

International Comparison of Australia's Taxes

3 April 2006

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<http://comparativetaxation.treasury.gov.au>

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The Hon Peter Costello, MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

We are pleased to present to you the report on the International Comparison of Australia's Taxes.

This study has provided an important opportunity to inform the public discussion about Australia's taxation arrangements. We believe that the information contained in the report delivers some significant insights into the taxation arrangements both within Australia and in other countries around the world.

The study attracted wide public interest and, although there was no formal submission process, there were over one hundred submissions, many of which raised particular taxation policy measures. We would specifically like to note the input of Deloittes, Ernst and Young, KPMG, PricewaterhouseCoopers and the Institute of Actuaries of Australia in providing assistance to determine the details of taxation arrangements in other countries.

We hope that the broader view of Australia's taxation arrangements which can be gained from this report will allow Australians the opportunity to consider the role of such measures in their international context.

Yours sincerely



R. F. E. Warburton, AO



P. W. Hendy

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TERMS OF REFERENCE

TERMS OF REFERENCE FOR AN OVERVIEW OF HOW AUSTRALIA'S TAX SYSTEM COMPARES INTERNATIONALLY

The study will compare Australia's taxation system with other countries. The aim of the study is to provide an authoritative statement on the public record about how Australian taxes compare to those in other countries. This will help inform discussion about Australia's tax system.

The focus of the study will be on the provision of objective, descriptive information on Australia's tax and revenue system compared with that of other OECD countries. The study will provide information on the overall level of taxes, the tax mix, and the base and rates within each type of tax. As appropriate, the study also will provide information on the publicly stated rationales for different countries' balances between efficiency, effectiveness and simplicity in the revenue raising effort of these countries.

The study will cover all forms of taxation collected in Australia at national, state and local government levels. This is OECD standard practice for international tax comparisons.

The study will cover personal, business, indirect, property and transaction taxes. On personal taxes, in line with the recommended OECD approach, information will be provided on taxes levied on both individuals and businesses for social insurance purposes, as well as particular forms of social benefits that can be provided through either the tax system or through social security expenditures.

The study will also cover taxes on superannuation, taking account of the very different ways that retirement income objectives are provided in other countries.

The study will make comparisons with all OECD countries, largely reflecting the availability of comprehensive and comparable information on their tax systems. These countries cover most of our largest trading partners, as well as the sources and destinations of most of our capital investment. As determined by the authors, the analysis may extend beyond the thirty OECD countries where comparable information is readily available and issues relevant to the study would benefit from a broader analysis.

For context, the study will provide an overview of the fiscal situation in each of the comparator countries. Some countries have a much larger/smaller government sector than Australia, and therefore require a higher/lower level of taxes. Additionally, information will be provided on the fiscal situation of comparator countries (especially in terms of budget surpluses or deficits).

Where relevant and possible, the study will also cover non-tax revenues and provide information on the extent and composition of tax expenditures in comparator countries.

Given the broad scope of the study, and the considerable amount of information and analysis that will need to be covered, the study necessarily will provide an overview of relevant issues for international comparisons of tax systems. Greater detail will be provided in some areas, especially on personal and business taxes.

The study is to be completed and passed to the Treasurer by 3 April 2006. Due to the short period of the study, there will be there no formal submission process. However, you can still contact the study or provide comments. Further information is available on the following website: <http://comparativetaxation.treasury.gov.au>.

The study will be undertaken by Mr Richard (Dick) Warburton AO and Mr Peter Hendy. It will be supported by a small secretariat from within the Treasury. The study secretariat can be contacted through the following address: ComparativeTaxation@treasury.gov.au or by ringing (02) 6263 3033.

AUTHORS

RICHARD F E (DICK) WARBURTON, AO

Mr Warburton has been Chairman of the Board of Taxation since its inception in September 2000.

Mr Warburton is currently Chairman of Caltex Australia Ltd. His other directorships include Citibank Pty Ltd, Tandou Ltd, Nufarm Ltd, Tabcorp Holdings Ltd and Note Printing Australia Ltd. He is also a Director on the Advisory Board of the Garvan Research Foundation.

Mr Warburton is a former Board member of the Reserve Bank of Australia, former Chairman of the NSW Olympic Business Roundtable, a past National President of the Australian Institute of Company Directors, and a former Chairman and Chief Executive Officer of Du Pont Australia and New Zealand.

PETER HENDY

Mr Hendy is Chief Executive Officer of the Australian Chamber of Commerce and Industry (ACCI).

Mr Hendy is also a board director of Standards Australia, the International Chamber of Commerce (Australia), the Australian Institute of International Affairs (President ACT Branch), the Australian Made Campaign Limited and of the National Business Action Fund. He is a governor of the National Institute of Labour Studies, and is Chairman of the Joint Policy Committee of the Confederation of Asia-Pacific Chambers of Commerce and Industry.

Mr Hendy has a strong background in public administration and policy development at Federal and State levels, for both Liberal and Labor Governments. He was Chief of Staff to the Minister for Defence and Chief of Staff to the Ministers for Workplace Relations and Education.

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Table 1: Secretariat members

Bazen, Derek	Graziani, Robert	Lobo, Audrey
Cook, Katherine	Johnson, Shane	McMahon, Paul
Flanagan, Paul (Secretary)	Kirby, Amanda	Webster, Tony

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Table 2: Production team

Cameron, Elizabeth	McCormack, Catherine	Scarano, David
Edwards, Judy	McMahon, Lani	Shilling, Jo
Garrard, Grazia	Pearce, Penny	

ACRONYMS

ABS	Australian Bureau of Statistics
AMTI	alternative minimum taxable income
ASEAN	Association of Southeast Asian Nations
ATO	Australian Taxation Office
ATR	average tax rate
avg	average
AW	average worker
AWE	average weekly earnings
AWOTE	average weekly ordinary time earnings for full-time adults
CBIT	comprehensive business income tax
CBO	Congressional Budget Office
CEN	capital export neutrality
CFC	controlled foreign company
CGT	capital gains tax
CIT	corporate income tax
CPI	consumer price index
CPT	corporate profit tax
CTR	corporate tax rate
EATR	effective average tax rate
EET	exempt-exempt-taxed
EMTR	effective marginal tax rate
ERM	exchange rate mechanism
EU	European Union
FDI	foreign direct investment
FIF	foreign investment fund
FTC	foreign tax credit
GDP	gross domestic product
GFS	Government Finance Statistics
GNI	gross national income
GST	goods and services tax
ICT	information and communications technology
IMF	International Monetary Fund
LCT	luxury car tax
MTAWE	male total average weekly earnings
MTR	marginal tax rate
NOL	net operating loss

Acronyms (continued)

NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
OECD Model	OECD Model Tax Convention on Income and on Capital
PAYE	pay as you earn
PPP	purchasing power parity
R&D	research and development
SME	small and medium enterprise
SSC	social security contribution
STS	Simplified Tax System
TES	Tax Expenditures Statement
VAT	value added tax
WET	wine equalisation tax
WHT	withholding tax
WST	wholesale sales tax
WTO	World Trade Organization