

AUSTRALIAN INSTITUTE  
of COMPANY DIRECTORS

# Governance of the Nation

*A Blueprint for Growth*



The Australian Institute  
of Company Directors  
offers its policy prescription  
for the national agenda  
*Governance of the Nation:  
A Blueprint for Growth.*

## A long-term plan for **growth**



*After twenty-five years of uninterrupted economic growth Australia has a strong foundation on which to build a prosperous future. But just as boards adjust and update their strategy as circumstances change, so too must our national policy makers.*

It is time for important national conversations on the decisions that will maintain our country on a path of continued growth and prosperity.

It is important for the Australian Institute of Company Directors (AICD) to engage on issues of national importance. We are doing this now because of the lack of progress on substantial national reform which is a concern for us and our members.

It is time to engage on the long-term view – the essence of good governance. The Australian community wants a long-term vision.

Over the past five years, the AICD's bi-annual Director Sentiment Index survey has highlighted the issues that directors believe are urgent priorities for government. Our 37,500 members govern organisations that reflect a broad section of the Australian community, from the not-for-profit sector to private business and listed companies. This is not a narrow, exclusive or partisan view.

Our *Blueprint for Growth* sets out solutions that will provide a foundation for better economic and social outcomes for all Australians, and it can be achieved – our recommendations will deliver real and lasting benefits, if implemented over the next two years.

We encourage government, opposition, minor parties and other stakeholders to consider our recommendations as part of an open discourse that sets aside unduly partisan positions in favour of balanced, long-term outcomes.

**Elizabeth Proust & John Brogden**

Chairman and Managing Director & CEO  
Australian Institute of Company Directors

23 March 2016

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# Executive summary

*As the voice of excellence in governance, the Australian Institute of Company Directors brings a unique governance perspective – informed by the insights of our diverse membership – to the priorities facing Australia.*

The AICD's *Governance of the Nation: A Blueprint for Growth* seeks to set an agenda for our nation and its political leaders based on well-established principles of good governance:

- A focus on the longer-term perspective, avoiding short-termism in decision making;
- Creation of long-term value, for the nation and our community overall; and
- Strategy and vision to benefit all stakeholders.

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. The largest director institute in the world, our membership of more than 37,500 includes directors and senior leaders from the business, government and not-for-profit sectors.

## WHY NATIONAL REFORM?

Australia's current economic and policy settings, and the lack of progress on substantial national reform, are matters of serious concern. Without policies to grow the economy, wages and wealth of Australia and its people, we risk losing the economic leadership that has delivered 25 years of unbroken economic growth.

Australia's advantages are significant – a wealthy economy with high social cohesion, a well-educated population, a democratic system with rule of law, and geographically close to the fast-growing economies of Asia<sup>1</sup>. Over many decades, these advantages have delivered steadily increasing living standards and economic growth. However, as the chart below shows, Australia is experiencing a phase of declining living standards.

With exports of minerals and energy no longer delivering advantageous terms of trade and China's economic growth normalising, Australia's earnings from our key export markets have declined. Productivity growth has stagnated, compounded by an ageing population<sup>2</sup>.

Australia's performance on global innovation measures is inadequate – ranking below our regional neighbours New Zealand, Singapore, South Korea and Hong Kong, and behind the USA, Canada, the UK and Ireland<sup>3</sup>.

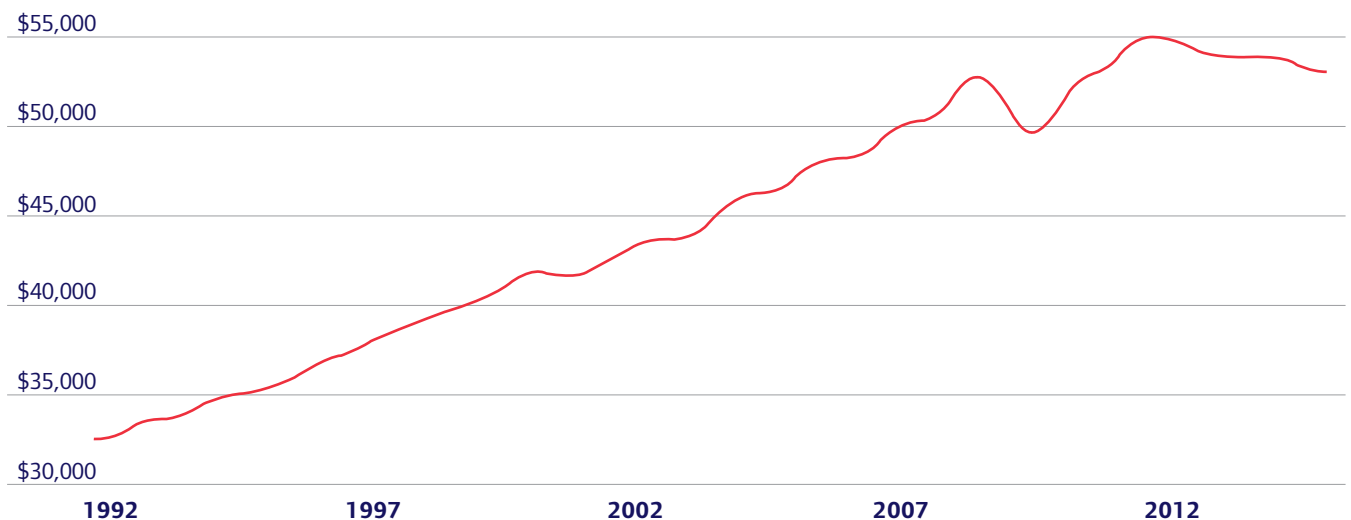
Without a real and sustainable boost to our productivity, Australia risks a period of stagnation that will erode our standard of living.

The AICD conducts a twice yearly survey of our members, the *Director Sentiment Index*<sup>4</sup>. Directors have identified the poor quality of public policy debate as a key concern and highlighted priorities for government attention in tax, productivity, infrastructure and regulation.

The real challenge of governance comes in times of challenge – and this is when strategies to deliver long-term growth are most important.

Our nation needs a greater sense of urgency in tackling these challenges.

**Chart 1: Real net disposable income per head (ABS)**



Source: Australian Bureau of Statistics. Trend data.

<sup>1</sup> [www.oecdbetterlifeindex.org](http://www.oecdbetterlifeindex.org)

<sup>2</sup> [www.pc.gov.au/research/ongoing/productivity-update/pc-productivity-update-2015#media-release](http://www.pc.gov.au/research/ongoing/productivity-update/pc-productivity-update-2015#media-release)

<sup>3</sup> [www.globalinnovationindex.org](http://www.globalinnovationindex.org)

<sup>4</sup> [www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index](http://www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index)

## BLUEPRINT FOR GROWTH

Drawing on member insights and consultations, the AICD has set out solutions for sustainable growth with options for immediate, meaningful action by government under six key areas.

The AICD's proposals aim to meet a timing and impact test – if implemented over the next **two years**, they would deliver substantial **productivity, growth** and **governance** benefit for the nation.

This list is not exhaustive. Rather, we limit our focus to areas where our *Director Sentiment Index* shows a consensus for action. The AICD recommends discrete, achievable reforms under each topic, capable of delivering growth and governance wins for the nation.

*Long-term decisions that build value and growth are at the heart of good governance.*

If adopted, the recommendations in the AICD's *Blueprint for Growth* will ensure an Australia that is more prosperous, more successful and more innovative than we are today.

We urge Australia's political decision-makers to embrace this opportunity for lasting gains.

### 1. Reforming national governance

Quality, long-term national decision-making is adversely impacted by short and variable federal parliamentary terms, an unrepresentative Senate and an ineffective Council of Australian Governments (COAG) process.

### 2. Fiscal sustainability

Fiscal sustainability is a vital national priority. Done well, tax reform can improve national prosperity and lift national revenues. The heavy lifting of fiscal repair, however, demands greater attention on spending and efficiency. We propose both spending and tax reform targets.

### 3. Innovation and entrepreneurialism

Directors understand that innovation is essential to long-term growth. Policy continuity, consistency in focus, and a change in the regulatory settings that drive risk-aversion will build momentum on the innovation agenda.

### 4. Partnership with not-for-profits

The NFP sector plays a critical and expanding role in the social infrastructure of the nation, and over two thirds of the AICD's membership contribute to NFP governance. The AICD is calling for certainty in funding and harmonised regulation to improve the governance environment for this important sector.

### 5. Human capital

Directors know that an engaged, flexible and productive workforce is essential to drive growth. To meet the demands of a globally competitive workplace, and the changing expectations of working Australians and the community, we call for a national focus on participation, skills investment and more flexible workplace regulation.

### 6. National infrastructure

Improved infrastructure investment will underpin a more efficient and productive economy. Directors have consistently ranked increased infrastructure investment as the main long-term priority for government action.

# Recommendations

## REFORMING NATIONAL GOVERNANCE

*Objective – National political and parliamentary systems that support long-term decision-making and restore public confidence in electoral and democratic structures.*

### Recommendations

- Fixed, four-year terms for the federal government, with four-year terms for the House of Representatives and eight-year terms for the Senate, introduced with a referendum in 2017.
- Reinvigorate COAG with a clear 15 year reform agenda and transparent reporting. The AICD encourages consideration of an independent chair and secretariat for COAG.
- Senate electoral reform as the first step in increasing public confidence in electoral systems.

## FISCAL SUSTAINABILITY

*Objective – Clear and fair measures to improve the nation's fiscal sustainability:*

- *Expenditure restraint and reform to reduce the structural deficit;*
- *On revenue, tax reform to deliver a fair, growth-focused and competitive system, to support economic growth.*

### Recommendations

- Fiscal restraint and reform to reduce overall government spending to below GFC levels, as a percentage of GDP, over the medium-term.
- Tax reform to drive growth and fairness. Reforms to superannuation and capital gains tax, a lift in the GST, cuts to personal and company tax rates and incentive payments to states and territories for state tax reform.



## INNOVATION AND ENTREPRENEURIALISM

*Objective – Measures to foster a culture of innovation across business and government, to combat risk aversion and position Australia for future growth.*

### Recommendations

- Bipartisan national plan to take Australia from ‘lag’ to ‘lead’ on global innovation indicators.
- Fast-track national insolvency reforms and consider broader ‘safe harbours’ to combat risk aversion.
- Expand the national focus on talent and skills, with a focus on STEM, to support workforce skills.

## PARTNERSHIP WITH NOT-FOR-PROFITS

*Objective – A more collaborative and sustainable relationship between the NFP sector and funders, creating an environment for stronger sector governance.*

### Recommendations

- Greater funding certainty, with a best practice of five-year cycles and 12 month notice periods.
- Greater regulatory certainty, with national harmonisation driven by COAG and the Australian Charities and Not-for-profits Commission (ACNC).
- Increase focus on governance in funding agreements

## HUMAN CAPITAL

*Objective – Lift productivity through improved workforce participation and increased workplace flexibility.*

### Recommendations

- A national strategy to reduce the gender gap in workforce participation by 25 per cent by 2025.
- Simplification of the national award system, improved governance for the Fair Work Commission, and reform of penalty rates (as recommended by the Productivity Commission).

## NATIONAL INFRASTRUCTURE

*Objective – Lift the level and targeting of national infrastructure investment to support the productivity and needs of the economy.*

### Recommendations

- COAG commitment to a 15 year national infrastructure plan, drawing on the work of Infrastructure Australia.
- Nationally consistent benchmarks for project governance, reporting and cost/benefit analysis.
- Continued prioritisation of asset recycling through privatisation of contestable public assets to fund new infrastructure investment.

# Reforming **national** governance

## THE CASE FOR REFORM

Public confidence in the quality of our national political discourse is at risk from the short-term focus of decision-making and policy settings.

Long-term policy making is increasingly difficult in an environment dominated by instant news cycles, complex federal and state interactions, parliamentary log-jams and frequent changes in political leaders.

This excessive short-termism is a significant public policy issue for the nation. It impacts public confidence in the system of government and the quality of decision-making<sup>5</sup>.

*Good governance demands a strategic focus on creating long-term value with the right systems to manage risk and return over the longer-term.*

No competent board – public, private or not-for-profit – would accept the standard of governance in their organisation that applies to our system of national government.

This is not a simple criticism of political parties or individuals, past or present. Rather, it reflects the need for structural changes to support long-term decision-making and lift public confidence in national democratic systems.

Australian directors operate according to laws and practice that change regularly to adapt to the needs of stakeholders and the community. In contrast, our governments operate in a political system that was designed more than a hundred years ago and has changed little since. The machinery of government needs to adapt to the expectations of modern Australia.

## Recommendations

The AICD is calling for specific reforms to improve the governance of the nation.

- Fixed, four-year terms for the federal House of Representatives, eight-year terms for the Senate, introduced by a referendum in 2017.
- Reinvigorate the Council of Australian Governments (COAG) with a 15 year reform agenda and greater transparency on progress.
- Senate voting reforms to ensure successful implementation.

<sup>5</sup> 85 per cent of the AICD's members rated the quality of public policy debate as "poor" in the AICD's April 2015 Director Sentiment Index survey.

## FIXED, FOUR-YEAR TERMS FOR FEDERAL PARLIAMENT

Australia's Federal Parliament is constrained in its policy and decision-making by the impact of the short and variable term of national government.

On average, Australia's last 15 federal governments have served terms of only two and a half years<sup>6</sup>. These variable and brief terms drive a short-term focus for our national government and work against policy decisions with longer term results.

A move to fixed four-year terms for the House of Representatives is overdue<sup>7</sup>, and would have broad electorate support<sup>8</sup>. Constitutional change would be required – a challenging task but worth the effort for improved national decision-making and longer-term focus.

Recognising the advantages of longer terms, the majority of Australian states and territories have moved to fixed election cycles over recent decades<sup>9</sup>. Fixed election cycles are common globally – even the home of the Westminster system, the United Kingdom, has moved to fixed five-year terms. Australia is in the minority with its short and variable national election cycle<sup>10</sup>.

*The AICD calls for urgent action with a referendum in 2017 to implement fixed four-year terms.*

A move to fixed four-year terms for the House of Representatives raises issues for the Senate, as election alignment requires a reduction (to four years) or extension (to eight years) of Senate terms. Noting the lessons of the failed 1988 referendum, bipartisan support is vital for this reform.

## COUNCIL OF AUSTRALIAN GOVERNMENTS (COAG)

Few of the challenges facing Australia can be fixed by one tier of government alone. An effective federal system relies on clear accountabilities and responsibilities between the different tiers of government, and coordinated planning and resourcing on national priorities.

The *Reform of the Federation White Paper*<sup>11</sup> is a welcome initiative, but progress has stalled. Meanwhile, COAG continues to operate with a short-term focus driven by issues of the day, and an agenda dominated by the immediate concerns of the Commonwealth. The AICD is calling for governance reforms to reinvigorate COAG as national body, through:

- A medium-term COAG reform agenda supported by a well-resourced and permanent secretariat;
- Full reporting of COAG priorities and performance against reform targets; and
- Further consideration of an independent chair and secretariat for COAG with a national reform mandate.

## SENATE ELECTORAL REFORM

The AICD strongly supports reform to Senate voting. A system that allows preference 'gaming' through group voting tickets erodes public confidence and invites cynicism. Australia has a long history of minor party balance of power in the Senate, and a strong and diverse Senate is critical to accountability. Importantly, the reforms will not guarantee any government control of the Senate. Ensuring that the Senate voting system delivers results more closely aligned with the will of voters will strengthen confidence in its role and representation.

<sup>6</sup> Analysis by AICD using data extracted from [www.australianpolitics.com](http://www.australianpolitics.com)

<sup>7</sup> The Royal Commission on the Constitution 1929-30-31 recommended that four year terms be adopted for the House.

<sup>8</sup> In 2013 Essential Research report found that 63 per cent of respondents favoured a move to fixed, four-year terms for the federal government, [www.essentialvision.com.au/documents/essential\\_report\\_130211.pdf](http://www.essentialvision.com.au/documents/essential_report_130211.pdf)

<sup>9</sup> All States and Territories have fixed four-year terms with the exception of Tasmania (four-year variable terms) and Queensland (referendum March 2016).

<sup>10</sup> Inter-Parliamentary Union, *Electoral Systems. A World-Wide Comparative Study*, Geneva (1993)

<sup>11</sup> [www.federation.dpvc.gov.au](http://www.federation.dpvc.gov.au)

# Fiscal sustainability

## THE CASE FOR REFORM

Every director understands the importance of sound financial management as a cornerstone principle of good governance.

With eight consecutive years of budget deficits, projected deficits until at least FY22, and government debt forecast to reach 18.5 per cent of GDP in 2017<sup>12</sup>, it is clear that the nation's finances need urgent and serious attention.

*The nation's fiscal sustainability is a vital medium-term priority. Two thirds of the AICD's members believe the government should aim for a return to surplus in a five-to-ten year period. Difficult decisions must be taken now if this target is to be met.*

While both major political parties promise a return to balanced budgets, these commitments have yet to translate into clear results. Australia will have experienced a decade of deficits by the end of the forward estimates, with growth government spending continuing to outpace revenue. Without reform, the fiscal gap will continue to widen, worsening the structural deficit<sup>13</sup>.

The AICD is calling for political leaders to take the decisions needed to ensure that Australia is able to afford its future aspirations. The community will support a clearly explained and demonstrably fair plan that seeks to tackle the problem of Australia's structural deficit.

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<sup>12</sup> Mid-Year Economic and Fiscal Outlook 2015-16 (15 December 2015) [www.budget.gov.au](http://www.budget.gov.au)

<sup>13</sup> Chapter 2, 2015 Intergenerational Report (5 March 2015) [www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report](http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report)

Balancing the budget over the economic and business cycle is important. Sustained deficits limit the flexibility of governments to respond to changes in the business cycle and increase the burden of debt payments. As the Grattan Institute has noted, deficits also “force future generations to pay for the spending of current generations”<sup>14</sup>.

*The nation’s fiscal sustainability is too complex a task to be defined as a binary choice between a ‘spending’ or ‘revenue’ problem.*

A range of strategies – most importantly, reforms to drive long-term productivity and economic growth, discussed across this Blueprint – are critical to securing a sustainable economic base for the nation.

Tax reform has an important place in this long-term vision – but its focus must be primarily to drive economic growth. An improved tax mix can create better incentives for success for Australians and boost economic growth. A tax reform package that seeks only to cover the deficit with extra tax revenue will not achieve these aims.

The heavy lifting of deficit reduction must prioritise spending reform. Improving efficiency and targeting of government expenditure requires a comprehensive medium-term plan, with clear targets and informed debate.

**This section of the Blueprint sets out priorities for fiscal sustainability in two areas:**

- A. Fiscal restraint, recommending a five-year strategy to control government expenditure and improve outcomes for taxpayer investment; and**
- B. Tax reform, recommending a change in the tax mix to boost economic growth.**

<sup>14</sup> John Daley and Danielle Wood Fiscal Challenges for Australia Grattan Institute Working paper (July 2015)

## A. FISCAL RESTRAINT AND EXPENDITURE REFORM

Australia's structural deficit represents a significant challenge to the long-term prosperity of the nation. The challenges of budget repair are significant:

- The normalisation of China's growth rate and low commodity prices will continue to impact Australia's export earnings base;
- The costly legacy of promises made in the 'boom years', including expensive middle class welfare, adding to recurrent costs;
- Significant new costs ahead in service delivery for an ageing population and important but costly initiatives, such as the National Disability Insurance Scheme and the projected boost to defence spending;
- State and territory governments face funding challenges for health and education; and
- Senate obstruction of savings measures.

The continued high level of government expenditure is a significant concern in the context of Australia's structural deficit. The table below shows Treasury figures for the national budget on a cash basis (surplus/deficit, revenue and expenses) as a proportion of GDP<sup>15</sup> (2015/16 on are projections).

**Chart 2: Surplus, Receipts and Expense as % GDP (Mid-Year Economic Forecast and Outlook, December 2015)**

Year	Surplus/Deficit (% GDP) cash basis	Revenue – cash receipts (% GDP)	Expenditure – cash payments (% GDP)
2007/08	1.7%	25.0%	23.1%
2008/09	-2.1%	23.3%	25.1%
2009/10	-4.2%	22.0%	26.0%
2010/11	-3.4%	21.4%	24.5%
2011/12	-2.9%	22.1%	24.9%
2012/13	-1.2%	23.0%	24.1%
2013/14	-3.1%	22.7%	25.6%
2014/15	-2.4%	23.5%	25.6%
2015/16*	-2.3%	23.9%	25.9%
2016/17*	-2.0%	24.1%	25.8%
2017/18*	-1.3%	24.3%	25.3%
2018/19*	-0.7%	24.8%	25.3%

\*Figures from 2015/16 onwards are Federal Treasury projections, not actuals.

<sup>15</sup> Mid-Year Economic Forecast and Outlook (MYEFO) 11 December 2015, Australian Government, Table D1  
[www.budget.gov.au/2015-16/content/myefo/html/16\\_appendix\\_d.htm](http://www.budget.gov.au/2015-16/content/myefo/html/16_appendix_d.htm)

The figures show that government expenditure significantly increased as a proportion of GDP during the global financial crisis – an emergency response to avert economic crisis. Since that time, however, no federal government has proved able to restore spending to more sustainable ‘pre-GFC’ levels. Growth in government spending continues to outstrip GDP growth, exacerbating the challenge of fiscal repair.

Controlling expenditure requires a cross-government focus on greater efficiency, both for the ‘business of government’ as well as program and service funding. COAG has an important role to play in addressing this challenge.

#### Recommendations

- Spending reform to return total government expense as a percentage of GDP to below 25 per cent by 2020.
- Five-year COAG efficiency agenda on major portfolio spending against target outcomes.

*Directors appreciate that challenging economic circumstances demand fiscal constraint, taking into account the impacts on all stakeholders. Rightly, they expect the same discipline from the national government. Spending reform, with a focus on improving the efficiency of major program funding areas, is vital to restore the nation’s fiscal sustainability.*

## B. TAX REFORM FOR GROWTH

The prosperity boost that tax reform can deliver for Australia is too important to ignore, no matter how hard the political debate.

*AICD analysis shows that tax reform can boost national GDP by almost \$20 billion – a large “prosperity dividend” for all – but meaningful reform must include changes to the GST.*

Both major parties have currently ruled GST reform out of the “tax debate”. This is short-sighted – without GST reform, options for changing the tax mix are significantly reduced. A more sustainable, growth-focused tax mix will benefit our nation over the long-term, and support the task of fiscal sustainability.

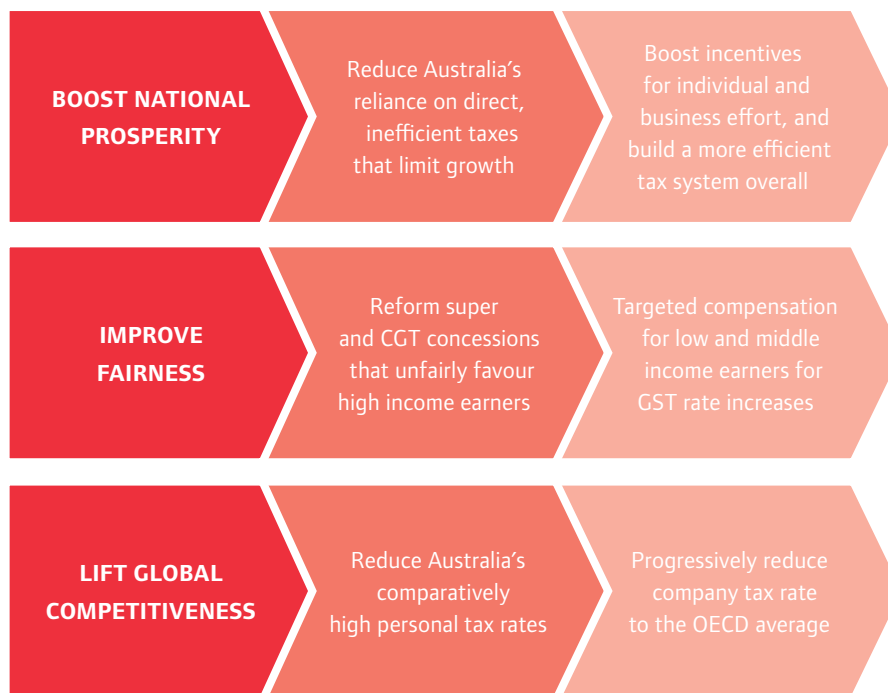
The AICD believes, however, that tax reform must prioritise economic growth. Spending and efficiency reforms are needed for the heavy lifting of budget repair.

The AICD’s members expect a fair and efficient tax system with a strong safety net that will encourage entrepreneurship. In our *Director Sentiment Index*<sup>16</sup> directors identified tax reform as an urgent national priority for government.

The AICD has set three objectives for tax reform:

- **Boosting national prosperity and growth;**
- **Improving fairness in the tax system overall; and**
- **Lifting Australia’s competitiveness as a global economy.**

The AICD has asked Deloitte Access Economics to consider the impact of changes to the tax mix against these three objectives, and is setting out a roadmap for reform:



Taken as a package – and including action by state governments as well as the federal government – the AICD’s reform scenario would deliver a “prosperity dividend” of almost \$20 billion to the nation. It will provide for a more efficient and stable long-term funding base for government, better incentives for entrepreneurialism by individuals and corporates, and deliver a fairer and simpler system. The gains to be made from such a model are too compelling to defer, despite the challenging politics of tax reform.

<sup>16</sup> Over 85 per cent of directors endorsed changes to lift the rate and broaden the base of the GST.



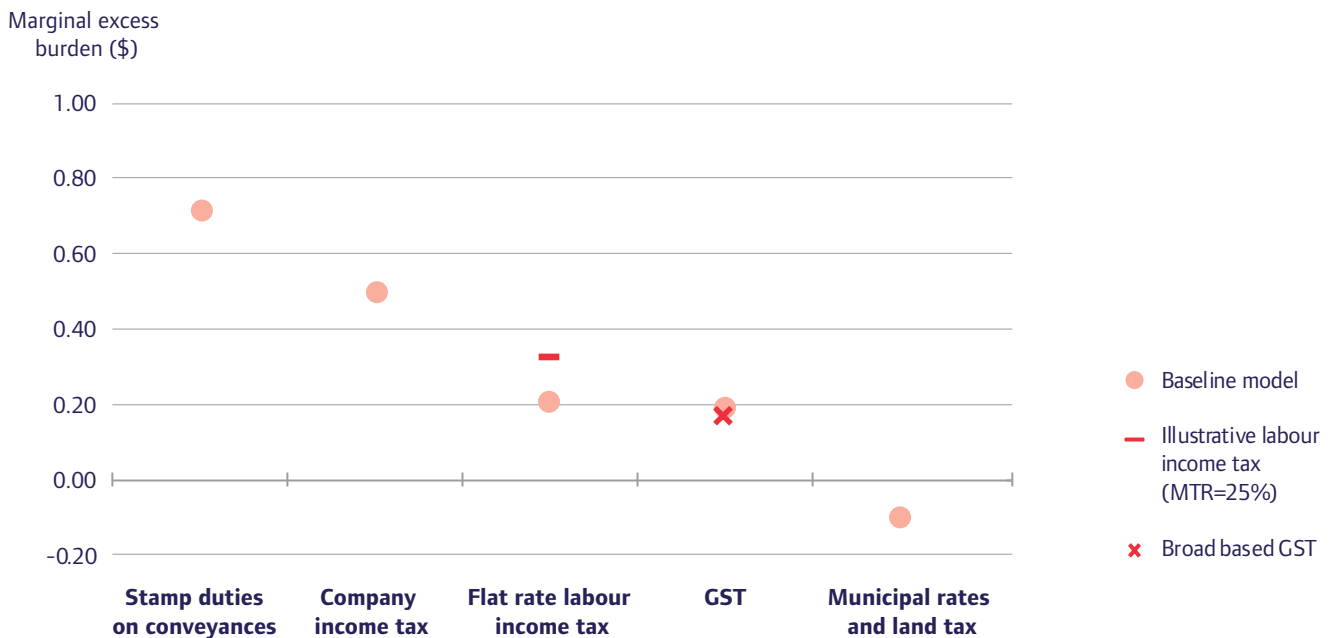
## TAX REFORM FOR PROSPERITY AND GROWTH

Australia’s tax system is too complex and too reliant on inefficient taxes. Globally, we are falling behind as a competitive tax economy in which to work, invest and save<sup>17</sup>.

Tax reform can deliver significant gains for the economy overall by reducing reliance on inefficient and direct taxes and supporting entrepreneurialism. Replacing inefficient taxes with more efficient alternatives delivers a significant boost to the economy and boosts national prosperity<sup>18</sup>. We think of this boost as a “prosperity dividend” and asked Deloitte Access Economics to estimate the potential gain to national income from different reform scenarios<sup>19</sup>.

The chart below, from Treasury’s March 2015 *Re:Think Tax Discussion Paper*, illustrates the impact of different taxes on the economy. The lower the marginal excess burden, the better a tax is for the economy. This analysis shows that some taxes – stamp duty, for example – actually shrink the economy by more than 70 cents for every dollar raised<sup>20</sup>.

**Chart 3: Federal Treasury Estimates of Efficiency of Federal and State Taxes**



Source: Federal Treasury, Chart 2.9 on page 25 of the *Re:Think Tax Discussion Paper*, March 2015

<sup>17</sup> Australia’s corporate tax rate (30%) exceeds the averages for the OECD (25%), Asia (23%), EU (22%) and Oceania region (27%), although this does not take into account the imputation system. Australia’s highest personal income tax rate (45%) is close to OECD averages (41.7%), and exceeds Asia (27%), EU (38%) and Oceania (35%). Source: [www.kpmg.com.au](http://www.kpmg.com.au) Tax Rates Online Comparison Calculator

<sup>18</sup> Deloitte Access Economics/Deloitte Mythbusting Tax Reform #1 2015

<sup>19</sup> The prosperity dividend estimates are approximate and indicative of the direction and magnitude of the selected tax reform package on the economy of Australia, measured by national income.

<sup>20</sup> This chart shows the impact to the economy of different elements of the taxation system only, not including spending.

Recent Treasury modelling has shown that lifting the GST rate with household compensation to fund personal and company tax cuts delivers limited system growth<sup>21</sup>. The AICD's scenario, however, assumes that the overall change to the tax mix includes incentives to reduce inefficient state taxes by tying new GST funding to the reform of taxes such as stamp duty. As the Henry Review highlighted, replacing inefficient taxes and simplifying the system delivers real wins<sup>22</sup>.

There are many options for reforming the tax system, some of which (such as negative gearing) are currently in the spotlight. The AICD is proposing a tax mix scenario that prioritises boosting prosperity, improving fairness and increasing competitiveness, with specific reforms suggested below. We support consideration of tax reform as a package, while noting that other scenarios may be proposed.

Lower compliance costs, reduced incentives for tax avoidance and a simpler tax return model are some of the benefits available. Most importantly, comprehensive tax reform can deliver a more productive Australia, for the benefit of the community as a whole.

## GST REFORM

A broad based consumption tax is one of the most efficient and stable revenue sources for governments<sup>23</sup>. The AICD's scenario proposes increasing the GST rate to 15 per cent with no change to the base.

At the current rate of 10 per cent Australia has one of the lowest global GST rates, well below the 19.2 per cent average for OECD countries<sup>24</sup>. Increasing the rate and/or broadening the base of the GST would raise significant revenue and simplify our currently complex range of exclusions.

However, GST reform cannot be simply a revenue grab. Reform that shifts some of our tax burden from direct taxes to the GST will support a more efficient economy, reduce complexity and increase the impetus for entrepreneurialism for individuals and companies. This is why the AICD's members overwhelmingly support GST reform, by increasing the rate, broadening the base, or a combination of the two<sup>25</sup>.

Compensation for low and middle income earners for the impact of a GST rate increase is an essential component of any reform option. Analysis undertaken by Deloitte Access Economics shows that it is possible to design a compensation package that will compensate low and middle income earners through a mix of tax cuts and transfer payments<sup>26</sup>.

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<sup>21</sup> [www.sjm.ministers.treasury.gov.au/files/2016/02/2016-005-Treasury-modelling-tax-mix-switch.pdf](http://www.sjm.ministers.treasury.gov.au/files/2016/02/2016-005-Treasury-modelling-tax-mix-switch.pdf)

<sup>22</sup> Australia's Future Tax System Review Final Report (Henry Review), Chapter 1 (May 2010)

<sup>23</sup> Australia's Future Tax System Review Final Report (Henry Review) (May 2010)

<sup>24</sup> OECD table 2.1 Vat/ GST rates as at 1 January 2015, [www.oecd.org/tax](http://www.oecd.org/tax)

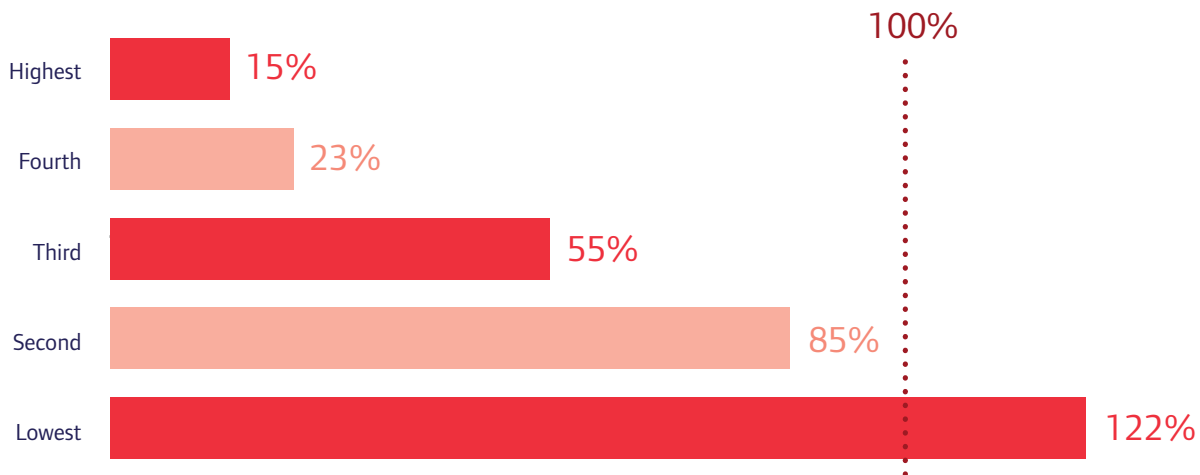
<sup>25</sup> November 2015 AICD Director Sentiment Index, Changes to the GST system

<sup>26</sup> Deloitte Access Economics' Scenario 1 Mythbusters No 1

GST compensation will increase transfer payments with an ongoing impact on expenditure, noting that more Australians are outside the tax system than at the time of its introduction. Improved targeting and means-testing of existing welfare distributions should be prioritised as part of spending reform.

The AICD's scenario of a lift in the GST rate to 15 per cent assumes compensation that would improve the relative position for these households, as shown in Chart 4 below:

**Chart 4: Proposed GST compensation, 100% = full compensation, quintiles are household incomes**



## CREATING INCENTIVES FOR ENTREPRENEURIALISM

To deliver a shift from less efficient direct taxes and lift incentives for entrepreneurialism, the AICD prioritises cuts in income tax. The AICD also proposes removing work-related deductions and simplifying (over time, removing) the tax return process for many PAYG taxpayers, delivering savings of \$20 billion over four years channelled into personal income tax cuts<sup>27</sup>.

While personal income tax is prioritised, we recognise that reducing company tax is important. A stepped reduction in corporate tax to 26 per cent over four years is proposed. Company tax is an inefficient tax that harms investment and innovation. At 30 per cent, Australia's corporate tax rate is higher than the average for the OECD (25 per cent) and regional averages for Oceania (27 per cent), Asia (23 per cent) and the EU (22 per cent)<sup>28</sup>. As the Henry Tax Review highlighted, reducing the company tax rate would increase Australia's attractiveness as place to invest, boost innovation and entrepreneurial activity, and contribute to a lift in national incomes<sup>29</sup>.

<sup>27</sup> Australia's highest marginal income tax rate of 49% (45% + Medicare Levy + Deficit Repair Levy) is almost 8% above the OECD average.

<sup>28</sup> [www.kpmg.com.au](http://www.kpmg.com.au) Tax Rates Online Comparison Calculator

<sup>29</sup> Australia's Future Tax System Review Final Report (Henry Review), Chapter 5 (May 2010)

### SUPERANNUATION TAX CONCESSIONS

Today, more than half of the tax breaks on superannuation contributions go to the highest earning 20 per cent of households. The system can be fairer for all Australians. We propose to replace the existing 15 per cent flat tax on superannuation contributions with the Deloitte Access Economics proposal of a 15 per cent “tax break” on contributions. This change would result in a more equitable system that benefits all contributors to superannuation to the same degree. Importantly, the AICD’s proposal assumes that personal income tax cuts of 5 per cent have been applied across marginal income tax rates

*Tax reform should be considered as a package  
– rather than a focus on individual taxes in isolation.*

### CAPITAL GAINS TAX DISCOUNT

A discount for the taxation of capital gains is an important element of our taxation system, to encourage savings and accommodate the longer term nature of investments. The current discount on capital gains tax of 50 per cent, however, disproportionately benefits high income earners, creates limited incentives for investment by lower income households, and encourages shorter term investment gain realization. The AICD recommends a reduction in the CGT discount to 40 per cent.

### REFORMING INEFFICIENT STATE TAXES

The AICD’s scenario proposes that 10 per cent of all new revenue raised through an increase in the GST rate would be allocated to states and territories. This funding would be subject to progress on reforms to state and territory taxes to remove or replace inefficient taxes.

Over four years the AICD’s scenario would provide an additional \$11.6 billion in new funding to states and territories. We assume that states replace stamp duty with land taxes (as reform of inefficient taxes), with no net change in state tax revenue. The inclusion of state tax reform incentives drives the prosperity dividend of the reform package – but is only possible with the benefit of increased revenue through a GST rate increase.

## Recommendations

The high level estimates of the impact of the AICD's tax reform proposals are summarised below (full details, with assumptions and alternative scenarios, are included in Appendix A.)

**Chart 5: AICD Tax Reform Scenario**

Reform Proposal	Projected budget impact (over 4 years)	
	Revenue	Cost
<b>GST</b>		
Increase GST rate to 15% (current base)	\$152 billion	
GST compensation (tax cuts, targeting low and middle income earners)		\$20.4 billion
GST compensation (transfer and pension payments, targeting low and middle income earners)		\$15.8 billion
<b>Personal income tax</b>		
5% cut in personal income tax rates (further topping up the GST tax cut compensation)		\$132 billion
Remove general work related deductions (savings to support reductions in personal tax rates)	\$19.7 billion	
<b>Superannuation tax concessions</b>		
Replace existing flat 15% rate with a 15% discount on personal income tax rates	\$27 billion	
<b>Capital Gains Tax discount</b>		
Reduce CGT discount from 50% to 40%	\$9.1 billion	
<b>Company Tax Rate</b>		
Reduce company tax rates in stages, to 28% FY17, 27% FY18, 26% FY19, 26% FY20		\$24 billion
<b>State and Territory Incentive Payments</b>		
Dedicate 10% of net GST revenue increase to states and territories, tied to progress on reform of inefficient state taxes		\$11.6 billion
Net Commonwealth Budget position	\$4 billion	
<b>Estimated Prosperity Dividend (annual)</b>	<b>\$18.3 billion</b>	

# Innovation and entrepreneurialism

## THE CASE FOR REFORM

A culture of innovation and entrepreneurialism is critical for Australia to prosper and grow.

The OECD estimates that up to half of all GDP growth in its member countries can be attributed to innovation<sup>30</sup>.

For Australia, dealing with stagnating productivity growth and an economy in transition from the latest resources boom, innovation-led growth is essential to our future prosperity.

*Directors understand the role that innovation plays in driving Australia's growth. In the AICD's November 2015 Director Sentiment Index survey, our members included a national innovation and industry strategy as a leading priority for the transitioning economy<sup>31</sup>.*

Embracing and embedding systems of innovation across the economy requires a national focus, policy consistency and a bipartisan agreement on the priority actions and reforms.

The National Innovation and Science Agenda (NISA), launched by the Turnbull Government in December 2015, makes a strong start with initiatives targeting capital and culture, collaboration, talent and skills and government as exemplar<sup>32</sup>. The Opposition has also released its plans to invest in and boost national innovation as a priority<sup>33</sup>.

## Recommendations

The AICD has four reform recommendations to drive progress on this agenda.

- Implement a bipartisan strategy to take Australia from “lag” to “lead” on global innovation indicators, over a four-year period.
- Expand the national focus on talent and skills, including STEM skills and vocational education and training.
- Provide workable, fair protections in the corporations law for directors to make reasonable business decisions, to reduce undue risk aversion in current settings.
- Fast-track insolvency reforms announced in December 2015 to drive cultural change.

<sup>30</sup> OECD Innovation Strategy 2015: An Agenda for Action, [www.oecd.org](http://www.oecd.org), page 4

<sup>31</sup> AICD Director Sentiment Index November 2015: Main priorities for Australia's transitioning economy: taxation reform; infrastructure investment; national innovation and industry policy, [www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index](http://www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index)

<sup>32</sup> National Science and Innovation Agenda December 2015, [www.innovation.gov.au](http://www.innovation.gov.au)

<sup>33</sup> [www.alp.org.au/poweringinnovation](http://www.alp.org.au/poweringinnovation)

## POLICY CONSISTENCY AND GLOBAL BENCHMARKS

Australia ranks 17th in the 2015 Global Innovation Index<sup>34</sup>, below regional neighbours New Zealand, Singapore, South Korea and Hong Kong, and behind the USA, Canada, the UK and Ireland. Our innovation efficiency ratio lags considerably, ranking at 72nd – a clear sign that we are not fulfilling our nation’s innovation potential. The OECD places Australia near the bottom of global performance on industry and higher education collaboration<sup>35</sup>.

Policy consistency is critical to boosting Australia’s innovation performance. The AICD is calling for bipartisan commitment to a national plan that would lift Australia’s relative performance in global rankings of innovation.

## FOCUS ON SKILLS AND EDUCATION

The launch of the National STEM School Education Strategy<sup>36</sup> in December 2015 is a positive step towards a national focus on STEM school education. The AICD recommends that the recommendations of the Chief Scientist’s *Science, Technology, Engineering and Mathematics: Australia’s Future* report (2014) be progressed as a COAG priority, linking partnerships with the business community and vocational education reform with school education initiatives. Vocational education reform and investment is also vital to ensure that Australia has the skills mix needed for the transitioning economy.

## FOSTERING A CULTURE OF INNOVATION

Australia’s corporate culture is governed by a complex regulatory environment that too often forces directors to focus on excessive caution<sup>37</sup>. This helps create a situation in which boards are unwilling to take the well-judged risks that are essential to entrepreneurialism.

The insolvency reforms in NISA are an important first step. Our current laws hold directors personally liable for the risk of insolvent trading with very limited defences, leading boards to “put businesses to the sword even where there may be prospects for future prosperity<sup>38</sup>”. A safe harbour will help save more of the business that can be saved along with the jobs and value they create<sup>39</sup>.

The impact of this reform should not be underestimated – it has the potential to drive far-reaching changes in business culture. We call for it to be fast-tracked as a national priority.

Many other areas of law also create liability risks that force an excessive focus on compliance and caution. Our research proves this point, with over 75 per cent of directors reporting a risk-averse culture on boards. More than 85 per cent of directors report that the risk of personal liability has caused them to take an overly cautious approach in decision making<sup>40</sup>.

The AICD has proposed the adoption of an “honest and reasonable director defence” to reduce risk aversion with strong penalties for deliberate or reckless breaches of the law<sup>41</sup>. Our proposal would provide a legal defence for directors who face claims that they have breached their responsibilities, if they are able to prove that they have conducted themselves honestly, for a proper purpose and with the degree of care and diligence reasonable in the circumstances. Other options include extending application of the business judgement rule<sup>42</sup>. We encourage government to engage on these options for reform in a full consultation process involving all stakeholders.

<sup>34</sup> [www.globalinnovationindex.org](http://www.globalinnovationindex.org)

<sup>35</sup> National Science and Innovation Agenda December 2015 [www.innovation.gov.au](http://www.innovation.gov.au)

<sup>36</sup> [www.educationcouncil.com.au](http://www.educationcouncil.com.au)

<sup>37</sup> AICD, *Curbing Excessive Short Termism – A Guide for Boards of Public Companies* (2013) [www.companydirectors.com.au](http://www.companydirectors.com.au)

<sup>38</sup> Jason Harris, “Director Liability for insolvent trading: Is the cure worse than the disease?” (2009) 23 *Australian Journal of Corporate Law* 266, 286.

<sup>39</sup> The reforms will introduce a safe harbour for directors from personal liability for insolvent trading if they appoint a restructure advisor to develop a turnaround plan for the company, to address the concerns raised about inadvertent breaches of insolvent trading laws, see [www.innovation.gov.au](http://www.innovation.gov.au)

<sup>40</sup> AICD, *Director Sentiment Index* November 2015

<sup>41</sup> AICD, *Honest and Reasonable Director Defence* (August 2014), available at [www.companydirectors.com.au/director-resource-centre/policy-on-director-issues/policy-papers/2014/the-honest-and-reasonable-director-defence](http://www.companydirectors.com.au/director-resource-centre/policy-on-director-issues/policy-papers/2014/the-honest-and-reasonable-director-defence)

<sup>42</sup> As proposed by Dr Bob Austin, refer Lysarne Pelling, ‘A Business Judgement Rule to stimulate responsible risk taking and economic growth’, *Governance Directions* (July 2015), [www.governanceinstitute.com.au](http://www.governanceinstitute.com.au)

# NFP sector: a **partnership** approach

## THE CASE FOR REFORM

The not-for-profit (NFP) sector is large and diverse, and plays an important and expanding role in the social infrastructure of our nation. Together, NFPs employ over one million Australians and charities alone have a combined annual income in excess of \$100 billion.

NFPs are subject to fractured and complex regulatory and funding arrangements.

NFP organisations navigate a changing operating environment while managing the expectations of stakeholders from government, regulators and the community.

This is a challenging environment for NFP boards. A focus on longer-term strategy and decision-making is difficult while dealing with funding uncertainty and regulatory change.

Governance in the NFP sector continues to evolve and mature. Record numbers of NFP directors and executives are attending the AICD's courses and events, demonstrating the sector's commitment to governance practice. As the challenges the sector faces become more complex, capability in governance must continue to improve.

In the AICD's *2015 NFP Governance and Performance Study*, directors from across the NFP sector called for a more collaborative and mature relationship with government. This is not a conversation about funding, but a desire to work in partnership.

The AICD is calling for reforms that will strengthen and improve the landscape for NFP organisations and support a high standard of governance, outcomes and efficiency.

*The majority of our members are involved in the governance of NFPs, making the sector's regulatory and governance environment an important focus for the AICD.*

### Recommendations

- Improve funding certainty with a best practice model of five-year cycles, 12 month notice periods, freedom of voice in public debate, and investment in internal capability.
- Drive national harmonisation of reporting, fundraising and registration for NFPs as a COAG priority, supported by the 'report once, use often' ACNC model.



## CONFIRMING THE ROLE OF THE AUSTRALIAN CHARITIES AND NOT-FOR-PROFIT COMMISSION (ACNC)

A stable and certain national regulatory system is essential for national harmonisation. The AICD welcomes the government's withdrawal of the ACNC Repeal Bill and the commitment to support the role of the ACNC as the national sector regulator.

## IMPROVE THE NFP FUNDING ENVIRONMENT

Financial sustainability continues to be the number one concern for NFP directors, consistently highlighted by the AICD's annual *NFP Governance and Performance Study*. Short-term and fluctuating funding cycles work against long-term planning and good governance.

The AICD is concerned about the risks that NFP directors incur as funding arrangements are changed, withdrawn or delayed, exposing entities to the potential for insolvent trading. We are calling for the adoption of a best practice model for government funding agreements, implemented on an "if not, why not" basis, to establish:

- Five-year cycles for funding agreements, with six-months' notice of termination (where appropriate and feasible);
- Outcomes focused reporting, with a focus on "report once, use often" through the ACNC;
- Freedom of voice in public debate for government funded NFPs and their boards; and
- Investment in internal governance and capacity building as part of all funding agreements.

## GREATER REGULATORY CERTAINTY AND HARMONISATION

NFPs are subject to a fractured and complex regulatory environment. To foster an innovative and responsive sector, NFPs need a regime that is flexible, fit for purpose and geared towards improving productivity and outcomes-driven results.

The AICD is calling for a national reform agenda for NFP regulation, including:

- Harmonisation of the definition of 'charity' across all jurisdictions;
- National fundraising law reform, as part of COAG's national reform agenda;
- Adoption of the "report once, use often" model across federal agencies within a year;
- Greater use of and access to aggregate government data to improve outcomes measures and enhance benchmarking of effectiveness.

# Human capital: workplace participation and flexibility

## THE CASE FOR REFORM

An agile and nimble economy requires an agile and nimble workforce.

*Directors understand that Australia's true competitive advantage lies in its people. An engaged, skilled and flexible workforce is critical to sustainable economic growth.*

Rapid changes impacting the workplace – such as technology-driven changes to the nature of work and evolving expectations about employment – are key strategic concerns for the boards of all Australian businesses, large and small.

The same strategic focus is needed by our governments if Australia is to make the most of our smart, ambitious people and embrace the opportunity for growth.

The AICD has identified three areas for national reform focus, drawing on member input:

- Workplace system reform, to enable flexible, agile workplace arrangements built on sensible and sound safety nets for wages and conditions;
- Improved female workforce participation, to make the most of the nation's talent, support gender equity and deliver substantial productivity gains; and
- A skills and education framework that responds to changes in labour force demand.

These are complex policy areas where much public and private sector work is already underway. The AICD's proposals apply a governance lens to these challenges and promote reforms that draw on the insights and concerns of directors.

## Recommendations

- Workplace system reform to simplify the award system; improve the governance of the Fair Work Commission, and reform Sunday penalty rates (to move to Saturday rates for select retail industries, as per the Productivity Commission's recommendation<sup>43</sup>).
- Launch a funded national action plan to meet the G20 commitment to reduce the gap in the workforce participation rate of males and females by 25 per cent by 2025.

<sup>43</sup> [www.pc.gov.au/inquiries/completed/workplace-relations/report](http://www.pc.gov.au/inquiries/completed/workplace-relations/report)

## WORKPLACE SYSTEM REFORM

The AICD's members – across listed, private, public and NFP organisations – support action to modernise Australia's workplace practices.

Our most recent Director Sentiment Index ranked modernising workplace practices as a priority for Prime Minister Turnbull on taking office<sup>44</sup>. Three quarters of the AICD's broader membership support reform of Australia's industrial relations system, with most recommending this be implemented with a clear electoral mandate. Flexibility, penalty rate reform and modernising the award system were the top priorities for directors<sup>45</sup>.

As the Productivity Commission has noted, Australia's system of workplace relations involves a complex array of laws, regulations and institutions, with "unquestionable inefficiencies, remnant unfairness, some mischief and absurd anachronisms"<sup>46</sup>. This system won't meet the challenges of the changing workplace and workforce. The AICD is calling for government to prioritise reform of the industrial relations system to:

- Simplify the award system by reducing the number and scope of individual awards, to provide an effective and consistent safety net to the workplace regime;
- Standardise weekend penalty rates to Saturday rates across targeted retail industries, as per the Productivity Commission's November 2015 proposals; and
- Reform the appointment process for Fair Work Australia to include short-listing by an independent expert group and application of skills matrix assessments.

## WORKFORCE PARTICIPATION

Improving female participation remains a challenge for Australia – but one that can deliver substantial productivity and equity results. As the Grattan Institute has noted, lifting our female participation rate to equal Canada's could deliver a \$25 billion annual boost to GDP<sup>47</sup>.

The AICD supports Australia's commitment to the G20 target of reducing the gap in male and female participation rates by 25 per cent by 2025. But this ambitious target won't be reached on current policy settings, as Treasury's 2015 Intergenerational Report showed.

A national action plan is needed to prioritise reforms that will achieve the participation target.

One principle of the OECD target is that the representation of women in decision-making positions should be increased by voluntary targets to enhance gender diversity on boards and in senior management of listed companies<sup>48</sup>.

To this end, the AICD remains committed to increasing the representation of women in governance roles, with a target of a minimum of 30 per cent female directors on S&P/ASX200 companies by the end of 2018.

<sup>44</sup> AICD, Director Sentiment Index, November 2015: Priorities for Prime Minister Turnbull over first 3-6 months

<sup>45</sup> AICD, Director Sentiment Index, November 2015: Priorities for Industrial Relations Reform: [www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index](http://www.companydirectors.com.au/director-resource-centre/research-reports/director-sentiment-index)

<sup>46</sup> Productivity Commission "Australia's workplace relations framework: repair not replacement" October 2015: [www.pc.gov.au/news-media/pc-news/workplace-relations](http://www.pc.gov.au/news-media/pc-news/workplace-relations)

<sup>47</sup> How can Australian governments change the game for economic growth? 2012: [www.grattan.edu.au/wp-content/uploads/2014/04/game\\_changers\\_the\\_conversation\\_op-ed.pdf](http://www.grattan.edu.au/wp-content/uploads/2014/04/game_changers_the_conversation_op-ed.pdf)

<sup>48</sup> "Monitoring progress in reducing the gender gap in labour force participation", OECD G20 Report (May 2015), [www.oecd.org](http://www.oecd.org)

# National infrastructure

## THE CASE FOR REFORM

Effective and efficient infrastructure is essential to support our nation's productivity and growth.

*Directors have consistently ranked infrastructure as the most important long-term issue for government over the life of the AICD's Director Sentiment Index. 90 per cent of the AICD's members consider the current level of national infrastructure investment to be too low.*

As the Australian Infrastructure Audit (2015) highlights, without action on infrastructure, increasing congestion and bottlenecks will test Australia's productivity and quality of life<sup>49</sup>. Infrastructure Australia forecasts that by 2031:

- Road travel times in capital cities are expected to increase by at least 20 per cent, more than doubling transit times on more congested routes;
- Demand for public transport in cities is expected to double;
- The national freight network will have exceeded capacity; and
- Regional roads, town water and rail infrastructure will have deteriorated to service standards that the Australian community will be unlikely to accept.

The Productivity Commission has noted that significant questions continue to be raised about the efficiency, governance and cost-benefit methodologies applying to infrastructure planning and investment<sup>50</sup>. The AICD encourages Australian governments to develop consistent and strong governance standards for nationally significant infrastructure projects, increase the transparency of forecasts of the costs and benefits of infrastructure investments, and develop nationally consistent measures of infrastructure performance to aid benchmarking and review.

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<sup>49</sup> Australian Infrastructure Audit Report 2015 Infrastructure Australia [www.infrastructureaustralia.gov.au](http://www.infrastructureaustralia.gov.au)

<sup>50</sup> PC Productivity Update (July 2015) Productivity Commission [www.pc.gov.au](http://www.pc.gov.au)

The AICD urges strong COAG engagement with the findings and recommendations of Infrastructure Australia's *Australian Infrastructure Plan* released in February 2016. Greater coordination between governments is needed to deliver a strong pipeline of productive infrastructure that aligns with the nation's longer-term capacity and growth needs.

Australia's infrastructure needs cannot be funded by public investment alone. Expanding private sector engagement in infrastructure delivery and operation is critical if we are to avoid the forecast shortfall in capacity and service levels. The AICD endorses the *Australian Infrastructure Plan's* call for greater use of well-regulated market-based solutions and increased engagement with the private sector to fund and deliver productive infrastructure.

The AICD supports expansion of asset recycling as a means of maximising infrastructure use and investment. We support the strategic use of incentives tied to productive infrastructure investment (as per the Asset Recycling Initiative). The AICD calls on state and territory governments to significantly increase asset recycling, supported over time by nationally consistent standards on governance, benchmarking and reporting metrics.

### **Recommendations**

- COAG commitment to a 15 year infrastructure plan targeting strategic national needs.
- Nationally consistent governance, cost/benefit and performance reporting standards.
- Continued prioritisation of asset recycling through privatisation of contestable public assets to fund new infrastructure investment.

# Appendix A:

## AICD tax reform scenario

### 1. AICD TAX REFORM OBJECTIVES

The AICD has set three key objectives for tax reform:

- Boosting national prosperity and growth;
- Improving fairness in the tax system overall; and
- Lifting Australia's competitiveness as a global economy.

While tax reform can play a part, tax increases are not the answer to fixing the budget deficit.

Government efficiency and spending reforms should do the heavy lifting of fiscal repair.

### 2. ESTIMATING THE FINANCIAL IMPACT OF REFORM OPTIONS

The AICD has asked Deloitte Access Economics to provide estimates of the fiscal and economic impacts of proposed reform scenarios. The interactive ready reckoner developed for the AICD by Deloitte Access Economics estimates the impact on the federal budget of changes to the tax mix, based on publicly available material (referenced at the conclusion of this Appendix).

This is an innovative tool that allows reform options to be tested to help inform the AICD's tax advocacy. However:

- It does not allow for interactions between different reforms, and as a result is likely to underestimate both costs and benefits of reforms;
- It adopts an "average state" for estimates of state tax reform impact, and does not take account of specific jurisdictional exemptions and tax structures, as an indicator only;
- The estimated "prosperity dividends" draws on 'rule of thumb' analysis utilising relevant Treasury estimates and not full computable general equilibrium (CGE) modelling; and
- The tool produces estimates and approximations that should be relied upon as broadly illustrative only, noting that CGE modelling has not been conducted.

In addition to budget impacts, the ready reckoner estimates the 'prosperity dividend' that a package of reforms could deliver. These estimates are approximate and indicative of the direction and magnitude of the selected tax reform options on the economic prosperity of Australia, as measured by national incomes. They are based on 'rule of thumb' analysis drawn from Treasury's *Re:Think Tax Discussion Paper 2015*. Neither the AICD nor Deloitte Access Economics has conducted detailed computable general equilibrium modelling of the AICD's preferred tax options.

### 3. AICD TAX REFORM SCENARIOS

The AICD has considered different scenarios against the objectives set out for comprehensive tax reform. While the figures included on the impact of reforms are estimates only, they provide a strong indication of the benefits from different reform options.

Key assumptions applied in assessing impact include:

- Increased revenue from the GST flows to the federal government, for application across compensation, tax cuts and reforms, and a funding boost to states and territories;
- A substantial compensation package targeted at low and middle-income earners, via tax (changes to the low income tax offset) and welfare benefits;
- 10 per cent of net positive GST revenue is allocated to states and territories as a funding boost, with payment contingent upon progress on reforming state taxes;
- Our scenarios assume that the inefficient tax targeted for reform by states and territories is stamp duty, replaced with land tax with a revenue neutral outcome. This is an example only – states and territories may choose to target other inefficient state taxes; and
- Our estimates are based on an ‘average state’ estimate, and assume a constant rate of land tax across all jurisdictions.

#### AICD Tax Reform Scenario

- Increase the GST rate to 15 per cent on current base, with targeted compensation;
- Remove workplace deductions and channel savings to personal income tax cuts;
- Personal income tax cuts of 5 per cent (across all marginal rates);
- Staged reduction in the corporate tax rate over four years (28 per cent to 26 per cent);
- Replace flat 15 per cent tax on super concessions with a 15 per cent discount on marginal tax rates;
- Reduce the Capital Gains Tax (CGT) discount from 50 per cent to 40 per cent;
- Provide a funding boost to states and territories (\$11.6 billion over four years)
- For the purposes of our model, we assume state tax reform involves the replacement of stamp duty on conveyancing with land tax (noting other options could be pursued).

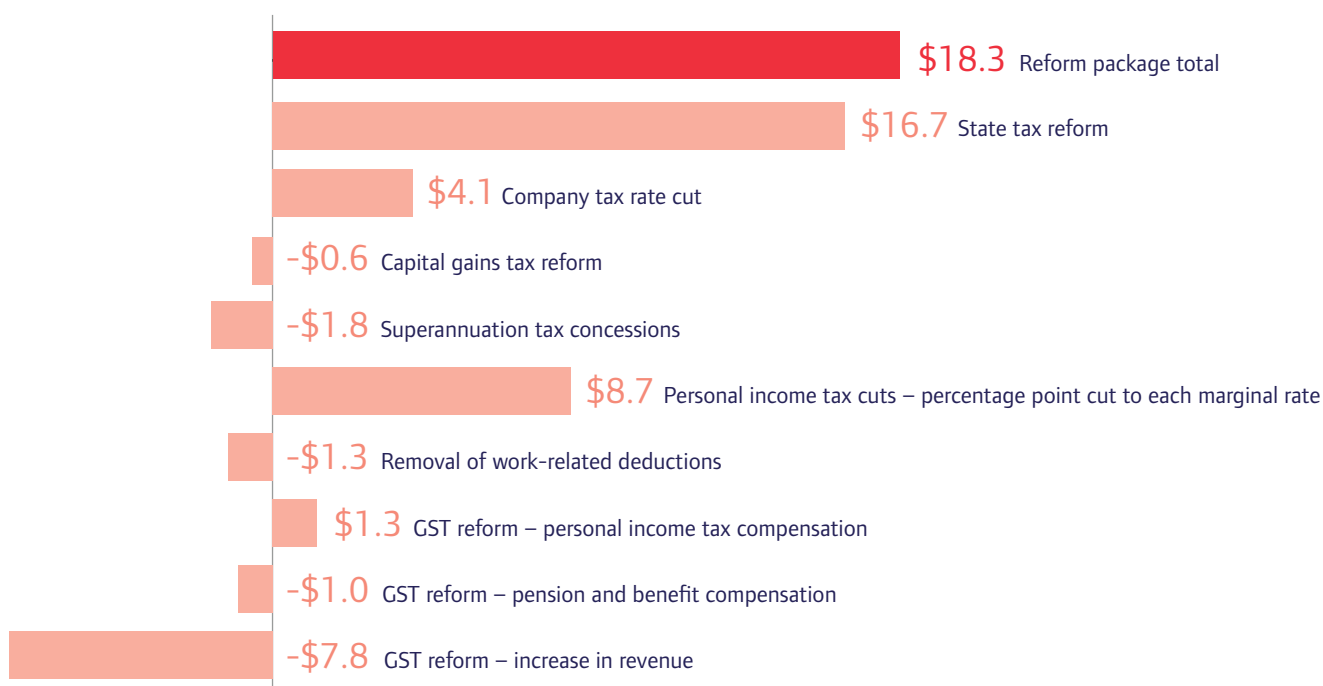
The table below summarises the estimated budget impacts of the proposals.

**Chart 6: Federal government budget impact (\$ billion)**

	2016-17	2017-18	2018-19	2019-20	Four year total
GST reform – increase in revenue	\$34.9	\$37.0	\$38.9	\$41.1	\$151.9
GST reform – pension and benefit compensation	-\$3.9	-\$3.9	-\$4.0	-\$4.0	-\$15.8
GST reform – personal income tax compensation	-\$5.1	-\$5.1	-\$5.1	-\$5.1	-\$20.4
Eliminate work-related deductions	\$4.6	\$4.8	\$5.0	\$5.3	\$19.7
Personal income tax cuts – percentage point cut to each marginal rate	-\$31.2	-\$32.2	-\$33.5	-\$34.9	-\$131.9
Superannuation tax concessions	\$6.3	\$6.6	\$6.9	\$7.2	\$27.0
Capital gains tax reform	\$2.3	\$2.3	\$2.3	\$2.3	\$9.1
Company tax rate cut	-\$3.1	-\$5.2	-\$7.5	-\$8.2	-\$24.0
State tax reform	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reform package total	\$4.7	\$4.2	\$3.0	\$3.7	\$15.6
Commonwealth revenue gain	\$2.1	\$1.4	\$0.0	\$0.5	\$4.0
State revenue gain	\$2.6	\$2.8	\$3.0	\$3.2	\$11.6

The estimated prosperity dividend of the reforms is \$18.3 billion, as below:

**Chart 7: Estimated 'prosperity dividend' (\$ billion)**





Alternative scenarios considered include options to lift the rate and broaden the base of the GST. The outcomes of these scenarios on the federal budget (over four years) are noted below.

**Chart 8: Alternative tax mix scenarios**

Scenario B		Scenario C		
GST rate/base	Increase rate, broaden base (excluding financial services)	+\$233.7bn	Increase rate, broaden base (including financial services)	+\$257.1bn
	Targeted GST compensation	-\$70.2bn	Targeted compensation	-\$77.3bn
Income tax	Reduce personal income tax rates by 6.5%	-\$171.4bn	Reduce personal income tax rates by 7%	-\$184.6bn
	Eliminate work related deductions	+\$19.7bn	Eliminate work related deductions	+\$19.7bn
Company tax	Staged reduction to 25%	-\$26bn	Faster reduction to 25%	-\$29.3bn
Superannuation	Adopt 15% discount	+\$27bn	Adopt 15% discount	+\$27bn
CGT	Reduce CGT discount to 40%	+\$9.1bn	Reduce CGT discount to 40%	+\$9.1bn
States/Territories	Funding boost	-\$16.3bn	Funding boost	-\$18bn
<b>Net federal budget impact</b>		<b>\$5.4bn</b>	<b>\$3.7bn</b>	
<b>Estimated prosperity dividend (annual)</b>		<b>\$16.9bn</b>	<b>\$16.6bn</b>	

#### 4. SOURCES AND ASSUMPTIONS

The outputs of the AICD ready reckoner developed by Deloitte Access Economics should be considered in light of the assumptions and caveats listed below.

##### GST Estimates

- Deloitte’s Mythbusters 1 report available at: [www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915](http://www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915)
- Estimates of the impact of expanding the GST base are based on the Federal Treasury Tax Expenditure Statement (TES) 2014. These estimates vary in reliability depending on the quality, detail and frequency of underlying data. The TES is available at: [www.treasury.gov.au](http://www.treasury.gov.au)
- Compensation figures relating to GST scenarios are based on the current tax and transfer system. Other reforms to the tax or transfer system in addition to those undertaken as part of the GST reform scenario would alter the amount and distribution of the compensation provided.

##### Personal Income Tax Estimates

- Deloitte’s Mythbusters 1 report available at: [www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915](http://www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915)

##### Superannuation

- Deloitte’s Mythbusters 2 report available at: [www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915](http://www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915)
- The estimates assume everyone receives a tax incentive of 15 cents for each dollar contributed to superannuation. The estimated saving of \$6 billion does not accommodate expected leakage to the ‘next best tax’ option. The costing estimates collated by Deloitte Access Economics do not take into account interactions between different measures. An example of that is the impact of the AICD’s further 5 percentage point reduction in personal income tax rates when calculating the impact of the reform to superannuation contributions. The impact of that interaction is not material in terms of the overall scenario costings. Note that the reduction in personal income tax rates proposed by the AICD would increase the benefit of a 15 per cent discount on contributions against personal income tax rates for individual taxpayers (in particular, those in lower income tax brackets).

##### Capital Gains Tax

- Extrapolated from Parliamentary Budget Office (PBO) costings prepared for the Australian Greens, at: [www.scott-ludlam.greensmps.org.au/sites/default/files/cgt\\_factsheet.pdf](http://www.scott-ludlam.greensmps.org.au/sites/default/files/cgt_factsheet.pdf)

##### Company Tax

- Deloitte’s Mythbusters 1 report available at: [www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915](http://www2.deloitte.com/au/en/pages/media-releases/articles/mythbusting-the-tax-reform-debate-140915)
- Federal Treasury paper on the incidence of company tax (Rimmer, X., Smith, J., & Wende, S., 2014, ‘The incidence of company tax in Australia’, Economic Round up, Issue 1, pp. 33-48) provides three different scenarios around company tax marginal tax reform.

##### State Taxes

- Deloitte Access Economics report the Property Council of Australia, available at: [www.propertycouncil.com.au](http://www.propertycouncil.com.au)
- An ‘average state’ is assumed for the purposes of the estimate, actual impacts on specific jurisdictions would vary. Estimates are based on ABS data on tax revenue for 2013/14. Figures for 2016/17 have been escalated by 5 per cent. Estimates do not take account of the specific forecasts of states and territories.



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