

National revenue shortfall

Robert Schwarz

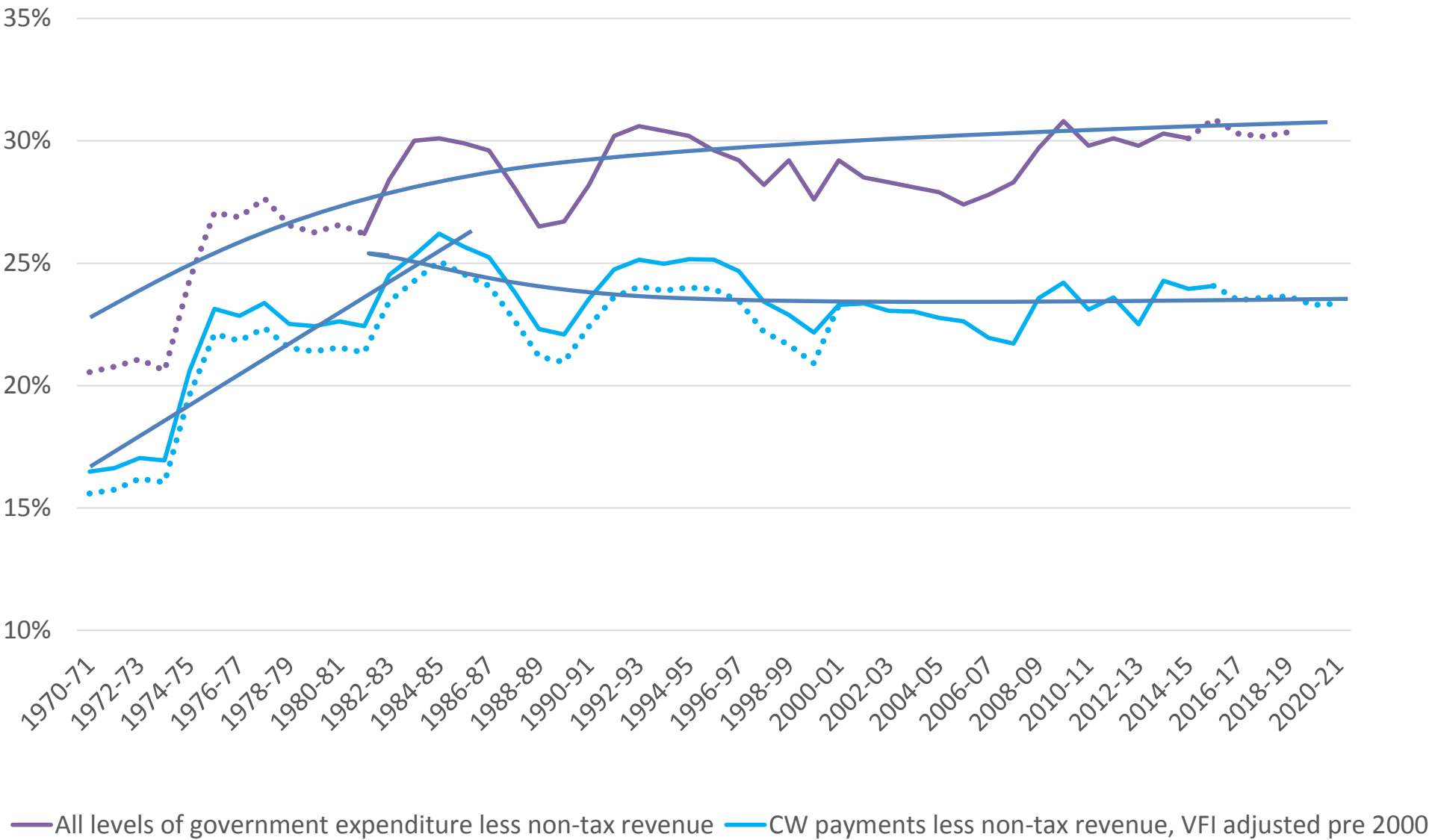
Advisor SA Dept Premier and Cabinet

(Views expressed are those of the
author) August 2017

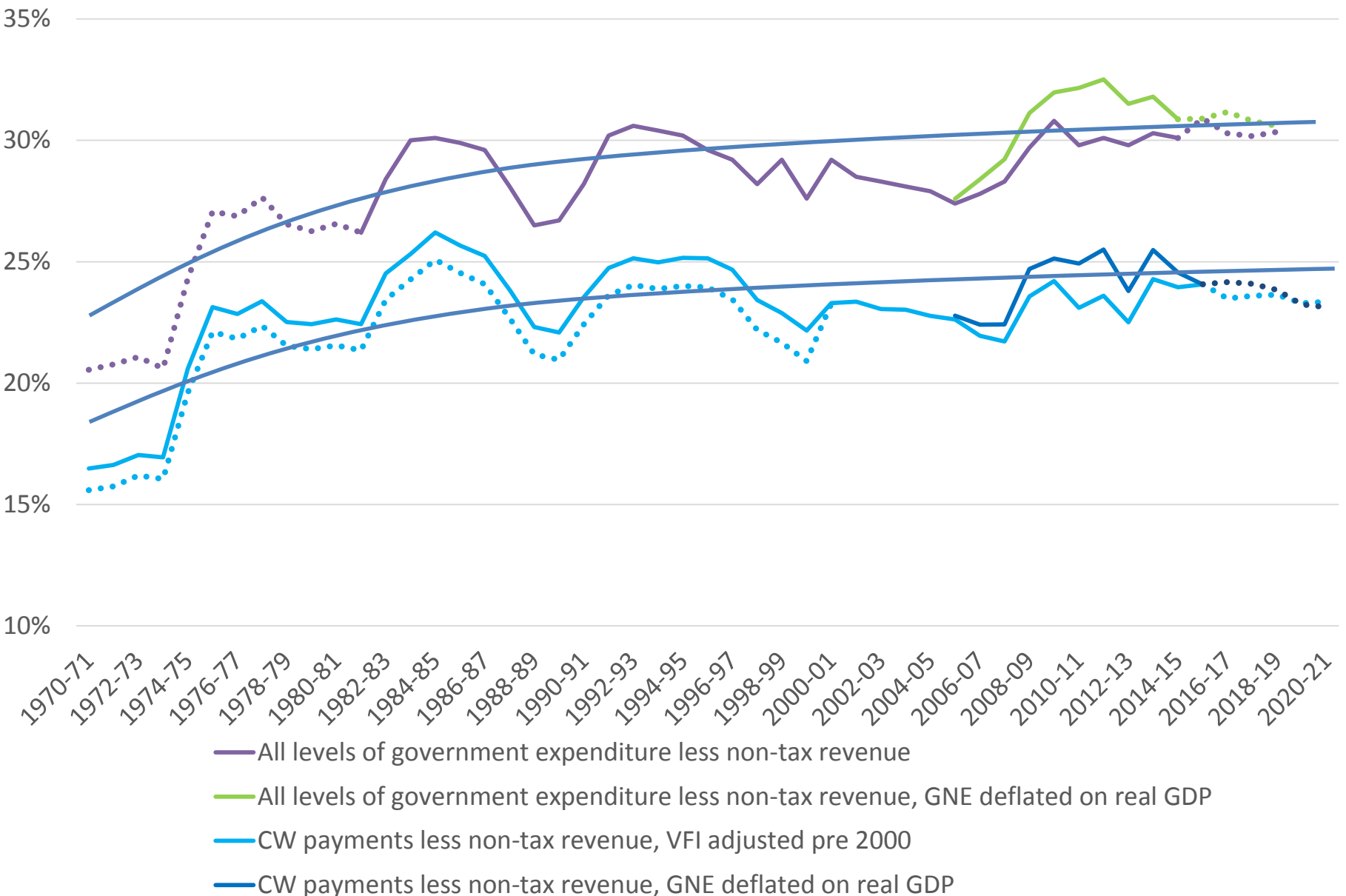
National revenue shortfall

- There is a national public revenue shortfall
- The shortfall will not evaporate on current settings
 - Degree of bracket creep projected by CW at the end of the fwd estimates implausible (Gregory, Grattan)
- Ratio expenditure to GDP not mean stationary
- History hasn't ended
 - Demographic sweet spot is turning sour
 - Health costs and preferences
 - NDIS
 - Semi wartime (more guns less butter)
- 'Spinning the wheels' type tax reform is a distraction

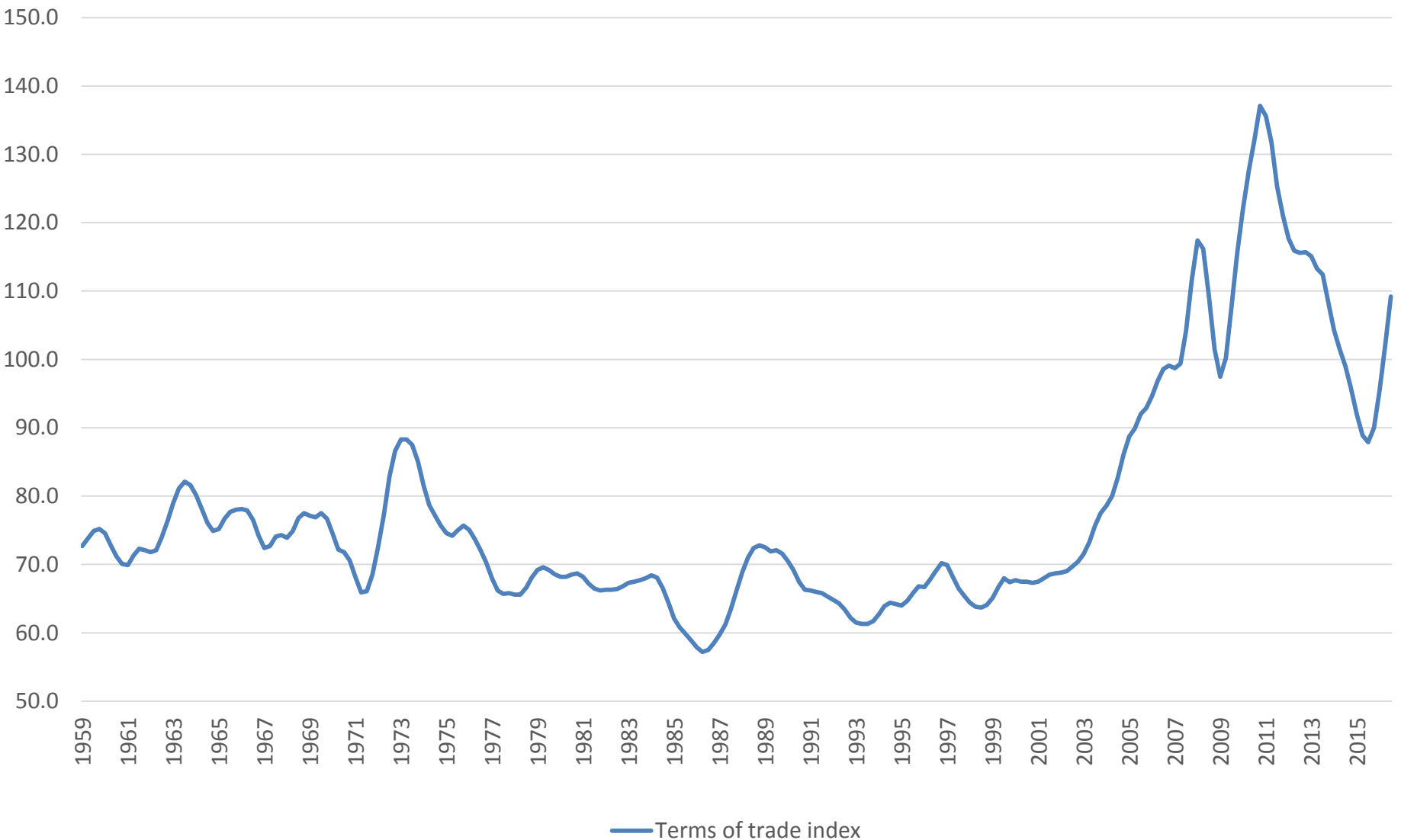
Government expenditure as a % of GDP



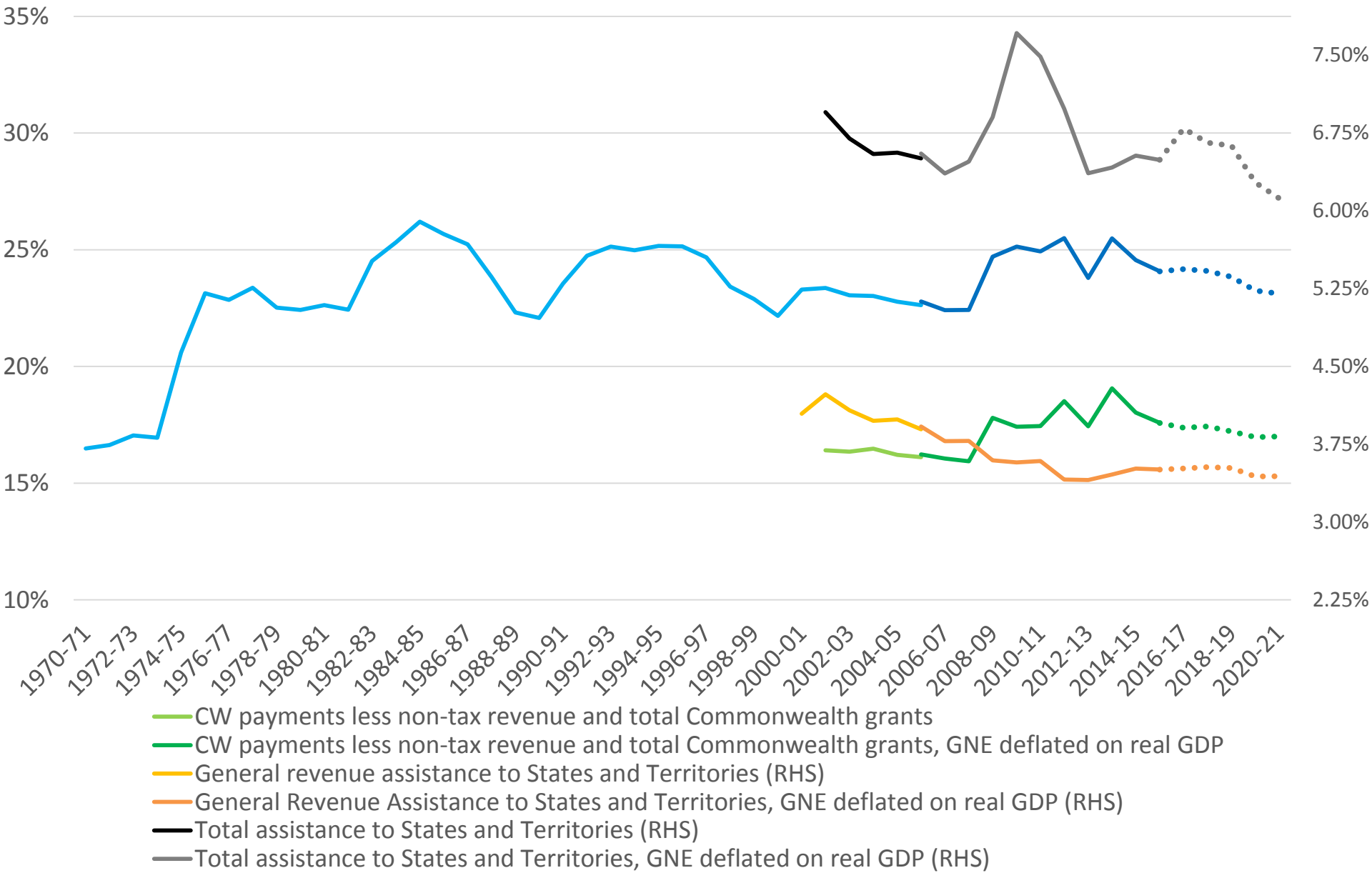
Government expenditure as a % of GDP



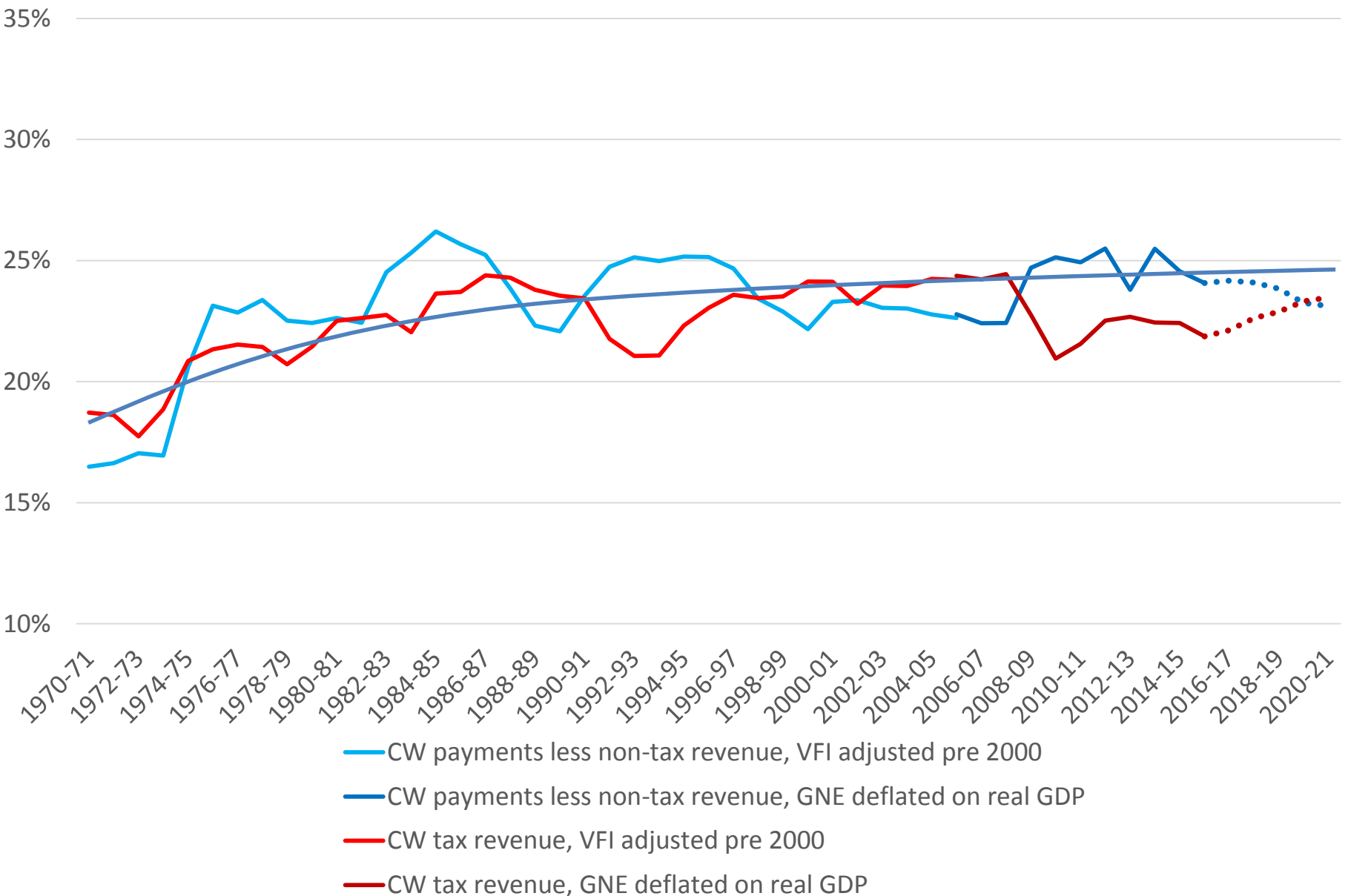
Terms of trade index



Government expenditure as a % of GDP



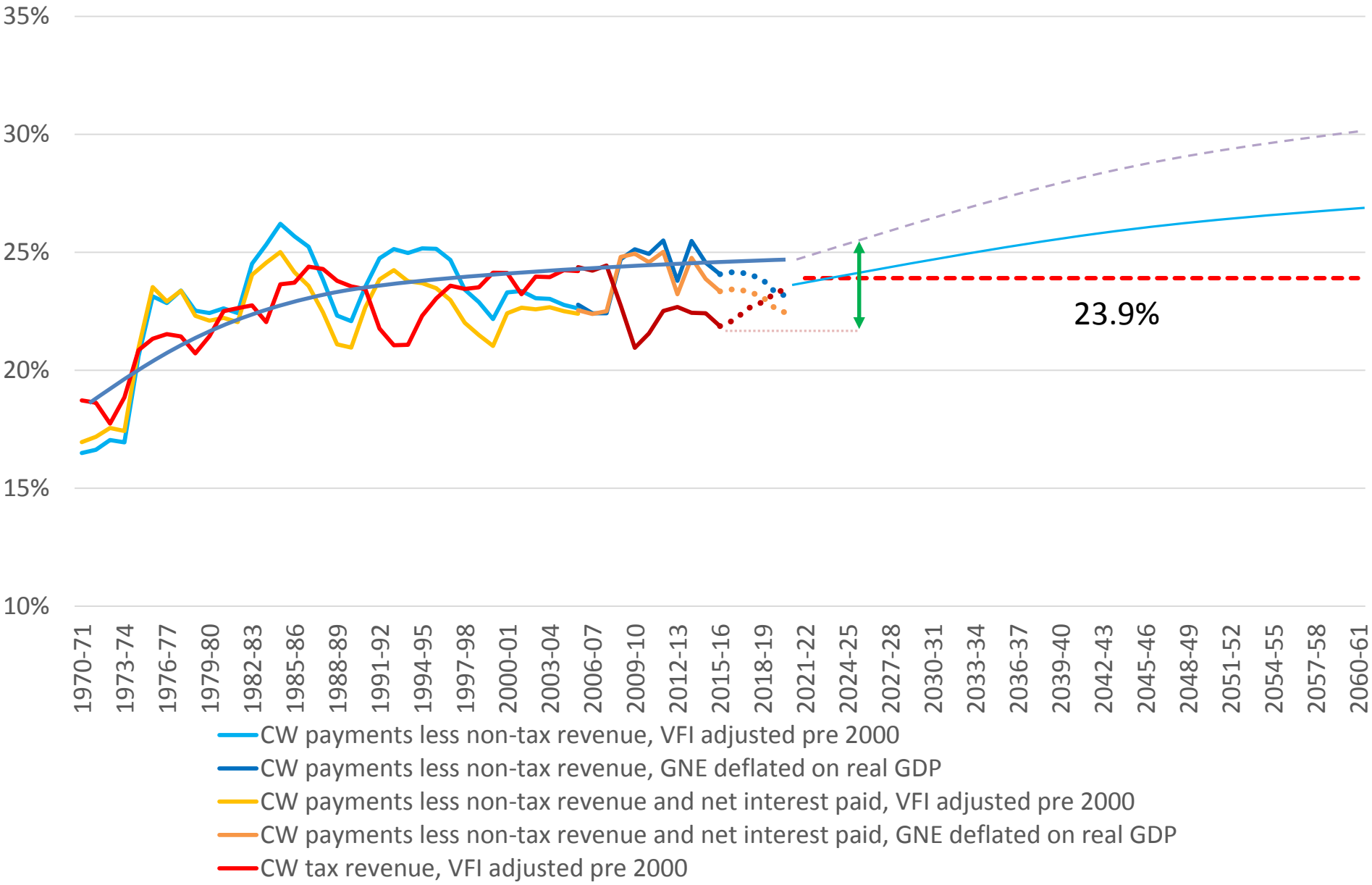
Commonwealth aggregates as a % of GDP



Pre GFC legacy

- What we wouldn't have done then knowing what we know now
 - 1999 Overturned real Capital gains tax design (asset price gain greater than general price increase), double whammy (stimulated negative gearing)
 - Consumption tax design exclude superior goods; financial services, health, education
 - persist with 10% GST rate rather than 11% when basic food dropped out of base
 - Forgo 2001 -2015 indexation amount to petrol excise base
 - Tax free super drawings (stimulated salary sacrifice)
 - Permanent Y tax cuts funded by ephemeral co tax

Commonwealth aggregates as a % of GDP



Way forward

- Re-educate on flat line thinking
 - Or any historical trend or average
- Intended public spending requires sufficient revenue/suppression of private spending
 - Whatever the statistical by-products (i.e. % GDP ratios)
- 15% GST scenario funding Y tax cuts and benefits increases distracts from the real issue
- Food in the GST base would do nothing for over time buoyancy

Way forward - States

- De-link State GPPs from GST: replace with indexed population and wage growth (Emery)
 - Potentially enlarge from SPP conversion
- Institutional innovation re inhibiting CW renegeing (PBO monitoring)
- States joint bank taxation
- States move in property rates direction (local govt ESL type) with annual revenue adjustment
 - Don't exhaust on full replacement Stamp duty