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HD Costs of tax reform bungles
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LP Editorial

Labor government bungling of its mining and carbon taxes should remind everyone of some obvious points about tax reform. It should not be made on the run and sprung on taxpayers as a fait accompli. It should be part of a comprehensive framework that does not exclude the most obvious reforms, such as to the goods and services tax, on narrow political grounds. Labor's tax reform bungling under Kevin Rudd, Julia Gillard and Wayne Swan now leaves a major problem: both taxes will raise billions of dollars less than officially forecast. Yet these billions have effectively already been spent. And, as Labor piles on even more big-ticket spending promises and junks its budget surplus promise, it is being forced into another tax grab that could destabilise our superannuation system.

TD It's clear the minerals resource rent tax will raise only a fraction of the forecast $2 billion in revenue this financial year. A large chunk of this forecast revenue already has been spent on handouts to voters, notably on helping to lift compulsory superannuation contributions from 9 per cent to 12 per cent of wages, on family payments and on infrastructure projects. This is all the result of flawed initial design, which would have been exposed had it been properly aired in advance.

There is nothing wrong with making miners pay for minerals taken out of the ground, which is what state royalties are designed to do. And there is a case that profit-based resource taxation will discourage resource development less than production-based royalties. Yet the original ill-fated resource super profits tax that Mr Swan sprung on the mining industry in 2010 contained a fatally flawed conception of the nature of economic "rents". As proposed by the Henry tax review, it effectively would make the federal government a 40 per cent silent equity partner in every resource development in the country. Importantly, this was supposed to mean that the government would also wear its share of any losses. The idea that taxpayers would inject money into loss-making mines was a literally incredible political fantasy. The same applied to the claim by then Treasury secretary Ken Henry that even a 90 per cent super profits tax would not discourage the development of one mine because it would not eat into "normal" profits. But true "rents" are less pervasive and durable than this extreme theory makes out. The rocks in the ground are worth very little until a resource company takes the risk of investing billions of dollars of capital to extract and sell them. Any early "super" profits are likely to be eaten away as they encourage new entrants.

Like the mining tax, the carbon tax is a mess of the government's making. Climate Change Minister Greg Combet this week all but abandoned Treasury forecasts that today's $23-a-tonne carbon tax will give way to a carbon permit price of $25 dollar-plus when the emissions trading scheme is supposed to begin in mid-2015. "The price will be the price," he said. Yet, under the emissions trading scheme, the price will be linked to the global carbon price through the European trading scheme, where the price has collapsed to less than $10 a tonne. Yet, in echoes of the mining tax, Labor has already over-compensated low and middle income earners based on the much higher carbon price. This could knock about $4 billion out of the budget bottom line by 2015.

Putting a price on carbon is a more efficient way of reducing carbon emissions than blunt regulation such as mandatory renewable energy targets. The problem is that, after promising there would be no carbon tax, the Gillard government quickly jumped into bed with the Greens in order to grab power after the 2010 election. That put Australia out in front of the rest of the world with an excessively high carbon price. Even if Labor regains office, this means our carbon price will soar up to 2015, then slump, undermining the investment confidence in clean technologies it is supposed to promote. It should have started much more modestly, say with a carbon price of $10 a tonne, to see what action the rest of the world was taking.

Now Labor is banking on the promise of billions of dollars of spending on school education and disability support to get back into office. But, in part because of bungled tax reform, it simply doesn't have the money to pay for it. That's provoked its new hopes to extract billions of dollars out of superannuation tax concessions, particularly for upper-income earners. There may be a case for clipping some of these concessions but, again, only as part of a sober and serious review of the tax system and retirement incomes policy. As economist and Henry tax review member John Piggott wrote in these pages yesterday, Australia's world class superannuation system could be wrecked by politicians seeking to plug budget holes.

It was the 17th century French economist Jean-Baptiste Colbert who said: "The art of taxation consists of plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing." This Labor government has managed to extract very few feathers amid a great deal of damage-induced noise.

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