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2000: A new tax system

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Abstract

In 1995, John Howard, the newly elected leader of the Opposition, reflecting on the Coalition's loss of the 1993 federal election on the back of the Labor government's goods and services tax (GST) scare campaign, said 'never ever' for a GST. However, a year later, when the Coalition was in government, the case for reform was compelling, with Australia's indirect tax regime at both the Commonwealth and state levels in poor shape. Tax reform would once again feature in the early years of a long-term government. This paper starts with a discussion of the early 1990s battle of the plans between John Hewson's *Fightback!* and Paul Keating's *One Nation* but then focuses on the Howard–Costello government's tax reform plan, in particular 1998's *A New Tax System* (ANTS), with its centrepiece GST, and the related Ralph Review of Business Taxation.

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

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2000: A NEW TAX SYSTEM

Introduction

In early 1995, John Howard, the newly elected leader of the Opposition, reflecting on the Coalition's loss of the 1993 federal election on the back of the Labor government's goods and services tax (GST) scare campaign, said 'never ever' for a GST. However, a year later, when the Coalition was in government, the case for reform was compelling, with Australia's indirect tax regime at both the Commonwealth and state levels in poor shape. Tax reform would once again feature in the early years of a long-term government.

This paper starts with a discussion of the early 1990s battle of the plans between John Hewson's *Fightback!* and Paul Keating's *One Nation* but then focuses on the Howard–Costello government's tax reform plan, in particular 1998's *A New Tax System* (ANTS), with its centrepiece GST, and the related Ralph Review of Business Taxation.

Tax Reform Criteria

I will use the criteria set out in the previous papers 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: efficiency, equity and simplicity.
5. The *quality of tax policy outcomes* is the ultimate test of a reform exercise although this is dependent on government actions.

The Economy

By the end of the 1980s, the current account deficit (CAD), ongoing inflationary pressures and an asset price boom were the focus of economic policy. Monetary policy was tightened, with the cash rate reaching 18 per cent in late 1989, pushing the economy into recession in the 1990 September quarter – dubbed by Keating as 'the recession we had to have'. While the recession had a devastating effect on many businesses and individuals, along with the preceding microeconomic reforms it did help establish several decades of low-inflation economic growth.

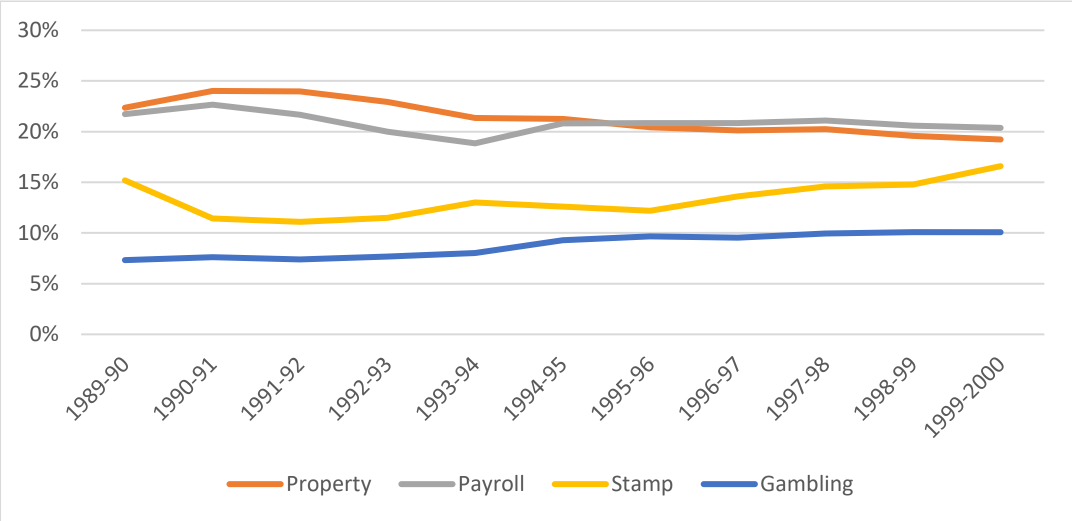
After that rocky start, the Australian economy generally performed well over the 1990s,[1] with post-recession economic growth averaging over 4 per cent, driven by strong productivity growth. Inflation averaged 2.5 per cent as Australia adopted an inflation-targeting regime. The CAD remained high, but policy concerns regarding this diminished with increasing confidence that foreign debt was generally well invested.

The Tax System

In the wake of the early 1990s recession, the Budget remained in substantial deficit, with stimulatory tax cuts and spending increases only partly unwound. Commonwealth tax/GDP fell from 24.4 per cent in 1989–90 to 22 per cent in 1992–93 before partly recovering to 23.5 per cent by 1995–96. The tax mix remained heavily dependent on personal income tax, which comprised around 55 per cent of Commonwealth tax revenue, compared with 11 per cent for wholesale sales tax (WST).

State government budgets were also stretched, their revenues likewise hit by the recession. In the face of reduced growth in financial assistance from the Commonwealth, state governments sought to expand their own limited tax bases, including by increasing stamp duties and gambling taxes (see Figure 1). (Business franchise fees are discussed below.)

Figure 1: State Tax Shares



Sources: ABS Taxation Revenue publications

Twilight Years of the Hawke–Keating Governments

The Accord remained central to policymaking under the Hawke–Keating governments, with the Australian Council of Trade Unions (ACTU) agreeing to wage restraint in return for tax cuts and other social wage measures.[2] As part of Accord V, the April 1989 economic statement provided large personal income tax cuts, including reducing the bottom tax rate from 24 to 21 per cent and the top rate from 49 to 47 per cent.[3]

Award-based superannuation was also advanced through the accords.[4] The 1991 Budget then introduced compulsory superannuation contributions for all employees, with a legislated superannuation guarantee (SG).[5] The SG began at 3 per cent for smaller businesses and 5 per cent for larger ones, reaching 9 per cent by 2000–01.[6] It was enforced by a tax levy on employers that neglected to pay at least the legislated minimum amount of superannuation to their employees.[7]

There was also political manoeuvring within the government, with Keating ultimately replacing Hawke as prime minister in December 1991.

Fightback *Vs* One Nation

The boldest tax reform plan of the time, though, came from the Opposition. John Hewson's November 1991 *Fightback!: Taxation and Expenditure Reforms for Jobs and Growth* laid out a comprehensive economic reform agenda, with tax reform a central part of that, including a tax mix switch from personal income tax to indirect consumption tax.

Under *Fightback!*, personal income tax revenue was to be cut by 30 per cent, with 95 per cent of taxpayers facing a marginal tax rate of 30 per cent or less, and the top personal tax rate was to be aligned with an increased company tax rate at 42 per cent.[8] A 15 per cent GST was to replace a range of Commonwealth and state indirect taxes, including the WST, petrol excise, customs duty and payroll tax as well as partly funding the personal income tax cut.[9] In addition, a national road user charging system, a tax credit for private health insurance and the taxation of superannuation contributions at marginal tax rates with a 25 per cent rebate on the first $6000 were proposed. It was to be a radical reshaping of the tax system.

John Hewson has said that he deliberately downplayed the numbers in *Fightback!*,[10] but advancing such an ambitious tax reform package from opposition nonetheless was a risky political strategy. This was similar to the reform Keating had fought for in 1985, but now Keating attacked it. Treasury was commissioned to advise[11] on the *Fightback!* package and subsequently developed a Price Revenue Incidence Simulation Model (PRISMOD) that provided ammunition for the government's attacks. (Appendix C presents a diagrammatic representation of PRISMOD.)[12]

Keating's policy counter to *Fightback!* was the February 1992 *One Nation* statement, which partially matched the personal income tax cuts but without a GST (see Figure 2). Instead, the funding of the cuts was based on a forecast that strong economic growth coming out of the recession would generate sufficient bracket creep. The tax cuts were to be introduced in two stages – in July 1994 and January 1996 – and in the face of claims that they were unaffordable, the government legislated them so they became the 'L-A-W law' tax cuts.

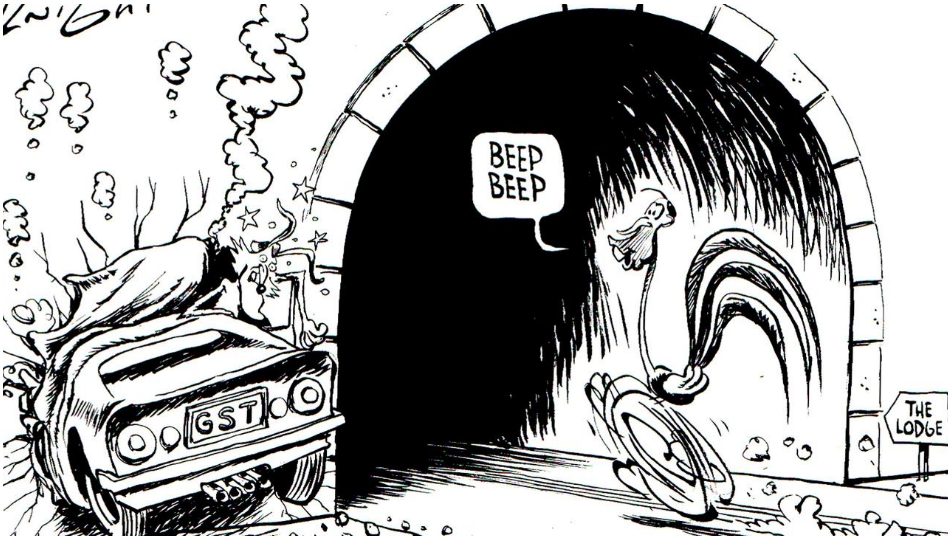
Figure 2: *Fightback!* Vs *One Nation*

Source: Geoff Pryor

One Nation also included accelerated depreciation (largely reversing the 1988 Economic Statement changes), an investment allowance for large projects,[13] and reduced WST for passenger motor vehicles.[14] While intended as a Keynesian stimulus package,[15] the tenor of the tax changes ran counter to the 1985 and 1988 base-broadening reforms. Further, the 1993 election campaign *Investing in the Nation* statement cut the company tax rate from 39 per cent to 33 per cent and provided a temporary general investment allowance.[16]

Against the odds, but on the back of concerns about *Fightback!* and a GST scare campaign, Keating won the 1993 election (see Figure 3). The unaffordability of the *One Nation* tax cuts became apparent after the election, when it was revealed that the economic and fiscal forecasts they had been predicated on were overly optimistic.

Figure 3: The 1993 Election



Source: Mark Knight

Lessons in Tax Reform

The contest over *Fightback!* and *One Nation* as tax plans was instructive. *Fightback!* was clearly the superior tax reform package with its substantial broadening of the consumption tax base, compared with *One Nation*'s base-narrowing measures and effectively unfunded tax cuts. One of the political economy lessons, though, was that advocating comprehensive reform from opposition, without the benefits of incumbency such as the resources of the public service, is very difficult.

The Aftermath

The returned Keating government had to engineer a way to manage the budget damage, and so Vince FitzGerald was commissioned to prepare advice. His June 1993 *National Saving* report argued for an increase in public saving, including postponing the second round of the tax cuts,[17] and provided strong support for the SG rate increases.[18]

John Dawkins then presented the 1993 Budget, which commenced the necessary budget repair, including indefinitely deferring the second round of the tax cuts,[19] as well as implementing other revenue-raising measures.[20] With the government having campaigned against a new tax – the GST – the approach now was to raise existing tax rates, with petrol and tobacco excises to be raised substantially and WST rates to be increased by 1 per cent in each of the following two years.

The Budget had a rocky ride through the parliament, and indeed within the Labor Party,[21] but the tax increases were substantially enacted. This was a case, though, where tax policy was used almost entirely for revenue-increasing purposes. The 1995 Budget contained a further round of revenue raising, with the company tax rate lifted to 36 per cent and the Medicare levy to 1.5 per cent, alongside more WST increases.

The Labor governments came to an end at the 1996 election. Their earlier terms had seen major tax reforms that had substantially broadened the income tax base. In the latter period, though, the recession and political imperatives had dominated the policy landscape.

The Howard Government

The Howard government was elected in March 1996, with Peter Costello as treasurer. In its first term it implemented the Charter of Budget Honesty, brought down a tough 1996 Budget, reformed the regulatory architecture of the financial sector, undertook workplace relations reforms, dealt with the Asian financial crisis, and introduced gun controls. It also initiated a tax-reform process.

Early Budgets

Prior to the main tax reform exercise, the 1996 Budget undertook major fiscal repair with substantial spending cuts and tax increases, informed by the National Commission of Audit.[22] The tax measures included a gun buyback levy, a Medicare levy surcharge for high-income earners without private health cover, a 15 per cent superannuation contributions surcharge for high-income earners, and a reduction in the R&D tax concession to 125 per cent. There was also the fulfilment of election commitments that reduced revenue, such as the Family Tax Initiative, which provided an increase in the tax free threshold for families with children, and a health insurance tax rebate.

After a more modest 1997 Budget, though, both Howard and Costello felt there was a loss of political momentum[23] and recognised that the reform of Australia's ramshackle indirect consumption taxes remained unfinished business. John Hewson says that Howard was also driven by a desire to establish his genuine reform credentials. He had carefully built a reputation as a reformer in the Fraser years and in opposition (including with Fightback) but never really delivered.[24]

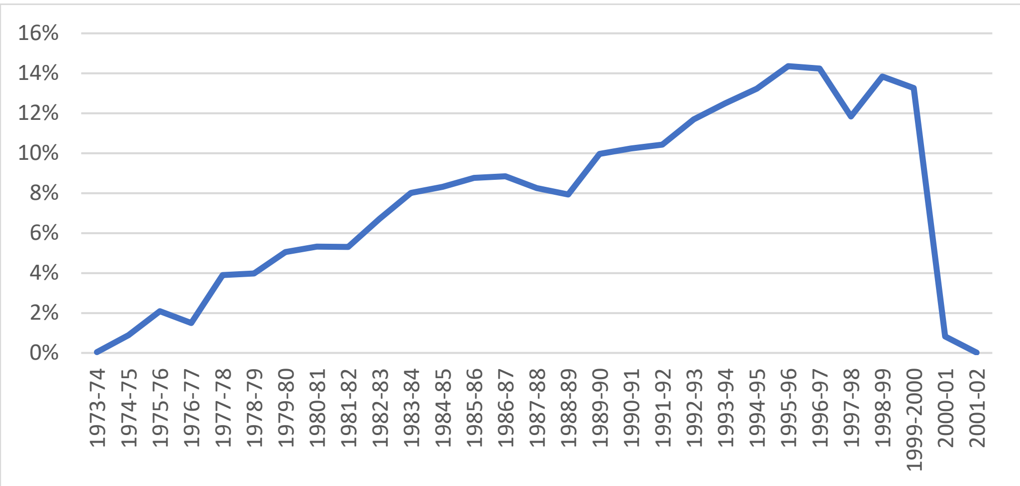
A New Tax System

Well before the 1996 election, with the spectre of *Fightback!* still in the air, Howard as Opposition leader said he'd 'never ever' introduce a GST.[25] In government, though, pressed by Treasury,[26] business and welfare groups, and other stakeholders, Howard and Costello sought to reposition the debate.

A political window for reform opened in August 1997 with a High Court ruling that went to the core of the split of revenue-raising powers in the Federation. Section 90 of the Constitution gave the Commonwealth exclusive power to impose customs and excise, but the states, in search of revenue, had tested the boundaries of the excise definition.[27]

Business franchise fees (BFFs) had been imposed by the states from the 1970s as licence fees for carrying on certain businesses. They had been held by the High Court to not be excises,[28] even if levied on the amount of goods manufactured or sold, where the fees related to a previous period and the business was amenable to regulation, such as tobacco, gambling and petrol.[29] Initially, BFFs were levied at low rates – around 6 per cent – but they were gradually increased and reached around 30 per cent in the 1980s, becoming a substantial part of state revenue (see Figure 4).

Figure 4: Business Franchise Fees Share of State Tax Revenue



Sources: CBCS and ABS publications

With BFFs of up to 100 per cent for tobacco in the early 1990s, the issue was again tested in *Ha v NSW*.[30] On 5 August 1997, the High Court ruled that the NSW tobacco BFF was an excise and therefore constitutionally invalid. This ruling called into question all of the state BFFs on tobacco, liquor and petroleum, worth around $5 billion in total, and the Commonwealth agreed to use its constitutional powers to legislate for their collection.[31] Attention had again been drawn, though, to the inadequacy of the state tax bases.

Commissioning the Tax Review

Referencing these developments, on 13 August 1997 Howard announced a taskforce to do the groundwork for the preferred tax reform options, including consideration of a broad-based consumption tax (BBCT), Commonwealth–state financial relations reform, and a reduction in personal income tax. The taskforce was given five principles as effective terms-of-reference (for the full media release, see Appendix A).

> The Government has instructed its Taxation Task Force to prepare options for reform of the taxation system. The broad guidance given to the Task Force is
>
> (a) There should be no increase in the overall tax burden;
>
> (b) Any new taxation system should involve major reductions in personal income tax with special regard for the taxation treatment of families;
>
> (c) Consideration should be given to a broad based, indirect tax to replace some or all of the existing indirect taxes;
>
> (d) There should be appropriate compensation for those deserving of special consideration; and
>
> (e) Reform of Commonwealth/State financial relations must be addressed.[32]

The tax reform process had been set in train again, this time with the goal of completing the Asprey blueprint by reforming Australia's indirect consumption tax regime, with the additional element of Commonwealth–state financial relations reform. The 1985 draft white paper (DWP) had recognised the issues with state taxes and the distribution of tax powers in the Federation, but it had not sought to address them.[33] Those issues were now fully in scope.

The timetable had the reforms being developed during the remainder of the government's first term, with any proposals taken to the next election. This enabled Howard to manage his previous commitment not to introduce a GST, which he claimed only applied to the Coalition's first term in government.[34] He also spoke with the state premiers, given the inclusion of the Commonwealth–state finance issues.

The formal Taxation Task Force was headed by Treasury (Ken Henry) and included representatives of the Department of the Prime Minister and Cabinet (PM&C; Ian Watt), the Australian Taxation Office (ATO; Peter Simpson), the treasurer's office (Nigel Bailey) and the Cabinet Policy Unit (David Stevens). This structure was similar to that used for the 1985 Taskforce on Tax Reform.

A Tax Reform Group was formed in Treasury to do the work, headed by Henry and with Ted Evans again oversighting it, this time as secretary. The Treasury team included Matthew Ryan, Blair Comley and secondees from the ATO (Paul McCullough) and the Department of Social Services (DSS; David Tune). As with the 1985 DWP, the Treasury team was located in separate, secure accommodation, but again worked to some extent with the main Treasury tax divisions.

The result of this work was the August 1998 document *Tax Reform: Not a New Tax, a New Tax System* – ANTS for short.

Other Players

The actual work of developing ANTS was largely done internal-to-government, but with Costello and Howard running the public arguments. The foundational case for indirect consumption tax reform had been well established by Asprey and again in 1985 and 1991. This was another attempt at a determinative review to implement that.

There was widespread support for the reforms within government. Howard and Costello were on the same page, and Howard has said there was support more broadly in the party.[35] With the government having clearly signalled its intentions, the Kim Beazley–led Opposition attacked the GST, running a political campaign against it over several years and two elections.

State and territory governments were key stakeholders regarding the Commonwealth–state finances that were specifically in scope. They had long complained of lacking a substantial growth tax, and the prospect of addressing their revenue needs was appealing. Also, when the state premiers opposed a BBCT in 1985, they had mainly been Labor, but in 1997 they were mainly Liberal.[36] The Victorian Premier, Jeff Kennett, now led calls for tax reform, including a BBCT. They were briefed at a November 1997 Special Premiers Conference and while not all were ready to openly support a BBCT, nor did they actively oppose it.

The approach taken by business and welfare groups was especially interesting – and influential. These groups had opposed comprehensive tax reform, in the form of approach C, in 1985 but they now joined forces to see what common ground could be reached.

Pivotal to this was an October 1996 National Tax Reform Summit jointly hosted by the Australian Chamber of Commerce and Industry (ACCI) and the Australian Council of Social Services (ACOSS). Graeme Samuel recalls that upon his appointment as president of ACCI, he put tax reform on their agenda but realised the business community could not effectively advocate for that by itself.[37] He reached out to other groups and the ACCI/ACOSS partnership was formed[38] with the ground rule that they would not seek to lower the overall tax take but test if it could be raised in a more efficient and equitable way.

ACOSS, with Robert Fitzgerald as president and Alison McClelland as deputy as well as a director of the Brotherhood of St Laurence, accepted the need for tax reform, including a potential BBCT.[39] That support was conditional, though, on protection for low-income earners and avoidance of a change in the tax mix – so a flat-rate BBCT could replace other indirect taxes but it could not be used to fund a reduction in progressive personal income tax.

> Provided these changes do not attempt to increase consumption's share of tax revenue, then the impact on low income people could be minimised and a major, complex compensation package (which would always be vulnerable to changes in government policy) should not be necessary.[40]

The ACCI/ACOSS tax summit agreed five steps for tax reform: broadening the consumption, income and assets tax bases; improving the overall progressivity of the system; simplifying taxes and reducing compliance costs; ensuring adequate revenue to meet public expenditure needs; and encouraging employment, savings and productive investment.[41] A Tax Reform Forum was then established to continue the dialogue and this group was influential in the next two years' tax reform deliberations.

Following a change of leadership at the BCA, with Stan Wallis appointed president, they joined the Tax Forum Group - having played a negative role in 1985 they sought a more constructive role now.[42] They also formed the Business Coalition for Tax Reform, chaired by Fergus Ryan, which in turn sponsored the John Ralph–led Australians for Fairer Tax. This group subsequently organised an advertising campaign in support of tax reform.

The ACTU took the same position it had in 1985, that it would only support the reforms if convinced they would make working people better off. However, it remained unconvinced of this and opposed the BBCT proposal.[43]

The academic community was generally supportive of the reform directions, although it was not as prominent as in 1985. The economic arguments for broadening the consumption tax base were well established and the debate was more about equity issues.

In October 1997 the government also commissioned a parliamentary Tax Consultative Task Force, chaired by senator Brian Gibson, which took submissions and facilitated broader community consultation.[44]

Tax-Reform Approach
The work of the Treasury tax reform team was intense. The political stakes for the government were high, and Treasury, having helped the previous government scuttle *Fightback!*, had a reputational challenge to show it could work in support of such a reform. Politically, Costello had primary carriage of the reform package and it would dominate this period of his time as treasurer. The politics surrounding the review were raw, even existential for the government, and Costello and Howard had to manage that as the process evolved.

Models
The ANTS reforms involved a potential new BBCT to replace a range of Commonwealth and state indirect taxes, as well as personal income tax and social security changes. As such, there would be extensive price movements and the modelling needed to simulate the impacts on the economy and various household types. This was a reform where the price movements, and any winners and losers, would be quite transparent.

The 1998 ANTS modelling was significantly more sophisticated than that undertaken for the DWP in 1985. PRISMOD, which Treasury had developed in 1991 in the process of advising on *Fightback!*, had replaced TAXIO and it was now modified to simulate detailed price and revenue effects.[45] While TAXIO had allowed taxes to be specified at the 109 Input-Output Commodity Group (IOCG) level for both commodities and using categories, PRISMOD allowed specification at the 1400 IOCG level for commodities and the 109 IOCG level for using categories.[46]

A Hard Day's Night
The work required to design and model the tax reform package was extensive. It wasn't so much about making the conceptual case for indirect consumption tax reform, as that was well established, but rather doing the detailed modelling of both the macro impacts and all of the micro price and distributional effects. Detailed policy design work was also required for a workable BBCT. The Treasury team laboured through long days (and nights) to get the work done.

Costello was briefed on all aspects of the work and spent a lot of time getting across it. As well as taking policy design decisions through Cabinet, he needed to manage the daily political debates – with memories of Hewson tripping up on the GST birthday cake question, he needed to be able to explain the issues in all their detail.

Government Processes
While PRISMOD and other Treasury models provided the main modelling capacity, the actual briefing of Costello, and in turn his briefing of Cabinet, was done with PowerPoint slides and spreadsheets, the first time these tools had been used in Cabinet. Using laptops, the PowerPoint slides and spreadsheets would be projected onto a screen inside the Cabinet room. Policy options could then be tested in real time, with ministers able to interrogate them, including reviewing alternative options. The turnaround time for presenting new policy configurations was reduced from the following day in 1985 to 'six seconds' in 1998, enabling Cabinet to rapidly make progress.[47]

The approach was also educational in that it accelerated the policy formulation process, with the new tool providing ministers with something of a 'crash course' in tax policy. By combining the personal income tax and social welfare schedules, the total burden of effective marginal tax rates (EMTRs) could be shown by the number of individuals and household types.[48] Superficially attractive options that produced many 'losers' in particular cohorts could be quickly ruled out and attention focused on the more realistic options.

Many presentations were made to the Cabinet Revenue Committee,[49] as well as to the full Cabinet. Once ministers had settled on their preferred policy configurations, the spreadsheet estimates were checked against PRISMOD, whereupon they were always found to be within a few per cent.[50] One downside of this 'real time' policy design approach, though, was a lack of paperwork, which made the task of recording Cabinet decisions more difficult.

Compared with the 1985 DWP deliberations, the government's decision-making processes proceeded fairly smoothly. The revenue committee and Cabinet processes were rigorous, but there were no points of great resistance. Howard, the Cabinet and the Coalition parties more broadly understood the rationale for the reforms from the start and were generally supportive.

The ANTS Package

The government's original five points of guidance made the general direction of the reforms clear. Interest was focused especially on the third point, for a GST to replace other indirect taxes, but the package also needed to address Commonwealth–state financial relations and provide substantial personal income tax cuts. The challenge was to design how this could be achieved.

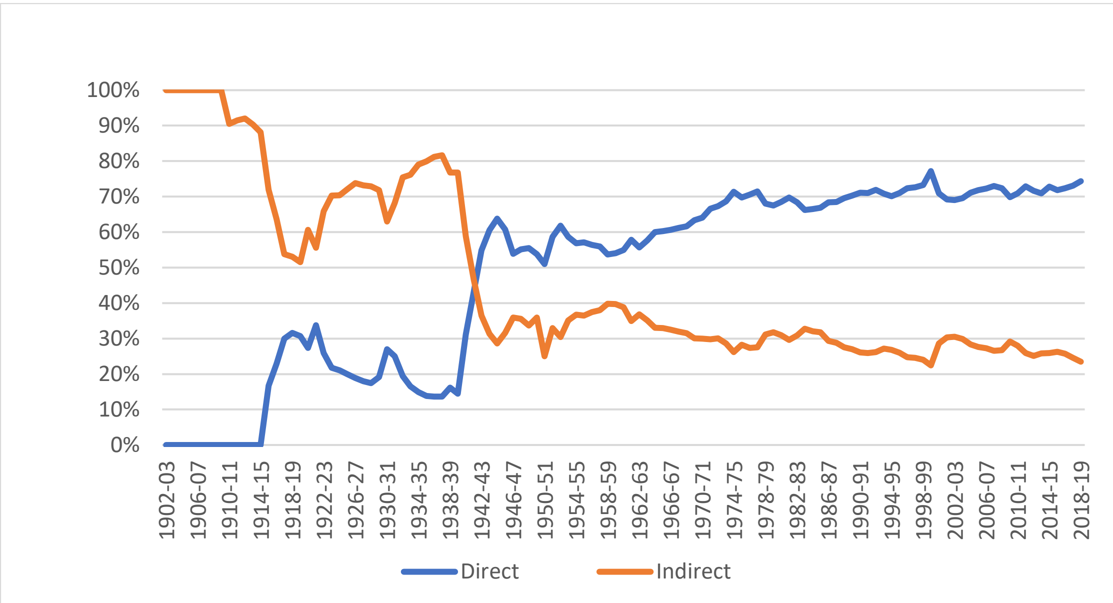
The ANTS package was released by Costello on 13 August 1998, exactly one year after Howard had announced the reform process.

An Outdated Tax System

ANTS described Australia's tax system as 'out of date, unfair, internationally uncompetitive, ineffective and unnecessarily complex …. More appropriate for the 1930s economy for which it was designed than to the 1990s and beyond'.[51] Not a good reference.

The inadequacy of the indirect consumption tax base in combination with a progressive personal income tax rate scale meant that, in the postwar period, the tax mix had drifted towards a higher share of income tax (see Figure 5) and well above the OECD average.

Figure 5: Direct and Indirect Commonwealth Tax Shares of Total Tax Revenue*



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

Sources: CBCS and ABS publications

The Commonwealth's WST, with its base shrinking and rates rising over time, was considered especially antiquated. It failed to tax services and applied at six different rates.[52] It distorted business decisions and consumption choices, and its multiple rates made it complex and inequitable.[53]

Australia's tax and transfer systems more generally were unnecessarily complicated. Continual patching of the tax system had led to a large volume of complex legislation, while the transfer system had expanded to over 30 different income support payments with varying tax and eligibility treatments. Further, the interaction of a means-tested social security system and the personal income tax scale meant that many low-to-middle-income earners faced high EMTRs. With social security withdrawal rates of up to 50 per cent overlapping tax rates of 20 per cent or 34 per cent, some individuals kept little of any extra earnings, causing work disincentive effects.

State taxes were considered some of the most inefficient of all, with states levying up to 35 different taxes each in their ongoing search for revenue. Financial transactions taxes and stamp duties were considered particularly inefficient and inequitable.

Commonwealth–state finances were another pain point. With the Commonwealth raising three-quarters of total revenue but the states responsible for half of total spending, there was a high level of vertical fiscal imbalance (VFI) that required the Commonwealth to pay substantial Financial Assistance Grants (FAGs) and Specific Purpose Payments (SPPs). The states regularly complained about the allocation of FAGs through the horizontal fiscal equalisation (HFE) process,[54] Commonwealth conditions attached to SPPs, and their own lack of a growth revenue source.

Australia's business tax system also reflected a bygone era with its inconsistent taxation of business investments and business entities. Finally, the tax administration system was considered cumbersome and excessively onerous for taxpayers.

To remedy these issues, ANTS proposed major reforms of Australia's indirect taxes, Commonwealth–state finances, family assistance payments and tax administration arrangements, as well as large personal income tax cuts and further consideration of business tax reforms.

Indirect Taxes

The ANTS centrepiece reform was the introduction of a GST from 1 July 2000, with all of the revenue going to the states in return for the abolition of FAGs and a range of state indirect taxes. The Commonwealth would also abolish WST.

Goods and Services Tax

The GST was to be a 10 per cent multi-stage value-added tax (VAT). That is, when calculating their GST liability, registered businesses would charge the full 10 per cent on their sales but claim a tax credit for the amount of GST already paid on their inputs. In this way, GST would only be paid on the net value added at that part of the production/distribution chain. The full accumulated amount of the GST was expected to be ultimately passed on to the final consumer.

The proposed GST coverage was fairly broad. It would include all domestic consumption, with exceptions where imposing the GST would create inequities between private and public providers or would be technically too difficult.

In addition to exports and international travel, full GST-free status was proposed for health, education and child care, where imposing the GST would place private sector providers at a competitive disadvantage compared with public providers. GST-free status was also proposed for charities and religious services. Under this approach, the seller claims input tax credits on their purchases but doesn't charge GST on their sales.

An input-taxing approach was proposed for financial services, where it can be difficult to measure the value-add for the provision of credit. Input taxing was also proposed for residential rents, to maintain comparable treatment with that afforded to owner-occupiers. Under this approach, the seller doesn't charge GST on their sales but does claim input tax credits on their purchases.

All other goods and services, about two-thirds of private consumption, were to be subject to the GST. This included food, but this aspect remained contentious and would be revisited in parliamentary negotiations.

Excises and Special Taxes

The Commonwealth levied additional taxes on petrol, alcohol, tobacco and luxury cars with a combination of excises and WST. To prevent unintended price movements from the replacement of the WST with the GST, some specific adjustments were needed.

Petroleum products were not subject to WST, so their excise was to be reduced to ensure pump prices need not rise with the imposition of the GST.

Alcohol products were subject to WST at rates higher than the 10 per cent GST. For wine, a wine equalisation tax was proposed so that retail prices need only increase by the estimated general price rise of 1.9 per cent. For beer, the excise was to be increased so that retail prices need only go up by the estimated general price rise of 1.9 per cent. For spirits, the excise was to be increased so that retail prices need not change (recognising they were already taxed relatively heavily).

The opportunity was also taken to reform the taxation of tobacco, changing its excise from a weight base to a per-stick base. An overall price rise of 6.5 per cent was expected.

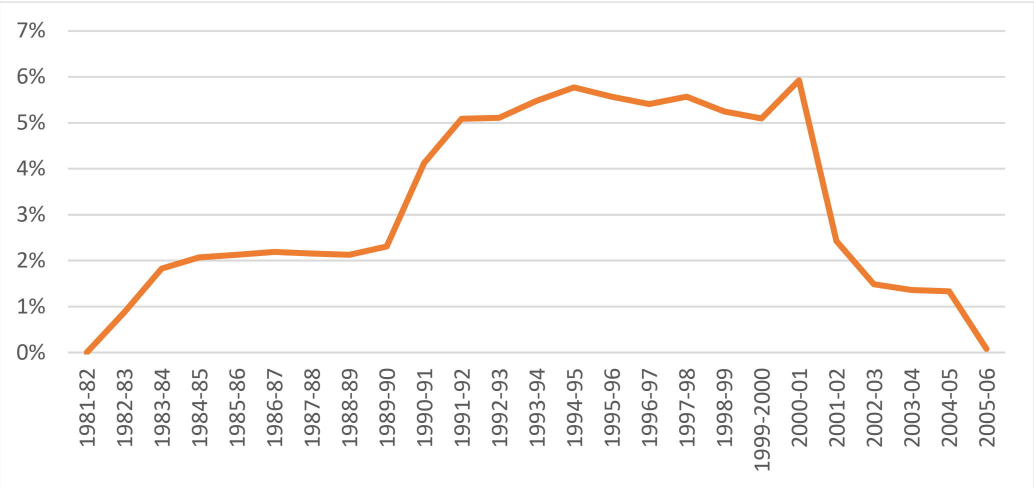
Car prices were expected to fall with the replacement of WST with GST. Luxury cars, though, were subject to a special WST rate of 45 per cent, and so to prevent their prices falling by more than those of other cars, a 25 per cent luxury car tax was proposed.

State Taxes

Nine state taxes were listed for abolition: financial institutions duty; debits tax; stamp duty on marketable securities; conveyancing duty on business property; stamp duty on credit arrangements; stamp duty on leases; stamp duty on mortgages; stamp duty on cheques; and bed taxes.[55] In addition, the temporary arrangements for the Commonwealth to collect BFFs would cease.

These state taxes, which were considered to be among Australia's most inefficient, had been developed by governments in search of revenue with little consideration for tax design principles. Stamp duties predated Federation but were now considered inefficient transaction taxes. Financial institutions duties were introduced by most states in the 1980s, while bank account debits tax was introduced by the Commonwealth in 1982 but passed to the states in 1990 (see Figure 6).

Figure 6: Financial Institutions Transactions Taxes as a Share of State Tax Revenue



Sources: CBCS and ABS publications

While ANTS was a Commonwealth document, it was offering all of the GST revenue to the states, on the condition that they abolish these taxes and not reintroduce them. The GST revenue was projected to be sufficient to cover the loss of that revenue as well as the abolition of FAGs.

Commonwealth–State Finances

Providing the GST revenue to the states, in return for the abolition of their nine taxes and FAGs, was a key feature of the reforms (influenced by the implications of the Ha case and also the lesson learned from the state premiers' lack of support in 1985). The GST was to be legislated by the Commonwealth, which alone had the necessary constitutional power, but an intergovernmental agreement with the states and territories would stipulate that all of the revenue would go to them.[56]

While the GST revenue was expected to be more than sufficient to replace the states' lost revenues over time, the Commonwealth committed to additional grants in the short term if necessary to ensure the states received that guaranteed minimum amount and so were no worse off.[57] A Special Premiers Conference was proposed to discuss the proposals.[58]

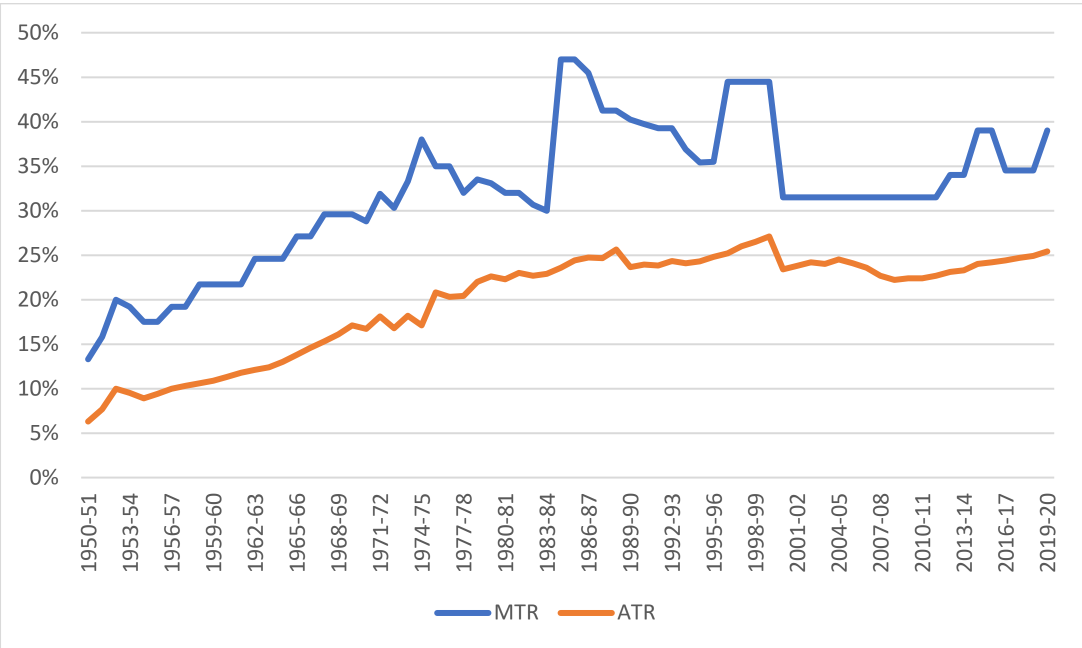
The GST tie to the states leveraged solutions to both the tax problem (Australia's ramshackle indirect taxes) and the Commonwealth–state finances problem (VFI). Costello could see the political advantage of that approach and used it to great effect in selling the reforms. GST revenues were to be distributed to the states using the HFE principles, with the Grants Commission proposing the distributions after taking into account the eliminated state taxes.

As a deliberate restriction on future changes to the GST, ANTS said the Commonwealth would only consider seeking legislative amendments in the federal parliament on the unanimous request of the states and territories. And so, with nine governments and the Commonwealth Parliament needing to unanimously agree to a change for it to be enacted, the rate and base of the GST would be politically locked in.[59]

Personal Income Tax

Personal income tax cuts were a stipulated priority for the package. Postwar growth in the size of government had been largely funded by increasing personal income tax collections. As shown in Figure 7, that meant increases in both the marginal and average tax rates for average wage earners.

Figure 7: Marginal and Average Tax Rates at Average Earnings*



* Includes Medicare levy

Sources: Estimates derived from ATO and ABS sources

ANTS proposed that the tax-free threshold be increased from $5400 to $6000, the 20 per cent rate cut to 17 per cent, the 34 per cent and 43 per cent rates reduced to 30 per cent, and the threshold for the top 47 per cent rate increased from $50,000 to $75,000. This was costed at $13 billion a year, which amounted to a 14 per cent reduction in total personal income tax collections, and meant that over 80 per cent of taxpayers would face a marginal tax rate of 30 per cent or less (ignoring the Medicare levy).

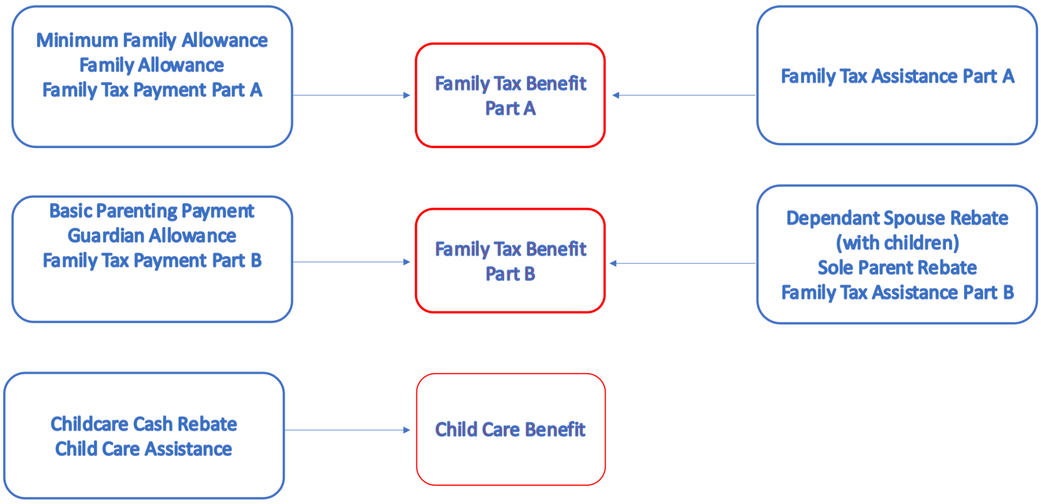
A 30 per cent tax rebate for private health insurance, to encourage take-up, was also proposed.

Family Assistance

The rationalisation of family assistance programs wasn't specified in the terms-of-reference, but the opportunity was taken to consolidate the various types of assistance from 12 to three.

As illustrated by Figure 8, the existing four forms of payments and tax concessions to assist families with the costs of raising children were to be merged into the one Family Tax Benefit Part A. The existing six forms of payments and tax concessions to assist single-income families were to be merged into the one Family Tax Benefit Part B. The existing two forms of payments to assist families with the costs of child care were to be merged into the one Child Care Benefit.

Figure 8: Family Benefits Simplification



Source: Reproduced from ANTS, p. 53

The revamped set of family assistance programs was to be available as either a payment or a tax deduction and jointly administered by the ATO and Centrelink. Increases in other social security payments were also proposed to compensate certain groups, those that may not benefit from the income tax cuts, for the price effects of the indirect consumption tax reforms.[60] Reductions in taper rates, to reduce EMTRs, were also proposed.

Business Tax

ANTS included a chapter on business tax reforms. However, the issues were complex and the business community had divided views on some elements. Consequently, in order to gain clear business support for the remainder of the package, late in the process the main business tax issues were carved out, to be referred to the separate Ralph Review[61] for consultation on two dimensions of inconsistency in the business tax system: business investments and business entities.

Business Investments

ANTS described the distortions caused by the inconsistent taxation of different forms of returns from assets, in particular changes in asset values, and the complexities arising from the differences between tax and commercial valuations. It said the government would consult on bringing tax value and commercial value closer together in the measurement of taxable income for both physical assets and financial assets and liabilities.[62] Possible capital gains tax reforms were also flagged.

The consultations would also consider paring back accelerated depreciation to help finance a cut in the company tax rate from 36 per cent to 30 per cent. ANTS emphasised the need for overall revenue neutrality, so the cut in the tax rate would need to be funded by a broadening of the base: 'That decision will be strongly influenced by business support for such changes'.[63]

Business Entities

ANTS described the distortions and inequities caused by taxing alternative business entities differently. It said the government would consult on taxing trusts like companies under a redesigned company tax regime, and it would also consider extending this approach to other entities such as limited partnerships, cooperatives and life insurers.[64]

This redesigned entities tax regime would include a simplified imputation system with full franking of all distributed profits, hence removing the need to distinguish between franked and unfranked dividends. Further, refunds of excess imputation credits would be provided for resident individual taxpayers, including superannuation funds, meaning the overall tax paid by low-income taxpayers would reflect their marginal tax rates.[65]

Consultation would also be undertaken on allowing groups of companies, trusts and cooperatives to consolidate their tax positions and so be taxed as one entity, with dealings within the group ignored for tax purposes.[66]

Tax Administration Issues

Like elements of the tax system itself, Australia's tax administration arrangements had developed in a piecemeal fashion, leaving businesses with a myriad tax compliance responsibilities. In the space of 12 months, employers might face more than 32 interactions with the ATO to meet their various reporting and payment obligations.[67]

To simplify the reporting obligations, it was proposed that businesses have just one business identifier and be able to deal with the whole of government in one place. The Australian Business Number (ABN), to be administered by the ATO, would be the identifier for a business' interactions with government for all tax and corporations law purposes. Further, the ATO would create a register of Australian businesses that could be used for all government purposes.[68]

To streamline tax payment arrangements, five existing systems (pay-as-you-earn, the prescribed payments system, reportable payments system, provisional tax and company instalments) would be replaced with one pay-as-you-go (PAYG) system which would also cover the GST. As reasoned by ANTS: 'Most businesses will, therefore, be able to complete a single compliance statement once a quarter, and make one quarterly payment'.[69]

These reforms responded to the 1996 Small Business Deregulation Taskforce (the Bell Report) and were intended to better align businesses' interactions with the tax system with their other business activities. They were also expected to help the ATO make inroads into the cash economy, with the additional income tax revenue estimated at $3.5 billion over three years.[70]

Budget Impact

The overall ANTS package came at a significant cost to the Commonwealth Budget, reducing the projected surpluses. It was designed, though, to improve state budget positions over time, with the GST revenue growing more strongly than the foregone revenues.

As shown in Table 1, the package's core Commonwealth–state finance elements – GST, FAGs and state taxes – conveniently netted out in the states' budgets, with the abolition of WST balancing out the impact on the Commonwealth Budget.

Table 1: Projected Budget Impacts (2002–03)

	States	Commonwealth
Gain	GST ($33b)	FAGs ($19b)
Loss	FAGs ($19b) State taxes ($14b)*	WST ($19b)
Net	0**	0

* Includes some outlay adjustments; for example, for local government

** Expected to be positive over time as GST revenue grew more strongly than the lost revenue

Source: ANTS, pp. 33–5.

Alternatively, the package could be thought of more purely as a tax reform, with the GST ($33 billion) replacing the WST ($19 billion) and the state taxes ($14 billion) in a rationalisation of Australia's indirect consumption taxes. The cessation of the FAGs then balanced the Commonwealth and state budget impacts.

The personal income tax cuts can then be seen as a measure separate from the indirect tax and Commonwealth–state finance reforms. They were projected to cost $14 billion in 2002–03, with this being funded by a $7 billion reduction in the budget surplus and a net $7 billion from other elements of the package[71]. Significantly, this meant there wasn't a tax mix switch between personal income tax and indirect consumption tax,[72] which was an issue of particular significance to the welfare groups.

Economic Impact

ANTS argued that its lowering of effective tax rates, the removal of distortions and the reductions in compliance costs would support higher economic growth. Specific economic growth estimates were not provided, but other studies of indirect tax reforms were referenced that had found potential increases of several percentage points of GDP in the long run[73] and a growth dividend of around $1 billion pa was included in the fiscal estimates.

Widespread price changes were also expected to occur due to the indirect consumption tax changes, with overall price increases in consumption goods and services, and price falls in investment goods. A one-off CPI increase of 1.9 per cent was projected,[74] but ANTS argued that, with the proposed compensation arrangements, this should not feed into ongoing wage and price increases. The Australian Competition and Consumer Commission (ACCC) was to be given a price oversight regime under its Act to ensure that price changes by businesses were consistent with the tax changes.[75]

Industry costs were estimated to fall by 3.2 per cent on average, with costs for exporters falling by around 3.5 per cent.[76] Businesses were also expected to benefit from the simplified tax administration proposals.

Cameos

The report presented some comprehensive cameos showing the impact on singles, dual- and single-income families with and without children, pensioners and self-funded retirees. The cameos showed everyone as a winner, with the impact of the income tax cuts and family benefits outweighing the impact of the indirect tax reforms. This non-intuitive result was made possible by the significant budget cost and enhanced administration elements of the package. Both the income tax cuts and family benefit increases were, by design, most significant for middle-income earners.[77]

This was the first use of such comprehensive cameos in a large reform package. The 1985 DWP had presented some summary tables at an aggregated level, and 1991's *Fightback!* had attempted some limited cameos, but the specificity of the ANTS modelling meant that quite specific family types could be presented. This set an inevitable but unfortunate precedent: having the winners and losers of a reform package fully visible would make it difficult to present a reform package that had any losers.

Political Negotiations

The ANTS package was released on 13 August 1998. Two weeks later, Howard called an election for 3 October and the subsequent campaign was dominated by the tax debate, in particular the GST. The government was returned but with a substantially reduced majority, and as in 1984, that shift in political capital may have weakened the prime minister's hand in the pending tax reform legislation negotiations. Notable is the fact that the Democrats, who opposed the inclusion of food in any GST, effectively held the balance of power in the Senate.

Intergovernmental Agreement

Following the election, the government could claim a mandate for its reforms at the Commonwealth level, but it also had to reach agreement with the states and territories. A Special Premiers' Conference on 13 November 1998 decided on the principles for such an agreement, and five months later an *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA), signed by all nine governments at a Premiers' Conference on 9 April 1999, set out the details of the proposed tax and financial relations changes.

The Commonwealth committed to legislating a 10 per cent GST and providing all of the revenue to the states, distributed in accordance with HFE principles. It would also cease to apply the WST, the temporary arrangement for collecting the states' BFFs and the payment of FAGs. The states and territories in turn committed to abolishing the nominated nine taxes.

The GST revenue was projected to be sufficient to cover the states' loss of the nine taxes and FAGs over time – indeed, the Commonwealth guaranteed that each state's budget position would be no worse off. To achieve this 'guaranteed minimum amount', some additional payments were required in the early years. Significantly, all parties agreed to reconsider the agreement if the Commonwealth Parliament passed the GST legislation in a way that differed significantly from the proposal.

The IGA also stipulated that any future changes to the GST would require the agreement of all nine governments and passage of the necessary legislation through the Commonwealth Parliament, an arrangement that politically locked in the GST rate and base.[78]

A ministerial council, chaired by the Commonwealth treasurer, was established to oversee the operation of the IGA, and a GST Administration Sub-Committee was appointed to advise it. The GST was to be administered by the ATO but with the states and territories reimbursing the Commonwealth for those costs.

Legislation

The ANTS package required a large legislative program. An ATO-based team, including consultants, working with the Office of Parliamentary Counsel (OPC) had begun to prepare the GST component well before the ANTS package was announced. Their starting point was a combination of international VAT practice and previous Australian work. Michael Evans, who was pulled in from KPMG, had been on the team that had worked through key design issues for the *Fightback!* package seven years earlier, informed by a report prepared for a committee chaired by ex–Department of Finance secretary Bill Cole.[79]

On the release of ANTS in August 1998 the Government announced its intention to introduce the 'core' legislative package by the end of that Parliamentary year, and the accountability for delivery was given to a cross-Agency IDC, led by Treasury, working with those agencies.[80] Further legislation on GST special rules and consequential amendments followed in the first half of 1999. A Tax Consultative Committee, chaired by David Vos, was also commissioned in October 1998 to advise on outstanding GST design issues. Its November 1998 report made recommendations on legislative design approaches for health, education, religious services, charities and motor vehicles.[81]

The legislative package, comprising 31 Bills, was presented to parliament in three parts. The first, with the health insurance rebate, was introduced in November 1998. The second, which included the GST legislation, was introduced in December 1998. The third, which covered Commonwealth–state finances, was introduced in March 1999. In presenting the GST Bill, Costello said, 'This is the most comprehensive reform of taxation in the history of the Federation'.[82] Keating had claimed that mantle for the 1985 reforms – I assess the competing claims below.

Securing parliamentary passage of the legislation was an exhaustive process, with the Bills referred to several committees for scrutiny and the various stakeholders having their say. The focus was almost entirely on the GST.

The coalition between welfare groups and industry bodies, which had facilitated a measured debate to get the reform considerations to this point, came to an end with the former unable to support a GST with food in it. The welfare groups were then free to advocate for the exclusion of food, while for the industry groups, the removal of the business tax issues meant they were generally united in their support for the package.

Other stakeholders had views on numerous GST design issues that needed to be settled in the legislation. The government established a Tax Consultative Committee to advise on the many boundaries that needed to be defined in areas such as health, education, financial services, religious services and charities.

A dedicated Tax Unit was established in the treasurer's office as a 'war room' to counter political arguments against the GST. Costello saw this as crucial to addressing claims that the GST would cause much harm, and he appointed his chief-of-staff, Phil Gaetjens, to go offline to run it.[83]

Deal with the Democrats

The main political issue at stake, though, one that would determine whether the government could negotiate passage of its legislation through the Senate, was the inclusion of food in the GST base.

Costello initially tried negotiating with senator Brian Harradine, but that effort soon foundered,[84] and in May 1999 Howard and Costello commenced negotiations with the Meg Lees–led Democrats. Ultimately, the negotiations bore some similarities to those that occurred in 1985, with the treasurer pushing for the full reform package but the prime minister judging what was politically possible (see Figure 9). On 28 May 1999, Howard announced a revised package with basic foods excluded from the GST, plus some other adjustments, including reduced income tax cuts for incomes over $50,000.

Figure 9: GST Negotiations

Source: Alan Moir

The reduced GST revenue, consequent on the narrowing of the base, necessitated adjustments to the IGA. A new IGA was signed in June 1999, with just four of the previous nine state taxes to now be removed: financial institutions duty; debits tax; stamp duty on marketable securities; and bed taxes.[85] It was agreed, though, that by 2005 the ministerial council would review the need for retention of the others[86] and they have since been largely removed.[87] As shown earlier in Figure 6, financial institutions duty and debits tax amounted to about 6 per cent of state tax revenue.

The Commonwealth's revised legislative package was passed on 30 June 1999, with most provisions commencing on1 July 2000. The GST had significant exemptions for education, health and food but still covered around 56 per cent of private consumption. The states separately legislated for the removal of their nominated taxes.

Implementation

The implementation of the GST from 1 July 2000 was a major undertaking. The government wanted the changes bedded down well before the 2001 election, but the interaction of the GST with the removal of the WST and other indirect taxes impacted on the prices of virtually all goods and services.

To help businesses handle the transition, a GST Start-Up Office was established in Treasury, headed by Jim Hagan, to administer the $500 million allocated to help small- and medium-sized businesses upgrade their record-keeping. A Small Business Consultative Committee was also established. Further, industry bodies played a key role by helping to disseminate information and liaise with government to support businesses in making the transition.

The ATO, with Michael Carmody as commissioner, undertook a large program of systems changes and education programs to help businesses make the necessary changes. Integral to this was field visits by ATO officers, on strict instructions that they were there to help with the GST implementation and would turn a blind eye to any other indiscretions.[88]

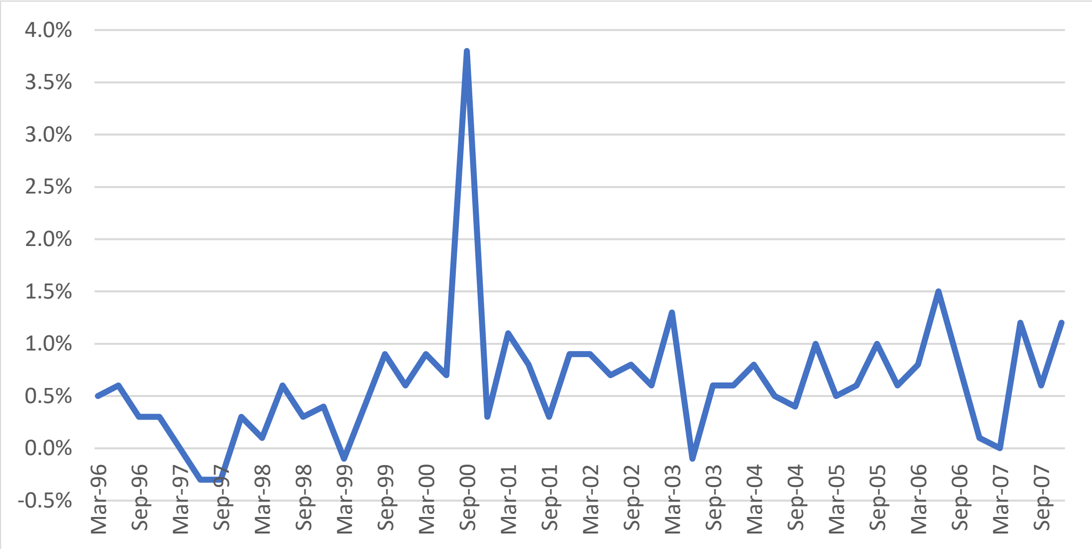
The government also ran an intense advertising campaign in the lead-up to the GST start date. The TV ads featured the song made famous by Joe Cocker, *Unchain My Heart*, with striking images of the tax reforms enabling businesses to throw off the shackles of an outdated tax system.

The ACCC, with Allan Fels as chair, oversaw price changes during the transitional period to ensure there was no price exploitation. While it concluded that, overall, there wasn't any significant opportunistic pricing by business, it did pursue a number of specific breaches.[89]

Ultimately, while the adjustment to the GST was a mammoth task, it probably forced many small businesses to improve their record-keeping, with broader benefits to their management. On the back of a huge effort to help Australian businesses by the GST Start-Up Office, the ATO, the ACCC and the many industry bodies, implementation of the GST was seen to have gone as well as such a large change could have.

The transitional economic effects of the introduction of the GST proved relatively benign. As shown in Figure 10, there was a spike in the CPI in the September 2000 quarter, but this did not flow through to subsequent wage and price increases. While it is difficult to attribute specific economic growth outcomes to particular reforms, the Australian economy generally continued to perform well, and microeconomic reforms such as the ANTS package undoubtedly contributed to that.

Figure 10: Quarterly Change in CPI (Seasonally Adjusted)



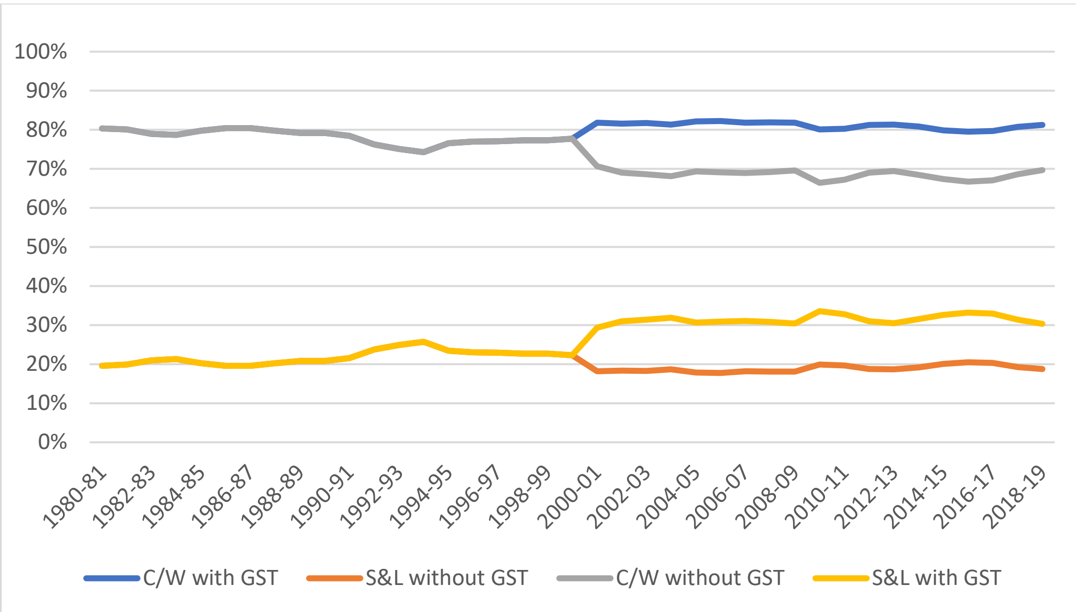
Sources: ABS and RBA publications

Lessons in Tax Reform

While the final ANTS package was partly diluted by political negotiations, it was nonetheless a major reform. It enabled the abolition of several inefficient Commonwealth and state taxes, improved tax administration, rationalised family assistance payments, lowered income tax rates. and achieved a substantial improvement in Commonwealth–state financial relations. Together, the 1985 and 2000 tax reforms had transformed Australia's tax system and substantially implemented the Asprey blueprint.

The Commonwealth–state financial relations reform also had an interesting accounting dimension. While the GST was levied by Commonwealth legislation and so legally was a Commonwealth tax, under the IGA all of the revenue went to the states, and so in that economic sense it was a state tax.[90] As shown in Figure 11, VFI was reduced if the GST were thought of as a state tax, but exacerbated if it were thought of as a Commonwealth tax.

Figure 11: Commonwealth (C/W) and State & Local (S&L) Tax Shares



Sources: Budget papers

I will now assess the ANTS package against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel

The terms-of-reference provided by prime minister Howard's five principles focused the review on a BBCT, Commonwealth–state financial relations reform, and reductions in personal income tax, all within a revenue-neutral framework. This effectively established the process as a determinative review focused particularly on implementing a BBCT.

There was no external review panel, but the Taxation Task Force provided oversight of Treasury's preparation of the ANTS report and the parliamentary backbench committee facilitated community consultation. The main policy development, up to the ANTS document, was done internal-to-government, with the treasurer, the prime minister and Cabinet the decision-makers.

The terms-of-reference and process for the development of the ANTS package worked well for the circumstances of a determinative review. Treasury, working with Costello, was given the space initially to design a comprehensive reform package, and from there the process inevitably, and appropriately, entered the political domain.

Gathering of Evidence and Calling of Witnesses

As an internal-to-government determinative review, there wasn't an extensive process of evidence gathering and calling of witnesses. The review, though, was able to draw on the experience and expertise of the Treasury team and the Taxation Task Force, as well as international experience and Australia's previous 1985 and 1991 processes. The government was able to advocate for the reforms from incumbency with the resources of the public service.

The initial alliance between welfare and business groups supported the development of a package that met substantial aspects of the aspirations of both groups. The 1998 election then provided the ultimate opportunity for public input and the forum for a full political debate. These debates were again educational for the community more broadly and gave the government a political mandate for the reforms. Other external stakeholders played a more active role in the later design stages of the GST, including in the preparation of the legislation. The parliamentary process of course had a major impact, in particular regarding the exclusion of food from the GST.

Again, this process worked well for a determinative review. The government was fairly clear from the start about what it wanted to do, and so having the opportunity to develop a coherent package internally, prior to the more open debate, worked well.

Timeliness and Relevance

ANTS was timely and highly relevant in developing a government position to take to the 1998 election. The election outcome then provided a mandate for the reforms, although this was tempered by the close result. While the political process determined the ultimate outcome, the ANTS document set out a comprehensive policy package that provided the basis for the government's negotiations with the states and the Democrats.

Approach to Analysis of Issues

ANTS was a high-quality document – it was relatively short, focused and well written. Its excellent analysis and presentation of evidence reflected the Treasury resources that had been devoted to it. While the conceptual case for indirect tax reform was already well established, ANTS provided a strong rationale for the design of the reforms and the innovative Commonwealth–state financial relations proposal. Advanced modelling capacity was utilised to support the analysis, and pioneering presentations to Cabinet were used to support the decision-making.

As a determinative review, ANTS was able to go straight to the elaboration of the reform proposals without needing to explore alternative approaches. It did that very well.

Quality of Tax Policy Outcomes

The process successfully achieved a broadening of the indirect consumption tax base, the reform of Commonwealth–state financial relations, reductions in income tax rates, improvements in tax administration, and the rationalisation of Australia's family assistance programs. This was a major reform package.

In the face of practical and political realities, the GST ultimately received less than comprehensive coverage. Health and education were left out and financial services were input-taxed for legitimate practical reasons, but this has proven problematic as the share of total spending on these items has increased over time, eroding the GST base. Food came out in the political negotiations. While these exemptions have diminished the GST as a growth tax, it remains a significant improvement on the taxes it replaced and so constitutes a successful policy outcome.

The Commonwealth–state dimension of the reforms was innovative and provided the states with the more substantial growth tax they had long wanted. The restrictive GST governance arrangements inserted in the IGA have meant there have been few changes to the GST in the 20 years since its introduction. Given the propensity of governments to make piecemeal base-narrowing tax changes, overall that is probably a net positive.

The reform process provided the opportunity for substantial reductions in personal income tax rates, especially for low-to-middle-income earners. The rationalisation of family assistance payments was something of a bonus in what was predominantly a tax reform package.

The tax administration changes were also significant, with the ABN and PAYG arrangements an enduring improvement to the ATO's tax collection systems. Substantial progress was not made on business tax issues, but that would subsequently be referred to the separate Ralph Review.

Conclusion

Overall, ANTS was a major tax reform package that went a substantial way to completing the 1975 Asprey blueprint. The single-stage BBCT that had not got up in 1985 had now been followed by a superior multi-stage VAT. The ANTS review had also taken a significant step forward in reforming state taxes and improving Commonwealth–state financial relations.

The Asprey review had now been substantially implemented. RATS had achieved substantial base broadening and reform of the income tax system. ANTS had likewise achieved substantial base broadening and reform of the indirect consumption tax system. While each of these tax reform processes had been restricted by practical and political realities, they constituted major achievements. Together, they had moved the Australian tax system a long way from something like world-worst practices towards world-best practices.

Reflections

The key players in the ANTS reforms later reflected on the process.

Ted Evans described the dynamic of the tax reform exercise:

> There were two things that got that over the line. The most important one was the suggestion that it be made a state tax. We took that through HoTs [heads of treasuries] and got every state Treasury to agree to support that. The other thing was strong support from the business community … Graeme Samuel did a lot of good work.[91]

Ken Henry reflected on the partnership with Costello:

> My experience from the Treasury side was that he liked the idea of being in partnership. He thought he was doing good things in developing good policy and that we were with him in developing good policy. That was very pronounced in the development of ANTS. He was absolutely absorbed in that process and thoroughly enjoyed working with Treasury – loved it.[92]

Peter Costello recalled working with Treasury:

> I would say we got Treasury to do the work. We set the rate and I personally said, 'Let's give it all to the states', whether that was a good or a bad decision. Ken and his team basically worked on what would be the inflationary impact, which was important for what sort of compensation was required, how the tax would be designed, what trade-offs we could afford – other state indirect taxes, income taxes etc. Yes, Treasury did a very good job on ANTS, no doubt about it. It was the biggest tax change ever … an absolute blockbuster. There'll never be anything like that again.[93]

RATS v ANTS

RATS and ANTS have been the two most successful tax reform exercises in Australia's postwar history. Together with the 1942 unification of income tax at the Commonwealth level, those reviews have shaped the current Australian tax system.

In my view, RATS and ANTS rank equally in terms of the outcomes they ultimately achieved. RATS was more expansive in its original ambitions, seeking to implement much of the Asprey blueprint in one go, but it lost its indirect consumption tax reforms at the tax summit. Nonetheless, the income tax reforms were impressively comprehensive. ANTS had a more limited tax reform scope, but it also covered state taxes and Commonwealth–state financial relations, as well as tax administration and family assistance payments. Further, it more fully achieved its original objectives.

The substantial point in assessing these two tax reform exercises is that, together, they modernised both the income tax and consumption tax regimes in Australia. While not perfect, the two reviews collectively amounted to a major microeconomic reform that would help underpin a strong Australian economy and more robust government revenue bases in the years ahead.

Ralph Review of Business Taxation

With its focus on the GST, ANTS was not able to deal adequately with the relatively complex business tax issues. The government had committed, though, to further consultation.

On 14 August 1998 (the day after ANTS was released), the treasurer appointed John Ralph (chair and director of several companies) to conduct the consultations; Bob Joss (Westpac) and Rick Allert (Southcorp) were subsequently appointed to assist him. The review was supported by a large Treasury-based secretariat, headed by Alan Preston and also including personnel from other departments, the ATO, OPC, academia and the private sector.

Review Processes

The ANTS discussion provided the starting point for this Review of Business Taxation (the full terms-of-reference are provided in Appendix A). Wayne Mayo, who was on both the ANTS and Ralph secretariats, recalled that there wasn't sufficient time to fully investigate the business tax issues in ANTS and the Ralph Review was the opportunity to do that.[94]

The review consulted widely. Two discussion papers and an information paper were issued as the bases for public hearings, focus group discussions and meetings with stakeholders.[95] A total of 376 submissions were received. The review provided its report, *A Tax System Redesigned*, to the government on 30 July 1999.

Review Objectives

The review adopted a standard public finance framework with three national objectives: optimising economic growth, promoting equity, and simplicity and certainty.

Optimising economic growth was about minimising the impact of the tax system on business decisions and the efficient allocation of resources by taxing transactions with comparable economic substance similarly.[96] Particular importance was placed on the international competitiveness of the Australian economy and achievement of a 30 per cent company tax rate.

Promoting equity was seen in its vertical and horizontal dimensions. Vertical equity was best pursued through the personal income tax and welfare systems, while horizontal equity was advanced by the like tax treatment of like transactions and entity structures.[97]

Simplicity and certainty were enhanced by the removal of anomalies in the treatment of economically similar transactions. The review also supported the redrafting of tax legislation to make it shorter, clearer and more accessible.[98]

Review Framework

The approach of the Ralph Review was quite different from that of ANTS. The policy case for the GST was fairly clear, as had been enunciated from Asprey onwards, and so that aspect of ANTS was mainly about design and compensation details. The optimal policy approach for the business tax system, however, was less clear and the Ralph Review tackled the problem at a more conceptual level. ANTS was a determinative review, but significant aspects of the Ralph Review were foundational.

The review was conducted broadly in the two dimensions identified in ANTS:

1 Business investments: more consistent taxation treatment, bringing tax and commercial value closer together and achieving the goal of a 30 per cent company tax rate.

2 Business entities: applying redesigned company tax arrangements more consistently across entities, groups and distributions.

Business Investments

The review proposed a definition of taxable income more consistent with economic and accounting principles. This 'cashflow/tax value method' incorporated two components: annual cash flows associated with a taxpayer's investment assets and liabilities; plus the annual change in values of those assets and liabilities. It was argued that this approach would provide a more consistent measure of taxable income than the existing patchwork of definitions.[99]

Achieving a 30 per cent company tax rate, in a revenue-neutral framework, came down to whether accelerated depreciation should be removed: 'The most difficult judgement of all was in relation to the accelerated depreciation/company tax rate trade-off'.[100] Accelerated depreciation most benefited capital-intensive businesses, while a company tax rate cut benefited all tax-paying businesses. On balance, replacing accelerated depreciation with effective life,[101] to help finance a phased reduction in the company tax rate from 36 per cent to 30 per cent, was recommended.[102]

Specific measures to advantage small businesses, in recognition of their relatively larger tax compliance costs, were supported. Businesses with a turnover of less than $1 million would be allowed the option of a simplified cash flows tax system and would also be granted generous depreciation, trading stock and capital gains tax provisions.[103]

The review's terms-of-reference also asked it to consider capital gains tax, and it proposed replacing indexation of the cost base for inflation and the averaging provisions with a regime where individuals could just include half the nominal gain and superannuation funds could include two-thirds (with companies including the full realised gain).[104]

On other issues, the review recommended transferring the fringe benefits tax liability back to employees,[105] restricting the offset of losses from non-commercial activities (such as hobby farms) against other income,[106] and applying personal services income alienation rules.[107]

As part of the government's agreement with the Democrats on the ANTS legislation, the review was asked to look at a 20 per cent alternative minimum company tax (AMCT). The review noted that its recommendation to pare back special preferences with their capacity to reduce tax liabilities addressed the main motivation for an AMCT, and so the remaining differences would reflect deliberate tax concessions, such as for research and development, which should be considered on their merits. As such, it did not see the need for an AMCT in Australia.[108]

The review also addressed a range of more detailed international tax matters and myriad taxation of financial arrangements issues. In regards to this, it made numerous recommendations on how to proceed.

Business Entities

The review supported the ANTS proposal to tax trusts and similar entities more like companies and outlined a consistent entity tax regime.[109] This included simplifying the operation of companies' franking accounts, the provision of refundable imputation credits for resident individuals and superannuation funds,[110] and a common definition of distributions for tax purposes across entities.[111] The review also supported allowing wholly owned groups of Australian companies to consolidate their tax position, with internal transactions ignored for tax purposes.[112]

Policy and Administration

The review argued for more effective community participation in the development of the business tax system, including a Charter of Business Taxation and a Board of Taxation, whose membership would be drawn from the business community and government agencies, to provide advice on business tax issues.[113] It also recommended a more integrated tax design process for tax policy, legislation and administration between Treasury, the ATO and the OPC,[114] and more streamlined tax administration processes.[115]

Economic Effects

The review did not undertake specific estimates of the impact of its proposals on economic growth but, based on estimates for other microeconomic reforms, made what it considered a conservative judgement of a 0.75 per cent of GDP growth dividend.[116] Similarly, the review conservatively estimated that its recommendations would reduce business tax compliance costs by 10 per cent, amounting to a $450 million reduction in the total cost of compliance.[117]

Conclusions

The Ralph Review's stated overarching objective was to design business tax reforms that would underpin stronger economic growth: 'A reformed business tax system based on those recommendations will support a more efficient, innovative and internationally competitive Australian business sector'.[118] The central design issues for the review were achieving greater consistency in the taxation of business income and greater consistency in the taxation of entity types. The big-ticket item, though, was the review's support for the removal of accelerated depreciation to help fund a company tax rate cut.

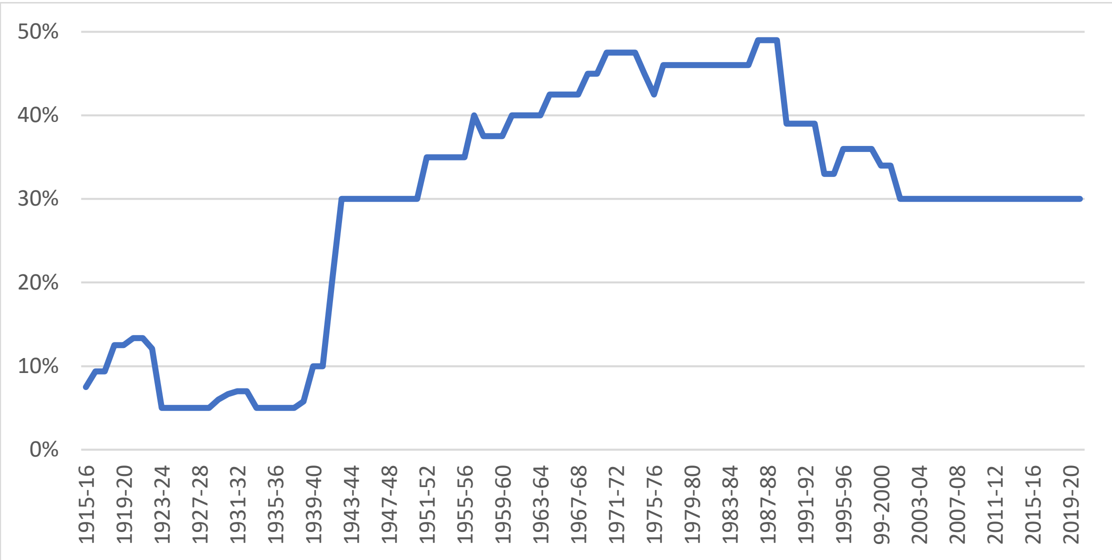
Government Response

The government released the report (which had been pprovided on 30 July 1999) and its initial response, *The New Business Tax System*, on 21 September 1999. While there were some important policy outcomes, decisions on other key recommendations were deferred.

The headline measure was a two-step reduction of the company tax rate, to 34 per cent in 2000–01 and 30 per cent from 2001–02, to be financed by the removal of accelerated depreciation and integrity measures in the package.[119] The government wanted business support for this change but capital-intensive businesses in particular valued accelerated depreciation making it a difficult issue for some industry bodies such as the Business Council of Australia (BCA). The finance sector, though, particularly valued the company tax rate cut. The Australian Bankers Association (ABA), therefore, spearheaded a campaign to convince the government to cut the company tax rate, utilising modelling work commissioned by Westpac that demonstrated the substantial combined benefits of the ANTS and Ralph reforms for business.[120] Further, the changes ultimately had the broad support of the business community.[121]

Figure 12 shows the history of Australia's company income tax rate. Company income tax was introduced at the Commonwealth level in World War I, and the rate was increased during World War II to help finance war expenditure. In the postwar period, the tax rate was increased as the company income tax base was narrowed with a series of tax concessions, meaning the effective tax rate probably did not actually increase for some industries. From 1988, in the context of a more open Australian economy that needed to be internationally competitive, the rate was decreased as the company income tax base was broadened with the removal of tax breaks, likewise meaning the effective tax rate did not actually fall for some industries.

Figure 12: Company Income Tax Rate*



* Standard rate (there have been additional levies and lower rates for small companies at different times)

Sources: Budget papers

With capital gains tax, indexation of the cost base for inflation was replaced by the inclusion of 50 per cent of nominal capital gains for individuals and two-thirds for superannuation funds.[122] Small businesses received capital gains tax concessions,[123] and also a simplified cash flows tax system with concessional depreciation provisions.[124] The government accepted the recommendation to not proceed with an AMCT but not the recommendation to levy fringe benefits tax on employees.

The government gave in-principle support to the proposed tax value method for calculating taxable income, but said further consultation was required. To that end, it established a working group of officials and business community representatives, led by Dick Warburton as chairman of the Business Coalition for Tax Reform.[125]

The government also indicated support for the proposed entities tax regime (including taxing some trusts like companies), refunding excess dividend imputation credits, and consolidation for company groups. To reduce the compliance burden for business, though, the implementation of these reforms was deferred until 1 July 2001.[126]

The second stage of the government's response, on 11 November 1999, included integrity measures to restrict the use of non-commercial losses to reduce tax on other income,[127] and restrictions on the alienation of personal services income.[128] The recommendation for a Board of Taxation was also accepted.[129] It was established in 2000 with a remit to advise the treasurer on the development and implementation of tax legislation, particularly on business tax issues.

Implementation
The ANTS and Ralph packages were each major tax reform packages, and their simultaneous implementation presented great challenges for Treasury and the ATO, as well as businesses. The implementation of some of the Ralph Review reforms was consequently deferred to assist businesses in adjusting to the new provisions.[130]

After further consultation on the entities tax regime, the government decided in 2001 not to proceed, including because of concerns raised by small business and farming arrangements.[131] There was also lengthy consultation on the tax value method proposal, including by the Board of Taxation, but it was also ultimately not adopted.

Lessons in Tax Reform
The Ralph Review was an ambitious attempt to reset Australia's business tax regime. I will assess it against the five criteria set out at the start of this paper.

Terms-of-Reference and Panel
The review was established as a consultation process for the business tax reforms outlined in ANTS, in particular consistency in the taxation of business investments and business entities. The panel of three businesspeople indicated the government's desire for the business community's imprimatur for any reforms. The review had a large secretariat (74 people), drawn mainly from Treasury, the ATO, OPC, academia and the private sector.

While the terms-of-reference and initial time line suggested a fairly contained process of consultation on the ANTS business tax proposals, the review developed into a larger examination of all aspects of Australia's business tax regime.

Gathering of Evidence and Calling of Witnesses
The review conducted extensive research and consultation. There were 18 consultancies; two discussion papers and an information paper; 60 public seminars and focus groups; 51 presentations and speeches; and 376 submissions received. Overall, this was a large-scale review with comprehensive coverage of the business tax system and extensive consultations. It went beyond the expectations implied by its original remit to consult on the proposals outlined in ANTS.

Timeliness and Relevance
The original time line for the review was to report by 31 March 1999, seven and a half months after it had been commissioned in August 1998. That date was twice extended, initially to 30 June 1999 then to 30 July 1999. As the review developed, it went beyond its original remit to consult on the ANTS proposals around the taxation of business investments and business entities, and expanded further to address many of the most complex issues confronting the Australian business tax system. While these issues needed to be addressed in some forum, the resultant scope and complexity of the review perhaps detracted from a focus on the main issues.

There was also a question mark over the government's appetite for this broader coverage. Compared with ANTS, there was less political drive to advance the reforms, with the government more focused on the politically challenging GST implementation.

Approach to Analysis of Issues

The analysis in the review report is excellent. It works through complex issues and proposes technically robust solutions to improve allocative efficiency by reducing differences in tax treatments between investments and entity structures, including in regard to the tax value method for business investments and a consistent tax regime for business entities. These issues had not been addressed in this way in Asprey, so the Ralph Review broke new ground. The weighing up of the issues in the trade-off between accelerated depreciation and a cut in the company tax rate is also effective.

While the analysis in the report is high quality, there is a volume issue. The report, and the supporting discussion papers, are very long and complex, containing copious material on the myriad issues regarding the complexities of the business tax system. The focus on key matters is partly lost amongst the broad coverage of issues and sheer amount of detail.

Quality of Tax Policy Outcomes

While some substantial policy outcomes resulted from the review, ultimately the main architectural changes – the tax value method and the entities tax regime – were not implemented.

Lowering the company tax rate and broadening the company tax base by removing accelerated depreciation were major reforms (as they had been in 1988). Other measures, such as consolidation of company groups and restrictions on the use of non-commercial losses, were also significant. Further, the Board of Taxation has proved to be an effective vehicle to assist the government in consultations on business tax issues.

The capital gains tax change provided some simplification but compromised the policy rationale of taxing real gains. The small business measures likewise provided some simplification, but their broader policy rationale is harder to justify.

Overall, compared with ANTS, there was less political focus on the Ralph Review, with implementation of the GST dominating. Likewise, for the business and tax advising community, coming to grips with these complex issues at the same time as the GST was overwhelming. There was significant uncertainty about the new concepts and how the ATO would administer them. Ultimately, the same reasons that led the government to defer the business tax measures from ANTS, namely uncertain and divided business views, played out with the Ralph Review.

Conclusion

The Ralph Review report was an impressive and comprehensive document, as were the consultation processes in its preparation. It provided extensive canvassing of the business tax issues facing Australia and proposed innovative architectural solutions to the taxation of business investments and business entities. The review also provided the government with the support it was seeking for the reduction of the company tax rate.

Ultimately, the review wasn't highly influential in regard to its main objective of getting the government's support for proposed changes to Australia's business tax architecture. That said, the review report effectively articulated the arguments for these architectural changes. While it was originally conceived of as a determinative exercise leading to concrete outcomes, it ultimately functioned as a foundational review that can be drawn on in a future tax reform exercise.

Looking at the ANTS and Ralph reform processes together, they put tax policy at the centre of policy debate, and the government deservedly got credit for that. They also tested government agencies, in particular Treasury and the ATO, which showed that those agencies were ready and able to support a government that was prepared to take on difficult economic reforms.

The Post-ANTS World

In the aftermath of the ANTS and Ralph reviews, fiscal policy was largely in consolidation mode given the significant budgetary cost of the ANTS package. The focus for tax policy was on implementation of the GST and the phased introduction of the Ralph measures. However, some longer-term thought was given to fiscal policy and tax design processes.

Intergenerational Report

In 2002 the government published the first *Intergenerational Report*, which provided 40-year projections of Commonwealth expenditure and the Budget position (with Commonwealth revenues projected to remain a constant proportion of GDP). Demographic pressures were projected to drive a 5 per cent of GDP gap between spending and revenue by 2041–42, confronting governments with difficult economic and fiscal policy decisions.

In this context, tax reform was flagged as important to ensuring a robust revenue base that would grow in line with the economy.[132]

Tax Design Process

The Ralph Review had argued for better alignment of tax policy, legislation and administration processes. Work on this continued through a group from Treasury, the ATO and OPC, with the aim of achieving an integrated tax design and delivery system.[133]

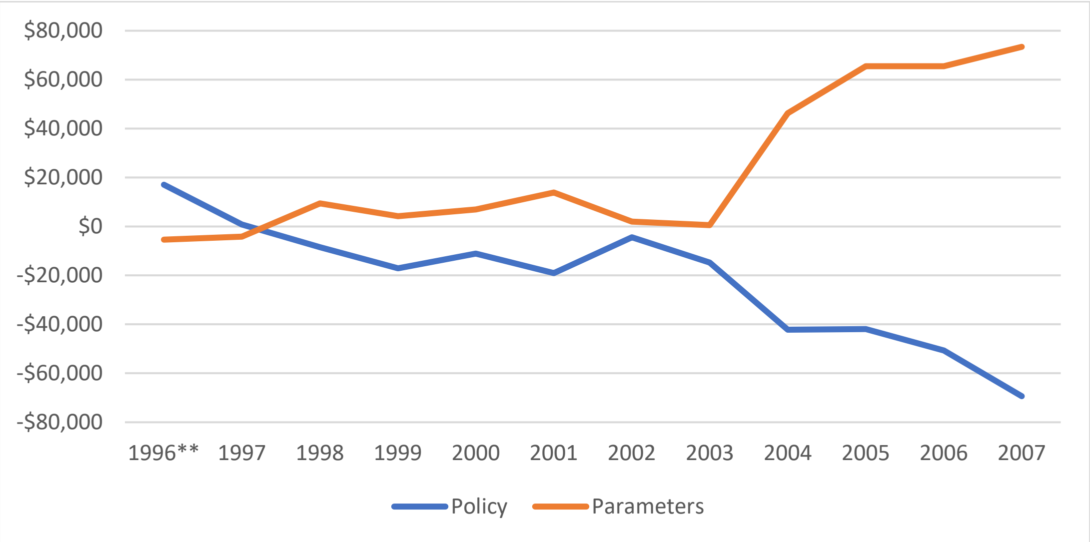
An issue in this debate was the allocation of tax responsibilities between Treasury and the ATO. Treasury took the lead on policy and the ATO on administration, but the role of working with the OPC on drafting legislation was in question. While this had traditionally been done by the ATO, there were concerns about a lack of consistency between government policy intent and the ultimate legislation. Following a review, the tax legislation function was moved from the ATO to Treasury in 2002 to create 'greater alignment between legislation and the policy intent set by Government'.[134]

Policy Decisions and Parameter Improvements

With steady economic growth in the early years of the twenty-first century, particularly as the resources boom got underway, the budget position improved strongly. Revenue/GDP increased, putting the government in a position to provide annual tax cuts from 2003–04.

Figure 13 illustrates the split between policy decisions and economic parameter movements in this fiscal story. The improvement in the budget bottom line up to 1997 was driven by the government's policy decisions, mainly the 1996 Budget. From 1998, and especially from 2004 with the resources boom, positive economic parameter movements (in particular the terms-of-trade) drove improvements in the budget position, enabling the government to provide substantial personal income tax cuts.

Figure 13: Reconciliation Table Results ($m)*



* Each year's figure is the summation of the four years of the forward estimates in the Budget

** Starting from the 1996 election

Sources: Budget papers

Unfinished Business

With four tax reform exercises in 15 years – RATS, the 1988 Economic Statement, ANTS and the Ralph Review – the Australian tax system had undergone a substantial makeover. But tax reform is never complete, and ongoing dissatisfaction remained in regard to some elements of the tax system. The bountiful revenue from the resources boom perhaps provided an opportunity to 'buy' some more reform, and this would set the scene for the next chapter in the history of Australia's tax reform exercises.

Appendix A

Review Terms-of-Reference

A New Tax System

I announce today the Government's plan to reform and modernise the Australian tax system for the 21st century.

It is about reaching our potential as a nation and improving the tax system which is badly in need of repair.

We aim for a fairer, better, more modern system which ignites incentives to work, save and invest. The system we envisage will be designed with an emphasis on promoting jobs, exports and investment.

The recent High Court decision has underlined the fragility in the current financial relationship between the Commonwealth and the States and the need for change and reform in the area of Commonwealth/State financial relations.

We stand by our commitment to no new taxes or increase in existing taxes during this term which I regard as vital to keeping faith with the Australian electorate.

The decision I announce today was arrived at over the past two days where Cabinet concluded that the tax reform process should be accelerated. Ministers were also of the view that it was desirable to announce the decision in advance of the Parliament's reconvening. As it has not been possible to convene a full party meeting, this morning I consulted the Chairmen's Group of the Coalition Party Room, whose members unanimously supported the Cabinet decision.

I have also telephoned State Premiers to inform them of the Government's decision.

Progress in this area will be undertaken by the Taxation Task Force headed by Treasury with representatives of my Department, the Australian Taxation Office, the Treasurer's office and the Cabinet Policy Unit.

The Government has instructed its Taxation Task Force to prepare options for reform of the taxation system. The broad guidance given to the Task Force is

(a) There should be no increase in the overall tax burden;

(b) Any new taxation system should involve major reductions in personal income tax with special regard for the taxation treatment of families;

(c) Consideration should be given to a broad based, indirect tax to replace some or all of the existing indirect taxes;

(d) There should be appropriate compensation for those deserving of special consideration; and

(e) Reform of Commonwealth/State financial relations must be addressed.

There will be a heightened process of consultation with interest groups. The Government will be assisted in this respect by a special Task Force of Government Members.

Before the next election, the Australian public will have a clear idea of the Coalition's plans for modernisation and reform of Australia's taxation system.

If it is the intention of the Leader of the Opposition, Kim Beazley, to oppose tax modernisation he will be seen as chained to yesterday's failed system.[135]

Ralph Review (14 August 1998 – amended on 27 October 1998, 2 June 1999 and 17 June 1999)

Business Income Tax Review

Business taxation is concerned with taxing investments in physical and financial assets (and their financing) and the collective vehicles or 'entities' through which these investments can be made.

Objectives

The Review will pursue the strategy specified in *A New Tax System* of consultation on the framework of reform of <u>business entities</u> and on the extent of reform of <u>business investments</u> recognising the current problems and objectives for business tax reform identified in *A New Tax System*. The process of consultation will include an assessment of the design and the administration of the tax regimes affecting business to identify their main shortcomings and their impediments to productive activity and innovation.

The Review will make recommendations on the fundamental design of the business tax system, the processes of ongoing policy making, drafting of legislation and the administration of business taxation.

The recommendations will be consistent with the aims of improving the competitiveness and efficiency of Australian business, providing a secure source of revenue, enhancing the stability of taxation arrangements, improving simplicity and transparency and reducing the costs of compliance. The Review will adopt a comprehensive approach to reform driven by clear, sound principles involving a move towards greater commercial reality.

Methods

The Review of business taxation arrangements will be open and transparent.

- Mr John Ralph, AO, will chair the Review.
- The Review will be able to call on the expertise of both the public and private sectors and academic tax experts.
- The Review is to report by 31 March 1999 to allow a reasonable time period for consultation with the business community, to allow draft legislation to be subject to consultative input from business and for the legislation to have effect from 1 July 2000.

Outcomes

1 The Review will report on the state of the current arrangements relating to business taxation.

This will involve reporting on:

(a) the Australian business taxation system as a whole compared with international experience;

(b) the structural flaws in the broad design of business tax arrangements and the degree to which existing business tax systems bias and impede business decisions;

(c) the degree to which the current business tax arrangements meet the aims of certainty of taxation treatment, clarity of law, ease of administration and low compliance costs; and

(d) the administration of taxation, including the drafting of legislation and technical corrections to legislation and the adequacy of existing procedures for consultation between the taxation authorities and the business community.

2 The Review will make recommendations about the fundamental re-design of business tax arrangements. While no aspect of the taxation of business entities and investments should be precluded from the scope of the review, consultations by the Review and associated recommendations will be directed to the strategy for reform spelt out in *A New Tax System*.

3 The Review will examine:

(a) in relation to business entities, the re-designed company tax arrangements proposed to apply to companies, trusts, cooperatives, limited partnerships and life insurers – including a move towards consolidated group taxation and the achievement of a consistent treatment of distributions of profit and contributed capital;

(b) in relation to business investments, the extent of reform in the areas of physical assets, financial assets/liabilities and intangibles and the potential use of accounting principles, taking into account the following considerations:

(i) the need to encourage business development with an internationally competitive tax treatment of business investments;

(ii) the potential benefits of bringing tax value and commercial value closer together;

(iii) the goal of moving towards a 30 per cent company tax rate;

(c) in relation to capital gains tax (CGT), the scope for:

- capping the rate of tax applying to capital gains for individuals at 30 per cent;
- extending the CGT rollover provisions to scrip-for-scrip transactions; and

(d) the Review will need to achieve overall revenue neutrality in respect of (b) and (c) with these changes.

4 The Review will make recommendations concerning the question of consultative input from the business community into the ongoing processes of policy design, drafting of legislation and the administration of taxation.

5 The Review will make recommendations concerning possible improvements in the administration and the accountability of the taxation authorities in relation to business taxation.[136]

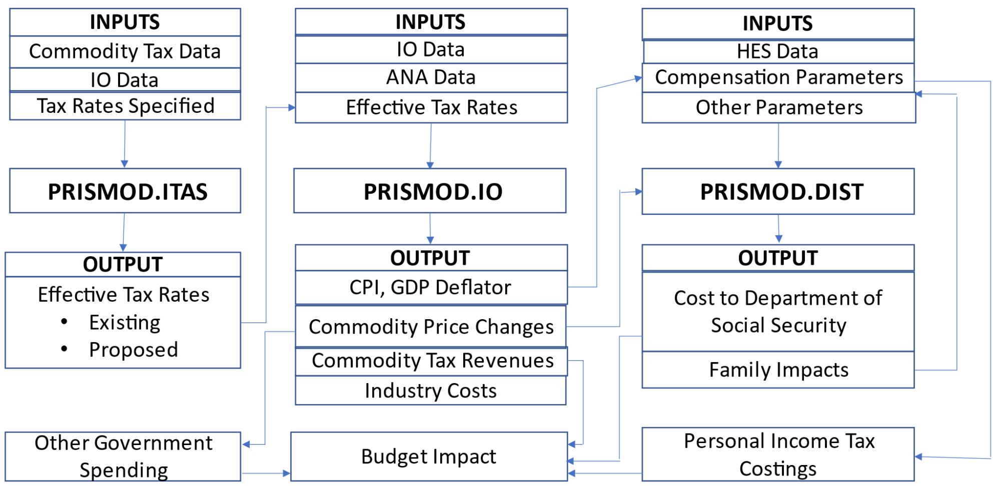
Appendix B

Comparison of Reviews

	Time	Submissions/Witnesses	Hearings	Report Size	Type
Fightback!	–	No	No	650 pages	Determinative (from opposition)
One Nation	–	No	No	199 pages	Determinative
ANTS	1 year	No	No	208 pages	Determinative
Ralph	1 year	Public hearings and focus groups; 376 submissions	Yes	809 pages	Foundational/determinative

Appendix C

Price Revenue Incidence Simulation Model (PRISMOD)



Source: Reproduced from Henry and Wright, p. 2.

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Matthew Ryan, 15 August 2017
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John Short, 23 April 2021
Greg Smith, 4 April 2018
Anne Treleaven, 19 April 2021

Notes

[1] Gruen, p. 2.
[2] Wilson, Bradford and Fitzpatrick, p. 7.
[3] Keating, 1989, p. 33.
[4] Easson, ch. 2.
[5] Keating had proposed a move to a compulsory system from the backbench, between his leadership challenges: Keating (1991), p. 8.
[6] The possibility of going to 12 per cent was also flagged.
[7] 1991 Budget, Budget paper no. 1, statement 4, pp. 4.6–4.7.
[8] Liberal and National Parties, 1991, p. 7.
[9] Ibid., p. 47.
[10] John Hewson, personal interview.
[11] Factual rather than policy advice.
[12] Treasury annual report, 1991–92, p. 43.
[13] This was called a development allowance.
[14] Keating, 1992, pp. 185–97.
[15] Don Russell, personal interview.
[16] Keating, 1993, p. 6.
[17] Fitzgerald, 'National Saving: Possible Policy Responses', 1993, p. 3.
[18] Ibid., p. 6.
[19] In the 1995 Budget, the government proposed the phased introduction of 3 per cent employee superannuation contributions, and that, in lieu of the second tranche of the *One Nation* tax cuts, it would make means-tested matching contributions. Those changes, however, were not implemented.
[20] I was the tax adviser in the treasurer's office for the 1993–95 budgets.
[21] Treasurer John Dawkins resigned at the end of 1993.
[22] The 1996 National Commission of Audit (chaired by Bob Officer) was established by the government after the election to advise it on ways of improving its fiscal position.
[23] Howard, 2010, p. 303; Costello, 2008, p. 126.
[24] John Hewson, personal interview.
[25] Howard, media interview, Tweed Heads Civic Centre, 2 May 1995.
[26] Costello, 2008, p. 123.
[27] Aitken and Orr, p. 71.
[28] *Dennis Hotels Pty. Ltd. v Victoria* (1960) 104 CLR 529.
[29] Stewart (2011), p. 162.
[30] *Ha v New South Wales* (1997) 189 CLR 465.
[31] Costello, 1997.
[32] Howard, transcript of press conference on taxation reform, 1997.
[33] Commonwealth of Australia, 1985, p. 17.
[34] Howard, transcript of press conference on taxation reform, 1997.
[35] Howard, 2010, p. 305.
[36] In 1997, Bob Carr (NSW) led the only state Labor government, but Labor governments were elected in Queensland and Tasmania in 1998.
[37] Graeme Samuel, personal interview.

[38] With the tax debate becoming politically partisan the ACTU weren't able to join and the BCA were likewise not yet ready to participate in such a partnership.
[39] Alison McClelland, personal interview.
[40] Australian Council of Social Services, p. 9.
[41] Brown, p. 82.
[42] Peter Burn, personal interview.
[43] Bill Kelty, personal interview.
[44] Peter Costello, press release, Tax Consultative Task Force, 23 October 1997.
[45] PRISMOD's estimates for indirect revenue and CPI impacts were supplemented by a model of the Australian population which disaggregated it into 400 household type and income category cohorts. Income tax and social security schedules were overlayed on this population to generate household distributional data and budget costings for the forecasting horizon. This level of disaggregation proved adequate for 'on-the-fly' estimates which could be later checked against more detailed models held within Treasury.
[46] Henry and Wright, p. 3.
[47] Matthew Ryan, personal interview.
[48] EMTRs are the summation of the social security withdrawal rate and the tax rate.
[49] The members of the Cabinet Revenue Committee were John Howard, Peter Costello, John Fahey, Tim Fischer and Robert Hill.
[50] Matthew Ryan, personal interview.
[51] Commonwealth of Australia, 1998, p. 5.
[52] Commonwealth of Australia, 1998, pp. 71-72.
[53] Treasury, pp. 32–3.
[54] The HFE process involved the transfer of fiscal resources between jurisdictions to offset differences in revenue-raising capacity and the cost of delivering services, with the aim of allowing subnational governments to provide standards of public services at a similar tax burden.
[55] Bed taxes were accommodation taxes levied on the cost of temporary residential accommodation.
[56] The states were to be required to compensate the Commonwealth for the costs of administering the GST.
[57] Commonwealth of Australia, 1998, p. 83.
[58] Ibid., p. 78.
[59] Ibid., p. 85. The constitutional reality, though, is that the Commonwealth has the unilateral ability to change the legislation if it so chooses.
[60] Ibid., p. 56.
[61] Peter Burn, personal interview.
[62] Commonwealth of Australia, 1998, p. 125.
[63] Ibid.
[64] Ibid., p. 113.
[65] Ibid.
[66] Ibid., p. 122.
[67] Ibid., p. 131.
[68] Ibid., p. 133.
[69] Ibid., p. 146.
[70] Ibid., p. 150.
[71] In particular, administrative measures and a growth dividend.
[72] Ibid., p. 77.
[73] Ibid., p. 156.
[74] Ibid., p. 162.
[75] Ibid., p. 85.
[76] Ibid., p. 157.
[77] Ibid., p. 173.
[78] Costello, 2008, p. 129; and Costello, Second Reading Speech, *A New Tax System (Goods and Services Tax) Bill 1998*, 2 December 1998, Hansard, p. 1089.
[79] Michael Evans, personal interview.
[80] Paul McCullough, personal interview.
[81] Vos, pp. 3-11.
[82] Peter Costello, Second Reading Speech, *A New Tax System (Goods and Services Tax) Bill 1998*, 2 December 1998, Hansard, p. 1087.
[83] Costello, 2008, p. 134.

[84] Ibid., pp. 135–7.
[85] The taxes that were not removed were: conveyancing duty on business property; stamp duty on credit arrangements; stamp duty on leases; stamp duty on mortgages; and stamp duty on cheques.
[86] Intergovernmental Agreement (June 1999), Appendix A.
[87] Carling, p. 3.
[88] Michael Carmody, personal interview.
[89] Australian Competition and Consumer Commission, p. iii.
[90] Treasurer Costello insisted that the GST not be shown as a Commonwealth tax in the budget papers, resulting in the Australian National Audit Office qualifying the end-of-year financial statements. After the change of government in 2007, however, the GST was shown as a Commonwealth tax.
[91] Ted Evans, personal interview.
[92] Ken Henry, personal interview.
[93] Peter Costello, personal interview.
[94] Wayne Mayo, personal interview.
[95] The discussion papers were *A Strong Foundation* and *A Platform for Consultation (in two volumes: The taxation of investments; and The taxation of entities*. The information paper was *An International Perspective*.
[96] Review of Business Taxation, p. 14.
[97] Ibid., pp. 15–16.
[98] Ibid., pp. 16–17. The report was accompanied by some draft legislation.
[99] Ibid., pp. 156-–7.
[100] Ibid., p. 24.
[101] Ibid., p. 305.
[102] Ibid., pp. 305 and 424.
[103] Ibid., pp. 73–5 and 575.
[104] Ibid., pp. 595–6.
[105] Ibid., p. 42.
[106] Ibid., pp. 294–5.
[107] Ibid., pp. 286–7.
[108] Ibid., p. 279.
[109] Ibid., p. 62.
[110] Ibid., p. 421.
[111] Ibid., p. 429.
[112] Ibid., p. 517.
[113] Ibid., p. 35.
[114] Ibid., p. 90.
[115] Ibid., pp. 137 and 146.
[116] Ibid., p. 21.
[117] Ibid., p. 22.
[118] Ibid., p. 34.
[119] Costello, 'The New Business Tax System', 1999, attachment T.
[120] John Short, personal interview.
[121] Peter Burn, personal interview.
[122] Costello, 'The New Business Tax System', 1999, attachment D.
[123] Ibid., attachments E and F.
[124] Ibid., attachment I.
[125] Costello, 'The New Business Tax System: Stage 2 Response', p. 3.
[126] Costello, 'The New Business Tax System', 1999, attachment K.
[127] 'The New Business Tax System: Stage 2 Response', attachment A.
[128] Ibid., attachment B.
[129] Ibid., p. 4.
[130] Costello, 'Business Tax Reform: Implementation Timetable', 22 March 2001.
[131] Costello, 'Entity Taxation', 27 February 2001.
[132] Commonwealth of Australia, 2002, p. 68.
[133] Integrated Tax Design, p. 3.
[134] Treasury annual report 2002–03, p. 42.
[135] Howard, 'Taxation Reform', 1997.
[136] Costello (1998).