



## Tax abolition is just comic relief

**Y**ou can't say Premier Barry O'Farrell lacks a sense of humour. When he announced his state would sign up to extra Gonski funding for schools, he said he would find the money from spending cuts and "temporarily deferring" the abolition of some taxes.

What taxes would they be? They would be taxes NSW originally pledged it would abolish on July 1, 2000.

The state has been "temporarily deferring" their abolition for the past 13 years. We haven't been told how long this latest deferral will last. But the spending it is said to (part) finance is due to run until 2019.

As part of a grand bargain for tax reform, the GST was introduced to replace wholesale sales tax and nine inefficient state taxes on July 1, 2000. It was designed to collect the revenue of all the other taxes combined.

Multiple taxes were costly and inefficient to legislate, administer and collect and multiplied complexity for business. The GST was designed to be much less damaging to the economy than the taxes it replaced.

When Labor and the Democrats started punching holes in the GST, the states began to arc up against their side of the bargain.

They took the GST and abolished some taxes, but decided to defer abolishing others until the proceeds of

GST significantly increased. When they did, NSW pledged it would abolish the last tax in the package by July 1, 2013. That was until last week, when it decided there were more pressing plans for increased spending.

Victoria was much better at abolishing these indirect taxes than NSW. It saw the



Premier Barry O'Farrell and Prime Minister Julia Gillard sign a deal on the federal government's education reform. Picture: Sam Mooy

### Who in their right mind would think of a new tax

economic benefit in getting rid of "transaction taxes" that inhibited business.

It simplified its system by abolishing all nine of the indirect taxes — but then started introducing new ones.

Except it didn't call them taxes. When it introduced a tax on carparking spaces in 2006 it said it was a

"congestion levy" designed to reduce traffic in the city.

It didn't. Last week the Victorian government announced it would double the amount raised from the levy.

The current government doesn't claim it will reduce traffic congestion. It simply says it needs the money to build more roads.

things — like cut income tax and abolish payroll tax.

And we could. But increasing the GST rate would not be the hard part. The hard part would be the other side of the bargain — making sure taxes that are cut or abolished don't come back in other forms. Who in their right mind would think of a

new tax bargain when elements of the old one are still "temporarily deferred"?

The states might now think the GST revenue is not growing as fast as it once did. But they are miles in front of where they would have been under the old system. It was a crazy brave decision for the

then Coalition government to rejig the taxation system, changing three billion prices in a way that affected every consumer on every purchase on every day.

But it had to be done. Australia had to modernise.

Every now and then a government has to be crazy brave if it is going to get

something done to improve things. The reason people still talk about Victoria's Kennett government (which was voted out nearly 14 years ago) is that it did bold things like introduce competition and private ownership into the electricity sector, like franchise out the public transport system. Sure, it made some mistakes. But it had a go and it made a difference.

In the long term people do not remember those governments that see their job as getting in to office and staying there, rather than getting in to office and doing something with it.

In Victoria the government sits on a knife-edge majority which is a reason to be cautious. In NSW the government enjoys an unrivalled majority.

Of course, the country is lacking leadership at the federal level. Perhaps the states are comparing themselves with the federal failure and think they are doing comparatively well. And they are. But rather than falling in step with the priorities of a dying federal government, what about setting the pace and pushing the national agenda? What about getting the education debate on to the issue of standards and outcomes?

At the economic level there is a real leadership role for a premier willing to reinvigorate the productivity agenda, restarting reform in our energy markets and our

labour market.

What about getting the debate back to how we can take burdens off business rather than add to them?

Perhaps we could even "temporarily defer" the introduction of any new business costs?

About 13 years might be an applicable period.