

9 February 2012

Mr Keith James
Deputy Chairman
Board of Taxation
Treasury Building
Langton Crescent
PARKES ACT 2600

Business
Council of
Australia



Dear Mr James

TAX STUDIES INSTITUTE

I am writing in response to your request for the views of the Business Council of Australia (BCA) on the design and establishment of the proposed Tax Studies Institute, which was announced by the Treasurer at the conclusion of last year's tax forum.

As you would be aware, in our submission to the tax forum, the BCA called for the government and parliament to embark on a 10-year reform of the tax system with four key actions:

- Improve the efficiency and sustainability of future government expenditure so enough revenue is raised to pay for future services.
- Reduce the volatility of government revenue by reducing our reliance on income taxes and shifting towards more stable taxes such as consumption tax and land tax, and reduce inefficient state taxes while identifying options to replace that revenue.
- Resolve the accountabilities for expenditure between the states and Commonwealth so the states have a more predictable share of revenue such as from a share of income tax.
- Simplify the tax system using the Henry tax review as a starting point.

In order to take these actions forward, the BCA argued that Australia would benefit from a formalised process for developing, considering, debating and assessing the options for improving the tax system.

We consider that having an independent body with responsibility for progressing long-term tax reform could open up the opportunity to contemplate the full range of options, including some matters that might otherwise be ruled 'off-limits'.

It is in this context that the BCA provides the following brief comments on the role and functions of the Tax Studies Institute and how the institute might best engage with the business community.

Role and function of the institute

One of the clear messages to come out of the Tax Studies Institute roundtable held by Treasury in December 2011 was that the proposed institute would need to have a clear value proposition for the private sector.

While the institute is due to become operational in July this year, at this stage the government has not clearly outlined this proposition.

The Business Council of Australia believes that if the institute is to make a valuable contribution to public policy, then it will need to practically assist in advancing long-term tax reform in Australia. The Henry review has already comprehensively assessed Australia's tax system and laid out a set of directions for improving it. The task should now be to generate focused analysis that can assist the community, government and parliament in considering the pros and cons of various comprehensive tax reform options in the years ahead.

This means that the role and function of the institute should be designed and implemented in such a way that it:

- Has full independence with an explicit mandate from government to progress comprehensive tax reform in the medium term, independent of the need for a specific reference from government. In other words, it would pursue analysis and explore options for tax reform as it sees fit, with government looking to it as a key source of advice and recommendations on how to progress comprehensive tax reform.
- Undertakes analysis of options for reform including modelling the economic and distributional impacts, communicating the impact of reform proposals to the broader community and implementation design. It should not have an undue focus on theoretical and empirical analysis, which is already well established in many academic institutions and international think tanks.
- Is permanent, with a stable source of funding to ensure that it endures over the political cycle.
- Involves a wide variety of stakeholders from across the community so that its analysis and proposals are not seen as representing the interests of narrow groups but rather broader community interests.
- Has a remit that is advisory only, thereby not constraining executive or parliamentary power, other than through the light it sheds on relevant issues.

Engagement with business

If the Tax Studies Institute is established in a way that fulfils these objectives, then it will be more likely that business will see clear benefit in being involved.

Individual businesses may be willing to make a financial contribution to the institute if they see it as likely to make a useful contribution to long-term tax reform. At the same time, the possible impact this could have on perceptions of independence will need to be considered carefully, particularly if funding from a broader range of non-government groups is not forthcoming.

In achieving practical reform outcomes, it will be important that business has the opportunity to provide input into the institute's analysis and advice to government. This may be best achieved through the institute having a business advisory committee that meets on a regular basis.

If you have any further thoughts or questions on how business might be involved in this proposal as the Board of Taxation develops its advice to government, I would be happy to discuss these issues further.

I have also copied this letter to Mr Gerry Antioch, General Manager of Tax System Division in Commonwealth Treasury, given his division's involvement in this proposal.

Yours sincerely



Jennifer Westacott
Chief Executive

cc Mr Gerry Antioch, General Manager, Tax System Division, Commonwealth Treasury