Groups representing business and the community sectors have called on Australia's leaders to approach the task of tax reform in an open, inclusive and transparent way that does not rule out options because it is politically expedient to do so. Reform will only happen if our political, business and community leaders take the long view and put the national interest first.

The groups include the Australian Chamber of Commerce and Industry, Australian Council of Social Service and Business Council of Australia.

Today the groups are releasing a set of key objectives for tax reform ahead of Wednesday's Leaders' Retreat involving the Prime Minister, Premiers and Chief Ministers. They are urging leaders to demonstrate a level of bipartisanship and inter-jurisdictional cooperation not seen for a long time, and to commit to work towards a tax system that raises the revenue governments need to provide services to the community in a way that supports a stronger economy and job creation, and is fair.

Every one of the leaders knows that we need to reform a tax system that's out of step with the rapid economic and social changes Australia faces. A rethink of financial relationships between the Commonwealth Government and states and territories is also needed and this should complement national tax reform. Governments and all stakeholders must remain open to looking at the tax system as a whole, and considering all the options which could deliver the optimal system for the 21st century global economy.

Key messages

Tax reform is more likely to be achieved if the government engages with the community in an open, inclusive and transparent way, beginning with problem identification and broad directions for reform rather than prematurely advocating or rejecting specific proposals.

All options should be kept on the table in the tax white paper process. The case for comprehensive tax reform is compelling. “No change” is not an option.

The tax system must be assessed as a whole. The whole tax system should be progressive, but not necessarily each individual element.

Key objectives of tax reform

- The overarching role of the tax system is to raise the revenue needed to fund government services and infrastructure that deliver net benefits to the community. This should be done in a way that offers appropriate incentives to work, save and invest in an increasingly competitive and digitised global environment, with people contributing according to their capacity to pay.
- Tax reform is needed to promote growth in investment, productivity, jobs and real wages.
- Tax reform is needed to provide a more sustainable and stable revenue base.
- The tax and transfer system should maintain and promote a high level of equity and integrity.
- Taxes should be simpler and less costly to administer and comply with.

Problems to solve and directions for tax reform

- The overarching direction should be to lower rates and broaden tax bases both to reduce tax distortions that drag on growth and underpin more stable and sustainable revenues.
  - Issues with the personal tax base to be reviewed include the impact of bracket creep, participation incentives, the need to sustain equity across the tax system, and consistency in the treatment of different forms of income. Other relevant issues include tax shelters, negative gearing, the treatment of capital gains, and effective marginal tax rates for low-income earners.
  - Reduce impediments to economic growth, including an overreliance on a small number of corporate tax payers and a relatively high statutory corporate rate.
  - Consideration should be given to changes to the GST and other consumption taxes, taking account of the implications for equity and the need for adequate compensation as appropriate.
  - Improve the reliability and adequacy of revenue for the states by streamlining state taxes to reduce compliance and administrative costs, broadening bases and reducing tax rates. The most inefficient state taxes should be abolished with revenue recouped through more efficient taxes, such as land tax.
  - The overall impact of tax reform on equity and particularly on low income households should be carefully considered. This should include consideration of ‘compensation’ where appropriate, taking account of the risks for people on low incomes of over-reliance on ‘compensation’ for tax changes that would otherwise reduce their living standards.
- Public support should be built for reform that improves the effectiveness of the retirement incomes system through better targeting of concessions, and addressing administration issues. Reform should focus on improving living standards through a more sustainable retirement income system, rather than simply achieving savings.
- Housing affordability is an important goal that should be pursued through a holistic set of public policies, recognising that it is a function of many factors, including tax.
- Structural reform of the Federation should be harmonised with tax reform without impeding it. Roles and responsibilities of different levels of government should be determined as part of the review of the Federation. While these are clearly relevant to tax reform the best starting point for the tax review is to design a robust, fair and efficient national tax base: revenue distribution arrangements across the Federation can then follow.

  - States and territories require sustainable and stable revenue sources to fund government services.
  - The reliance of the states on Commonwealth grants is an issue for consideration.

The process of reform

- Tax reform is a national issue that requires national leadership.
- A comprehensive roadmap for reform requires a coherent plan for implementation. A credible, decade-long plan for reform with appropriate phasing and transitions, can support this process.
- The community should be consulted throughout the tax white paper process. The impact of reform options should be made transparent to better inform the community and support buy-in on the process.