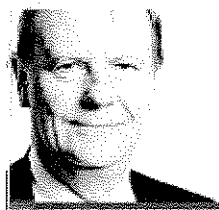


OPINION

Labor must rule out a tax on homes



PETER COSTELLO

There are only two items off the agenda in the Henry tax review: the GST, introduced in 2000, and tax-free superannuation for over-60s, introduced from July 2007.

These two reforms were major improvements to our tax system. The GST – which replaced wholesale sales tax and nine other state taxes – was a hard-fought reform. Labor did everything it could to milk votes from it with a scare campaign which nearly won it the 1998 election.

After it was introduced, Labor came up with a policy to “roll back” the GST. Wayne Swan, now Treasurer, argued in the House of Representatives in February 2000: “One of the reasons the Australian Labor Party is so emphatically opposed to the GST and why we will roll it back is the savage reduction in the living standards of Australian families and Australian pensioners. It could be repealed today.”

Even today it could be repealed. The fact Labor is not interested in doing so shows how it is now accepted as a fundamental part of the tax system. And a fair one. It will stay and is quarantined from review.

Tax-free super for those over 60 will not be reviewed. That’s good. But beware; it is being undercut by other means. This year’s budget cut the contribution limits, which means you still get benefits tax-free but you can’t invest as much in superannuation. And the Government cut co-contributions for low-income earners.

If these items are off the agenda, what should be on the agenda?

Let’s start with income tax. Before the last election, the Coalition announced a tax plan which Labor adopted in all but one respect – which was to cut the top rate of income tax from 45 to 43 per cent this year, to 42 per cent next year and to 40 per cent in 2012.

Labor said it “aspired” to cut the top rate to 40 per cent and abolish the second top rate as well, but not until 2013. It should reaffirm a top rate of 40 per cent, set out a timetable and begin reductions now to get to that rate. It will find it costly to abolish the second top rate. But it should meet the benchmarks set by the Coalition to have 45 per cent of taxpayers on a top rate of 15 per cent or less and 85 per cent on a top rate of 30 per cent or less.

The Coalition cut company tax to 30 per cent. Apparently, the Henry review is looking at cutting it further but with changes to dividend imputation. The thing to bear in mind is, for Australian shareholders, company tax is only a withholding tax. With imputation, dividends are taxed to the shareholder at their individual marginal rate regardless of the company rate. There should be no fiddling with full imputation. Any trade-off

between imputation credits and company tax is of no benefit to individual Australians.

The states still have not abolished all the taxes they exchanged for a GST. They should be held to account and required to do so. Australia’s property and insurance taxes are among the highest in the world. Some of these taxes can be abolished and some reduced out of the revenue from the growing GST base. Nor should we accept the idea states have to be fully compensated for tax cuts. It is a novel idea, but the states could actually reduce their tax-to-GST ratio.

What should not occur? On no account should there be a tax on the family home. Do not be tricked by the promise to tax the home in return for making mortgages tax deductible. Far from reducing the allocation of resources to housing, it would encourage it. Any person without a residential mortgage would be silly not to get one and gear up – amplifying the housing cycle. This is the American system which proved so disastrous in the wake of the sub-prime crash.

I am astounded the Government spent two weeks of Parliament in August refusing to rule out a new tax on the family home. There can be only one reason – they want to keep the option open. It is a bad option. They have ruled out other bad options – for example a rollback of the GST or rollout of tax on superannuation benefits.

Why not rule out a tax on the family home? If the Government goes down that track there will be enormous opposition. I cannot see voters warming to it. Nor should they. There is a reason why it has not been done before: it is a bad policy.

Peter Costello is a former Liberal federal treasurer.