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Tax shake up needed for a more equitable Australia

Australia needs to move to a dual income tax system to ensure greater generational equity experts from the Tax and Transfer Policy Institute (TTPI) at The Australian National University (ANU) urge in a report released today.

The report, co-authored by Professor Robert Breunig, TTPI Chair of Tax Policy and Public Finance, calls for a new system that taxes savings at a low, flat rate and which is separate to taxes on labour income. Peter Varela and Kristen Sobeck, along with Professor Breunig, outline short- and long-term reform which will also lead to a more efficient tax system.

“As review after review has shown, Australia’s current approach to taxing savings is a mess at best and a serious driver of intergenerational inequality at worst,” Professor Breunig.

“Some savings tax arrangements are progressive, taxing higher incomes more heavily, and some are regressive. Some favour the old but are punitive for the young.”

“Our current tax arrangements are inefficient, inequitable and distort the flow of savings across our society and economy. The system is complex and encourages Australians to engage in costly tax planning schemes.”

“Our new report not only outlines the ideal tax system – a dual income tax system – but steps out how we can get there. The beauty of a dual income tax system is that we can move there in stages.”

According to the authors, the taxation of savings should be based on four key principles:

- Savings should be taxed at a lower rate than labour income
- Most types of savings should be taxed at the same rate
- Savings income should be taxed independent of the tax rate on income from other sources
- Taxation of savings should focus on income generated from savings and not the total stock of assets.

The report also outlines four key reforms that can be made to Australia’s tax system in the short-term, including removing stamp duties.

“The taxation of savings is politically contentious with strong lobby groups defending particular savings arrangements, whether that is the untouchable nature of owner-occupied housing, dividend imputation or superannuation concessions,” Professor Breunig said.

“Yet, it makes no sense to consider the tax implications of these individual savings options without also taking into account how they shape the competitive landscape, how they influence the choices of individuals and how they contribute to the efficient mobilisation of savings across the economy as a whole.”

“That’s why we are also calling for the replacement of dividend imputation with a flat tax rate on dividends, removing stamp duties, which significantly distort decisions about when to move house, and including owner-occupied housing in means tests for pensions.”

"This might seem radical. But in reality the reforms are reasonable and would bring us closer to the optimal tax system Australians deserve and this nation needs."

The taxation of savings in Australia: Theory, current practice and future policy directions, is published by the ANU Tax and Transfer Policy Institute (TTPI). Download a copy online.

FOR INTERVIEW:
Professor Robert Breunig
Tax and Transfer Policy Institute (TTPI)
Crawford School of Public Policy
ANU College of Asia and the Pacific
M: +61 434 689 928
E: Robert.Breunig@anu.edu.au

For media assistance, contact the ANU Media Team on +61 2 6125 7979 or at media@anu.edu.au.