REVENUE-RAISING AND TAX REFORM

PRESENTATION TO THE AUSTRALIA INSTITUTE'S REVENUE SUMMIT 2025

PARLIAMENT HOUSE, CANBERRA
29TH OCTOBER 2025

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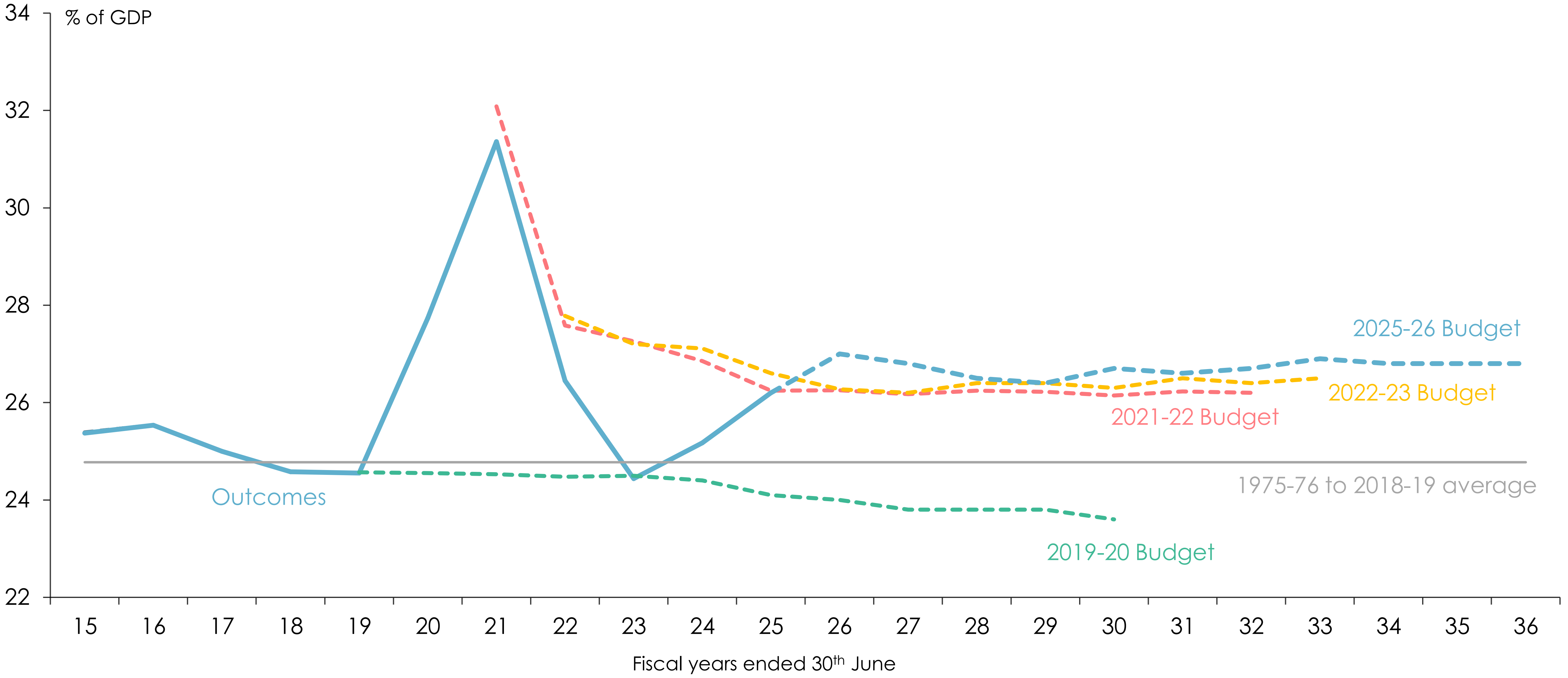
It's been apparent since the 2021-22 Budget that Australian Government spending was likely to remain significantly above the long-run average

Successive Budget medium-term projections of Australian Government 'underlying' cash payments



Sources: Medium-term projections (for the four years of the Forward Estimates period and the following six years) contained in *Budget Paper No. 1: Budget Strategy and Outlook - Statement 3: Fiscal Strategy and Outlook* published by the Treasurer and Minister for Finance at the time of the 2019-20, 2021-22, 2022-23 and 2025-26 Australian Government Budgets.

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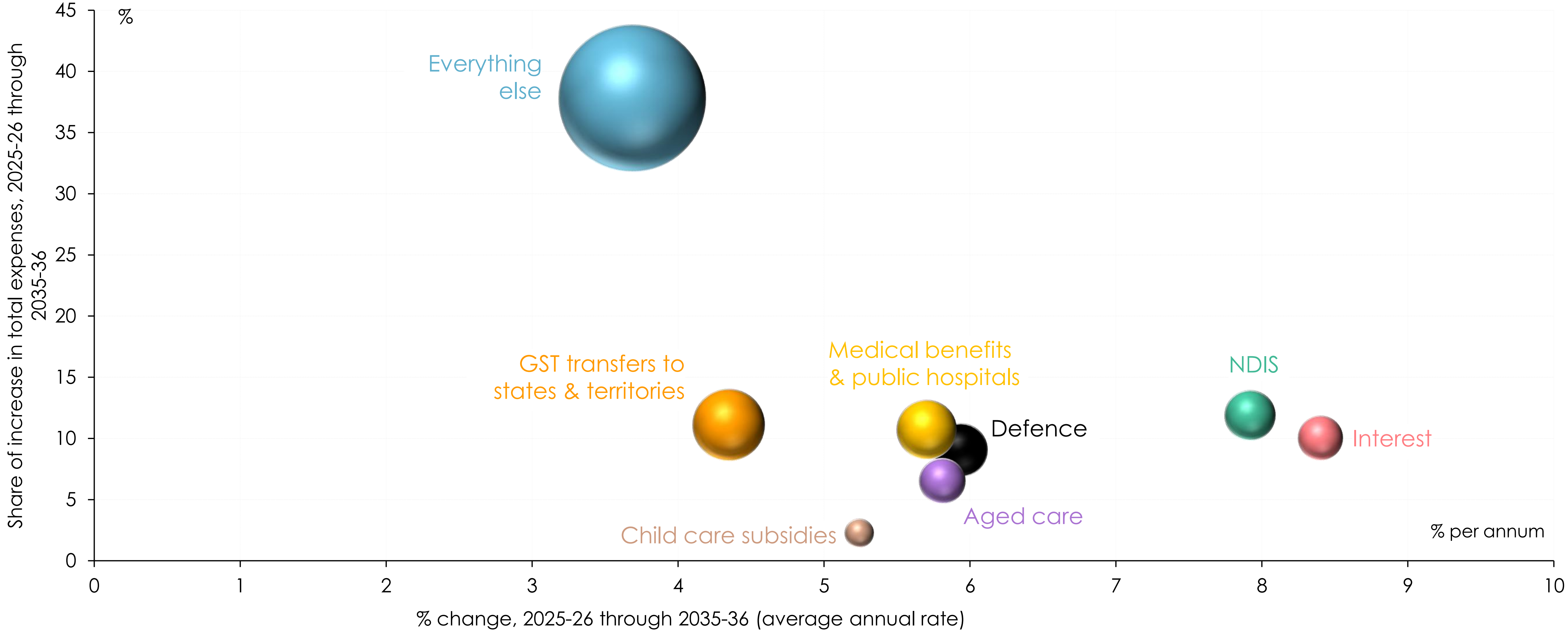
Projected spending growth is driven largely by the NDIS, health, aged & child care, defence and interest

Major contributors to projected growth in 'underlying' cash payments over the decade to 2035-36



Note: Size of bubbles represents share of total 'underlying' cash payments in 2025-26. Projection of growth in GST transfers to states & territories assumes (as per current legislation) that 'No-Worse-Off guarantee' payments to states and territories other than Western Australia cease at the end of the 2029-30 financial year.
Source: Parliamentary Budget Office, *2025-26 Medium-Term Budget Outlook: Beyond the Budget*, 18th September 2025, Table B-2.

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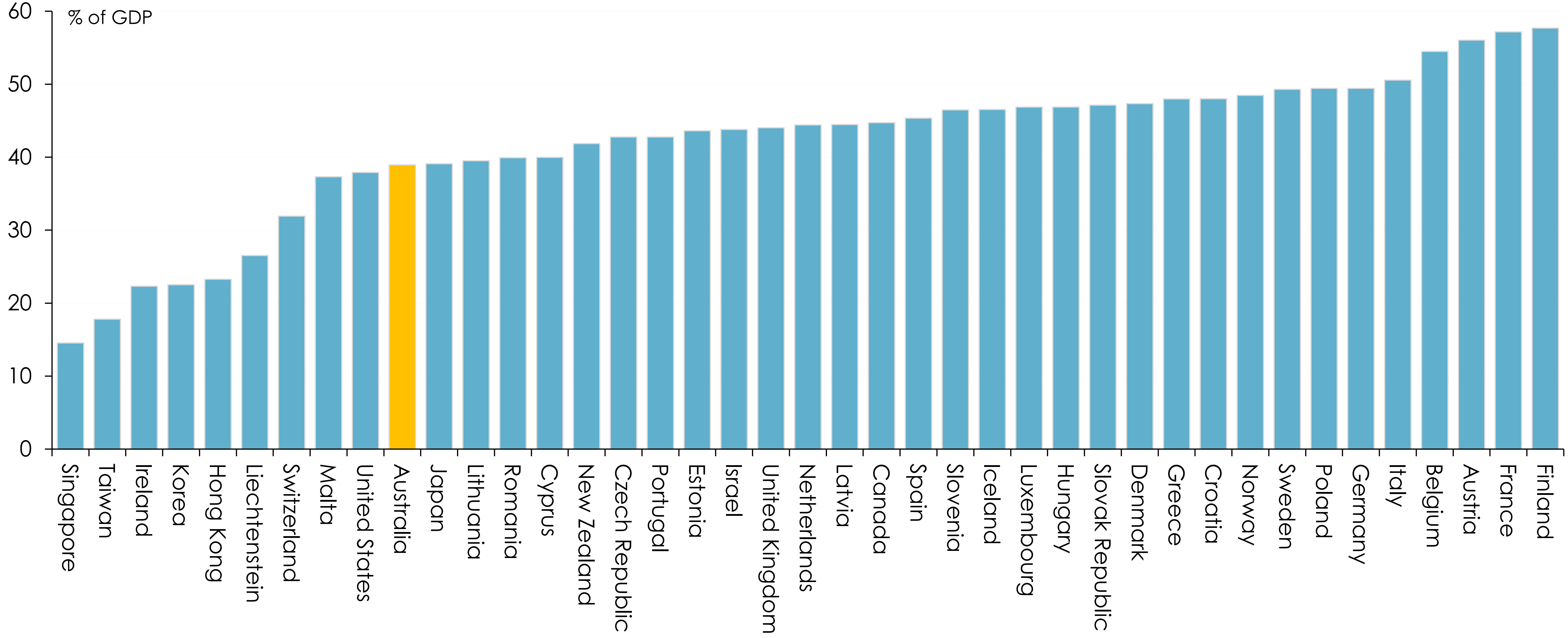
Government spending in Australia is not especially high by 'advanced' economy standards

Government spending as a percentage of GDP – advanced economies, 2024



Note: Chart shows 'general government' spending, ie including sub-national as well as national governments, but excluding public enterprises.
Source: International Monetary Fund, World Economic Outlook database, 14th October 2025.

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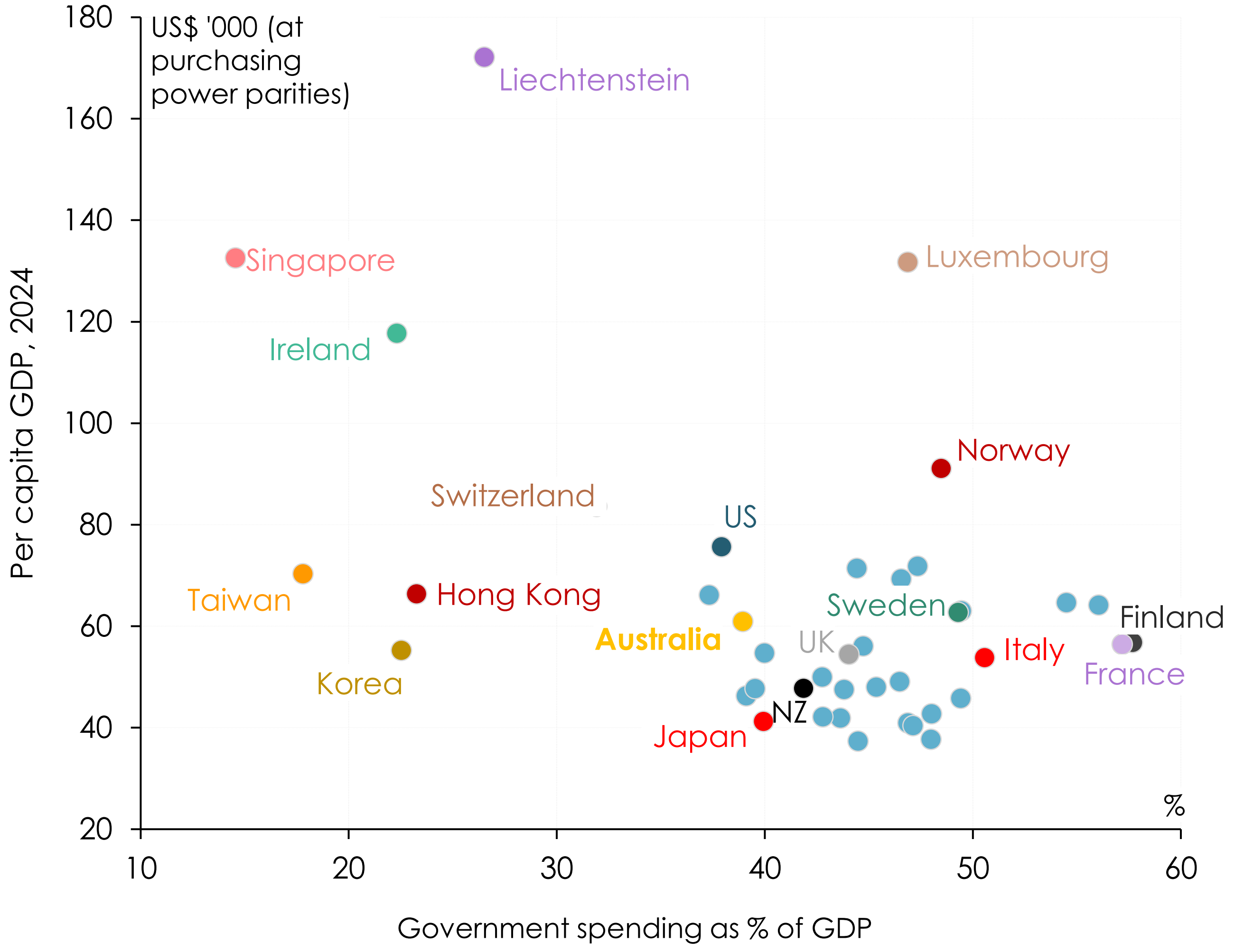
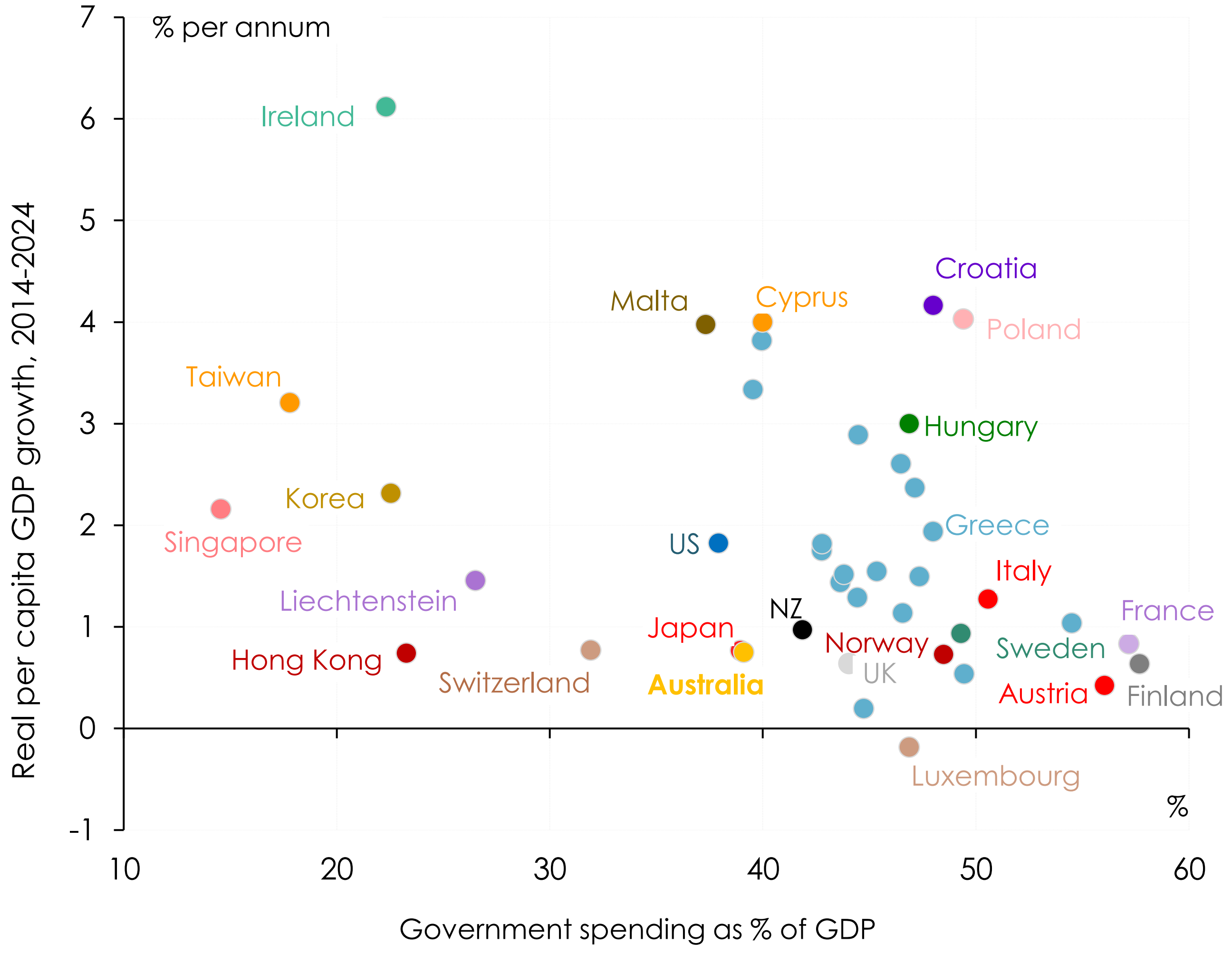
There is no correlation between the size of government and economic well-being – or between the size of government and economic growth

Government spending and per capita GDP, 'advanced' economies, 2024



Government spending and real per capita GDP growth, 'advanced' economies, 2014-2024



Note: Chart shows 'general government' spending, ie including sub-national as well as national governments, but excluding public enterprises.

Source: International Monetary Fund, World Economic Outlook database, 14th October 2025.

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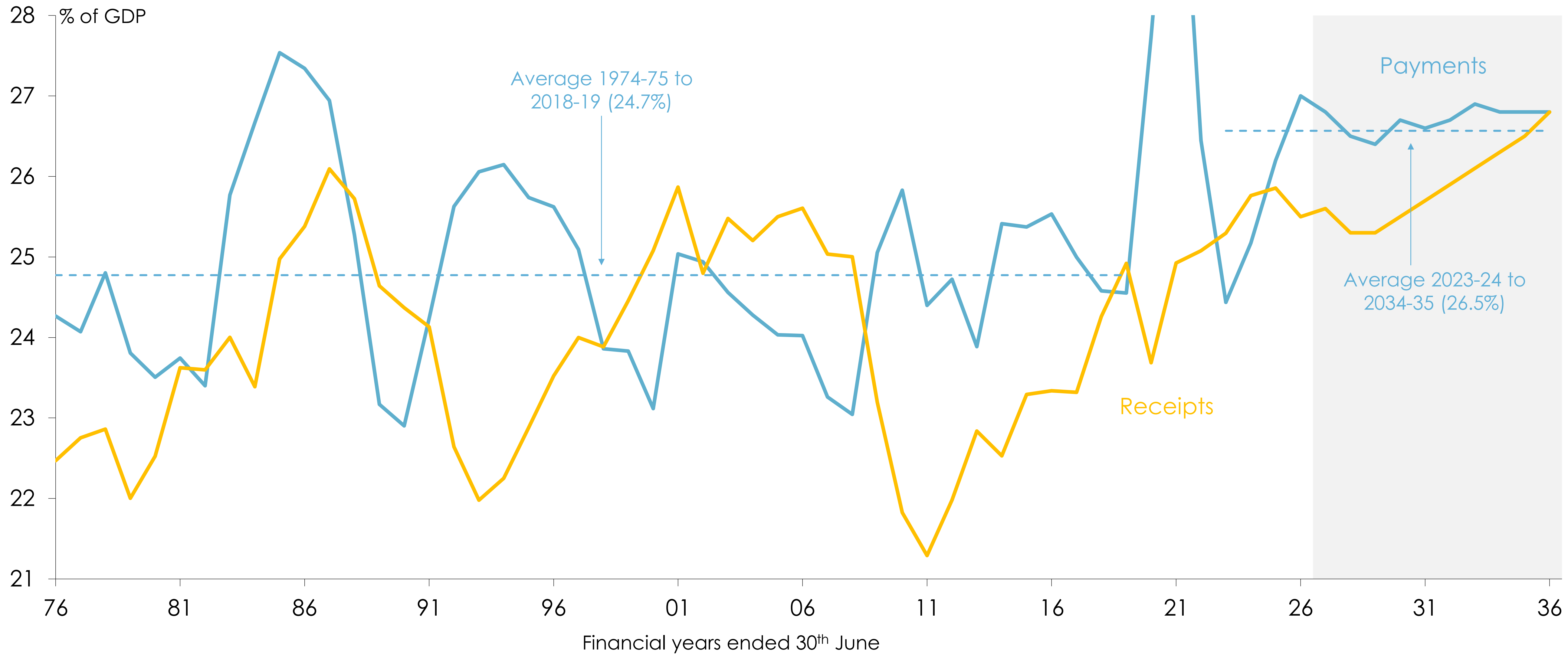
Without reform, Australia's tax system isn't going to generate enough revenue to pay for this additional spending

Successive Budget medium-term projections of Australian Government 'underlying' cash payments



Source: Australian Government, *Final Budget Outcome 2024-25*; *2025-26 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook*; and *Statement 11: Historical Australian Government Data*; .

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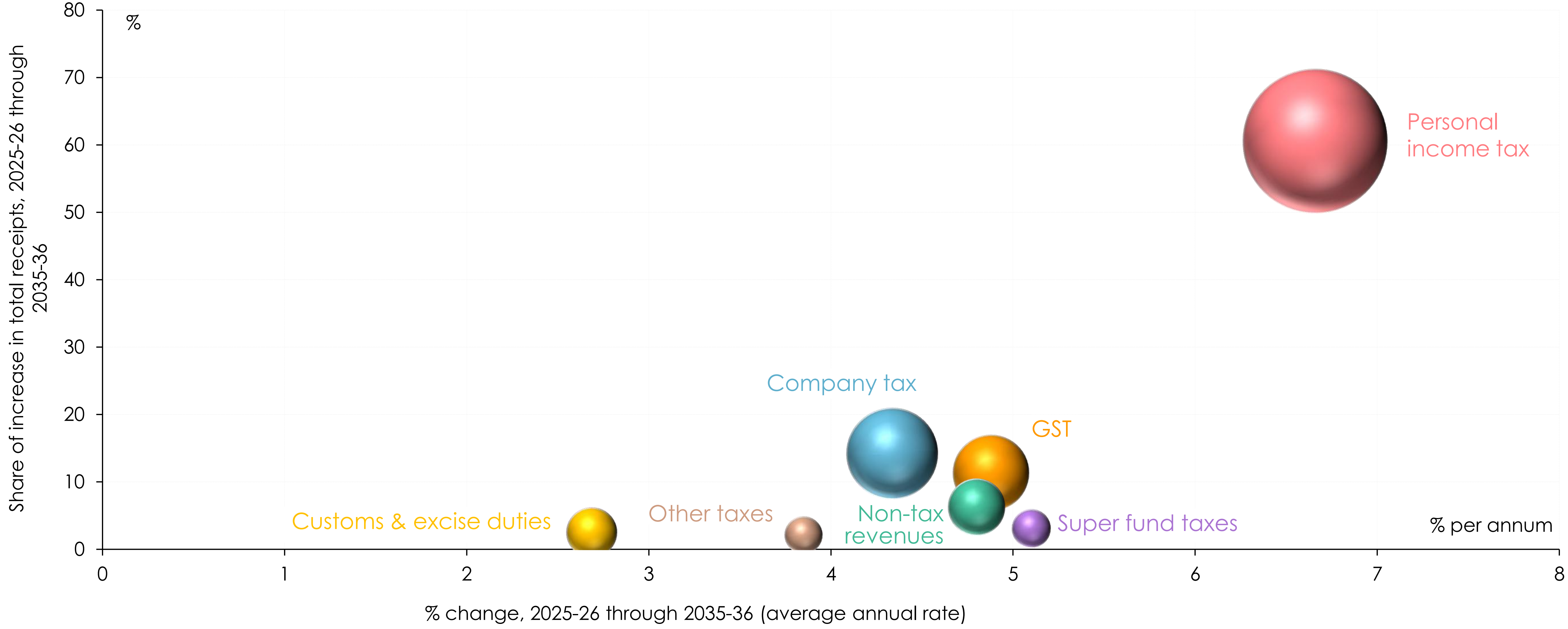
In the absence of tax reform, more than 60% of the projected increase in revenue over the next decade will come from personal income tax

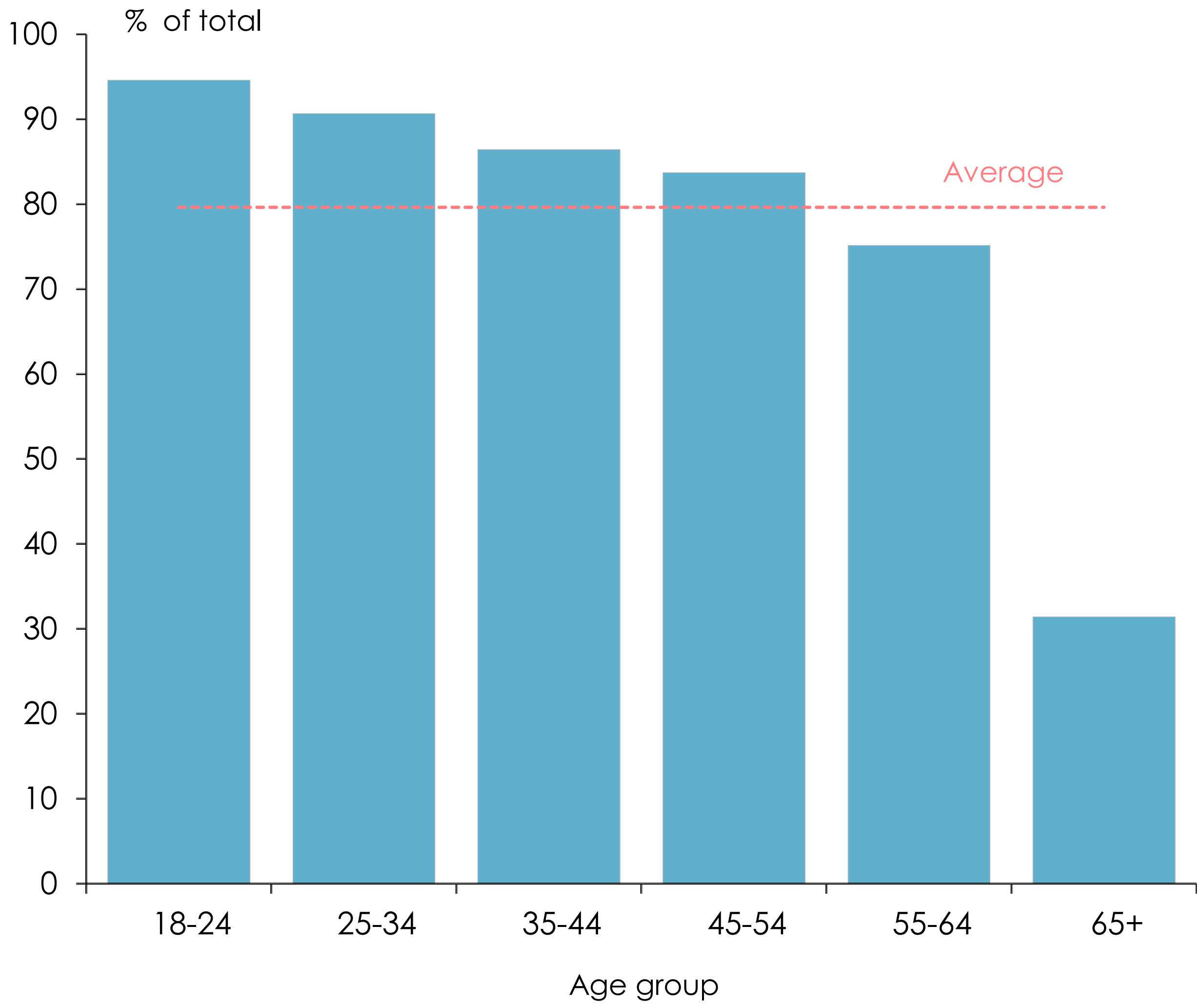
Contributors to projected growth in cash receipts over the decade to 2035-36



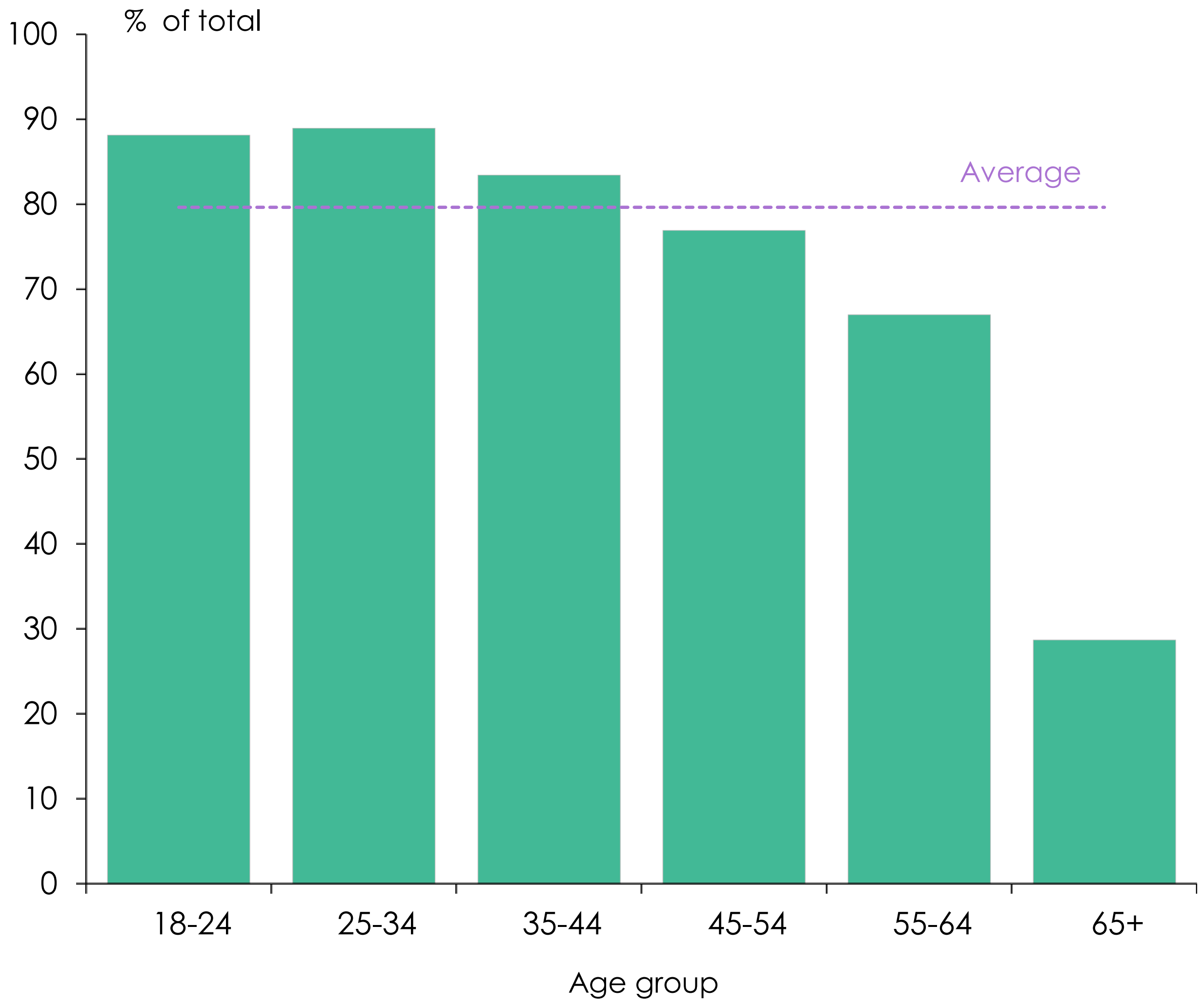
Note: Size of bubbles represents share of total cash receipts in 2025-26. Non-tax revenues includes interest income, dividends from public enterprises and other revenues.
Source: Parliamentary Budget Office, *2025-26 Medium-Term Budget Outlook: Beyond the Budget*, 18th September 2025, Table B-1.

… which would be particularly unfair on younger taxpayers, who derive most of their income from wages and salaries

Wages and salary earners as a proportion of total individuals, by age group, 2022-23



Wage and salary income as a percentage of total income, by age group, 2022-23



Source: Australian Taxation Office, *Taxation Statistics - Individuals Detailed Tables* , 2022-23, 27th June 2025, Table 3A.

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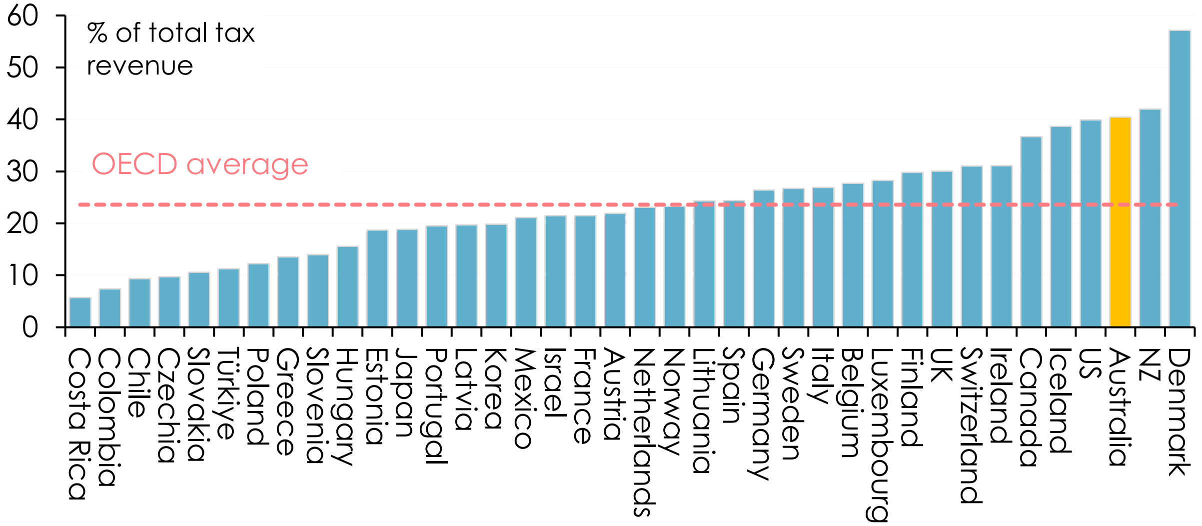
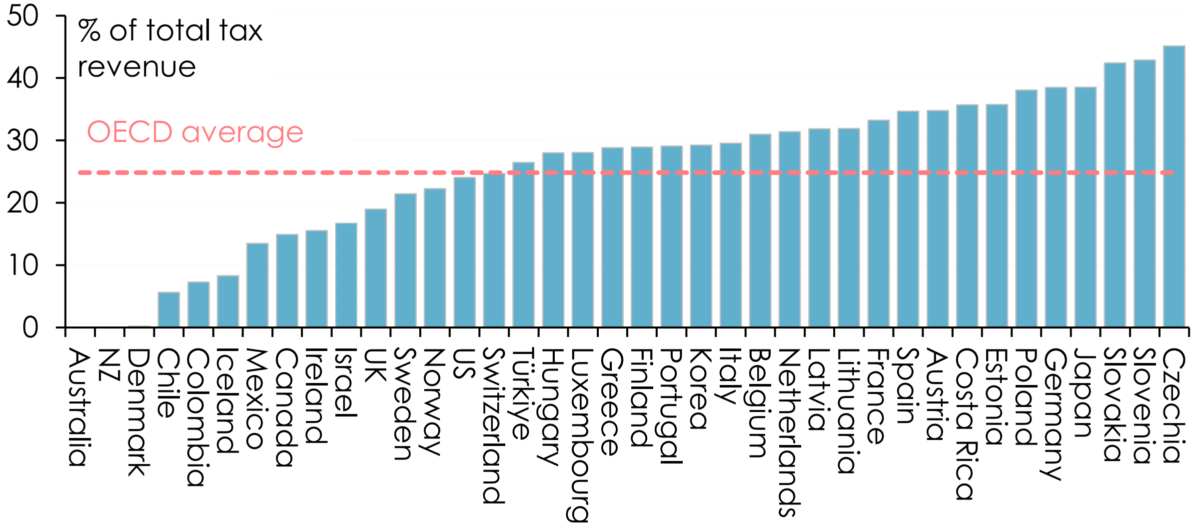
Australia stands out among 'developed' economies for its reliance on income tax, for not using social security taxes, and for low sales taxes

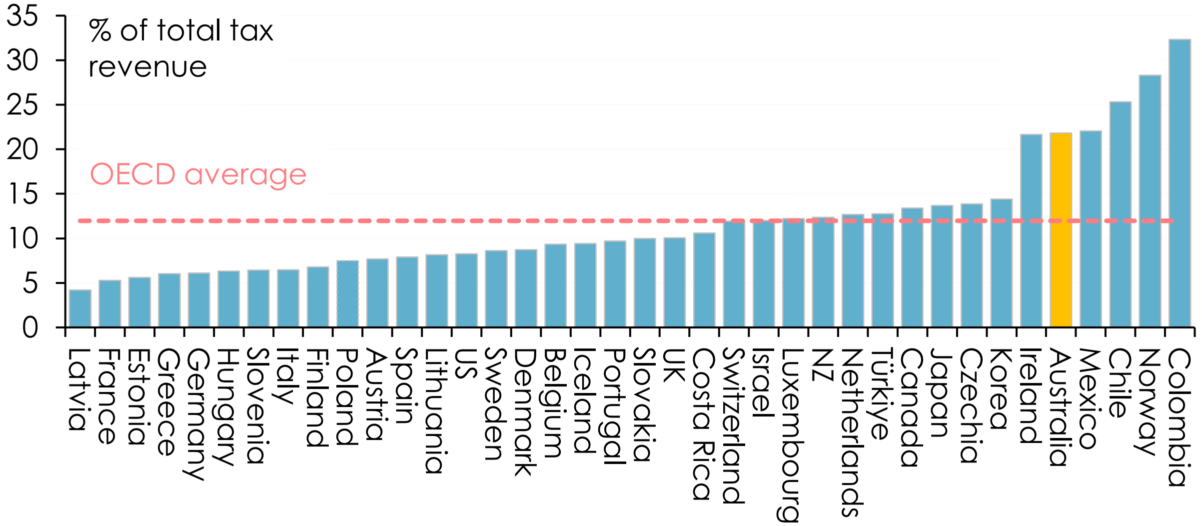
Personal income tax revenues as a pc of total, 2023



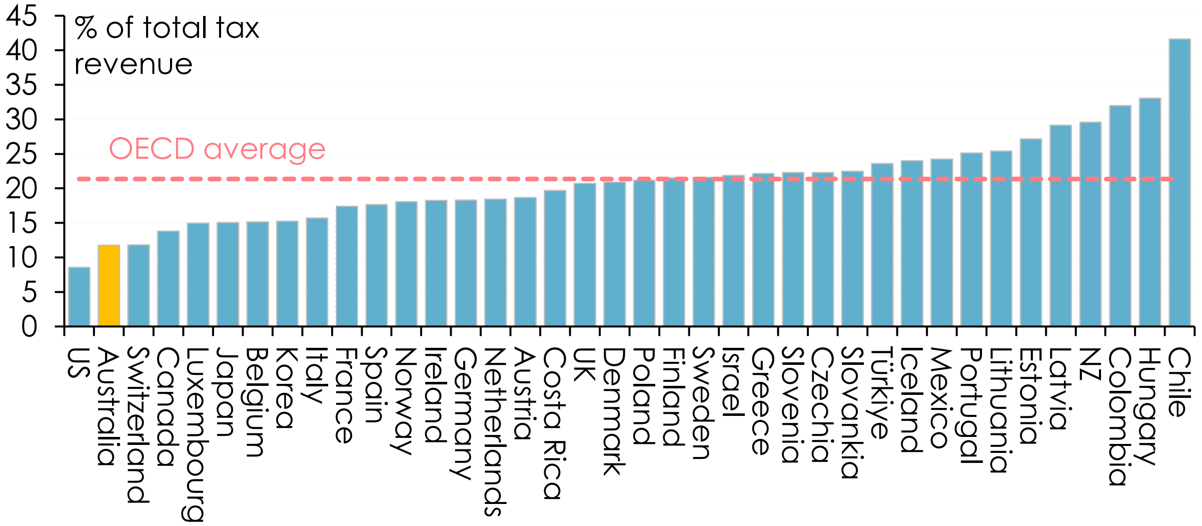
Social security tax revenues as a pc of total, 2023



Company income tax revenues as a pc of total, 2023



Sales tax revenues as a pc of total, 2023



Note: data for Australia, Greece & Japan are for 2022. *Source:* Organization for Economic Co-operation & Development, Global Revenue Statistics Database, 8th July 2025.

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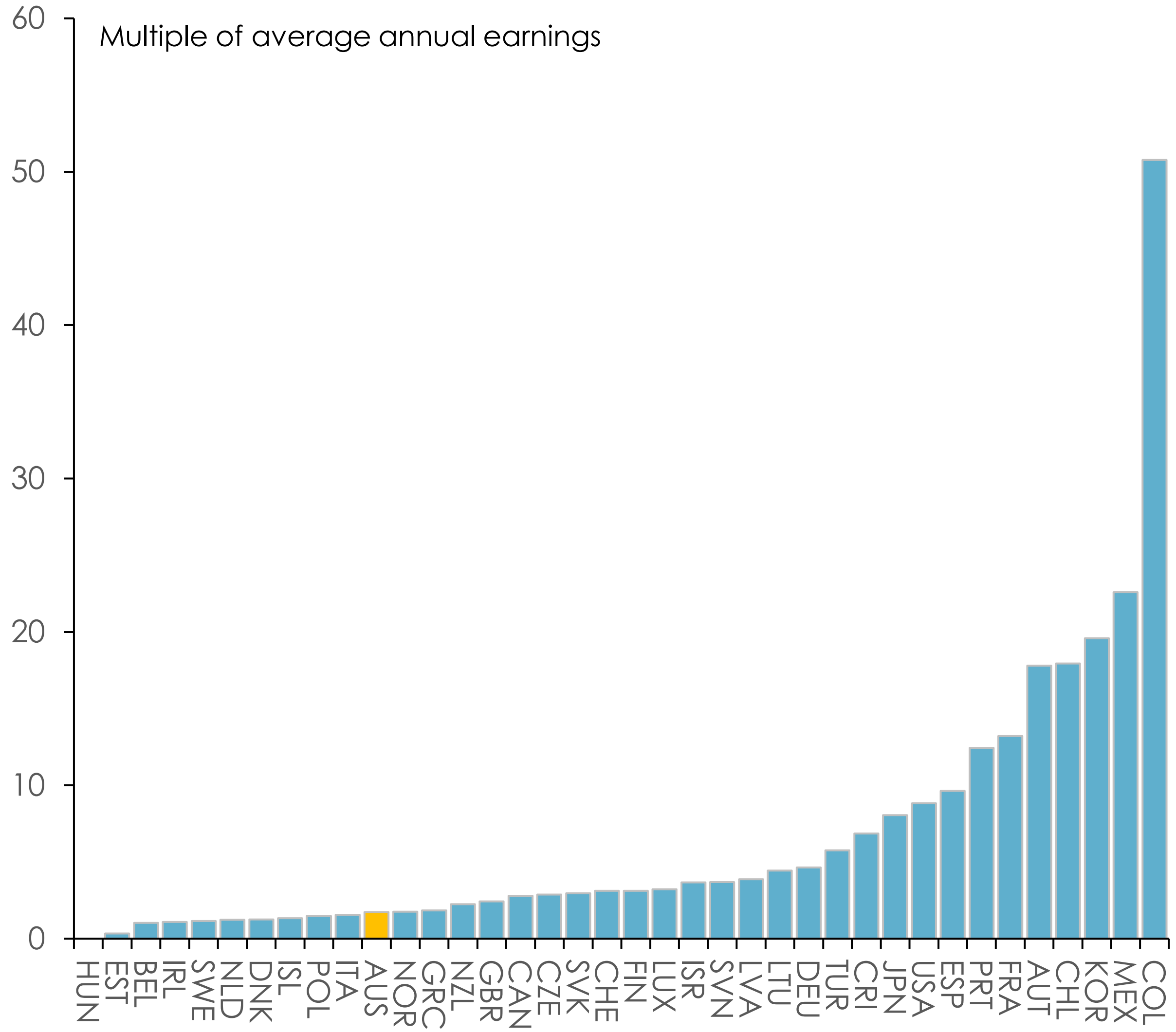
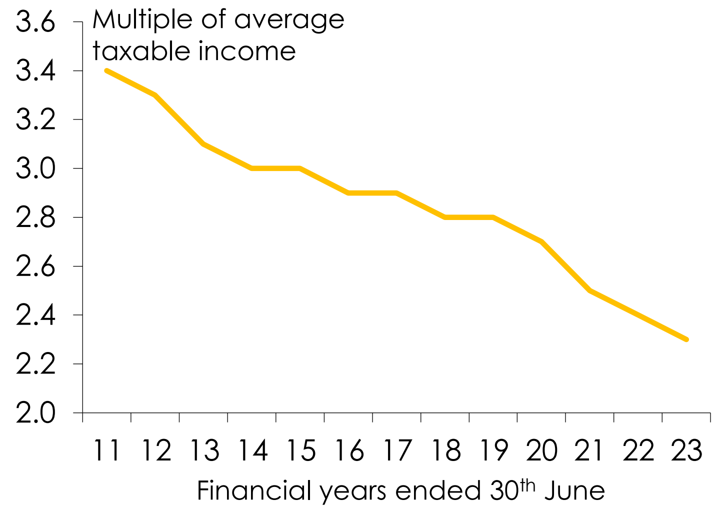
Australia's personal income tax system is more 'progressive' than it is generally given credit for

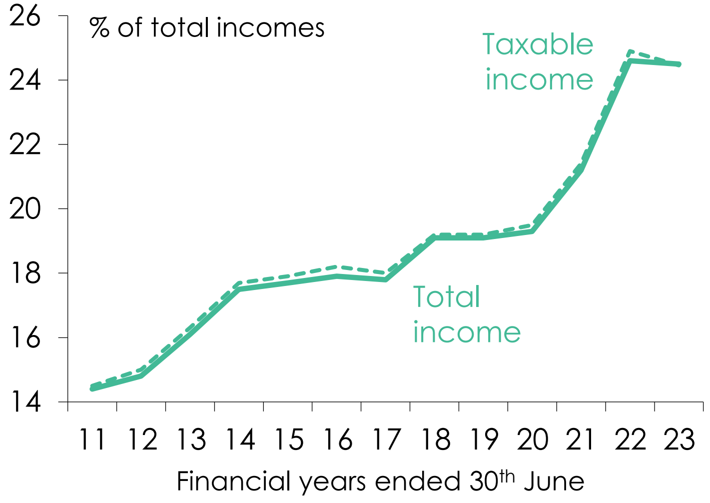
Top personal income tax rate threshold as multiple of average earnings, OECD countries, 2024



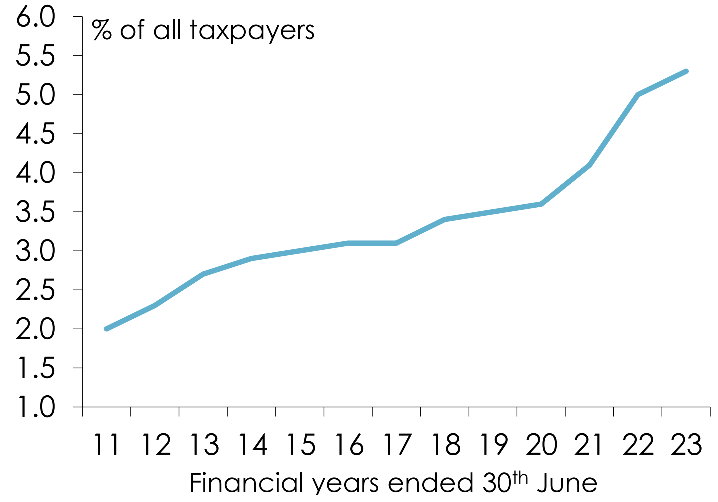
Australia's top tax threshold



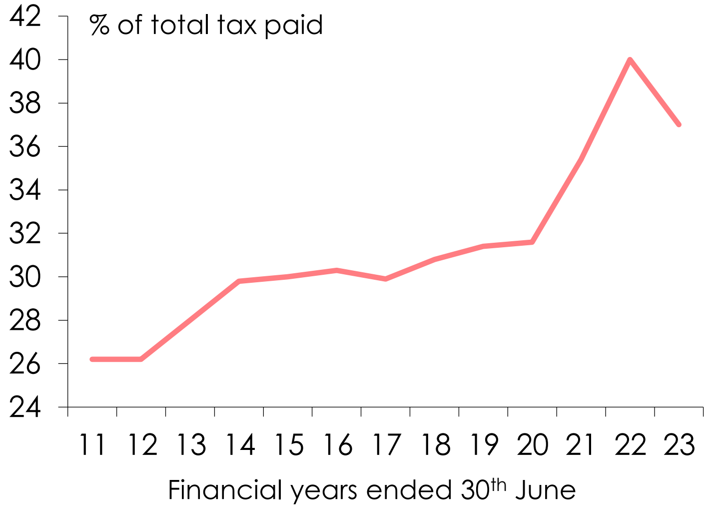
Top rate taxpayers' incomes



Top tax rate taxpayers



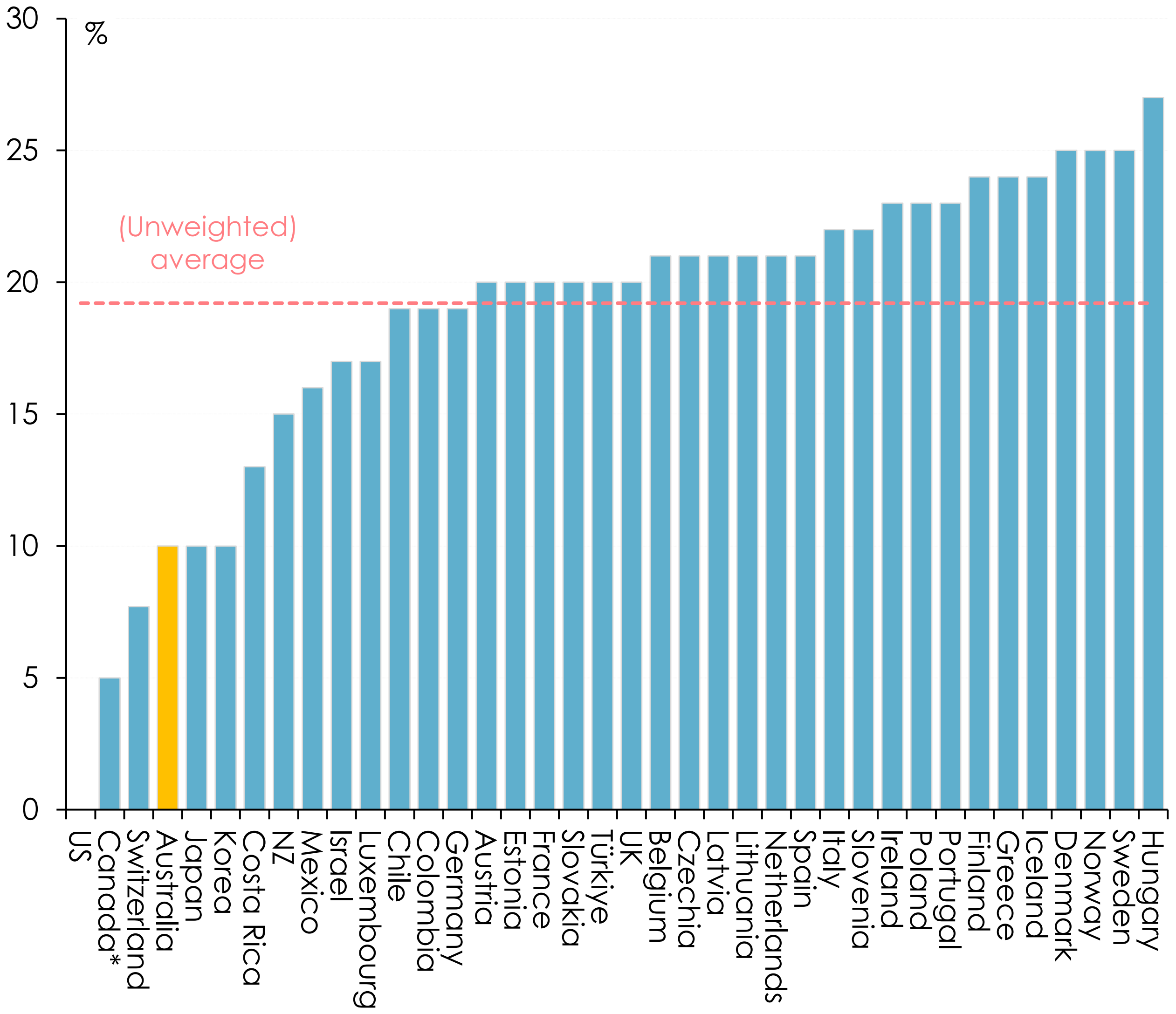
Top rate taxpayers' tax paid



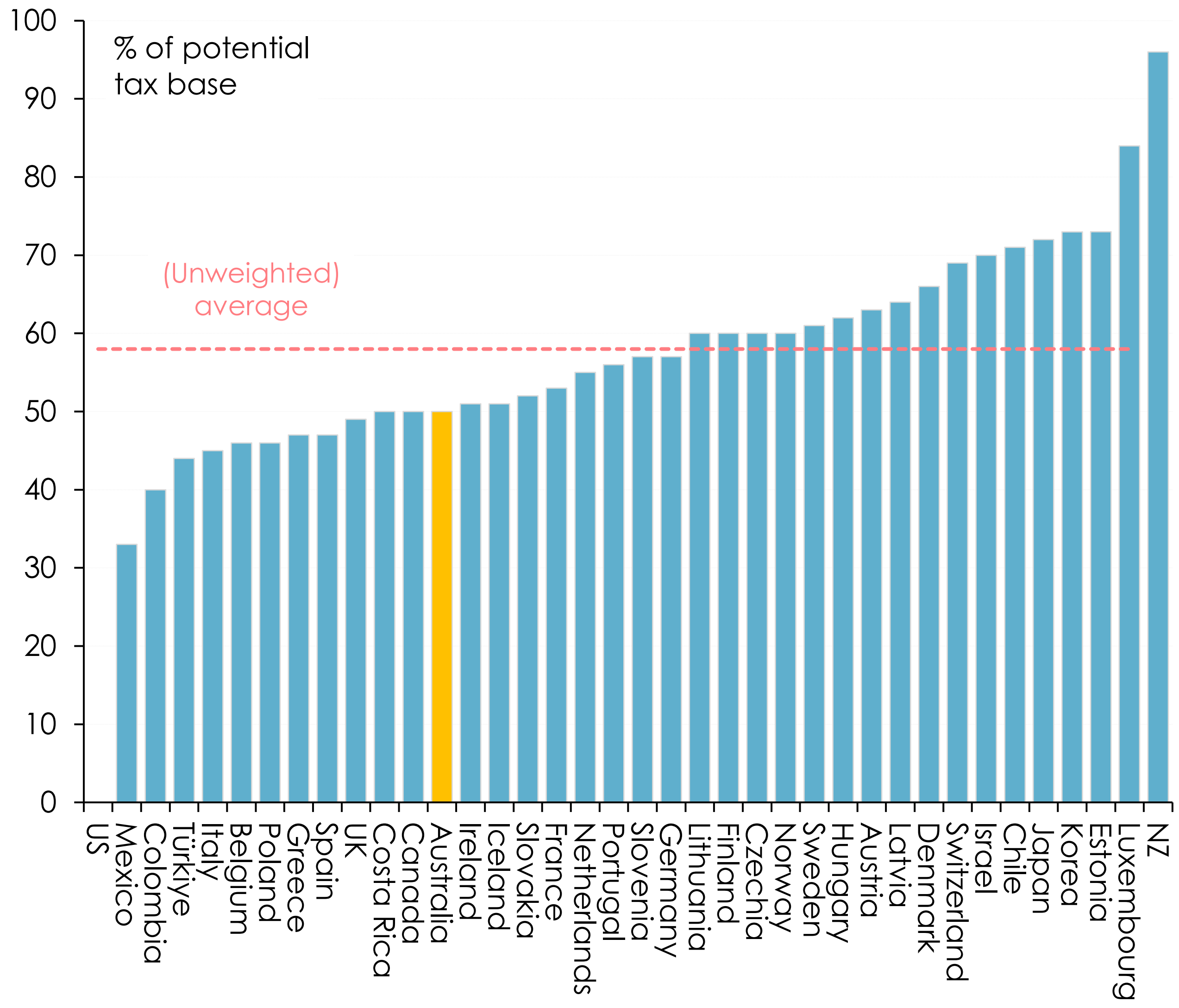
Sources: OECD, Data Explorer; Australian Taxation Office, *Taxation Statistics - Individuals Detailed Tables* , 2022-23, 27th June 2025, Table 3B.

Australia's GST is levied at a relatively low rate over a relatively narrow base, compared with most OECD countries

Standard rates of GST/VAT in OECD countries, 2023



GST/VAT coverage of potential tax base, 2022



Note: Standard rate for Canada excludes provincial GSTs. *Source:* OECD, Consumption Tax Trends, 2024.

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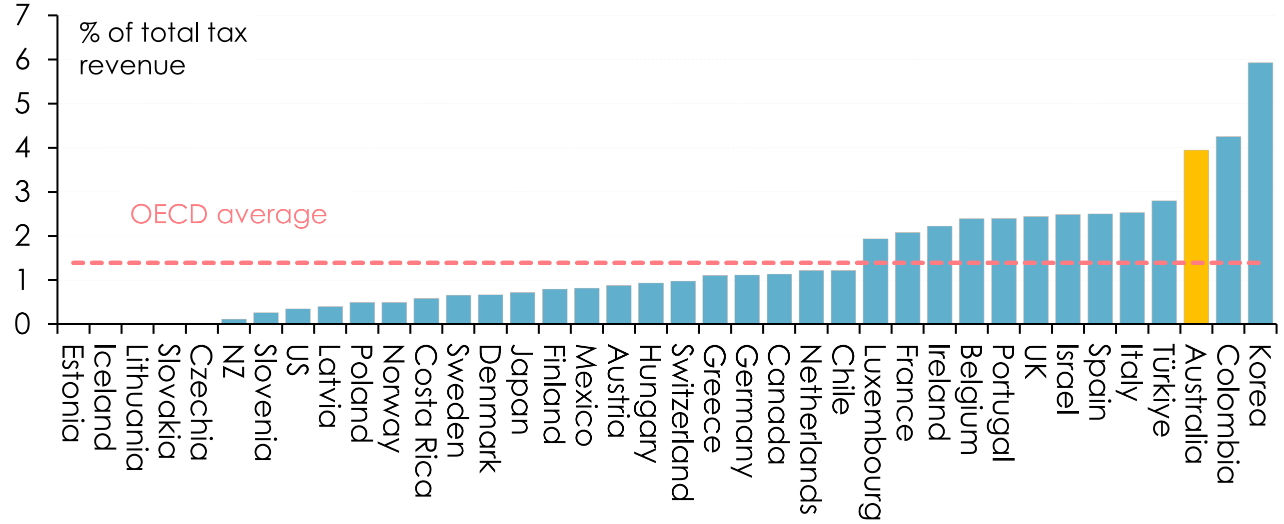
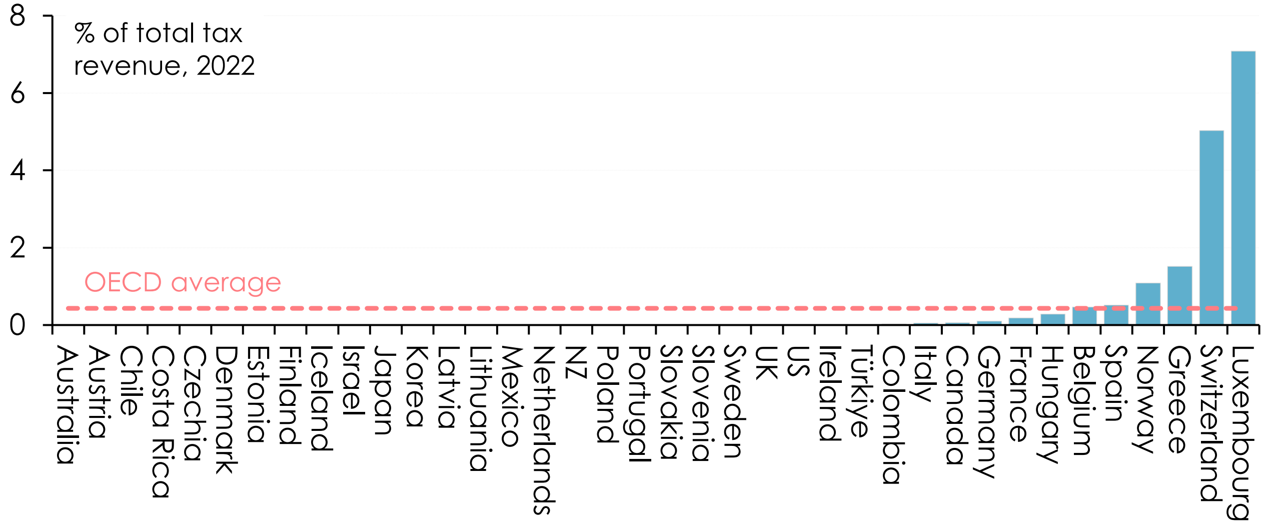
Australia imposes relatively high taxes on property transactions, and on property – but not on other forms of wealth, or on inheritances

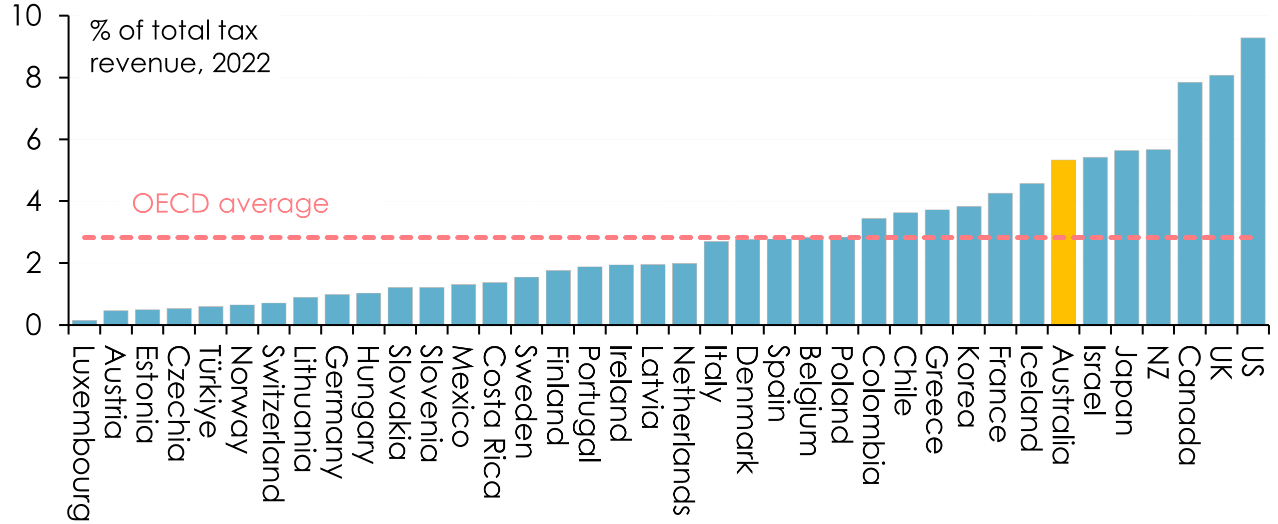
Taxes on capital & financial transactions



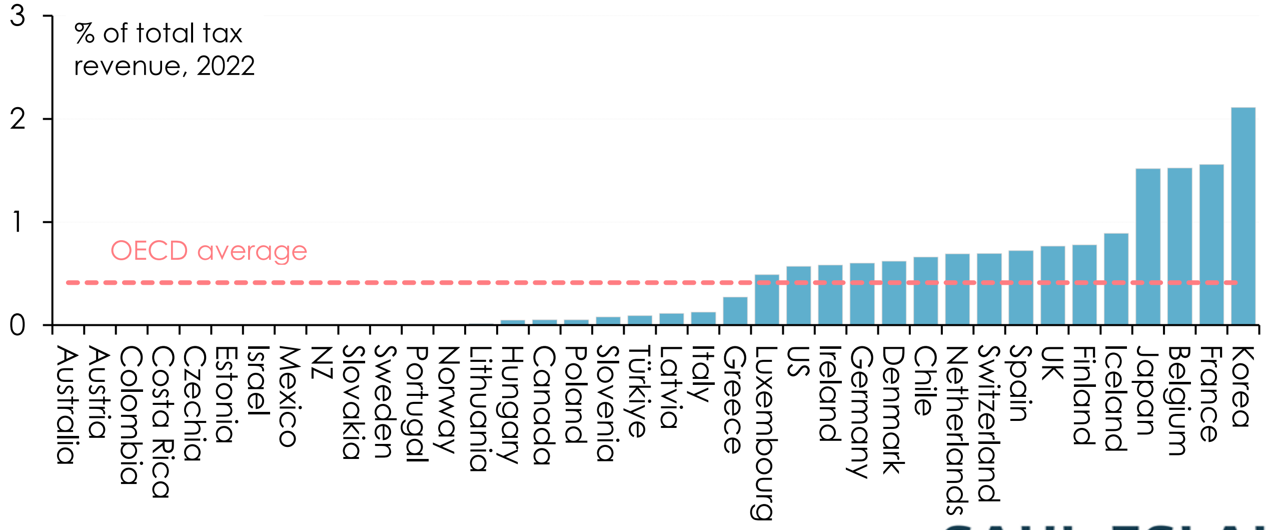
Taxes on net wealth



Taxes on 'immovable property' (ie, land)



Taxes on inheritances, estates and gifts



Source: Organization for Economic Co-operation & Development, *Global Revenue Statistics Database*, 8th July 2025.

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Some guiding principles for tax reform in the present Australian context

- The tax system needs to be capable of generating the revenue required to fund the desired level of government expenditure
- It should do so in a way that consciously takes into account the impact of different types (and levels) of taxes have on the choices made by those who have to pay them
  - discouraging 'bads' (such as production or consumption of harmful products)
  - without discouraging (or if possible, by incentivizing) 'goods' (including saving, investment and job creation)
- There should be serious consequences for non-compliance with the taxation system
  - but the cost of compliance should not be unduly onerous
- The tax system as a whole needs to be widely accepted as 'fair' – something about which universal agreement is impossible, but broadly speaking should mean
  - that the tax system as a whole should be 'progressive', ie it should impact individuals in some proportion to their 'capacity to pay' (with precisely what proportion being determined by political processes), whilst treating individuals in similar circumstances similarly
  - the judgement about the 'fairness' of the tax system should be made about the system as a whole rather than about each and every specific taxation instrument
- These criteria should be given roughly equal weight

Where does that lead us

- Serious consideration should be given to raising the rate / and or broadening the base of the GST (with appropriate ‘compensation’ for lower-income households
  - but for that to be politically feasible, the ‘nexus’ between revenue from the GST and ‘general purpose’ payments to the states and territories needs to be broken
- Personal income tax needs serious reform
  - regular, automatic indexation of tax thresholds for inflation (as 17 OECD countries currently do)
  - given indexation, more tax brackets, but with an increase in the top tax threshold
  - a Nordic-style ‘schedular’ system for taxing non-labour income (at a flat rate, with no tax-free threshold, and with no ‘cross-over’ for deductible expenses between labour and non-labour income)
- Other options which should be considered by the Commonwealth
  - a carbon tax (probably ‘too hard’ politically)
  - serious reform of the petroleum resource rent tax
  - increasing the major banks’ levy (possibly making it profit-related in some way)
  - re-introduction of an inheritance tax
- States & territories need to get serious about tax reform …
  - broadening the base of payroll tax
  - and replacing stamp duties with a broadly-based land tax

  … and the Commonwealth should be prepared to use carrots and/or sticks to cajole them if necessary

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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