



New Approaches to Tax and Welfare in Australia and Korea

By Teck Chi Wong

This important two-day workshop brought together academics and government officials from Australia and South Korea over two days at the Crawford School of Public Policy, Australian National University. The workshop participants discussed a range of new research and policy approaches to common challenges of tax and welfare in both countries.

Among the common challenges identified throughout the workshop included the ‘race to the bottom’ competition for corporate tax between countries, which will probably be intensified by the US tax reforms led by President Donald Trump (and currently in the US Congress); the role of the tax and transfer systems in addressing rising income inequality; and fiscal sustainability in the age of ageing population.

The workshop, [New approaches to tax and welfare in Australia and Korea](#), was funded by the [Australia-Korea Foundation](#) of the Department of Foreign Affairs and Trade and organised by the Tax and Transfer Policy Institute, ANU, partnering with the Korea Institute, ANU; the Department of Tax and Public Finance, University of Seoul; and the Korea Institute of Public Finance. It was held on 9 and 10 November 2017 at the Crawford School of Public Policy, ANU.

The workshop started with a public panel discussion in the Weston Theatre featuring Professor [Peter Drysdale](#), Professor [Peter Whiteford](#), Associate Professor [Shiro Armstrong](#) (all of three from Crawford School of Public Policy, ANU) and Dr [An Jongseok](#) from Korea Institute of Public Finance.

Professor Drysdale (*second from the right*) pointed out the shared economic policy challenges and choices of the two countries, particularly having to deal with Trump's America and the ensuing geo-political and geo-economic uncertainties.

"We have a common interest in making sure the system is strong. If not, our political, economic and security interests will be undermined," he said.

Professor Whiteford addressed the social transformation challenges for South Korea.

"Korea's rapid economic growth has its consequences for social issues", he said. These include that Korea has the widest gender wage gap in OECD, high inequality between formal and informal workers, high relative poverty even among formal workers, and very wide differences between older people and people of working age.

Professor Whiteford predicted social spending in Korea will be more than Australia in 2020 due to social ageing. In Australia, the challenge of population ageing is not as serious, but the working age population is also projected to decline relative to the dependent population, over the next 30 years.

Dr An said in the Korean society, preference for income redistribution is very strong and the new government led by President Moon Jae In has also showed support for this.

Yet, there are challenges in fiscal sustainability and tax, he warned. He said Korea will need more revenue despite being under various constraints and, to do so, the government should focus on personal income tax, corporate tax and value-added tax.

Professor Armstrong provided a comparative perspective by looking at the fiscal policy of Japan, a neighbour of Korea and an important trading and investment partner for both Australia and South Korea. Japan faces a much more severe challenge as the country leads the world in term of government debt and ageing and shrinking population causing both fiscal and growth challenges. It presents lessons to be learn for other countries.

Invited participants then continued with the research workshop. The first session featuring a discussion on fiscal costs and progressivity of the tax and transfer system by Professor Whiteford, Dr An and Dr [Chung Tran](#) from the Research School of Economics, ANU. Dr Tran examined progressivity of the Australian tax system using individual tax return data from the Australian Tax Office (ATO).

The second session focused on higher education financing and income contingent loans. Dr [Kim Byung Duck](#) from Korea Institute of Finance explained the student loan reforms of 2009 and 2010 in South Korea, which include both regular loan program and income contingent loan program. Professor [Bruce Chapman](#), the designer of the HECS-HELP system in Australia, and Dr Dung Doan (Research School of Economics, ANU) examined the heavy repayment burden borne by low-income graduates in the Korean system compared to Australia.





The third session was on international tax issues. Associate Professor [Byun Hyejung](#) (Department of Science in Taxation, University of Seoul, *right in the picture*) and Professor [John Taylor](#) (School of Taxation and Business, UNSW, *left in the picture*) jointly discussed the prospects for a revised Australia-Korea Tax Treaty, which is one of the oldest of Australia’s unchanged bilateral tax treaties. Dr [Jang Jaehyung](#) from Yulchon law firm in Seoul addressed the tax treatment of foreign private investment funds in Korea, including the

controversial decision by the Korean Supreme Court on the Lone Star fund.

The fourth session focused on tax administration issues and was light-hearted and demonstrated the importance of taxpayer activity and the legal framework in holding the government to account on tax law and administration. Professor [Choi Wonseok](#), a taxpayer representative and a researcher at the University of Seoul, shared the major achievements by Korean taxpayers’ organizations. Participants were particularly curious about the “taxpayers’ song” proposed by the Korean Taxpayer Union in 2001. Meanwhile, Associate Professor [Celeste Black](#) of University of Sydney critically assessed the external review mechanisms in place for taxpayers to hold the Tax Commissioner to account in Australia and showed that there are some gaps in accountability, especially for investigation of fraud or evasion.

The fifth session discussed the economic effects of the personal income tax. Focusing on the recent changes in tax policy and administration in South Korea, Dr An Jongseok looked at effective tax rates for different income levels and discussed the income redistribution effects of these reforms. Meanwhile, Professor Song Heonjae from University of Seoul examined the effect of the change in the income tax deduction system has on labour supply. On the Australian personal income tax system, Professor [Robert Breunig](#) from Crawford School of Public Policy shared the interesting case of taxpayer responsiveness to marginal tax rates, which was revealed through bunching evidence from the ATO data. It shows that taxpayers do change their tax planning behaviour to stay below the next highest marginal tax rate.

The final session was about the future of corporate and capital income tax. Professor [Miranda Stewart](#) (*picture*), the TTPI director, presented a study with [David Ingles](#) and [Chris Murphy](#) examining company tax reform in Australia. The study presented the case for abolition of dividend imputation in favour of a lower headline company tax rate and a dividend discount, and also considering the spectrum of reform options for the corporate tax base. Dr [Lee Sang-Yeob](#) from Korea Institute of Public Finance also discussed the effect of the tax system on corporations and shareholders. He looked at the introduction of tax incentives for dividend income from high dividend stocks in Korea and analysed the effects it had on dividend payouts.



The participants look forward to engaging again on key issues in a second workshop to be hosted by the University of Seoul in 2018.