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Tax Settings to Drive Productivity

Purpose

Reshape the tax system to drive productivity and economic growth.

Challenge

Australia's tax settings have a big impact on the ability to get business investing, boost household prosperity and create a stronger economy.

There is a high degree of consensus among economists and policy experts on the extent to which different taxes harm the economy through their tax design. Stamp duties and company tax are the most inefficient taxes, with stamp duty costing the economy 72 cents for every \$1 of revenue it raises and company tax 50 cents in the dollar.⁷

Achieving the Prime Minister's goal of creating a stronger economy post-crisis necessitates a focus on Australia's tax settings. Conversely, harmful tax changes could have a disproportionate impact on economic recovery.

The Plan

4.1 Embark on a broad-based tax reform agenda designed to enhance productivity and increase living standards for Australians.

4.2 Boost economic welfare, economic activity and household wealth by **abolishing stamp duty and replacing this revenue by broadening the GST base**. Such a revenue-neutral change would boost consumption by \$6.0 to \$9.6 billion per year according to Deloitte Access Economics modelling.⁸ This reform is in line with the recommendations of the Henry Tax Review⁹ and recognises the reality that broad-based land taxes will not be sufficient to replace stamp duty revenue as has been demonstrated by the ACT's unsuccessful attempt to do so.¹⁰

4.3 **Retain existing negative gearing and capital gains tax arrangements** to underpin new construction and GDP. Construction activity and economic growth would have borne the brunt of the Opposition's 2019 election policy to significantly reshape these taxes according to Deloitte Access Economics, with construction falling by \$766 million and GDP \$1.5 billion worse off, with almost negligible housing affordability benefits.¹¹

4.4 **No new taxes and no increases in any existing taxes and charges for 12 months** – including no increases to business land taxes as a result of any stamp duty abolition.

4.5 Adopt **immediate tax improvements** to drive productivity and build economic confidence, including:

- Remove counter-productive foreign tax surcharges for commercial property and new developments that make it more expensive to create the housing and commercial properties the country needs
- Make the stimulus-based Investment Guarantee a permanent tax system feature
- Drive accelerated update of energy efficiency and distributed energy technologies in new and existing buildings through financial incentives across all three levels of government.¹²