dividend imputation system: 'For many years companies had asked coalition governments for full imputation, and of course it fell on deaf ears. We are pleased to be able to recommend such a substantial change'.¹⁰⁵

Tax Statement

In the wake of the tax summit, Treasury worked with Keating on a tax package based on approach A and a dividend imputation system. The imperative was to salvage as much of the income tax base—broadening measures as possible to enable the largest possible personal income tax cuts. This process, though, became a further fracture in the Hawke–Keating relationship. Keating recalls three days of meetings with the full ministry to get agreement on the package – which Hawke didn't attend: 'The low point in my whole relationship with Bob was that he went to Papua New Guinea that weekend and left me alone with the whole reform package'.¹⁰⁶

The government’s final tax reform package was announced by Keating in a ministerial statement released on 19 September 1985.¹⁰⁷ It included a CGT, a FBT, the tightening of expense claims, a FTCS and dividend imputation – an impressive fallback position. While the BBCT didn’t get up, the package represented a major broadening of the income tax base and a reformation of the business tax system.

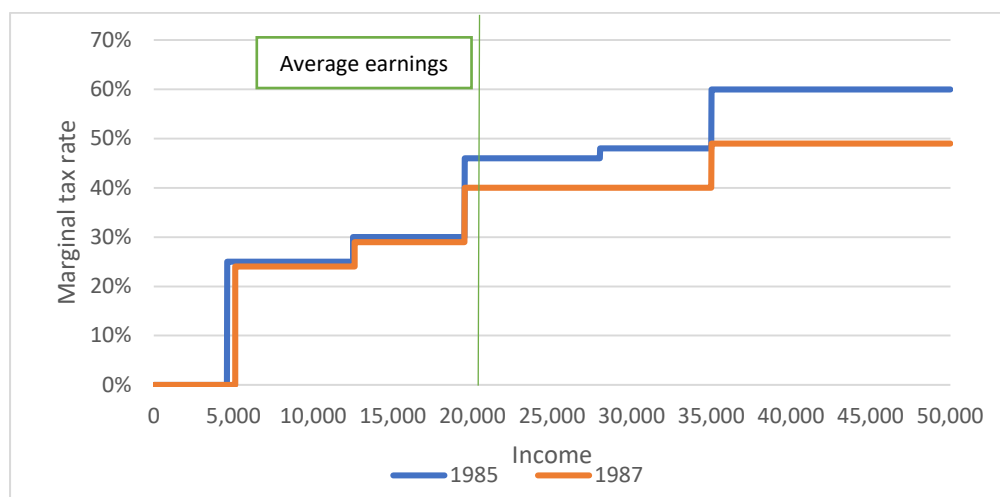
The income tax base–broadening measures generally followed the DWP designs. The CGT was levied on assets acquired after 19 September 1985 (though not on gains accruing from that date on existing assets) and fully indexed for inflation. The FBT was levied on employers at the company tax rate, with an exemption for religious bodies. Tax deductions were denied for all entertainment expenses, and other substantiation requirements were tightened. The quarantining of farm losses and negatively geared rental properties was introduced.

The dividend imputation system applied to residents, with the company tax rate increased to 49 per cent – aligning it (temporarily) with the new top personal income tax rate – to defray the revenue cost. A FTCS was introduced for foreign-source income, with a credit for foreign tax paid.

There was also a simplification of the WST rate structure to three rates, namely 10 per cent, 20 per cent and 30 per cent; changes to PAYE and PPS to collect tax in a timelier way; and the proposed introduction of a national identification system, the Australia Card, to help combat tax evasion.

The package included substantial personal income tax cuts, in two steps. Recognising that the income tax base–broadening measures would most impact higher-income earners, the top personal income tax rate was reduced from 60 per cent to 49 per cent, and the intermediate rate from 46 per cent to 40 per cent (see Figure 7). There were more modest reductions in other rates and an increased tax-free threshold. Measures were also taken to ease income tests for pensioners to alleviate poverty traps.

Figure 7: Personal Income Tax Rate Reductions

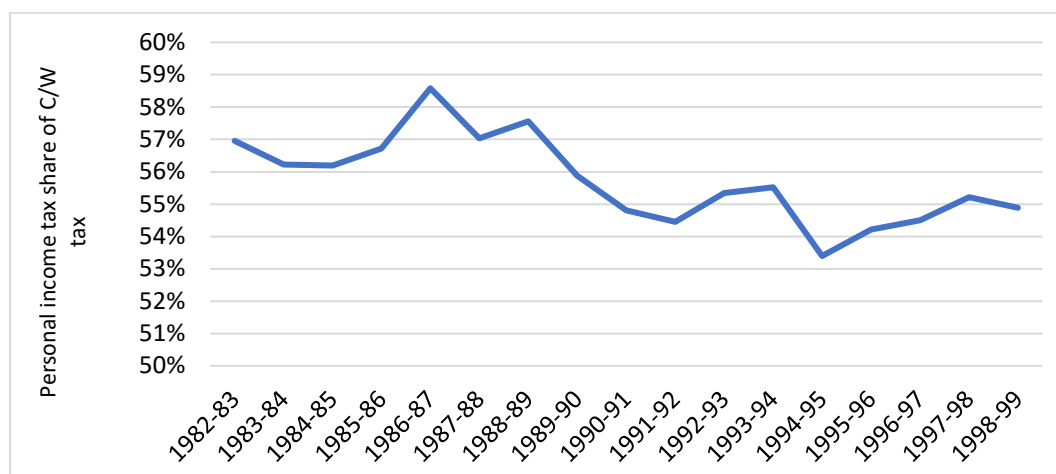


Source: Keating (1985)

While the overall package came at a cost to the Budget, with the base-broadening measures only partly funding the tax cuts, Keating was determined to provide significant personal income tax cuts even without the BBCT. He then argued that, having lost the BBCT, spending cuts were necessary to restore the budget position.¹⁰⁸ In reality, bracket creep soon restored personal income tax revenues, which broadly maintained the Budget’s share of Commonwealth revenues until the economic downturn at the end of the decade (see Figure 8).

The tax cuts were also configured as part of Accord II, which secured the ACTU’s agreement to discount wages for the currency depreciation at that time.¹⁰⁹ Tax, and superannuation, trade-offs would continue to be social wages features of Accord agreements, so as to restrain wage pressures.

Figure 8: Personal Income Tax as a Share of Commonwealth Tax Revenue



Source: Budget papers

Treasury's costings of the new taxes proved to be problematic given the lack of experience with them (see Table 3). For the FBT, the focus was on business lunches, and a lot of other benefits were missed, while the \$5 million estimated for the CGT's first year turned out to be \$80 million.

Table 3: 1985 RATS Tax Measures Costings

	1986-87 (\$m)	1987-88 (\$m)
Australia Card	-128	-83
Non-cash fringe benefits	320	515
Entertainment expenses	310	330
Substantiation requirements	0	105
Capital gains tax	0	5
Rationalisation of wholesale sales tax	110	110
Tax-free threshold	0	90
Prescribed payments system	105	45
Quarterly provisional tax	0	140
Quarantining of farm losses	0	105
Concessions for film industry	35	35
Foreign tax credit system	0	0
Loss transfer for petroleum expenditure	-70	-65
Imputation system*	0	0
Poverty traps	-140	-195
Concessional expenditure rebate	60	63
Negative gearing of rental properties	55	100
Other	48	48
Total	705	1348
Personal income tax cuts	-2000	-4500
Net	-1295	-3152

* Annual cost of \$250 million from 1988 to 1989

Source: Keating (1985)

With the reform package announced, the final part of the process involved gaining public and parliamentary support. Criticism from business groups and the Opposition was most intense over the FBT, entertainment expenses, the CGT and the FTCS.¹¹⁰ Keating remained the government's main advocate for the reforms, while Treasury ran a hotline that answered over 4000 calls.¹¹¹ Keating recognised the crucial role Treasury had played: 'If ever a department of state worked for a government, Treasury worked for the Hawke Government throughout 1985'.¹¹²

The legislation implementing the tax package was prepared by the ATO, mostly for the autumn 1986 sittings of parliament. The government was able to negotiate its parliamentary passage with the Democrats,¹¹³ with party leader Don Chipp generally having spoken in favour of the reforms at the tax summit.¹¹⁴ The Australia Card proposal, though, was not passed.

Referring to the tax summit and the loss of the BBCT, Keating lauded the package as 'the outcome of that unprecedented process of consultation', adding that it was 'the most far reaching reform of the Australian tax system to be undertaken by a Government in living memory'.¹¹⁵

Lessons in Tax Reform

The 1985 RATS package, even without the BBCT, constituted a major reform of the Australian tax system. I will now assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The terms-of-reference were provided by the government's nine principles, which identified income tax cuts and tackling tax avoidance and evasion as the key objectives; referenced the tax policy criteria of equity, efficiency and simplicity; and stipulated the need for widespread community support. There wasn't a review panel as such, but the Taskforce on Tax Reform provided oversight of Treasury's preparation of the DWP.

The nine principles were effective in shaping the work that was done, with the tackling of tax avoidance and evasion an important lever for the base-broadening reforms, as well as administrative measures. Ultimately, the ninth principle – widespread community support – was invoked to scuttle the BBCT. Still, the process for shaping the DWP worked well, with Treasury given space to design largely blueprint tax reforms, albeit tempered for practical and political realities.

Gathering of Evidence and Calling of Witnesses

With the preparation of the DWP largely being accomplished internal to government and in a relatively short period of time, there weren't the standard processes of evidence gathering and the calling of witnesses. That said, the DWP was able to draw on the Asprey Report, international reviews and academic literature. There had also been the EPAC processes and the Keating-led consultations.

The tax summit provided the ultimate opportunity for input by external experts and interest groups, but it proved problematic. Keating's concerns about negotiating something as complex and sensitive as tax reform so publicly were well founded. Perhaps if negotiations had taken place less publicly, in particular with the business community, then greater common ground could have been found. That said, consensus isn't always possible and sometimes governments need to just make decisions anyway.

Timeliness and Relevance

The DWP was prepared in a short amount of time as a basis for the tax summit discussions, and it was highly relevant in presenting a government position but with alternative approaches. The question is whether the combined DWP and tax summit process was the best way to advance tax reform. On that, the attitude of the various parties at the tax summit was revealing.

The business groups came to the summit seemingly opposed to major tax reform. Their small-government agenda made them resistant to any new revenue sources, especially from their members. Adding to their alienation, the government did not seek to seriously negotiate with them prior to the summit. In the end, they got the things they didn't want (the income tax base-broadening measures), but they did not get the thing they were most attracted to (the BBCT).

The welfare groups overwhelmingly opposed the BBCT, even with compensation arrangements that would have left low-income earners better off. They couldn't accept any tax mix switch away from personal income tax or changes to individual taxes that were regressive, even in an overall progressive package. The state premiers had a similar attitude.

The ACTU was the one major stakeholder potentially prepared to negotiate an overall package. It was also the one group that the government had made serious attempts to negotiate with prior to the summit – a consequence of the Accord relationship.

Ultimately, the DWP was not an influential document in regards to the tax summit process, but it did provide a strong basis for the government's final reform package once the BBCT had been ruled out.

Approach to Analysis of Issues

The DWP was a high-quality document – it was relatively short, focused and well written. Its analysis and presentation of the evidence was excellent, reflecting the Treasury resources that had been devoted to it. And for the first time during a major reform process in Australia, substantive modelling work was utilised.

Drawing on previous reviews, academic literature and Treasury's own work, the DWP articulated a comprehensive reform of the Australian tax system, based on the Asprey blueprint. In several areas, the DWP positions were tempered according to perceived practical realities, such as with the realisations CGT, application of the FBT to employers, the dividend (only) imputation system and the single-stage BBCT.

The tax summit was disappointing – perhaps unsurprisingly – in regard to how the various groups in attendance simply stated their vested-interest positions, with a seemingly limited understanding of the reform issues being considered. That said, the summit process did enable the government to say it had consulted on its final package, and the debates were educational for the community more broadly.

Quality of Tax Policy Outcomes

This process successfully achieved substantial income tax base-broadening. Engineering a CGT, a FBT, a FTCS and dividend imputation in one package was a major reform. In the face of practical and political realities, though, some measures amounted to less than the full blueprint.

The CGT, as well as being realisations rather than accruals, only applied to assets purchased after the announcement date of 19 September 1985, making for an unfortunately long transition period. The FBT was levied on employers rather than employees, necessitating a single tax rate. The dividend imputation system fell short of full integration, although the introduction of a CGT achieved the more effective taxation of undistributed company income.

The income tax base-broadening measures also facilitated a lowering of the highest marginal tax rates, in particular bringing the top rate down from 60 per cent to 49 per cent and aligning it with the company tax rate. While the whole package ultimately came at a cost to the Budget, that was justified by the quality of the reforms and added to the arguments for a period of fiscal consolidation.

The failure of the single-stage BBCT was ultimately followed, in 2000, by a superior multi-stage consumption tax.

Conclusion

While the loss of the BBCT at the tax summit gave the appearance of a political blow for Keating and Treasury, in reality the income tax base-broadening measures, the dividend imputation system and the substantial cuts in personal income tax rates represented a major tax reform package. The thwarted ambitions for the BBCT facilitated reforms which, had they been proposed without that attention-gathering centrepiece, may have had less chance of success. The tax reform debates were also educational for the Australian public – and the summit, for all its flaws, helped with that.

Overall, this tax reform package was indeed the most substantial in living memory – certainly the most significant since the 1942 income tax unification. The big, unfinished agenda item from the Asprey Report, of course, was the reform of Australia's indirect consumption tax regime, but that would have to wait another 13 years.

Post-RATS

Considering the dimensions of the RATS reforms, their implementation went relatively smoothly, although some aspects, such as the FBT, did need considerable refinement. Once the legislation was in place, which added an additional 750 pages to the tax Acts, the ATO supported businesses and advisers in dealing with the new measures.¹¹⁶ The approach to the negative gearing of rental properties, though, caused ongoing consternation and was reversed in 1987.

Tax Administration

There was a lull in tax policy changes as the reform package was bedded down, but some significant tax administration changes were nonetheless underway, with the ATO modernising itself to manage the growing economic and tax complexities. The 1983 introduction of a PPS had required the ATO to develop a computer-based system to process large amounts of data, and other computer technology advances further enhanced its ability to manage taxpayer compliance.

An even bigger change in tax administration was the introduction of self-assessment in 1986. Until the 1980s, ATO assessors manually checked each tax return, a laborious effort with nine million taxpayers. Following an examination of overseas practices, the ATO realised how inefficient this was and moved to a system of generally taking returns at face value, freeing its assessors to undertake higher-priority work.¹¹⁷

Resource Rent Tax

Australia has long grappled with how to tax the extraction of natural resources. A mix of state and Commonwealth royalties was used until the Whitlam government applied a modest crude oil levy, which was increased by the Fraser government to achieve international price parity. The incoming Hawke government then proposed replacing the Commonwealth's crude oil excise and royalty regime with a petroleum resource rent tax (PRRT), as a more efficient and equitable way for the community to share in the benefits of extracting non-renewable resources.

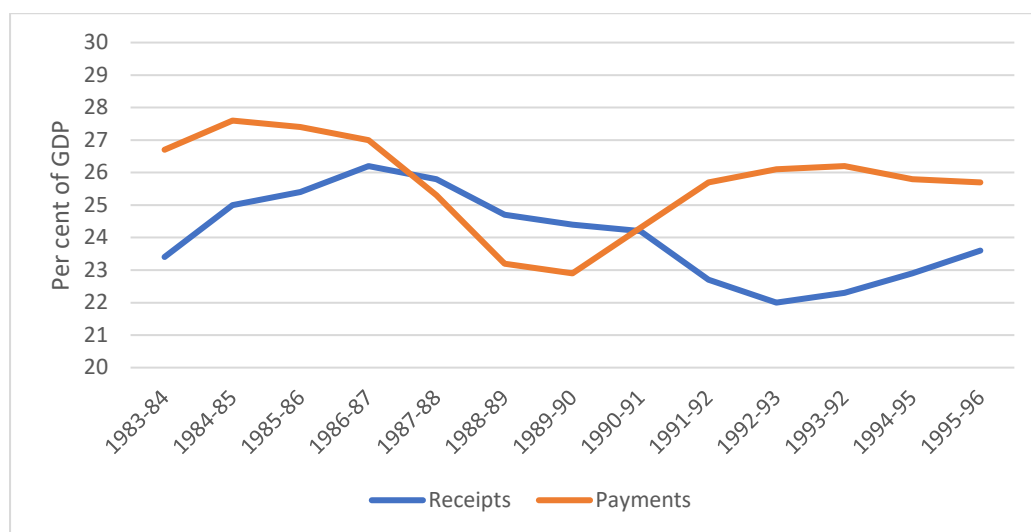
After protracted negotiations with the industry and the states, legislation to impose a PRRT on certain offshore petroleum projects was passed in 1987, for commencement the following year.¹¹⁸ It was a modified version of the Brown cash-flow tax, imposed at 40 per cent on the excess of project receipts over expenditures (current and capital), with any losses carried forward at a compound rate. Over time, the PRRT has been extended to all oil and gas projects, onshore and offshore.¹¹⁹

Fiscal Policy

An imperative to increase national savings in the face of Australia's deteriorating current account deficit (CAD), as well as emerging asset price pressures, set up a period of fiscal consolidation in the second half of the 1980s. There were substantial expenditure cuts, including to state government

grants, and the 1986 Budget included a 0.25-percentage-point increase in the Medicare levy and a 3-percentage-points increase in fuel excise. As Figure 9 illustrates, the budget balance improved from a deficit of 2 per cent of GDP in 1985–86 to a surplus by 1987–88.

Figure 9: Receipts and Payments, 1983–84 to 1995–96



Source: Budget papers

However, the Australian economy was going through a difficult transition. The floating of the exchange rate and the opening up of the economy to greater international competition had exposed structural rigidities. The Accord arrangements had helped stabilise wage and price pressures, and the 1985 tax reforms had dealt with some of the distortions in the tax system, but a broader microeconomic reform agenda was needed.

Australia was at this time also experiencing deteriorating terms-of-trade and a surging CAD. Fiscal consolidation and a broader reform program were seen as necessary, but Keating was having difficulty convincing his own colleagues of the need for difficult decisions, and this was the context for his 1986 comment that Australia risked becoming a ‘banana republic’.¹²⁰

1988 Economic Statement

In his September 1985 tax statement, Keating had claimed that the ‘Government’s tax reform exercise is completed’.¹²¹ But in reality, tax reform is never completed – as comprehensive as the reforms had been, on the income tax side at least, substantial issues remained. Through this time, the government was releasing two economic and fiscal statements each year, with an April/May statement in addition to the August Budget, and the May 1988 economic statement contained a particularly notable package of tax and other reforms.

The manner of compiling the package was very different to that which applied in 1985. There was no review process, with the package put together by a small team working in Treasury.¹²² This was Keating’s preferred approach.

Company Tax

Headlining the tax changes was a cut in the company tax rate from 49 per cent to 39 per cent, ‘to give Australian companies a tax structure more than competitive with the rest of the world’.¹²³ This tax rate cut was funded by tax base broadening with the removal of tax concessions,¹²⁴ most significantly the replacement of 5/3 depreciation with effective life depreciation but with a 20 per cent loading. Tax concessions for R&D, goldmining, life offices and friendly societies were also removed. The move did end, though, the alignment of the company and personal income tax rates.

Superannuation

Since 1983, superannuation end-benefits had been close to fully taxed, while contributions and fund earnings remained tax-exempt – so-called EET consumption tax treatment as opposed to TTE income tax treatment. In the 1988 statement, part of the tax on end-benefits was effectively brought forward to the earlier stages.¹²⁵

The change imposed a 15 per cent tax on contributions, with income stream end-benefits now to be taxed at marginal rates with a 15 per cent rebate and lump sums being tax-exempt up to \$135,590. The effect of this change was to bring forward \$1 billion of tax revenue without reducing individuals' ultimate end-benefits.¹²⁶

In addition, the earnings of superannuation funds (in the accumulation phase) would also be taxed at 15 per cent in conjunction with extending the imputation system to them, providing access to dividend imputation credits that were expected to offset the earnings tax.

Conceptually, the taxation of superannuation had gone from EET consumption tax treatment to a consumption–income tax hybrid, with tax now spread across the three stages – perhaps 'ttt'.

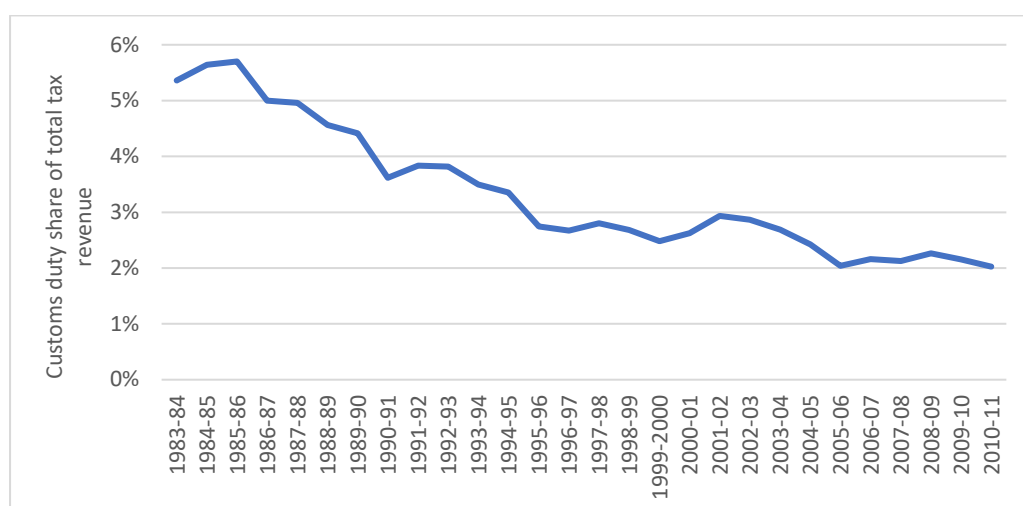
Tariffs

High tariffs (customs duties) had been a part of government policy in Australia since before Federation, for both industry protection and revenue purposes. The only major departure from that approach had been the Whitlam government's 25 per cent cut in 1973.

The 1988 statement announced a general phasing down of tariffs, with those above 15 per cent reduced to 15 per cent, and those between 10 per cent and 15 per cent reduced to 10 per cent. Passenger motor vehicles (PMV) and textiles, clothing and footwear (TCF) were subject to separate tariff-reduction plans. In the subsequent 1991 competitiveness statement, the general phase-down was extended to 5 per cent, with PMV and TCF reduced to 15 per cent and 25 per cent respectively.

The combined effect of these cuts reduced the effective rate of assistance to Australian manufacturing from 25 per cent in 1982–83 to 6 per cent by 1996–97,¹²⁷ a painful adjustment but one that would leave the Australian economy more competitive and productive. It also meant reduced revenue – what had been a major source of income for early Australian governments had been reduced to a trickle. Customs duties initially comprised 85 per cent of Commonwealth tax revenue but amounted to only 2.5 per cent by the end of the century.¹²⁸ (See Figure 10.)

Figure 10: Customs Duty as a Share of Commonwealth Tax Revenue



Source: Budget papers

Enhancing Productivity

Keating heralded the reforms as being 'designed to further free up the dynamic forces within this economy, forces which if properly directed and harnessed will power our economy towards the 21st

century'.¹²⁹ This was indeed an important microeconomic reform package, with the company tax rate and tariff cuts amounting to significant further steps in making the Australian economy more internationally competitive. Subsequent microeconomic reforms, covering workplace relations, competition policy and government-owned business enterprises, would continue that process.

Lessons in Tax Reform

The 1988 statement offered an important economic and tax reform package. The cut in the company tax rate funded by the reduction in accelerated depreciation represented a further step in broadening the tax base and lowering the tax rate. The tariff reductions, together with those in the 1991 statement, were of a game-changing dimension in opening up the Australian economy to international competition.

The changes to the taxation of superannuation are harder to assess. They were driven by the desire to bring revenue forward to help with the immediate budget challenge, and to bring superannuation funds into the dividend imputation system. They did, however, add complexity, taking the taxation of superannuation from a single point on end-benefits to all three possible points (contributions, earnings and end-benefits). They also represented a move from consumption tax treatment to something closer to the income tax treatment of other savings vehicles.¹³⁰

Overall, though, the 1988 economic statement was a major tax reform package that built on the 1985 reforms. It was very much a within-government reform exercise – perhaps a lesson learned from the difficulties experienced in negotiating tax reform in a public summit forum. This package reflected Keating's approach of developing policy behind the scenes and then announcing the reforms, as opposed to Hawke's more consensus-oriented approach. While not the product of a formal review exercise, the case for reform had been made publicly, especially by Keating, in the preceding years.

Final Observations

Tax reform is hard – Australia's experiences of the 1980s showed just how hard it can be. Despite general acceptance of the need for tax reform, achieving it presented extreme challenges. Ultimately, it took a strong treasurer backed by a determined Treasury and the weight of academia to advocate the reforms, and a government willing to spend political capital to push them. Even then, the full 1985 reform package didn't get across the line.

The political economy of a reform process had again proven instructive. Asprey was the foundational review that articulated the tax reform blueprint, which later determinative reform exercises sought to implement when the political opportunities presented themselves. The 1985 package, supplemented by the 1988 package, had substantially reformed Australia's income taxes. Consumption tax reform, the focus of the next paper, would have to wait until 1998.

Appendix A

Review Terms-of-Reference

The Campbell Committee terms-of-reference were as follows:

In view of the importance of the efficiency of the financial system for the Government's free enterprise objectives and broad goals for national economic prosperity, the Committee is asked to:

- (a) Inquire into and report on the structure and methods of operation of the Australian financial system including the following institutions: (i) banks and non-bank financial institutions, including in relation to foreign exchange; (ii) the securities industry generally; (iii) the short-term money market, both official and non-official segments; (iv) specialist development finance institutions including

the Australian Resources Development Bank, the Australian Industry Development Corporation, the Commonwealth Development Bank and the Primary Industry Bank of Australia; and (v) The Reserve Bank of Australia.

- (b) To inquire into and report on the regulation and control of the system.
- (c) To make recommendations: (i) for the improvement of the structure and operation of the financial system; (ii) on the regulation and control of the financial system; and (iii) concerning the existing legislation relating to the financial system including more importantly the Reserve Bank of Australia, the Banking Act and Regulations, Financial Corporations Act etc.
- (d) To inquire into and report and make recommendations on such other matters as the Inquiry believes relevant to the generality of its inquiries.¹³¹

Appendix B

Comparison of Reviews

	Time	Submissions/witnesses	Hearings	Report size	Type
Campbell Committee	2 years, 8 months	Written submissions	Public hearings	838 pages	Foundational
RATS	6 months	No	Tax summit	279 pages	Determinative
Economic Statement	In-govt.	No	No	162 pages	Determinative

Appendix C

1985 Tax Summit Delegates

Government (Cabinet)

Democrats

States/territory (NSW, Vic., Qld, WA, SA, Tas., NT)

Aboriginal Development Commission

ACTU (included individual unions)

Australian Associated Brewers

Australian Associated Stock Exchange

Australian Association of Permanent Building Societies

Australian Bankers Association

Australian Catholic Social Welfare Commission

Australian Chamber of Commerce

Australian Chamber of Manufacturers

Australian Consumers' Association

Australian Council of Churches

Australian Council of Local Government Associations

Australian Council of Professional Associations

Australian Council of Professions

Australian Council of Social Service

Australian Council on the Ageing
Australian Episcopal Conference
Australian Federation of Business and Professional Women
Australian Federation of Construction Contractors
Australian Federation of Consumer Organisations
Australian Federation of Credit Unions
Australian Film Commission
Australian Finance Conference
Australian Medical Association
Australian Merchant Bankers Association
Australian Mining Industry Council
Australian Pensioners Federation
Australian Retailers' Association
Australian Small Business Association
Australian Society of Accountants
Australian Sports Commission
Australian Tax Research Foundation
Australian Taxpayers Association
Australian Travel Industry Association
Brotherhood of St Laurence
Business Council of Australia
Confederation of Australian Industry
Council of Small Business Organisations of Australia
Disability Advisory Council of Australia
Federal Chamber of Automotive Industries
Federation of Ethnic Communities Councils of Australia
Housing Industry Association
Institute of Chartered Accountants in Australia
Law Council of Australia
Life Insurance Federation of Australia
Master Builders Federation of Australia
Metal Trades Industry Association
National Council of Women of Australia
National Farmers' Federation
National Women's Consultative Council
Real Estate Institute of Australia
Returned Services League of Australia
Salvation Army
Smith Family
Taxation Institute of Australia
Women's Electoral Lobby
Youth Affairs Council of Australia
Tax academics (Apps, Grbich, Groenewegen, Head, Porter, Sieper)
Observers (NZ and ACT)
Advisers

Prime Minister's Office
Deputy Prime Minister's Office
Treasurer's Office
Department of the Prime Minister and Cabinet
EPAC
Department of Industry, Technology and Commerce
Bureau of Industry Economics
Treasury (Fraser, Evans, Morgan, McBurney, McKenzie, Boxer, Henderson, Wright)
Australian Taxation Office
Bureau of Agricultural Economics
Department of Aboriginal Affairs
Department of Employment and Industrial Relations
Department of Finance
Department of Social Security
Health Insurance Commission
Summit Secretariat

Bibliography

- Asprey Report, *Taxation Review Committee: Full Report*, Australian Government Publishing Service, 31 January 1975.
- Brown, Oliver, *David Morgan: An Extraordinary Life*, Hardie Grant Books, Melbourne, 2019.
- Callaghan, Mike, *Petroleum Resource Rent Tax Review*, Final Report, 13 April 2017.
- Campbell Report, *Australian Financial System Inquiry: Final Report of the Committee of Inquiry*, Australian Government Publishing Service, Canberra, September 1981.
- Commonwealth Grants Commission, *The Commonwealth Grants Commission: The Last 25 Years*, 2008, <https://www.cgc.gov.au> (viewed March 2021).
- Commonwealth of Australia, *Reform of the Australian Tax System: Draft White Paper*, Australian Government Publishing Service, Canberra, 4 June 1985.
- Daniels, Dale, *Social Security Payments for People Caring for Children, 1912–2008: A Chronology*, Parliamentary Library, 29 January 2009.
- Edmonds, Leigh, *100: Working for All Australians: A Brief History of the Australian Taxation Office*, Australian Taxation Office, Canberra, 2010.
- Edwards, John, *Keating: The Inside Story*, Penguin Books, Melbourne, 1996.
- Fraser, Malcolm, *Statement on Taxation and Industry Assistance Measures*, 19 July 1982.
- Fraser, Malcolm and Margaret Simons, *Malcolm Fraser: The Political Memoirs*, The Miegunyah Press, Melbourne, 2010.
- Groenewegen, Peter, *The Australian Wholesale Sales Tax in Perspective*, in John Head (ed.), *Taxation Issues of the 1980s*, Australian Tax Research Foundation, Sydney, 1983.
- Harberger, Arnold, *Taxation, Resource Allocation, and Welfare*, in *The Role of Direct and Indirect Taxes in the Federal Revenue System*, National Bureau of Economic Research and Brookings Institution, Princeton, Princeton University Press, 1964.
- Hawke, Bob, *Government Taxation Policy Statement*, media release, 31 October 1984.
- Hawke, Bob, *The Hawke Memoirs*, Heinemann, London, 1994.
- Head, John, 'The Comprehensive Tax Base Revisited', *Finanz Archiv*, vol. 40, no. 2, 1982.

- Head, John, 'Issues in Australian Tax Policy for the 1980s', in John Head (ed.), *Taxation Issues of the 1980s*, Australian Tax Research Foundation, Sydney, 1983.
- Head, John, 'Reforming the Australian Tax System: The Issue of Comprehensiveness in the Draft White Paper and the Tax Reform Package', *Economic Analysis and Policy*, vol. 16, no. 2, September 1986.
- Henderson Report, *Commission of Inquiry into Poverty, Poverty in Australia: First Main Report*, Australian Government Publishing Service, Canberra, 18 April 1975.
- Howard, John, *Government Decisions on Expenditure and Taxation, Ministerial Statement*, Hansard, 24 May 1979.
- Howard, John, *Lazarus Rising: A Personal and Political Autobiography*, Harper Collins, Sydney, 2010.
- Keating, Paul, *Economic Statement May 1983*, Commonwealth Government Printer, Canberra, 19 May 1983.
- Keating, Paul, *Reform of the Australian Tax System: Statement by the Treasurer*, Australian Government Printer, Canberra, 19 September 1985.
- Keating, Paul, *Economic Statement May 1988*, Australian Government Publishing Service, Canberra, 25 May 1988.
- Lynch, Phillip, 'Statement by the Treasurer: Fiscal Policy Decisions', 20 May 1976.
- Mason, Anthony, *Barwick Court*, in Coper, Michael, Tony Blackshield and George Williams (eds), *The Oxford Companion to the High Court of Australia*, Oxford University Press, Melbourne, 2001.
- O'Brien, Kerry, *Keating*, Allen & Unwin, Sydney, 2015.
- Officer, Robert, 'Company Tax and Company Finance', paper prepared for the Committee of Inquiry into the Australian Financial System, 1980, published as *Australian Financial System Inquiry, Commissioned Studies and Selected Papers, Part 3, Business Taxation and the Financing of Industry*, Australian Government Publishing Service, Canberra, 1982.
- Snape, Richard, Lisa Gropp and Tas Luttrell, *Australian Trade Policy 1965–1997: A Documentary History*, Allen & Unwin, Sydney, 1998.
- Swan, Peter, *Is There a Case for Complete Integration of Corporate and Personal Income Taxes?*, paper prepared for the Committee of Inquiry into the Australian Financial System, 1980, published as *Australian Financial System Inquiry, Commissioned Studies and Selected Papers, Part 3, Business Taxation and the Financing of Industry*, Australian Government Publishing Service, Canberra, 1982.
- Tilley, Paul, *Changing Fortunes: A History of the Australian Treasury*, Melbourne University Press, Melbourne, 2019.
- Treasury, *Treasury Economic Paper Number 5, Energy Markets – Some Principles of Pricing*, Australian Government Publishing Service, Canberra, 1979.
- Willis, Ralph and Kenneth Wilson, *Chapter 1: Introduction*, in Wilson, Kenneth, Joanne Bradford and Maree Fitzpatrick (eds), *Australia in Accord: An Evaluation of the Prices and Incomes Accord in the Hawke–Keating Years*, South Pacific Publishing, Melbourne, 2000.

Interviews

- Trevor Boucher, 15 February 2021
- Bob Breunig, peer review
- Don Challen, 9 February 2021
- Albert Cheok, 15 February 2021
- Ted Evans, 23 August 2017
- Bernie Fraser, 5 September 2017
- John Freebairn, 9 February 2020

Ross Garnaut, 15 March 2021
Alan Henderson, 7 October 2020
Ken Henry, 13 September 2017
Alison McClelland, 9 February 2020
David Morgan, 18 March 2021
Brian Nolan, 19 February 2021
Andrew Podger, 16 December 2020
Matthew Ryan, peer review
Greg Smith, 9 March 2021 (and peer review)
Neville Stevens, 5 March 2021
Jim Wright, 28 February 2017

Notes

-
- ¹ Lynch, pp. 52–6.
² 1976 Budget, budget speech, 17 August 1976, Hansard, p. 23.
³ Howard, 1979, p. 2392.
⁴ Previously, income was taxed at 20 per cent up to \$2506, then at 27 per cent up to \$6266, so the general concessional rebate of \$676 meant there was an effective tax-free threshold of \$3153.
⁵ Phillip Lynch, 1977 Budget, budget speech, 16 August 1977, Hansard, p. 52.
⁶ John Howard, quoted in Tilley, pp. 142–3.
⁷ Phillip Lynch, 1977 Budget, budget speech, 16 August 1977, Hansard, p. 53.
⁸ Daniels.
⁹ Lynch, pp. 48–51.
¹⁰ Henderson Report, p. 61.
¹¹ Treasury, p. 12.
¹² John Howard, 'Taxation Enquiry', press release, 21 November 1980.
¹³ Howard, 2010, pp. 118–19.
¹⁴ See Groenewegen, p. 341, for rates since 1930.
¹⁵ John Howard, 1982 Budget, budget speech, Hansard 17 August 1982, p. 4.
¹⁶ Fraser, p. 4.
¹⁷ Mason, p. 3.
¹⁸ Commonwealth Grants Commission, p. 32.
¹⁹ Campbell Report, p. xxiii.
²⁰ Campbell Report, p. 758.
²¹ Campbell Report, p. 206.
²² Campbell Report, p. 210.
²³ Campbell Report, pp. 213–214.
²⁴ Campbell Report, pp. 211–12.
²⁵ Campbell Report, p. 216.
²⁶ Swan, p. 28; and Officer, pp. 132–3.
²⁷ Campbell Report, p. 244.
²⁸ Campbell Report, p. 248.
²⁹ Campbell Report, p. 264.
³⁰ Campbell Report, p. 279.
³¹ Campbell Report, p. 280.
³² The government did move to tenders for the issuing of government securities.
³³ See Fraser and Simons, p. 546; and Howard, 2010, p. 112.
³⁴ Head, 1986, p. 146.
³⁵ Keating, 1983, pp. 17–21.
³⁶ Paul Keating, 1984 Budget, budget speech, Hansard 21 August 1984, p. 4.
³⁷ Head, 1983, p. 1.

-
- ³⁸ EPAC, annual report 1984–85, pp. 9–10.
- ³⁹ Bob Hawke, 6PR radio, 19 October 1984; Government Taxation Policy Statement, 31 October 1984.
- ⁴⁰ Hawke, 1984, pp. 5–6.
- ⁴¹ Although estate duties were ruled out at an early stage.
- ⁴² Alison McClelland, personal interview.
- ⁴³ Jim Wright, personal interview.
- ⁴⁴ TAXIO allowed taxes to be specified at the 109 Input-Output Commodity Group (IOCG) level for commodities and using categories. It was succeeded by PRISMOD in 1991.
- ⁴⁵ National Income Forecasting model.
- ⁴⁶ Jim Wright, personal interview.
- ⁴⁷ David Morgan, personal interview.
- ⁴⁸ Treasury, annual report 1984–85, p. 13.
- ⁴⁹ Commonwealth of Australia, p. 3.
- ⁵⁰ Harberger welfare loss triangles; see Harberger.
- ⁵¹ Commonwealth of Australia, pp. 14–15.
- ⁵² Optimal tax theory had been pioneered by F. P. Ramsey and I. M. Little. Public choice literature explored leviathan models of tax limits on governments. See Head (1982) for a synthesis of these developments.
- ⁵³ Commonwealth of Australia, p. 6.
- ⁵⁴ Commonwealth of Australia, p. 18.
- ⁵⁵ Tax avoidance describes tax-minimisation schemes that the law allows, in particular artificial and contrived schemes. Tax evasion describes activities that are contrary to the law.
- ⁵⁶ Commonwealth of Australia, p. 21.
- ⁵⁷ Commonwealth of Australia, p. 21.
- ⁵⁸ Commonwealth of Australia, p. 116.
- ⁵⁹ Commonwealth of Australia, p. 126.
- ⁶⁰ Commonwealth of Australia, pp. 77–8.
- ⁶¹ Commonwealth of Australia, p. 85.
- ⁶² Commonwealth of Australia, p. 208.
- ⁶³ Commonwealth of Australia, p. 223.
- ⁶⁴ Commonwealth of Australia, pp. 85–6.
- ⁶⁵ Commonwealth of Australia, p. 87.
- ⁶⁶ Commonwealth of Australia, p. 94.
- ⁶⁷ Commonwealth of Australia, p. 94.
- ⁶⁸ Commonwealth of Australia, p. 48.
- ⁶⁹ Commonwealth of Australia, p. 56.
- ⁷⁰ Commonwealth of Australia, p. 116.
- ⁷¹ Commonwealth of Australia, p. 125.
- ⁷² Commonwealth of Australia, pp. 121–3.
- ⁷³ Regressive is defined as being against income – even though it is a flat rate consumption tax.
- ⁷⁴ Commonwealth of Australia, p. 124.
- ⁷⁵ Commonwealth of Australia, p. 251.
- ⁷⁶ Commonwealth of Australia, p. 197.
- ⁷⁷ Asprey had recommended a partial imputation system.
- ⁷⁸ Commonwealth of Australia, p. 199.
- ⁷⁹ Commonwealth of Australia, pp. 230–3.
- ⁸⁰ Commonwealth of Australia, p. 40.
- ⁸¹ Commonwealth of Australia, p. 249.
- ⁸² Commonwealth of Australia, p. 252.
- ⁸³ Ross Garnaut, personal interview.
- ⁸⁴ Neville Stevens, personal interview.
- ⁸⁵ Paul Keating, in O’Brien, p. 212.
- ⁸⁶ Edwards, pp. 270–5.
- ⁸⁷ David Morgan, personal interview.
- ⁸⁸ Edwards, pp. 270–5.
- ⁸⁹ Paul Keating, in O’Brien, pp. 214–15.
- ⁹⁰ Commonwealth of Australia, pp. 254–5.
- ⁹¹ Hawke, 1994, p. 305.

-
- ⁹² Hawke, 1994, pp. 298–9.
- ⁹³ Brown, p. 96.
- ⁹⁴ Bob White, National Taxation Summit, record of proceedings, p. 5.
- ⁹⁵ Cliff Dolan, National Taxation Summit, record of proceedings, p. 8.
- ⁹⁶ Paul Keating, National Taxation Summit, record of proceedings, p. 54.
- ⁹⁷ Business groups attending the summit, National Taxation Summit, record of proceedings, p. 166.
- ⁹⁸ A leviathan government seeks to maximise its revenue collections.
- ⁹⁹ Ross Garnaut, personal interview.
- ¹⁰⁰ Edwards, p. 276.
- ¹⁰¹ Ted Evans, personal interview.
- ¹⁰² Hawke, 1994, p. 314.
- ¹⁰³ Bob Hawke, National Taxation Summit, record of proceedings, p. 240.
- ¹⁰⁴ Paul Keating, National Taxation Summit, record of proceedings, p. 239.
- ¹⁰⁵ Paul Keating, National Taxation Summit, record of proceedings, p. 239.
- ¹⁰⁶ Paul Keating, in O’Brien, p. 223.
- ¹⁰⁷ Keating, 1985.
- ¹⁰⁸ Keating, 1985, p. 5; and Keating, in O’Brien, p. 216.
- ¹⁰⁹ Willis and Wilson, p. 3.
- ¹¹⁰ The Hon. John Howard, Hansard, 19 September 1985 and 17 October 1985.
- ¹¹¹ Treasury, annual report 1985–86, p. 14.
- ¹¹² Paul Keating, in O’Brien, p. 226.
- ¹¹³ Senator John Siddons, ‘Democrats Negotiate Concessions on Tax Package’, press release, 28 November 1985.
- ¹¹⁴ Don Chipp, National Taxation Summit, record of proceedings, pp. 45–8.
- ¹¹⁵ Keating, 1985, p. 2.
- ¹¹⁶ Trevor Boucher, personal interview; and Brian Nolan, personal interview.
- ¹¹⁷ Edmonds, p. 181.
- ¹¹⁸ Petroleum Resource Rent Tax Assessment Bill 1987; and John Kerin, second reading speech, 21 October 1987.
- ¹¹⁹ Callaghan, pp. 61–2.
- ¹²⁰ Paul Keating, 2GB radio interview with John Laws, 14 May 1986; also see O’Brien, pp. 241–9.
- ¹²¹ Keating, 1985, p. 21.
- ¹²² Greg Smith, personal interview.
- ¹²³ Keating, 1988, p. 6.
- ¹²⁴ Keating, 1988, p. 7.
- ¹²⁵ Keating, 1988, pp. 13–15.
- ¹²⁶ Keating, 1988, p. 15.
- ¹²⁷ Snape, Gropp and Luttrell, table 1.1, p. 13.
- ¹²⁸ Excise revenue being the other 15 per cent.
- ¹²⁹ Keating, 1988, p. 19.
- ¹³⁰ Other than owner-occupied housing, which has effective consumption tax treatment (TEE).
- ¹³¹ Campbell Report, pp. xxiii–iv.