



## FIVE HIGH-LEVEL PRINCIPLES FOR TAXATION REFORM

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Australia's growth prospects will be influenced by rates of investment, the take-up of productivity-enhancing technologies and growth in its workforce.

Tax settings can impact on these drivers of growth through their effects on economic decisions and the allocation of resources. The design of the tax system is crucial in driving incentives that reward productivity and innovation while at the same time providing governments with the funds needed to finance public spending on essential services.

We believe that it is possible to improve the tax system to better support these aims while simultaneously raising revenue more efficiently.

We contend that tax reform consistent with the following five high-level principles will meet these objectives:

1. The tax system should support investment and growth through a reduced reliance on taxes on capital and income and a greater reliance on broad-based taxes on consumption.
2. The tax system should be consolidated to contribute to the further growth and development of a seamless national economy, and should also enhance Australia's international competitiveness.
3. The taxation framework should be characterised by stability and predictability. Any changes should be prospective, so as not to adversely affect existing investments or create perceptions of sovereign risk.
4. Tax arrangements should be transparent, simple to administer and minimise the compliance burden imposed on taxpayers.
5. The tax system should raise revenue through taxes that are less exposed to the volatility associated with the business and commodity cycles.

Taking these principles into account, the BCA will subject the recommendations of the Henry review panel to the following questions:

- Will the recommendations result in a growth-oriented change in the tax mix?
- Does the review recommend reductions in the number of taxes?
- Are the recommended tax rates globally competitive?
- Will the recommended reforms act to encourage investment in Australia, including foreign direct investment?
- Will the recommendations promote decisions by individuals that support greater workforce participation and assist more Australians to move from welfare into work?
- Will the recommendations reduce complexity and administration and compliance costs?
- Will the recommendations provide the government with a more robust and stable revenue base?