

Background Briefing Note: Proposed Model for an Independent Expert Panel to Undertake State Taxation and Revenue Review

Meg Webb MLC. 1 September 2021

Independent Member for Nelson Meg Webb MLC called for an Independent Review into Tasmania's Taxation and Revenue system, during her Budget 2021-22 Reply speech (delivered Wednesday, 1 September).

Ms Webb's proposal details the purpose, and an appropriate and practical model for the Independent Review. A future Independent Review's specific Terms of Reference should be set by the Parliament following consultation.

Proposal:-

To break the current impasse on meaningful and effective structural reform of Tasmania's state taxation and revenue financial system, by adopting and adapting the proposed Local Government Reform model, recommended in the [Premier's Economic and Social Recovery Advisory Council \(PESRAC\) Final Report](#), released in March this year.

The purpose of the proposed independent review into structural reform of the state's taxation and revenue system includes:

- Review the State's recognised narrow taxation and revenue base, and seek potential modern, fair, equitable and efficient means to broaden that tax base;
- Review whether the current mix and emphasis of the state tax and revenue base provides the stability and certainty necessary to deliver important community services;
- Review whether the current taxation and revenue mix supports, or risks undermining, modern public policy direction and demand. For example, the potential impact of reducing or removing taxes on positives such as employment, while redirecting tax focus onto damaging practices such as pollution, and other 'incentivising' taxes that encourage social and sustainable reforms;
- Review any current revenue foregone options formalised within current state tax and revenue mix; and
- Identify any required transitional timeframes and support, including funding, to assist those most affected by any proposed reforms.

The *PESRAC Final Report 2021*, of which all recommendations were accepted in principle by the Gutwein government, proposes an independent panel of experts to be commissioned by the Parliament to inquire into Local Government structural reforms (*PESRAC Final Report 2021*, pg 78).

Many of the features of the PESRAC recommended model for its proposed process to drive structural reform of Tasmania's Local Government sector, can translate to this proposed structural reform of the State's Taxation and Revenue system. These features of such a model include:

- Establishment of an Independent Expert Panel of experts, with appropriate fiscal reform expertise sourced from both Tasmania and interstate;
- Independent Expert Panel to be supported by an appropriately resourced secretariat;
- The Independent Expert Panel to be commissioned by the Tasmanian Parliament, the Terms of Reference also to be set by the Parliament, potentially by via specific legislation, as per PESRAC's cited example of the *Electricity Supply Industry Expert Panel Act 2010*.

Such a State Taxation and Revenue Reform Review would deliver, as per the PESRAC explanation for a Local Government review, “... a robust, evidence-based set of criteria and benchmarks against which reform options could be assessed and recommended.” (PESRAC Final Report 2021, pg 78.)

By Parliament commissioning this proposed Independent Review we ensure:

- Parliament’s oversight and ownership of, the Independent Review, and its outcomes (importantly assisting in depoliticising the process and outcomes);
- Independent and targeted expertise;
- A legislated process, terms of reference and timeframe, and a dedicated focus by Panel Members; and
- Public transparency and accountability.

Need for proposed Independent Expert Review into State Tax and Revenue system:-

- Despite the need for a systematic and thorough Tasmanian Taxation and Revenue structural reform process being long-recognised and called for over recent decades, political will has not been forth-coming.
- Other jurisdictions have sought to undertake a modernising structural reform of their respective financial systems, including:
 - ➔ the national *Australia’s Future Tax System Review*, also known as the Henry Tax Review, which commenced in 2008 and was released in 2010.
 - ➔ the ACT’s commissioned Panel Review of its revenue and taxation system was released in 2012.
 - ➔ currently NSW is undertaking a review of its property related taxation mix.
- In 2011 the Tasmanian Parliament established the tripartite State Taxation Review Panel consisting of then Labor Premier and Treasurer Lara Giddings MP, then Shadow Treasurer Peter Gutwein MP, Greens Treasury spokesperson Tim Morris MP, and Ruth Forrest MLC.
- Despite undertaking public consultation including public forums, in late 2011 the State Taxation Review Panel announced its decision to discontinue the formal review due to the perceived “*limited ability to reform State taxation in the current [post-GFC] economic environment*” (Statement issued by State Taxation Review Panel, November 2011).
- Prior the decision to discontinue the 2011 the State Taxation Review, the Panel acknowledged that many of the submissions received “*involved broadening the tax base in order to reduce tax rates or remove less efficient forms of taxation*” but the Panel held concerns of the potential impact of an increased tax burden upon some, and the perceived incapacity to fund required transitional arrangements for those affected (Statement issued by State Taxation Review Panel, November 2011).
- The current state government asserts Tasmania’s economy has “*come roaring back*” with the 2021-22 State Budget building “*on the strong foundations this Government has established over the past seven years*” (Treasurer’s 2021-22 Budget Speech, 26 August 2021). According to the state government’s assessment, now may be the most appropriate and feasible time to undertake this long-overdue structural reform of the Tasmania’s taxation and revenue system to improve its fairness and efficiency.
- The proposed Independent Review into the state’s revenue streams and tax mix will assist in addressing concerns raised in Treasury’s June *Fiscal Sustainability Report 2021*, over the state’s capacity to maintain fiscal sustainability given the state’s revenue base composition without “*corrective action*”.
- As the *PESRAC Final Report* concludes regarding their proposal, in which ‘state taxation and revenue reform’ can be substituted for ‘local government reform’:

“*Some may say that we should wait until more stable times to embark on significant reform. Our strong view is that the Tasmanian community can ill-afford to have this key structural issue left unaddressed over the next two to five years. Continuing to put local government*

reform [substitute 'state tax and revenue reform'] in the too-hard basket while the state works through COVID-19 recovery is not tenable. A strong, robust, and well-focussed local government sector [substitute 'state taxation and revenue base'] is required to play its part in recovery, and to respond to future shocks" (PESRAC Final Report 2021, pg 78).