TAX REFORM

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Arguments for improving the nation's taxation arrangements are not just voiced around the time of elections and changes of government. Recurrent arguments for change come from both disgruntled taxpayers and policy analysts concerned with the adequacy, efficiency and equity of the whole tax system. Recently joining the latter chorus, the former chief executive of the Grattan Institute declared herself to be an advocate of reform, just before taking up her position as Chair of the Productivity Commission where she will have ready access to the Labor government's Treasurer Jim Chalmers (Wood 2023). Could a new era of tax reform be coming?

Although the advent of a Labor government usually raises expectations (or fears) of tax reform, the current political context does not seem propitious. The ALP 'snatched defeat from the jaws of victory' at the 2019 election when, with Bill Shorten as leader, its proposed tax reforms played into the hands of unscrupulous LNP Coalition scaremongers. Ever since then, the ALP, federally, has been reluctant to make substantial tax reform proposals. It made precious few during the election campaign and, now in government, its focus seems to be on maintaining the trust of the electorate by being a 'safe pair of hands' and delivering its election promises. This is understandable, even commendable, and seems to have been effective, but it severely constrains what can be done in an important field like this.

Without major tax reform, many entrenched social and environmental problems are harder to redress, especially when the government is also intent on avoiding budget deficits. So, demands for tax reform resurface – and so they should because, seen from the perspective of basic Labor values, reversing the tendency towards growing socioeconomic inequality is almost impossible if major tax reform is ruled out.

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Taxation is also central to the fiscal policy of the government because how much tax is raised – and from whom – influences the overall structure and functioning of the economy, including the relative size of the public and private sectors. Without expanding revenue, most of the other policy fields discussed in this issue of JAPE become more problematic.

This article considers the possibilities and prospects of the current Labor government eventually undertaking substantial reform in this predictably controversial area. It considers what tax reforms are feasible and desirable, paying particular attention to reforms that would be effective in dealing with the growing inequality in the distribution of wealth in Australia as well as the adequacy and efficiency of the tax system. First though, we need to consider what the Labor government has already done.

The tax reform record to date

The first half of Labor's term in government, seen from a tax reform perspective, is more notable for what has *not* been done. Most notably, neither Prime Minister Anthony Albanese nor Treasurer Jim Chalmers has indicated an intention to repeal the third tranche of the income tax cuts that were introduced by the Morrison government in a staged sequence of changes to income tax. When that legislation came before Parliament, the Labor opposition, still mindful of its hurtful 2019 election experience and determined not to suffer similarly in 2022, decided to support the Morrison government's package in full. Now in government – and determined not to be seen as breaking any of their prior commitments – they are 'playing a straight bat' in denying any intention to change.

Meanwhile, of course, everyone in the government knows – as does every tax analyst – that the Stage 3 income tax cuts are massively regressive. That is, most of the tax relief they provide will go to the richest stratum of Australian taxpayers. The most commonly cited estimate is that 50% will go to the 10% of households with the highest pre-tax incomes, 72% goes to the top 20% but just 5% goes to the bottom 50%, while the lowest 20% get nothing (Denniss *et al.* 2022). These new tax rates are due to come into operation in July 2024. How Labor will deal with the situation when that time comes remains to be seen, of course. To date though, all the government's leaders have consistently denied any intention to change or cancel the tax cuts, despite the possibilities for gaining widespread public acceptance by pointing out the good reasons for doing so.

Other than the blatantly regressive distributional effect, two reasons could be used for changing track. One is that the political context has changed since the demise of the Morrison government, now widely understood in hindsight to have been flawed and irresponsible in so many other respects. The other, stronger, reason is that the economic situation has also changed, making the cuts incompatible with the current government's prudent approach to maintaining good social supports while dealing with a cost of living crisis. Now is clearly not a time to be giving major tax cuts to the rich. Yet, to date, the government is sticking to script.

Governmental stasis is also shown by the absence of any announced intention to review the tax system and the long-term options for reform. Announcing an inquiry or review a standard political tactic for a government wanting to pave the way for a change of policy direction. For the Labor government not to have done so yet would be understandable if its main current concern were to back away from the Stage 3 tax cuts: the time necessary for undertaking a broader public inquiry would not be propitious for that quick change. But tax inquiries and reviews can – and sometimes have – played important roles in laying the foundations for more comprehensive reforms. Moreover, it is Labor governments that have usually been the main drivers of those processes.

The Hawke government held a big 'tax summit' in 1985 to canvass a wide range of reforms; and the Rudd government initiated the review headed by Treasury Secretary, Ken Henry, for a similar purpose. In hindsight, the Henry report stands as a clear example of foundations not subsequently built on: rather, the displacement of the Rudd/Gillard/Rudd governments by the conservative LNP Coalition in 2013 presaged a decade of policy drift. But there is little political appetite for dusting off the Henry Review now, revisiting its arguments and recommendations, nor for initiating a new process attuned to the current political economic situation. It appears that comprehensive reform cannot even be contemplated.

Yet, it would be wrong to say that no tax reforms have been attempted, because significant steps *have* been made by Treasurer Jim Chalmers. One cluster of reforms relates to the taxation of large corporations, seeking to reduce the avenues whereby they minimise their tax - sometimes paying no tax at all. The *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill* was introduced into Parliament in June 2023, with the stated intention of raising an estimated $720 million in tax revenue over four years (Leigh 2023).

While this is quite 'small change' for those giant corporations, substantially more additional revenue is being raised through the work of the ATO's existing Tax Avoidance Taskforce which scrutinises multinational tax dealings. Although this is a difficult area in which to make progress because of the wide array of tax-avoidance options available to companies with 'global reach', the government is clearly committed to cooperation with other nations similarly seeking greater transparency and accountability. Perhaps the boldest of these activities is trying to establish a global minimum tax rate of 15% on the profits of all multinationals. Chalmers announced in his 2023-4 budget that the government would join a group of 'first-mover nations' to implement this goal, requiring corporations to pay that minimum tax rate in each jurisdiction where they operate (Leigh 2023).

Also significant was the government's announcement in February 2023 of its intention to reduce the taxation advantages that some very wealthy Australians have attained by holding massive amounts of their wealth in superannuation schemes. The announced policy change would double the tax rate on superannuation earnings from balances over $3 million, rising from its current rate of 15% to 30%. Notably, this higher tax rate will still be well below the top rate of income tax. It will also affect less than 80 thousand people – just 0.5% of Australian taxpayers – most of whom are using the exiting tax concession purely for tax avoidance. Pointing to the most extreme cases, the Prime Minister said: 'With 17 people having over $100 million in their superannuation accounts […] most Australians would agree that that's not what superannuation was for. It's for people's retirement incomes' (Clun 2023).

Indeed, there are grounds for thinking that shutting down concessions that allow tax-minimisation by the super-rich is likely to command substantial public support. Significantly though, the government announced that the changes would only begin after the next election. The policy change may therefore be interpreted as the government 'putting a toe in the water' to see whether a small progressive tax change like this would be electorally acceptable.

To its credit, the government has also published details of the many other tax concessions going to the wealthy and high-income earners and shown how those concessions worsen inequality in Australia (Australian Government 2023c). This report, showing the amount of tax foregone, may be regarding a paving the way for further tax reforms down the track.

On face value, it is just a source of public information about the nature and size of existing 'tax expenditures', but the very act of making such information publicly available can be interpreted as creating an informed constituency for future tax reform efforts. Of course, what some regard as unfair and unjustifiable 'loopholes' in the current tax arrangement will always be defended as their inalienable rights by many of those taking advantage of those loopholes. But, taking the view that 'sunlight is the best disinfectant', revealing the sources of tax injustice is certainly a good step forward, perhaps thereby paving the way for future reforms to make the system fairer. It is also not hard to understand that eradicating unjustifiable loopholes simultaneously increases the government's revenue base, facilitating provision of further public spending in areas of social need, like health, education and the environment.

Finally, it is pertinent to note that the Albanese government also initiated an updated *Intergenerational Report* (*IGR*). At face value, this is no big deal, merely continuing a process that has been occurring periodically in Australia during the previous three decades. But the review's content is significant in this context because it is indicative of why tax reform may be regarded as necessary from a revenue perspective. It constitutes a basis that the federal government *could* use for making comprehensive tax reform, if not right now but in the not-too-distant future. What sort of basis that might be is a question needing careful consideration.

The Intergenerational Review

The *IGR 2023* was released to the public by Treasurer Jim Chalmers on 24 August 2023. It sits in a troubled tradition of similar reports, originating in 1995 with the then Opposition leader John Howard's establishment of a National Commission of Audit, as part of a conservative 'small government' agenda. The Commission's report set out to show that the future trends driven by the aging of the population would mean greater pressure for high government spending – but with a smaller proportion of the population actually in the income-earning workforce. Because that would cause a higher tax burden on the workers of the future, the government should start right away on a program of government expenditure cuts. As the Commission's report rather soothingly put it: 'urgent action is needed to moderate community expectations of government assistance, increase incentives for self-reliance [*sic*] in old age

and more equitably share the cost of age-related services funded by government' (NCA 1996). The intent was clearly to scare people into accepting a neoliberal policy agenda.

On becoming Prime Minister, Howard sought to institutionalise this process by setting up the first of what was a semi-regular series of IGRs. Their general feature ever since has been 40-year projections of government spending that make fiscal stresses seem certain to intensify, scaring commentators and the general public into accepting the neoliberal, 'small government' arguments about the need to curtail public spending rather than face intolerable increases in tax rates. This was particularly evident in the 2015 *IGR* which, according to its introduction by the then Treasurer Joe Hockey, set out 'what we need to do if we are to maintain and improve our standards of living' (Australian Government 2015: iii). Hockey's subsequent federal budget, attempting to push through draconian cuts to government services and welfare, remains notorious to this day for its harshness and the public uproar that it created.

While the 2023 *IGR* (Australian Government 2023) issued by Jim Chalmers is softer in tone, similar themes are evident, both in methodology and in the political economic implications. The methodological issue concerns the single-minded focus on GDP – to the exclusion of everything else – as the basis on which future incomes and wellbeing are projected. A completely different perspective arises if, instead of GDP, a wider and more accurate definition of 'income' is adopted. The political economic implications then become radically different, mainly because the rapid growth of wealth and capital gains comes into the spotlight, as does the potential for increasing the tax on wealth and capital gains. Seen from this perspective, the framing of all the IGRs, including the latest one undertaken on Chalmers' watch, is deeply flawed. However, *if modified to consider projected volumes of wealth and capital gains,* IGRs can provide a useful basis for consideration of what tax reforms would make the system better serve the nation's long-term social needs and capacities.

Why focus on wealth and capital gains?

Whereas income is a *flow* over time (arising from wages, interest, profits, rent or transfer payments), wealth is a *stock* (comprising assets, ranging from physical assets like houses and yachts to financial assets like shares, bonds and cash). While people can increase their wealth as they save out

of their incomes, quantitatively much more important are the increases in wealth that come from receiving capital gains. Capital gains arise from the increasing market prices of assets, whether physical assets like houses or financial assets like shares. They are the principal means by which wealth begets more wealth, especially in an inflationary economic environment. Capital gains can be very large, though they can also be very volatile. Based on inspection of ABS (2023a) data, capital gains have been adding, on average, an additional 42.9% to Australian household incomes over the 10 years to March 2023. Because most households actually get very little or no income through this channel, it follows that the wealthiest households are receiving prodigious amounts.

Examinations of the potential for tax revenues to grow at a rate matching future spending needs and demands, such as those set out in in the Intergenerational Reports, typically ignore the impact and distribution of these capital gains. That is a serious omission, but the unfinished work of the IGRs can be completed by projecting wealth and capital gains forward 40 years. Hence, if we take the simple start and end points of the ABS data for household wealth and income in Australia, we find that wealth has increased by a compound 7.3% p.a. between September 1989 and March 2023, compared with household income which increased 5.4% p.a. over the same long period.[1] If those rates were to continue for the next 40 years, the *ratio of wealth to income* (as in GDP data) in Australia will increase from 7.5 times to 15.6 by the 2060's. In other words, the increase in privately held wealth will be more that twice the increase in national income. Capital gains will, on average, have grown to be 1.1 times household income as it is measured in the IGR. If so, the income flow that the offficial *IGR* omits will be even bigger that what it includes.

A compounding factor is that the distribution of the wealth among households is even more concentrated than the distribution of income. ABS data shows that the top quintile (20%) of households has 41.6% of total equivalised income,[2] while the top quintile of wealth owners has 62.3% of the wealth (ABS 2021). Also, the ABS gives Gini coefficient estimates for income and wealth. The Gini, named after an Italian statistician, is a measure of inequality which falls within the range of zero

[1] First author's calculations based on ABS (2023a).

[2] The ABS adjusts household income for household size and composition to produce a series for equivalised income.

to one: the higher its value, the greater the inequality. For the 2017-18 financial year, the ABS gives Gini estimates of 0.439 for gross household income and 0.621 for household net worth. Again, this indicates a much higher concentration of wealth than income. Interestingly, the calculations suggest a small decline in the wealth Gini following the onset of the COVID pandemic, dipping to a value of 0.611 (ABS 2022). The longer-term trend is for the Gini for income inequality to become marginally greater over time, while the Gini for wealth inequality has risen more substantially.

Just as wealth holdings are more unequal than incomes, so too are the capital gains on that wealth; and those have been very large in recent years (Richardson 2021). Even if wealth inequality grew no worse over time, the *growth* in wealth would mean that capital gains on wealth make the distribution of income much more unequal than is suggested by the ABS data.[3] Moreover, the distribution of income plus capital gains is getting more unequal as capital gains get larger. This is evident when appropriate adjustments are made to the ABS data, as shown in an earlier paper (Richardson 2021). That research showed that the top 20% of households had ordinary gross income (excluding capital gains) 3.4 times larger than the bottom 20%. However, for capital gains the equivalent ratio was 108.4 times. Capital gains boosted the income of the bottom 20% of households by 4.4%; but boosted the incomes of the top 20% by a massive 144%. Those figures show how recognising capital gains on the unequal wealth holdings reveals a very much more uneven income distribution than is suggested by the traditional measure of income that excludes capital gains.

The broader implications of what happens to societies were explored by Thomas Piketty in his big smash-hit book, *Capital in the Twenty-First Century* (2014). This showed that, if the increase in a society's wealth exceeds the growth in its national income, the wealth becomes more concentrated and family dynasties tend to loom increasingly large relative to the size of the economy. That seems to be happening in Australia; and the process gets a turbo boost when capital gains arising from wealth are added into the picture.

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[3] This is something the Productivity Commission (2018) fails to grasp. Measures of relative wealth such as the ratio of the top 10th to the bottom 90% do not acknowledge the massive increases in wealth especially at the top end.

Some important inferences may be drawn from these statistical observations. First, wealth and capital gains are even more important than income, as usually understood, when considering the nature and sources of economic and social inequality. Second, achieving a more sustainable and equitable set of tax arrangements therefore requires putting a strong focus on wealth and capital gains. Third, both wealth and capital gains need to be a focal points for tax reform because capital gains operate as both cause and effect of increasing inequality in the distribution of wealth.

Equity requires fully taxing capital gains

A fundamental principle of the Australian tax system is that similar income should be taxed the same, no matter what its source. Public finance textbooks have also stressed for generations that fiscal policy discussions should be using a comprehensive definition of income. The tax review chaired by Ken Henry referred to the pure definition of income under which income represents the increase in a person's stock of assets in a period, plus their consumption in the period. Most discussions refer to the Haig-Simons (H-S) income concept, simply defined as 'consumption plus changes in net worth' (Staff of the Joint Committee on Taxation 2012).[4] Whereas tax is usually only on realised capital gains, the H-S definition includes capital gains on an accrual basis (Armour, Burkhauser and Larrimore 2013). This reflects the view that capital gains are a component in income, whether or not they are actually realised as income at the time.

Should these capital gains be taxed? Applying the preceding argument, the answer is clearly yes, ideally as they accrue. Equity considerations reinforce this case, because the people who have large amounts of wealth are usually the same people who get most of the capital gains. A further case can also be made for fully taxing capital gains to stem tax avoidance, since a good deal of avoidance currently takes place by disguising other incomes as capital gains, thereby paying lesser or zero tax. Finally, there is the ethical proposition that capital gains are unearned income that arise from changes in asset values determined by market forces, so they should not be taxed more lightly than income from wages which arise from the efforts of productive labour.

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[4] The references here are to economists, Robert Haig (1921) and Henry Simons (1938).

The taxation of capital gains in Australia

When the Hawke Government introduced a capital gains tax on assets acquired after September 1985, it was argued that 'because real capital gains represent an increase in purchasing power similar to real increases in wages, salaries, interest or dividends, they should be included in any comprehensive definition of income' (Australian Government 1985: 77). This was a step towards accepting the preceding arguments. Paul Keating, the federal Treasurer at the time, recurrently said that capital gains taxation was needed because otherwise income from the ownership of capital would be treated more favourably than income from labour ('hard yakka'). In practice, however, capital gains tax (CGT) is something added to the tax system almost as an afterthought and only to the extent of including some realised capital gains - and, even then, there are large concessions[5]. The Howard government inflicted a king-hit by slashing the rate of tax on capital gains to half its previous rate, creating the 'discounted' CGT rate which, ever since then, has benefited the owners of capital relative to people earning their incomes mainly from waged work.

According to the last budget, the Treasury expects to raise CGT revenue of $23.2 billion in the fiscal year 2023-24 (Australian Government 2023b). This is a small proportion of total household capital gains, currently close to a trillion dollars.[6] Since a good deal of the CGT is paid by corporations and superannuation funds, the actual tax rate paid overall by households in receipt of capital gains must be lower still. Part of the reason why the CGT revenue is so low in practice is the various concessions that apply. The published statement of 'tax expenditures' (Australian Government 2023c) provides an estimate of the value of these various concessions. For example, the family home is exempt from CGT; and loss of potential government tax revenue from that exemption alone is estimated at $47

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[5] Some technical considerations arise in defining capital gains, especially for taxation purposes. If you buy and sell anything within 12 months, then any resulting income is treated as a trading profit which should be declared as income and is taxed at the taxpayer's ordinary tax rate. In ordinary discourse, a trading profit of this sort might well be described as a capital gain. Rather, capital gains generally refers to the 'profit' made on selling an item that has been held for a year or more. The distinction seems to be a pragmatic way of distinguishing between income produced by second-hand dealers and other traders as compared with investors looking for long term benefits from holding property, shares, art, and other assets.

[6] First author's calculations based on ABS (2023a).

billion.[7] The other main reason the CGT revenue is so low is that it only applies only when the asset is sold. Clearly, huge additional revenue could be generated by more comprehensive and effective capital gains taxation.

A tax on wealth?

Should stocks of wealth be taxed too? In other words, should tax reform aiming to make the sources of revenue more potent, more equitable and better geared to people's ability to pay be based on total wealth holdings, or only to the increments that come through capital gains? Any review of the tax system could be expected to address this key issue.

When the tax review headed by Ken Henry did so, it argued that capital should be taxed only lightly (Australian Government 2010). This evidently reflected the quaint view that wealth is accumulated by hard-working people who are thrifty, saving for their retirement and other contingencies. Many do, of course, but the official Australian data shows that household savings coming from wage incomes are a tiny part the growth in wealth. As traditionally defined, household saving accounted for only 10.4% of the increase in household wealth from December 1989 to March 2023.[8] Moreover, household saving, as traditionally defined, is only 19.4% of the total savings in Australia[9], with the rest being largely due to the corporate sector, the banking system, and government businesses. So, at the most, the view expressed in the Henry report can explain perhaps 10.4% of the 19.4% – or just 2% of total Australian savings. Since, of the present wealth, under 2% is likely to reflect savings that originated out of pay-packets, Henry was plainly wrong in positing this as a justification for only lightly taxing capital and income from capital. Note too that a wealth tax with a relatively high threshold, say 15 times annual income for someone on average weekly earnings, would not touch any wealth that ordinary income earners in Australia could accumulate without getting huge windfalls from capital gains, inheritances, lottery prizes, and the like.

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[7] That figure is due to the family home being exempt from ordinary capital gains tax that applies to individuals as well as the 50% discount usually available to individuals.

[8] First author's calculations based on ABS (2023a).

[9] Calculations based on ABS (2023b). Savings for the whole economy is defined as GDP less total consumption.

Internationally, more general and evidence-based arguments for substantial wealth taxation have been gaining traction. Thomas Piketty argues that, to address the creeping inequality throughout the world, we need 'new tools, adapted to today's challenges' (Piketty 2014); and that the ideal is a global tax on capital or wealth.

The OECD (2018) report on wealth taxes should be seen in that light. The report documents existing approaches to taxing wealth, while also presenting arguments for such a tax and tightening up existing tax arrangements. The OECD reinforces the importance of wealth taxes for tackling the growing inequality. Recognising that 'wealth inequality is far greater than income inequality' and getting worse, it argues that 'wealth accumulation operates in a self-reinforcing way and is likely to increase in the absence of taxation'. Currently, high earners are able to save and invest more which means accumulating more wealth. Wealthy taxpayers are also in a better position to invest in riskier assets which will tend to generate higher returns. That may be due to their 'financial expertise and more lucrative investment opportunities' as well as their ability to obtain loans, enabling more investment and the accumulation of more wealth. The OECD also mentions that wealth may confer more economic and political power which helps the rich get even richer. Citing Meade (1978), the OECD report points out that wealth may bestow social status, power, greater opportunities, satisfaction, or provide an insurance value against unexpected future needs.

Wealth taxation in Australia

In some respects, a wealth tax is less distorting than a capital gains tax based on *realised* asset values, because the latter provides an incentive not to realise the capital gains. A capital gains tax can 'lock-in' particular assets as their owners do not want to trigger CGT by selling those assets. Wealth taxes do not incentivise the lock in of any capital gains. Nor are they affected by taxpayers' tax planning strategies. A tax on wealth cannot be avoided by changing the composition of that wealth. Moreover, because the total value of wealth holdings is so huge – and growing at a rapid rate – only a very low rate of tax is needed for generating substantial revenue.

Strong arguments like these for taxing wealth may seem like 'voices in the wilderness' locally because Australia does not have a national tax on wealth or net worth. This is not to say that wealth is wholly untaxed,

because local government rates and land taxes[10] are widely applied. Local government rates are payable annually, based on property values[11], and some state taxes are payable on specific types of property. Land tax has its own distinctive rationale, stemming substantively from the observation that land is a natural resource, the privatisation of which has created distorted outcomes and unjustifiable inequities (Stilwell and Jordan 2004). Seen from this perspective, capturing site rentals through land taxation is integral to creating more equitable society. Significantly though, Australian evidence shows that the share of land in a household's net wealth falls as the household's net worth increases. In 2018-19, the second quintile of wealth holders held 88% of their net worth as land (including the buildings on that land) while the top quintile held only 39% of their wealth in that form (ABS 2021).

Estate duty payable on deceased estates is another form that wealth taxation may take, albeit having the obvious limitation from a government revenue perspective that the tax applies only once per lifetime. Importantly though, it does not differentiate between the different forms in which wealth is held, because it is the total value of assets (in conjunction with the set tax threshold level) that determines the tax payable. Estate taxes of this type used to exist in Australia at both the state and federal levels (Reinhardt and Steel 2006). In 1977, however, a 'race to the bottom' began among State governments when Queensland's estate duty was abolished by its Premier, Joh Bjelke-Petersen; and then the other State Premiers and Prime Minister Malcolm Fraser followed suit. However, the issue isn't necessarily dead and buried (no pun intended). Followed the publication of a report by the Productivity Commission (2021) on the huge magnitude of inheritances in Australia, an editorial in the *Australian Financial Review* in 2021 called for a 'modest inheritance tax', arguing that the generous tax concessions for superannuation as well as the booming prices of shares and real estate had enriched the 'baby boomer' generation; and an inheritance tax would be a way for the government to get some of the benefit back. As the former internationally renowned expert on economic inequality, Tony Atkinson (2015), had previously pointed out in relation to

[10] The current land tax rates in various states and territories are summarised in PwC (2021).

[11] Local government rates are sometimes based on estimated land values alone and sometimes on 'improved' values that include the buildings on the land too. One view is that these could almost be regarded, not as a tax but as a fee-for-service which pays for rubbish collection and sundry other services (Australian Local Government Association 2021)

the increasing inequality due to capital gains, a large amount of capital gains accrued as a result of tax avoidance and evasion with income disguised as capital gain. Indeed, much of the accumulated wealth in Australia derives from past income that has never been taxed or only taxed lightly at a 'discounted' rate.

An earlier research paper for The Australia Institute (Richardson 2016) argued that estate duties have a major role to play in addressing the increasing inequalities in Australia. Estate or inheritance taxes are usually said to have a distinctive advantage over other forms of tax in that there is no incentive effect on the person whose wealth is to be distributed nor to the beneficiaries of a will. As one observer put it: 'the tax liability comes at a point where those who did have the money no longer need it, and those who are about to get the money have managed quite well so far without it' (Truman 2006).

Conclusion

The prospect of serious tax reform being undertaken in this term (or probably the next term) of the Labor government are not strong. Some welcome initiatives have already been taken, as noted with approval earlier in this article. Perhaps they portend more 'courageous' interventions later. In the meanwhile, however, comprehensive reforms are being set aside. The reasons for this caution are largely political, and understandably so. Significant reforms create both winners and losers; and the latter can be whipped up by unscrupulous opponents of reform into strident powerful impediments to progressive change.[12] Indeed, even people who stand to gain from reforms which would create a more fair and cohesive society can be enlisted in the oppositional chorus, as recent experiences in other policy areas (most notably the Voice referendum) have shown. These are sound political reasons to tread lightly in the short term.

However, as the political economist J.K. Galbraith was wont to say, it is 'the march of circumstances' that is ultimately decisive. The pressures to build a revenue base to match the society's growing needs for a heathy public sector and for vigorous action on climate change are relentless,

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[12] Labor's review of its own 2019 election campaign referred to the Coalition's 'subterranean' distortions of its reform, including the baseless claim that it would introduce a 'death tax' (Emerson and Weatherill 2019).

pushing against the limits that politicians and their policy advisers are unwilling to traverse. Concurrently, Australian society is becoming steadily more unequal, both in the distribution of income and, even more so, in the distribution of accumulated wealth. On reasonable assumptions, capital gains will on average outpace conventional measures of income in 40 years' time unless something is done to address that trend.

The existing tax arrangements look less and less fit for purpose, either for meeting the fiscal demands placed on government or for reining in the growing inequalities. Alternative tax possibilities exist, such as creating effective taxation of capital gains by removing the existing CGT 'discount' and other exemptions; introducing an annual wealth tax on accumulated asset holdings above a high threshold; or estate taxes that treat wealth transfers by the wealthy as taxable income to the recipients. If Labor in government cannot or won't address this constellation of issues, who will?

Rethinking the case for change needs a paradigm shift. Part of fhe neoliberal mindset includes the view that the wealthy should be left alone to pursue their interests in business and so add to national output and employment: hence the tax and subsidy arrangements to encourage the rich to accumulate and invest yet more capital. The view from the executive suite in the federal Treasury is only slightly more sophisticated, seeing wealth arising from people finding work and saving for their retirement out of their post-tax incomes; all to be encouraged by having low tax rates. These dominant ideologies are smoke screens concealing more deeply troublesome processes whereby people who make little productive contribution get a disproportionate share of the income while those with more visible incomes, such as wage and salary earners, pick up the tab.

The management of political processes for creating the paradigm shift is therefore crucial. Seen in a positive light, the current Labor government has positive attributes and potential. The Prime Minister has a wealth of experience and expertise in identifying and pursuing the 'politics of the possible'. His Cabinet comprises the most impressive array of talent seen on those parliamentary benches for many a year. If Labor attains a second term of office, hopefully a third, we might anticipate the establishment of a process (roadmap?) for considering the big issues of tax reform – perhaps including a tax summit of experts and key stakeholders, preceded by an inquiry into the causes and consequences of the growing economic inequalities in Australian society.

We might also anticipate tax reform proposals being framed to get public support, using 'hypothecated' arrangements linking taxes with spending. A message that 'tax X will pay for provision of the much-needed public good Y' reliably fails to impress public finance experts, but it can help the public to see that otherwise unpalatable medicine is well worth taking.

Of such stuff is progress made in the political realm. Or not…

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