TITLE: **Tony Abbott's budget, tax strategy lacks conviction and logic**

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If Joe Hockey was actually determined to broaden the base of the GST he wouldn't start by including food, he would start by imposing it on private school fees and private health insurance. Not only would he collect billions in revenue, he would raise it primarily from high-income earners. While the poorest Australians spend a relatively large share of their budget on food they rarely send their kids to expensive private schools.

Of course, the fact that such a shift would collect significant revenue from the well-to-do voters of Mr Hockey's seat and virtually nothing from the low-income electorates represented by the National Party is precisely why he won't do it. While the Treasurer talks a lot about sharing the pain, as last week's budget shows, he clearly doesn't mean it.

Business groups and CEOs have always preferred consumption-based taxes, such as the GST, to income-based taxes like corporate tax and PAYG for the simple reason that companies don't pay the GST.

Indeed, having spent a decade telling us that tax is bad and that we should pay less of it, it is no accident that the representatives of corporate wealth and power are now fully supportive of the idea that the tax they don't pay is the tax that needs to rise. But does it?

If the federal government wants more revenue there are lots of ways that it could raise it. To put it into context, applying the GST to food would collect about $6 billion while tax concessions for superannuation cost about $40 billion a year. The Prime Minister has told us that the questions of increasing the GST, curbing the tax rorts in the superannuation system and everything else will be answered in a forthcoming white paper on tax. The problem for Tony Abbott, however, is finding someone silly enough to chair it.

According to most economists, and according to John Howard when he was designing the GST, a tax should be evaluated against the three criteria of efficiency, equity and simplicity. The problem is that by those criteria the Abbott government's current policy agenda is a disaster. Consider the following.

Economists usually think that the most efficient taxes are the ones that distort behaviour the least. That is, if you assume that individuals know what's best for themselves then the less the tax system changes their minds, the better. There is, however, a big exception. When we want to discourage people from doing things that harm themselves, or harm others, the tax system can be deliberately used to change behaviour.

When Abbott was health minister he raised the tax on tobacco in order to discourage smoking. However, as prime minister he is determined to scrap the tax on carbon dioxide emissions. Bizarrely, even economists who are climate sceptics agree that a carbon tax is a better way to discourage emissions than a taxpayer-funded grants scheme like Direct Action.

A carbon tax raises revenue which can be used to fund services or reduce other taxes. The subsidies paid out under Direct Action need to be funded by cutting other services or raising taxes. Ironically the best way to fund Direct Action policies would be through a carbon tax but the downward spiral of our political process is way past the point where options like that could be considered.

Of course, we can't raise all of the revenue we need by taxing products with ''negative externalities'', which is why economists also like the idea of taxing the ''resource rents'' or ''super profits'' of the miners.

The vast majority of economists believe that imposing high taxes on extraordinarily profitable activities, such as mining in the middle of a mining boom, is an efficient way to raise revenue for the simple reason that, while the companies will squeal, they will keep on mining on the basis that half a windfall is still a windfall.

Abbott has, of course, built his prime ministership on his determination to rip up two of the most efficient taxes we have.

The second criterion is equity. While it is hard to get widespread agreement about what ''fair'' looks like, it's a lot easier to get consensus about what is unfair. And in the past 10 years the top 10 per cent of income earners have received more benefit from income tax cuts than the bottom 80 per cent combined.

Apologists for inequity like to highlight that the wealthiest Australians are paying a growing share of income tax but what they like to conceal is that the wealthy are paying more tax because they are gobbling up a larger and larger share of national income. In a progressive tax system as the gap between rich and poor grows so too must the amount of tax they pay. That's why the CEOs are such big fans of increasing the GST and cutting income taxes.

Of course, the most obscene inequity that any inquirer into our tax system must grapple with is the tax rort that superannuation has become. While the original idea of forcing people to put aside some money to boost their retirement savings was a good one, the system, like Frankenstein's monster, has taken on a life of its own.

The problem with super these days is not encouraging people to put money in; it's finding ways to keep it out. From the moment that Howard made withdrawals from superannuation completely tax free, the wealthy have been desperate to find ways to pour as much of their wealth into super as they can.

The Australian Tax Office tells us that there is at least one self-managed super fund with a balance of $100 million. Fairfax reported this week that there are about 9200 self-managed funds with more than $5 million.

Let’s put those figures into perspective. The average Australian will retire with less than $200,000 in super. At a 7 per cent rate of return a $5 million superannuation balance would generate a tax-free income of $350,000 a year. If someone with $5 million in super received a return of only 4 per cent then they would receive more income in one year than the life savings of most Australians.

Treasury estimates that more than one-third of the $40 billion annual cost of superannuation tax concessions goes to the wealthiest 5 per cent of Australians, a group who are so wealthy that they were never going to be eligible for the age pension that the tax concessions are allegedly taking pressure off.

And finally there is simplicity. The best way to simplify the tax system is to scrap the tax concessions that give the miners cheap fuel, the share traders a 50 per cent discount on the tax they pay on capital gains and to close down the family trust perks. It's simple to simplify the tax system, and it raises lots of money too.

Abbott doesn't need a white paper to reform the tax system; he needs to resolve to take on the sense of entitlement among many of the most wealthy and politically connected people and industries. Any self-respecting economist would find it impossible to write a review of the tax system that ignored the need to tax pollution, ignored the need to tax resource rents, and ignored the need to fundamentally reform the superannuation system.

But while finding an economist willing to do so might be difficult, Abbott will probably find it easy to find a business person whose determination to preserve their own interests outweighs their concern about being laughed at for ignoring evidence. I know, maybe Tony Shepherd could do it?

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