

**TITLE: How much tax is enough?**

**AUTHOR: Dr Richard Denniss**

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## **Revenue from taxes is at record lows, so how do we pay for services and infrastructure, RICHARD DENNISS asks**

While it is impolite to say so these days, Canberrans don't pay much tax. While this week's Commonwealth budget as well as the ACT's review of the territory's tax system back up this conclusion, it is unlikely to have much impact on the calls for lower taxes to take the pressure off the cost of living.

Indeed, this week also saw the release of a report that showed that prices in Australia have been rising much more slowly than incomes. But again, it is unlikely that these so-called "facts" will have much impact on the way that political debate is conducted.

According to Wayne Swan's budget speech, the percentage of GDP collected as Commonwealth taxes has fallen substantially since the demise of the Howard government, so much so that if the Labor government had kept the tax/GDP ratio steady its tax revenue would have been \$24 billion higher this year.

That is a lot of money; indeed, it is enough to pay for the proposed Gonski reforms for education, the National Disability Insurance Scheme, fully fund a national Denticare scheme and still have money left over for some nation-building infrastructure. Australia is now the sixth lowest-taxed country in the Organisation for Economic Cooperation and Development, but despite this, a recent survey by the Australia Institute found that 66 per cent of Australians believe that we are a high-tax country.

At the local level Canberrans pay an average of 5.4 per cent of their disposable income in local taxes, compared to an Australia-wide average of 7.2 per cent and highs of 8.2 per cent in NSW and 8.3 per cent in WA.

But, although the rate of tax collected nationally is at record lows and the rate of tax collected in the ACT is the lowest in the nation, there is little prospect that our next election will revolve

around plans to collect more revenue and invest in our transport, health or education systems. On the contrary, voters will most likely be told that the cost of living is not only rising, but that high taxes are to blame.

The ACT government should be congratulated for commissioning a review of the local tax system and, in turn, the reviewers should be congratulated for providing both a comprehensive overview of the system and a wide range of reform proposals designed to deliver an enduring and equitable tax base.

However, while the review "assessed the current ACT taxation system against the principles of stability, efficiency, equity and administrative effectiveness," the review makes no recommendations about the most important feature of the tax system, namely, the adequacy of the revenue it collects.

The review provides a wide range of ways in which the ACT government could efficiently collect additional revenue; recommendations range from the introduction of pay parking in the parliamentary triangle to the collection of more revenue from land tax and the Lease Variation Charge.

And of course the review also provides a wide range of ways in which tax revenue could be reduced, for example, through the abolition of stamp duty on a range of insurance transactions and the eventual abolition of conveyance duty on property transfers.

But the most important issue is not which taxes should be introduced and which ones should be abolished but how much revenue does the government think we need to collect?

If Canberrans want the people who teach their kids, care for their elderly parents and patch us up when we are injured to be better paid, then we will have to pay more tax.

If we want to invest in excellent public transport, ensure our public schools have the best facilities and that our hospitals have the equipment needed to provide the highest quality care, we will need to pay more tax. Some countries collect a lot more tax than successive Australian governments have chosen to and, in turn, offer higher quality services to their citizens at lower prices. And all states and territories collect a higher percentage of their residents' income in local taxes than we choose to do here in Canberra.

In responding to the review, the ACT government has stated its intention to hold a public consultation in order to develop a long-term tax reform agenda. No doubt much of this consultation will revolve around the relative strengths and weaknesses of various tax bases but the most important question for the public is not related to *how* tax is collected, but how *much*.

Tax, it has been said, is the price we pay for living in a civilised society. But how civilised should we be? It is entirely within the power of the citizens of the ACT to demand higher, or lower, levels of government revenue and spending depending on the answer to that question.

*Dr Richard Denniss is the Executive Director of The Australia Institute, a Canberra based think tank. [www.tai.org.au](http://www.tai.org.au)*