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TITLE: **Fantasy Budget Richard Denniss on Broadening the Tax Base**

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Last week *Crikey*'s *Bernard Keane designed his fantasy budget* - setting priorities based on economic sense and community need alone. Today, Richard Denniss offers an alternative...

It would be very easy in a "fantasy budget" to outline a raft of spending initiatives to "make Australia a better place". But I want to talk about collecting more tax. Because until those campaigning for a fairer society that treads more lightly on the natural environment put as much effort into tax policy as they do to communications strategy, they are doomed to fail.

Wayne Swan told us in his 2012 budget that had the government collected the same percentage of GDP in tax this year as it did in 2007-08, it would have collected an additional $24 billion. That’s enough to fund the Gonski education reforms, the National Disability Scheme, Denticare, and still have more than $10 billion per year left to fund higher welfare payments, better wages for community sector workers, and a fair bit more money for public transport and other infrastructure.

Despite all the hoopla, budgets in Australia are rarely transformative or reforming. Indeed, it’s only the theatre and spectacle of budget night that means most people even notice it. If we started each budget with a blank sheet of paper it is inconceivable that year after year we would fund portfolio areas in virtually identical proportions. Either our priorities don’t really change over time or our budgets do a terrible job of reflecting our priorities.

My fantasy budget would massively simplify the tax system and in the process collect a lot more tax revenue. It would be transformative because in one fell swoop tens of thousands of our best and brightest would be "freed up" from the stultifying, but very well paid, task of helping wealthy people engineer their finances to avoid tax.

So how to do it?

Step one is to abolish John Howard’s arbitrary decision to tax capital gains at half the rate of other income. Before that decision we had spent 20 years moving towards a simplified, harmonised system that reduced incentives to "financially engineer" ordinary income into more tax effective forms of income. The argument that such an incentive would stimulate investment is spurious, was mounted after the decision was made and is not borne out by the empirical evidence. That said, it's very popular among the wealthy.

Step two is to abolish the bizarre notion that income from superannuation should be tax free. This was another of John Howard's crimes against tax efficiency and equity. Those lucky enough to have accumulated millions, and in some cases tens of millions of dollars, in their superannuation accounts before the annual contribution limits kicked in can literally withdraw millions of dollars in income from their super, completely tax-free.

All up, tax concessions for superannuation cost the budget about $30 billion per year and anyone who says that these contributions are saving the budget more than $30 billion in reduced aged pension payments is either kidding themselves or kidding you. It's demonstrably untrue, and Treasury's own figures show that about $10 billion of that $30 billion goes to the highest 5% of income earners, the vast majority of whom were never going to be eligible for the pension.

Step three is to introduce the principle of "polluter pays" to accompany our soon-to-start carbon price. With a white sheet of paper surely we wouldn't repeat the decision to give the biggest polluters 94.5% of their pollution permits for free? For all of the bleating about the fact that the $23 starting price is well above the current European price there is surprisingly little reference to the fact that Australia's so-called "Emission Intensive Trade Exposed" industries only have to buy 5.5% of their permits, which means their actual carbon price will be more like $1.30 per tonne.

Scrapping just half of those free permits would generate about $4.6 billion over the next three years. As for claims that the big polluters would be unable to compete were it not for their virtual exemption from the carbon price, the best evidence that such claims are nothing more than self-serving nonsense is the exchange rate. When Kevin Rudd was elected in 2007 the exchange rate was 88 Australian cents in the US dollar, since then it has surged to a high of $US1.10. Any firm that can survive such an exchange-rate-induced impact on their cost competitiveness was never going to be challenged by a modest carbon price.

Finally, there is the enormous cost of using submarine manufacture to create the kind of jobs that the mining boom is destroying. Over the coming decades Australian taxpayers are going to fork out up to $50 billion to build 12 new submarines. Leaving aside simple questions such as why do we need twice as many submarines when we can't even staff the ones we have, the big question is why on earth would we build them in Australia?

It is estimated that we could save between 50-66% of the cost of the submarines if we bought them from existing overseas manufacturers. Even if you believed we needed 12 submarines *and* to compete with the mining industry for skilled manufacturing workers, surely it would make sense to buy the submarines from overseas and spend the $20 or $30 billion we saved on public transport, renewable energy, or health and aged care infrastructure? And if you think we need to protect manufacturing jobs then we should start saying no to the giant mining projects that are cannibalising the workers the manufacturers spent decades training.

Australia is one of the richest countries in the world living at the richest point in world history. We have the sixth lowest tax/GDP ratio in the OECD and the third lowest ratio of government debt/GDP. Most advocacy groups in Australia have a long list of important and transformative spending initiatives. But until we win the case for a more efficient tax system that collects more revenue, those initiatives will remain a fantasy.

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