

Blueprint Institute

Beyond inertia

Budget Blueprint 2024: Financing our future



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About Blueprint Institute

Every great achievement starts with a blueprint.

Blueprint Institute is an independent public policy think tank. The challenges our nation faces go beyond partisan politics. We have a once-in-a-generation opportunity to rethink and recast Australia to be more balanced, prosperous, resilient, and sustainable. We design blueprints for practical action to move Australia in the right direction.

For more information on the institute please visit our website: blueprintinstitute.org.au

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Executive summary

Our 2024–25 Budget Blueprint paper focuses on three areas critical for Australia’s long-term success—system-wide tax reform, picking up the pace and impact of the climate and energy transition, and boosting Australia’s innovation and productivity.

Australia’s economy has been infamously described as one of ‘houses and holes’. Our love affair with property and abundant reserves of coal, iron ore, gas, and other natural reserves have helped us become one of the richest countries in the developed world—flattering the public balance sheets, and fuelling a housing market valued at substantially more than GDP. But our economy faces structural deficiencies and impending challenges to competitively integrate into today’s technology-driven, Asia-dominated global economy. Our long-term economic growth is forecast to slow. Decade after decade of economic, social, and geopolitical stability has shrunk our appetite for substantive change. Our fortunes have bred a complacency that permeates our public policymaking. Ad-hoc, reactive policy responses are the political norm—and inadequate for addressing the challenges ahead.

Disruption abounds across the world, and new economic powers and allegiances are emerging. COVID, the rise of AI and social media, tensions between the US and China, the emerging collaborative force of the anti-Western axis, and ongoing conflicts in Ukraine and Gaza are symbols of a rapidly changing world. Australia’s future prosperity and economic resilience requires us to be adaptive to trade and supply chain disruptions, keep up with our peers, and engage with other nations with geostrategic and diplomatic finesse.

Despite the looming challenges of climate change, an ageing population, mounting public debt, time-limited foreign demand for our key exports as the global economy shifts away from fossil fuels, and a generation becoming more and more indebted—incrementalism prevails as the political status quo. The spectre of election cycles render long-termism unappealing for our politicians. Both major parties have

shied away from brave reforms, leaving those to the crossbench. Inertia reigns supreme in Parliament House. These indicators signal the need to progress beyond the jaded narratives of Australian mercantilism and secure future economic prosperity with meaningful reform. Substantive, ambitious policy reform is overdue.

In a per capita recession with mortgage stress on the rise, the cost of living remains at the forefront of the electorate’s mind. We are just emerging from a sustained period of inflationary pressures, and persistent services inflation suggests that pain may continue.

We rang in the new year with an all-too-familiar song and dance about income tax—where bracket creep has become the most convenient can to kick down the road. Although Labor’s adjustments to the Stage 3 tax cuts are intended to reflect cost-of-living pressures, ambition to advance wholesale tax reform is still found wanting.

That is why comprehensive, wholesale tax reform is first on our Budget agenda. Making improvements to our taxation system’s efficiency, complexity, and equity will be crucial to quell voter dissatisfaction. Fairer taxes will stem the populist urges of the electorate, and will be key to raising enough revenue to fund critical investments into clean energy, education, and innovation. We need to rely less on personal income—and more on consumption, land, resources, and rents.

Whilst unemployment levels have shown remarkable improvement in the early stages of 2024, we are still firmly in a productivity crisis. Reigniting productivity growth, which has been anaemic for decades, is crucial for Australia’s sustainable prosperity, and the lead determinant of wages and living standards. Tax reform is a big part of boosting productivity—but we must also foster our innovation ecosystems adequately to boost private investment into emerging sectors.

Many of the overdue, nation-building investments into clean energy, infrastructure, technology, and education continue to lag behind schedule and blowout in costs. Non-mining business

investment has been stagnant for decades. We still have failed to meaningfully reflect the cost of externalities into our economy. An economy-wide carbon price is a distant hope, and the political unpopularity of resource rent taxes is bipartisan.

Treasurer Chalmers has foreshadowed that this Budget will have a big focus on investment—particularly, a future made in Australia. Whilst we welcome the investment ambition, we are sceptical about channelling it toward our sovereign manufacturing capability. We must avoid the perils of old-fashioned protectionism, forever subsidies, and picking losers. We are hoping for careful and sensible economic reforms to federal income, and calculated investment into the sectors critical to our future.

Our final area of focus is the investment that will be required to usher in a new era of productivity, dynamism, and innovation in the Australian economy. This will include expenditure in technology, labour mobility, and initiatives to spur innovation and genuine competition.

The political fault lines in Australia are being rewritten. The 2022 teal wave, the referendum latte line, and the push to further ideological extremes from the left and the right are all pertinent hints of a changing political order. Government disaffection—kindling for populism—steadily encroaches upon metropolitan Australia from outer suburbia. Implementing reforms to reduce inequality and promote equal opportunity will offer a compelling economic appeal to the sensible centre, and help engage those looking for answers in populist rhetoric. Australia has an opportunity in 2025 to demonstrate stability and ambition to lead as a healthy democracy—showing how a fair liberalism can prevail in today's unforgiving, zero-sum political climate.

The golden era of reform in the 1980s and early 90s sets an enviable precedent for ambitious long-term reform. But a sustainable and prosperous economic future is at stake if we fail to champion a similar sense of aspiration. We can change that—and reorient our national direction toward a prosperous economy and sustainable economic growth for decades to come.

This Blueprint shows how.



Key challenges

- **Cost of living is the key election issue:** this is the make-or-break budget for Labor to test the mood of the nation and respond to cost of living pressures. We need to balance our national ambition with non-inflationary fiscal policy.
- **Intergenerational inequity threatens our social compact:** there is a growing generational bifurcation. We have to do more to support young people.
- **Climate and energy policy has fallen behind:** whilst avoiding reckless fiscal spending, we have to start moving now. The energy transition needs clarity of investment signals and planning. Nature repair is a paramount objective.
- **We are in a productivity crisis:** there is a clear need for Australia to lift productivity and innovation.
- **Economic dynamism and diversification is an existential challenge:** we need sustainable economic growth across diverse industries.

Key recommendations

1. Financing our future: a new, fairer tax bill for Australians

- **Broaden the tax base**
 - Introduce a broad-based annual tax on the unimproved value of land
 - Establish a natural-resource based sovereign wealth fund for renewable energy investments
 - Broaden the base of the GST and raise it to 15%
- **Reduce the complexity of the tax system**
 - Reverse and repeal the new GST distribution regime
 - Abolish state payroll taxes
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- **Address intergenerational equity**
 - Index HECS to real wage growth and implement a 3% indexation ceiling
 - Revert to indexation of capital gains
 - Remove negative gearing deductions on investment properties
 - Abolish stamp duty on residential, commercial, and industrial property purchases
- **Boost productivity**
 - Reduce the corporate tax rate to 25%

2. Protecting our future: climate and energy priorities for fiscal expenditure

- **Rethink and implement environmental standards**
 - Fund the development of clear, technology-agnostic biodiversity and environmental standards
- **Aligning understanding and incentives**
 - Reward communities for hosting renewables
 - Fund adult education and tackle mis- and disinformation on climate
- **Fund the transition to net zero and nature positive**
 - Update energy grid system design modelling and approach
 - Accelerate energy efficiency programs
 - Redeploy fossil fuel subsidies
 - Speed up transport decarbonisation
 - Establish a public fund for nature repair

3. Invigorating our future: priorities to boost productivity, drive innovation and improve dynamism

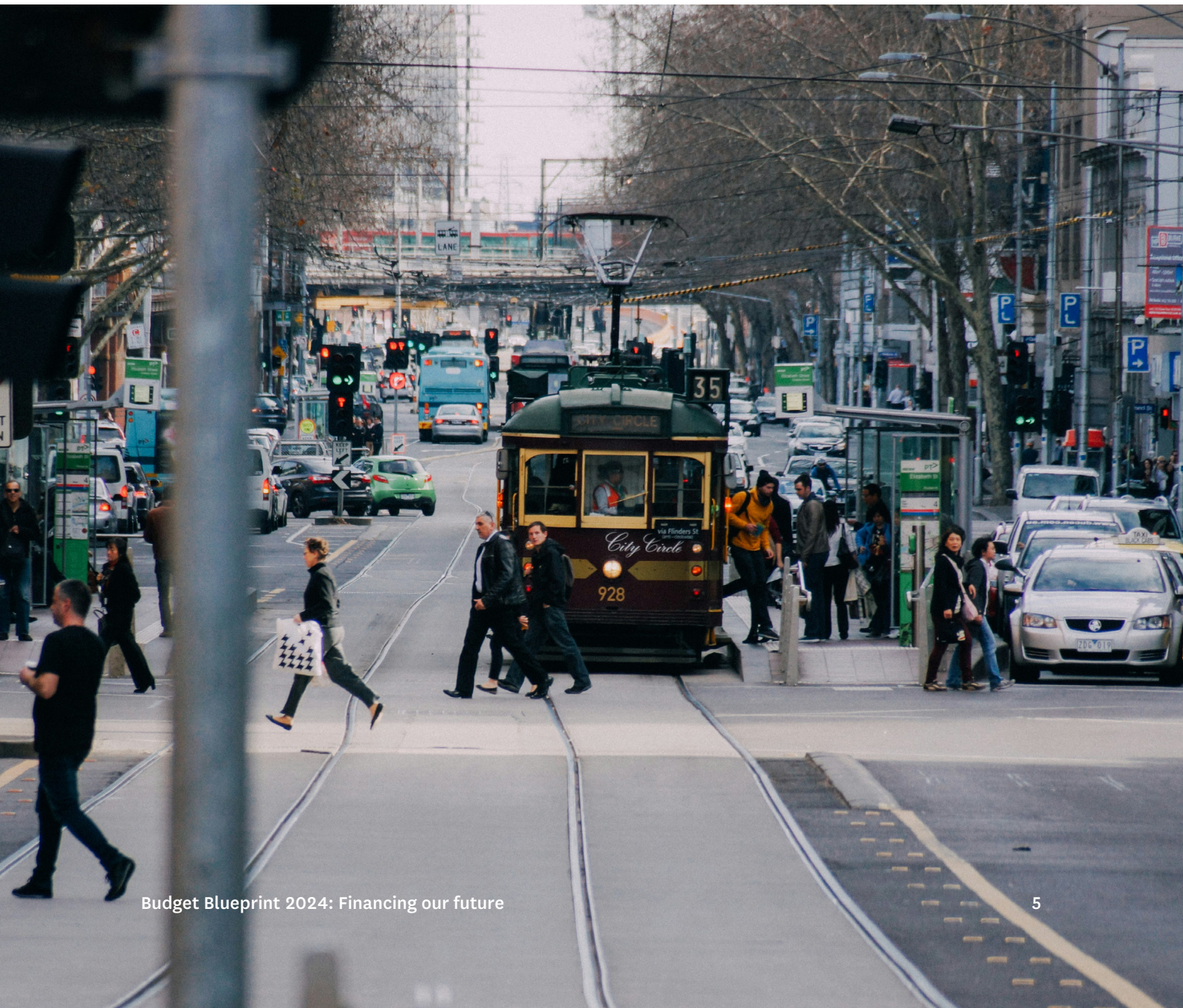
- **Boost research capacity**
 - Increase government spending in research and development as a percent of GDP on par with the OECD average
 - Increase funding to develop Australia's foundational research capacity
 - Employ an outcomes-driven approach to government applied research investments
 - Increase PhD stipends and exempt part-time stipends from tax
 - Fund mechanisms to retain and effectively engage talented international graduates
 - Establish an Australian Institute of Applied Ethics
- **Stimulate investment**
 - Invest in venture funds themselves instead of startups
 - Exempt startups from the unrealised gains tax on super balances
 - Introduce an 'educated investor' exemption for the proposed overhauled sophisticated investor test
 - Exempt startup acquisitions from proposed merger reforms

Beyond inertia: the case for bold reform

This Blueprint outlines the case for ambitious, system-wide reform. Fiscal policy in this economic climate is a balancing act. Paring back spending would be prudent—indeed, running deficits often makes for easier political wins, but is myopic for long-term structural health. The key distinction is that spending today must be in the interests of securing future economic prosperity and wellbeing. The reforms and investments outlined in this Blueprint are critical to the nation’s sustainable long-term growth. Tinkering around the edges instead of enacting bold, wholesale reform will compromise living standards for the next generation, and generations to come.

It is time to progress *beyond inertia*.

This is **part one of our three-part 2024–25 Budget Blueprint series**. This paper outlines the present challenges facing the Australian economy and **addresses our need for substantive, wholesale tax reform**. Paper two of this series outlines immediate climate and energy priorities for a net zero and nature positive future at both the systemic level and the community level. Paper three of this series outlines reforms to boost our research capacity and stimulate investment to revitalise Australia’s productivity and competitiveness on the world stage.



Economy in a snapshot

Key economic indicators¹

Unemployment rate

3.4%

Indicative of full employment

Participation rate

66.6%

30-year average of 64.5%

Underemployment rate

6.5%

Down 4% from COVID peak

GDP growth

3.4%

Up 1.2% from pre-COVID rate

Consumer Price Index

6%

10-year average of 2.5%

Wage Price Index

3.5%

10-year high

Multifactor productivity growth

-0.5%

Down 0.1% from COVID levels

Population growth

2.5%

Up 1% from pre-COVID rate

Part-time share of employment

29.8%

Net debt as % of GDP

30.6%

¹ All statistics from Australian Bureau of Statistics. All growth rates are on an annual basis from Q4 2022, to Q4 2023. Labour market indicators are for Q4 2023.

Cost of living crisis

The [cost of living](#) is shaping up to be the [election issue](#) of 2025, as many Australian households continue to face financial stress. Inflation—particularly in the cost of services—remains persistent and pronounced (**Figures 1a/1b**). Lingering inflation pain from 2023 is likely explained by population growth, and a hangover from pandemic stimulus. Immediate cost of living relief in the Budget will be politically popular for Labor—but how they will deliver it remains uncertain.

Pressure is manifesting throughout housing markets. [Mortgage stress is on the rise](#) as savings buffers dwindle out and variable rates ratchet up, and there is a nationwide crisis in [rent rises](#) and [rental vacancies](#). A political narrative of [supermarket price gouging](#) continues to rise in popularity despite some doubting its [economic credentials](#). Energy bills are [on the rise](#), despite wholesale costs of electricity falling significantly. Recent polling has found [55%](#) of respondents would struggle to afford an unforeseen major expense.

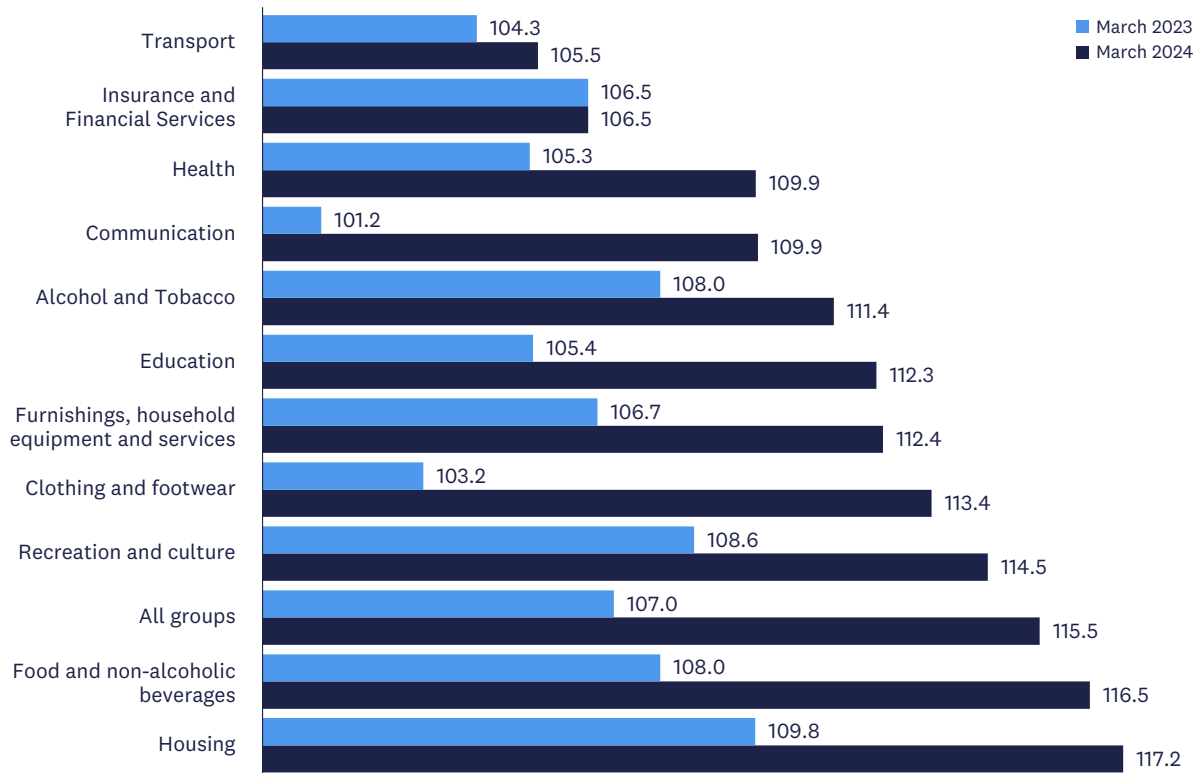


Figure 1a Increase in Consumer Price Index of various groups, Australia wide (March 2022–24)

Source [ABS](#)

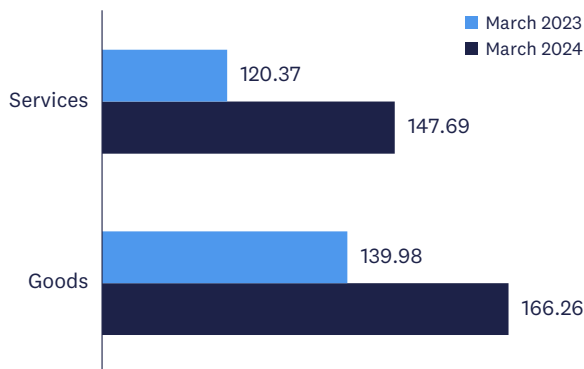


Figure 1b Increase in Consumer Price Index of goods and services, Australia wide (March 2022–24)

Source [ABS](#)

Note indexed from 2022

To maintain voter support in the interim, Labor’s budget (and its narratives) will have a sharp focus on cost of living—starting with the amended Stage 3 tax cuts announced in January. Labor is stuck between a rock and a hard place—hamstrung by cost of living pressures, but on the clock to enact urgent substantive reforms. It is a fine needle to thread, but we urge the Government not to lose sight of the fiscal imperatives at hand.

Employment rebound

The labour market rallied dramatically in February this year. [116,500](#) Australians found employment—the largest monthly job spike on record (outside of the pandemic)—as the unemployment rate fell to 3.7% and held steady through March at [3.8%](#).

In the Treasury White Paper on Employment last year, Treasurer Chalmers outlined the Government’s [vision](#) for ‘sustained’ and ‘inclusive’ full employment. These dual objectives seek to mend the structural unemployment which has driven our productivity slump by minimising economic volatility and ensuring employment stays in line with inflation targets. They also aim

to address discrimination and other barriers to work that narrow the scope of labour opportunity.

We agree that these are sensible objectives. Some 2.8 million ([20%](#)) of the Australian workforce is unemployed, underemployed, or outside of the labour force but wish to work. Nonetheless, if a robust labour market can be sustained in the short-term, it places more important, but challenging objectives under the spotlight—such as declining multifactor productivity ([Figure 3](#)), weak economic growth, and dynamism.



Figure 2 GDP per capita and wage growth, indexed using the Consumer Price Index (1998–2023)

Source [ABS](#), [ABS](#), [ABS](#)

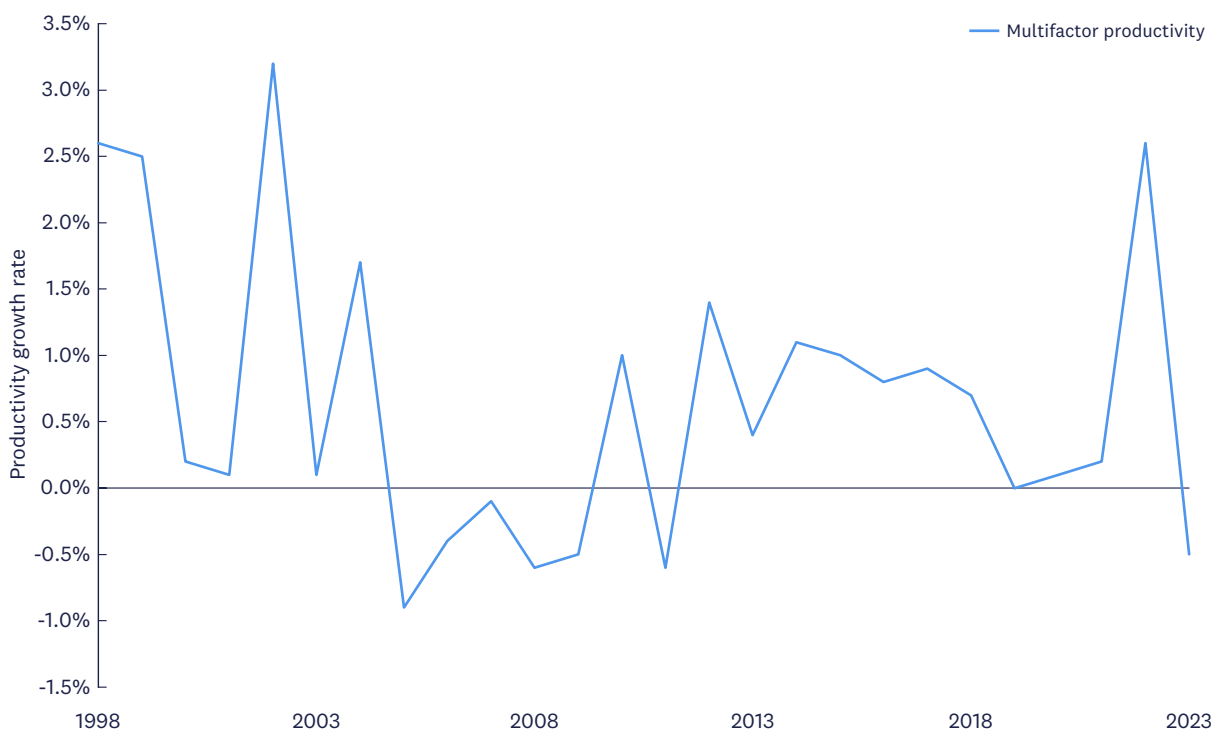


Figure 3 Multifactor productivity growth (1998–2023)

Source [ABS](#)

Population boom

However, net immigration has [outpaced job creation](#). While total migration numbers over the last few years only slightly exceed average annual figures, the surge in post-COVID migration (see [Figure 4](#)) has put short-term pressure on [housing](#) and other infrastructure, and distorted many of the headline economic indicators. At last count (September 2023), our annual population growth rate was [2.5%](#) (just under 660,000 annually)—over one third larger than the pre-COVID rate of 1.4% (just under 400,000 annually).

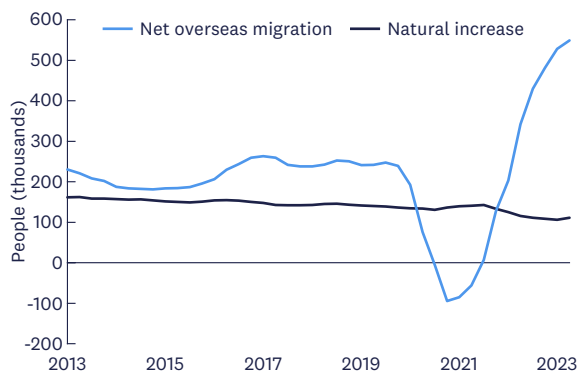


Figure 4 Net overseas migration and natural increase in population (2013–23)

Source [ABS](#), [ABS](#)

This population boom masks the decline in Australia’s real living standards—despite overall GDP growth stabilising, we remain in a per capita recession. Contrary to some reports in the [news cycle](#), the population spike has not materially worsened overall [inflation](#). Nonetheless, immigration remains a convenient political scapegoat for Australia’s economic woes, particularly amongst [populist voices](#). With the Coalition calling to [curb migration](#) and Labor committing to [lower migration rates](#), it seems to be a narrative which is gaining traction.

Public debt

We cannot lose sight of the mounting public debt—which is approaching [\\$600 billion](#) and [42%](#) of GDP. Of course, COVID was a black swan event that warranted immediate fiscal support at the height of the pandemic’s perils—but we have been [ratcheting up public debt since the global financial crisis](#) (see [Figure 5](#)). The party is over.

The Government finds itself in a tough position—needing to reduce public debt, whilst also boosting productivity and managing an energy transition that gets more expensive the more it is delayed. The Treasurer has already hinted that there will be [no big cash cows](#) come Budget night, however austerity alone will be insufficient to tackle the challenges ahead.

There remains an urgent imperative for wholesale tax reform to improve efficiency and boost revenue. Reforms should also address the [intergenerational inequity](#) currently embedded in our tax and transfer system. We should be taxing and spending smarter—public debt must no longer be used to further delay structural reform and national investment.

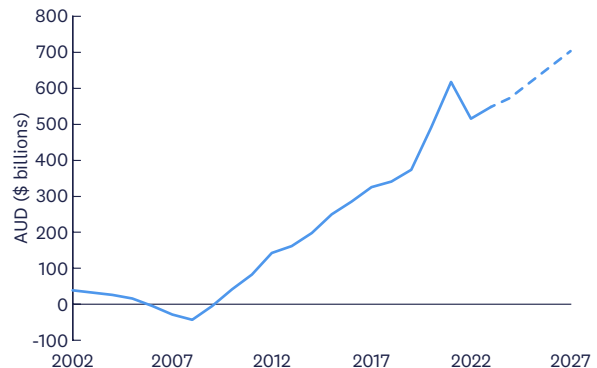


Figure 5 Actual and projected Commonwealth Government net debt (2002–27)

Source [Treasury](#)

Note Not adjusted for inflation

Financing our future

A new, fairer tax system for Australians

Summary of recommendations

- **Broaden the tax base**
 - Introduce a broad-based annual tax on the unimproved value of land
 - Establish a natural-resource based sovereign wealth fund for renewable energy investments
 - Broaden the base of the GST and raise it to 15%
- **Reduce the complexity of the tax system**
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- **Boost productivity**
 - Reduce the corporate tax rate to 25%

Our priorities for tax reform are simple. First, we must address the growing intergenerational equity chasm that threatens our social compact. Second, we need to promote simplicity in our tax system. We need to raise more revenue to fund critical investments in our long-term prosperity, and for budget repair—all whilst attempting to minimise distortionary effects on the economy. And finally, we need to incentivise business investment and boost productivity.

Our taxation system must reduce its dependence on labour and the normal return on capital, and focus more on consumption, land, windfall gains, and economic rents. Our tax system must encourage, not penalise, economic activity, innovation, and productivity, to reverse our long-term economic decline.

Broaden the tax base

Introduce a broad-based annual tax on the unimproved value of land

In light of the need for budget repair, and the rents extracted from property investors, we recommend an annual, broad-based tax on the unimproved value of land. Land taxes are currently collected by each of the states and territories, meaning that the rates and exemptions vary significantly across jurisdictions. If all land in Australia was taxed at ACT rates (effective rate of approximately 1% of land value), an additional [\\$27 billion](#) could be raised annually.

A broad-based, uniform annual tax on the unimproved value of land is also an easy win from an [efficiency](#) perspective. The fundamentals of land—immobility, fixed supply, and not a function of individual labour—ensure there are few distortional effects anticipated when taxing the unimproved value of land.

Housing is part of the bedrock of the Australian economy. Tinkering with demand-side policy and tax reform without a commensurate and meaningful supply-side counterpart will fall short of addressing housing affordability woes. However, tax reform can help cool an overheated housing market, and shape our taxation system to be efficient, equitable, and productive. A likely effect of this reform is the curtailment of speculation and transaction volume in housing markets that ensures price inflation persists—which speaks to the [popularity](#) of the idea amongst economists.

Mortgage loan books held by Australia's authorised deposit-taking institutions grew to [\\$2.16](#) trillion in December 2023—climbing from [25%](#) of GDP in 2005 to 83%² today. Our current tax concessions on property have ushered in a '[rentierisation](#)' of Australia's housing market—meaning a shift away from housing as a consumption good, to an investment asset that accrues economic rents. Homeownership is increasingly upheld as a one-size-fits-all solution to speculative investment, retirement savings,

wealth accumulation, and a cultural stake in the country. Of course, these modern paradigms overlook the essential and most obvious purpose of housing, being a necessary consumption good.

The Australian housing market is fast becoming an emblem of intergenerational inequity and wealth inequality. The '[bank of mum and dad](#)' is emerging as a significant lender for first-time home buyers, pushing up prices and bifurcating the haves and the have-nots in Australia. Young people are [giving up on the Australian dream](#) as [mass exoduses](#) continue in Australia's capital cities, offset by strong foreign migration back inward. Our infatuation with property has significant [social costs](#).

A recurring annual tax based on the value of land is a sensible proposition that would improve the stability of revenue, since land is divorced from the business cycle. Land is immobile, in fixed supply, a store of wealth rather than a function of individual production, and accrues economic rents—rents that do not spur productive activity, but incentivise speculation for private capital gain. This reform would be a large improvement on fairness—rents accrued that are not compensation for individual effort or productive behaviour should be taxed.

Establish a natural-resource based sovereign wealth fund for renewable energy investments

A sovereign wealth fund should be established to funnel capital towards these critical investments in the energy transition—funded by resource rents captured from extractive industries.

All Australians should have a right to their share of the wealth generated by our natural endowments. The extraction and export of our natural resources have formed the [backbone](#) of our economy, and have [generated enormous private profits](#) for the natural resource sector. Stronger resource taxes on extractive industry giants is long overdue. They have enjoyed subsidies and relaxed tax environments, while generating costly externalities in the form of pollution, health and climate impacts.

² GDP estimate from [World Bank](#) (2022 \$USD)

We need to raise more revenue from the resource sector. Despite being levied at 40 percent of profits on offshore oil and gas, the Petroleum Resource Rent Tax (PRRT) has struggled with ineffectiveness and lackadaisical application. The amendments—which [limit deductions to 90 percent of assessable income](#)—are minimal imposts on an industry responsible for major and costly externalities.

We can draw inspiration from Norway, who tax the profits of oil giant Equinor and recoup them into a sovereign wealth fund, worth [\\$1.8 trillion](#). Approximately \$50 billion (three percent) of the funds are invested into the public good each year—a far more equitable and productivity enhancing use of resource rents.

Although Australian states and territories levy mining royalties and rehabilitation bonds on extractive industries, the taxation of resource rents captured in Australia are [insufficient](#) to account for the negative externalities and consumption of constrained natural capital, that render these industries Australia’s [primary polluters and emitters](#). We should be ensuring that the fossil fuel giants contribute their fair share. Such policies will also enable these industries and our economy to more rapidly adapt to a changing regulatory and geopolitical landscape.

Broaden the base of the GST and raise it to 15%

The way we tax consumption needs to be overhauled. We recommend that the goods and services tax (GST) rate be lifted to 15% and the base of goods and services it is levied on is expanded. The list of exemptions must be revisited to broaden the base in an equitable manner. To mitigate the financial burden an expanded GST would have on lower-income households, we also recommend that up to 30% of the additional GST revenue be put towards government transfer payments to low-income earners, welfare recipients, and pensioners.

Since its introduction as a core part of the Howard Government’s wholesale tax reform agenda in 1999, the revenue pulled in by GST has progressively diminished in real terms. The GST is the sum of all the broad-based indirect taxes on goods and services—including sales taxes, customs, and excise duties. It is legislated and collected federally, but the revenue goes to the states and territories. In 2019–20, 20 years after the establishment of the GST, the level of federal revenue raised from the GST was [5.3% of GDP](#)—precisely the same level of indirect taxation as in 1997–98. Despite previous efforts to [broaden](#) the GST base, the revenue stream from indirect tax continues to erode in real terms (see **Figure 6**).

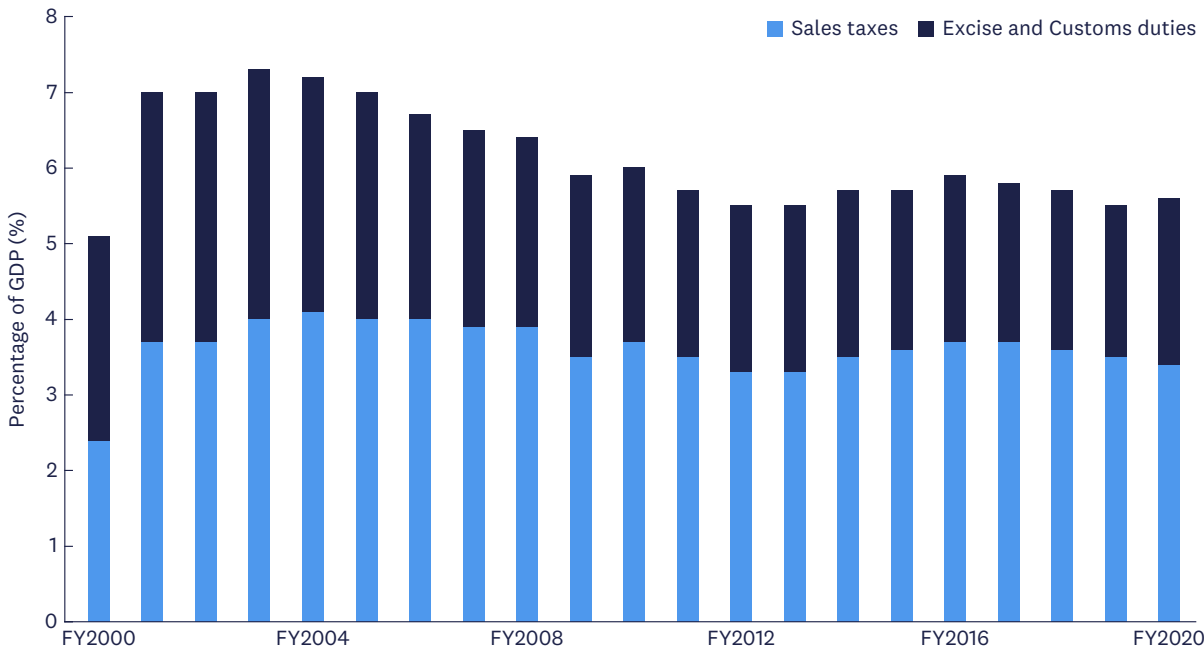


Figure 6 Major indirect taxes as a percentage of GDP (2000–20)

Source [Treasury](#)

The base of the GST is too narrow and no longer fit for purpose in today's economy, and it has led to revenue deterioration. Lifting the GST from 10% to 15% and broadening the base of goods and services that are levied could raise [\\$60 billion](#) a year.

A major inefficiency of the GST is the [exemption](#) of a wide range of everyday products from the tax. The broader the base of a tax system, the less reliance there is on more complex distortionary taxes in the overall system. Broadening the base of consumption tax would therefore alleviate some of our dependence on income tax. Even the [architects](#) of the tax themselves favour such an approach—by the time the intended 'broad base' designed by the Taxation Taskforce of the GST passed through Parliament, only [two thirds](#) of household consumption was captured by the GST—and in twenty years since, only half of household consumption expenditure falls within the remit of the GST. This is now a revenue sustainability problem for the states.

A common critique of raising the GST is that it would be a regressive reform, [disproportionately affecting](#) the lowest income earners who have the highest propensity to consume. To address this, the reform should include compensatory measures for low-income earners, welfare recipients, and pensioners through government transfer payments. This compensation would use up to 30% of the additional revenue raised to support these groups. The rebate would ensure that the lowest income earners are not worse off as they can reach the same level of welfare—just with a higher proportion of savings since consumption becomes more expensive at the margin.

Exempting certain items distorts relative market prices of goods, creating unnecessary complexity and inviting [exploitative price setting](#). It is much more efficient to minimise the marginal excess burden by compensating those most vulnerable to consumption tax increases directly through welfare.

We recognise the [tremendous political difficulty](#) in GST reform. All states and territories, plus both houses federally, would have to unanimously support the change. But if there is one area of Australian public policy in dire need of ambitious reform, it is tax. And besides, while some argue

that a lift of the GST rate to this degree is too politically unpalatable, it would still be at a rate far lower than [most of our OECD peers](#), and lower than the average OECD rate of 19.2%.

Despite the political challenge, the [Teal independents have advocated for GST reform](#) from the crossbench—alongside tax policy professionals and economists who agree that we must realign the objective of the consumption tax to its [original purpose](#) to be a stable revenue raiser.

Reduce the complexity of the tax system

Reverse and repeal the new GST distribution regime

We also need to look at the way we divide GST revenue amongst the states and territories. A robust taxation system rests on the pillars of simplicity, fairness, and efficiency—traits that were contravened by the signing of the [Treasury Laws Amendment Act 2018](#), which effectively doubled Western Australia's share of the GST by stating that no state or territory would receive less GST per person than the benchmark states of NSW and Victoria. We echo [several leading economists](#) in recommending a reversal of this deal, and the reinstatement of GST on the basis of '[fiscal equalisation](#)' (i.e. the proportional distribution of the GST pool as required to provide equal levels of services for their populations).

Due to the wealth accrued from successive mining booms, Western Australia has historically received a low proportion of the national GST pool, shrinking to as little as [30 cents per dollar contributed](#) in 2016. The 2018 [sweetheart deal](#) guaranteed that Western Australia's share of GST revenue would initially be raised to [70-75%](#) of what the state would receive if distributed on a population basis, and from 2028 being brought on par with the relative GST shares of New South Wales and Victoria. As a result of the deal, it is estimated that Western Australia will receive [\\$30-\\$50](#) billion in additional funds by 2030, which will be used to further pad the state coffers, if their [successive years](#) of budget surplus are anything to go by. More shocking still is that during the transition period, Australian

taxpayers will be on the hook for the [top-ups](#) to the GST pool to keep this disastrous deal afloat.

By granting special treatment to one of the states, the federal government opened the floodgates for interstate [bickering](#) on the fair division of the GST pool—in spite of the [transitional provisions](#), which promised no state or territory’s GST share would be worse off as a result of the deal until 2027. The [threats](#) made by the Western Australia Treasurer to dissuade a repeal ironically highlight the inequity of Western Australia’s position, and the case for revision.

As a centralised and federally managed tax, GST should be distributed in a way that is fair and simple—a patchwork of special deals dictating who is owed what is inefficient to administer and risks favouring states and territories with more political capital. We believe that the existing method of fiscal equalisation is the best pathway currently available to distribute GST revenue.

Abolish state payroll taxes

Another extremely inefficient tax is payroll tax levied by states—and we recommend it should be abolished. [Concession-inundated](#) and complex, this nuisance tax levies an unnecessary compliance burden on businesses across state jurisdictions that have [different rates, exemptions, thresholds, and discounts](#). The disharmony creates [inefficiency](#) and perverse incentives that hamper economic growth. For corporations operating across multiple jurisdictions, payroll tax becomes an administrative burden that deters expansive enterprise, and by extension, economic growth and productivity.

It is also difficult to justify what is essentially a tax on jobs—a direct disincentive on employment—since every additional employee incurs a higher tax cost for the employer. Payroll tax is not levied on business profits, but on wages—meaning that in an economic downturn, businesses continue to incur full payroll tax liabilities even if their business suffers. Artificial distortionary effects on job creation, competitiveness, labour mobility, and scaling successful enterprise is antithetical to lifting productivity.

Implement a true indexation of income tax brackets

It is time to index income brackets to inflation. The [political imbroglio](#) of the Stage 3 tax cut amendments made by the Labor Government in early 2024 drew attention to the need to index income brackets to inflation to account for bracket creep. We retreat to the familiar, [tired song and dance](#) about income tax every few years as a result of not indexing income tax brackets.

As inflation increases, so do government revenues through income tax collections, and so does the dependence on income tax—further entrenching the roots of our structural deficiencies.

The consequences are less about the excess burden of the changes than the precedent it sets for incremental tinkering to become the norm in place of the substantive wholesale reform this Blueprint sets out. Everyone loves a tax cut, and due to bracket creep, the government of the day can issue them out as an easy political win and symbol for action. But income tax cuts, like the Stage 3 revisions, are essentially about maintaining the status quo in real terms.

Indexing income tax brackets to inflation would be a two-fold improvement for tax reform in Australia. It would remove bracket-creep-induced tax cuts as the convenient and uncontroversial political win, and would reduce our dependence on income tax at the margin—forcing the Government to recover forgone revenue with more ambitious, wholesale reform.

Address intergenerational equity

Index HECS to real wage growth and implement a 3% indexation ceiling

We recommend the Government re-index Higher Education Contribution Scheme (HECS) debts to reflect real wage growth, with a maximum annual indexation rate to be capped at three percent—in contrast to the announced reform, which proposes the re-indexing of HECS debts to reflect the lower of the year’s Consumer Price Index (CPI) or Wage Price Index (WPI), as recommended by the Universities Accord.

The current indexation of HECS debts is exacerbating intergenerational inequity. Young people are already priced out of the housing market, and will be on the hook for colossal public debt. They will also bear both the environmental and economic costs of climate change and its adaptation and mitigation, and will have to shoulder the burden of an [ageing population](#). Indebting young people even further threatens the [social compact](#) of our nation.

HECS debts do not carry interest, but are instead increased annually via indexation to reflect inflation. Indexation rates are calculated with respect to Consumer Price Index movement over a [two-year period](#), with the indexation rate averaging at [2.8%](#) since the system’s inception in 1990. After a year of runaway prices and cost-of-living woes, however, HECS debts were crippled by an exorbitant indexation rate of [7.1%](#). As a result, many young people’s student debts are increasing faster than they can make repayments—circumstances which risk creating a generation [unable to borrow](#). Whilst we welcome Labor’s [commitment](#) to reduce the financial burden of HECS debt on students, more needs to be done.

Indexing HECS to wage rate increases will ensure HECS debt cannot outstrip wage growth. Wage growth—an economic determinant of vocational output—is a much fairer way to index a loan taken out that was a prerequisite to that very occupation. The stability of wage growth compared to CPI (see [Figure 7a](#)) would permit

HECS indexation rates to remain more stable year-to-year, thereby allowing former students to better budget for their debt. This added stability would also eliminate the need for indexation rates to be calculated in respect to two-year periods as they currently are.

To combat the adverse effects of the overall higher rates of wage growth in comparison to CPI, we recommend capping the annual HECS indexation rate (as indexed to wage growth) at 3%. Setting an indexation ceiling would prevent runaway years of inflation like 2023 from adding unforeseen levels of debt onto HECS balances—without noticeably impacting the Government’s repayment intake (see [Figure 7b](#)). These changes will ensure that HECS debts can absorb monetary volatility without significant depletion of government coffers.

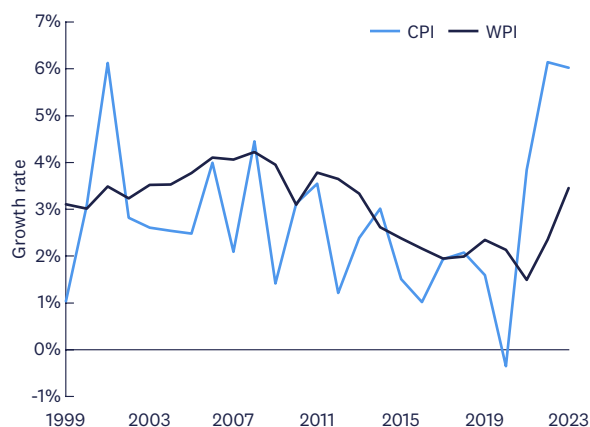


Figure 7a Annual percentage growth of Consumer Price Index and Wage Price Index (1999–2023)

Source [ABS](#), [ABS](#), Blueprint Institute analysis

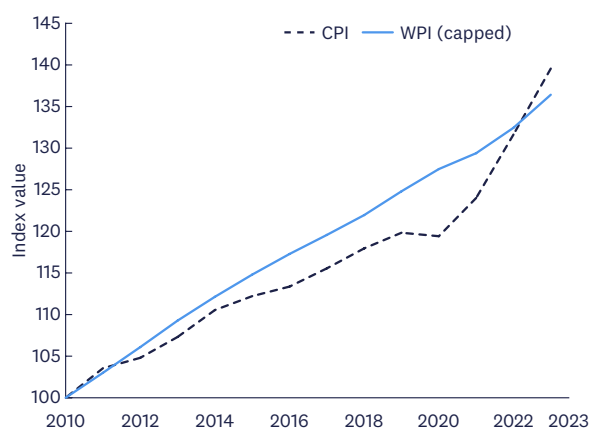


Figure 7b Comparison of Wage Price Index and Consumer Price Index, with and without annual percentage increase cap of 3% (1999–2023)

Source [ABS](#), [ABS](#), Blueprint Institute analysis

Note Indexed from 1999

Revert to indexation of capital gains

We recommend indexing the capital gains tax (CGT) discount to the cost base of the acquired asset in line with inflation, with CGT applicable to the difference between the sale price and the index cost base. This ensures that capital gains tax applies at full marginal rates on the real gain of the asset, with downside protection in a high inflationary environment.

Currently, Australians are only taxed on half the capital gains realised from a property held for 12 months. This reform was introduced in 1999, with [expectations](#) that the CGT discount would enhance Australia’s international competitiveness and stimulate capital markets. However, it has been problematic as a reform because it compromises what economists call ‘[vertical equity](#)’ (the idea that those who can afford to pay more should), with most of the benefits accruing to the top 10 percent of taxpayers by household income. Additionally, the reform contravenes the principle of [horizontal equity](#) (that being that all assets should be treated the same), as property investors pay less tax than an employee earning an equivalent amount of income.

It is also fair to say that there have been unintended and undesirable consequences because of the introduction of the CGT discount. We agree with Freudenberg and Minas who [argue](#) that ‘the CGT discount is difficult to justify on the basis that it is a means of ensuring that inflationary gains are untaxed’, noting that the

CGT often over compensates taxpayers for inflationary impacts. In particular, we, [alongside other housing economists](#), have noted the negative consequences of housing being treated as an investment asset rather than a consumption good, which were exacerbated by the capital gains tax discount. Evidence for this impact can be found in the results of a [survey](#) of Australian rental property investors, who reported that, in most cases, they were motivated to invest in rental properties more on the basis of capital gains than rental income.

Multiple reforms have been proposed, including [suggestions](#) that the CGT discount be abolished—however, we recommend that the former indexation system be reinstated. Overcompensating property investors for the effects of inflation is a windfall gain divorced from merit. A true indexation of CGT would also have automatic stabiliser effects, particularly in the current inflationary environment.

Remove negative gearing tax deductions on investment properties

We recommend the removal of negative gearing tax offsets to temper speculative behaviour in the housing market. Regardless of price effects, which have been argued to be [mild](#), [massive](#), and [ambiguous](#), winding back tax breaks that have [driven speculative behaviour](#) are long overdue—with second order benefits for [welfare](#), [equity](#) (see tax reduction by income decile discrepancy in [Figure 8](#)) and [productivity](#).

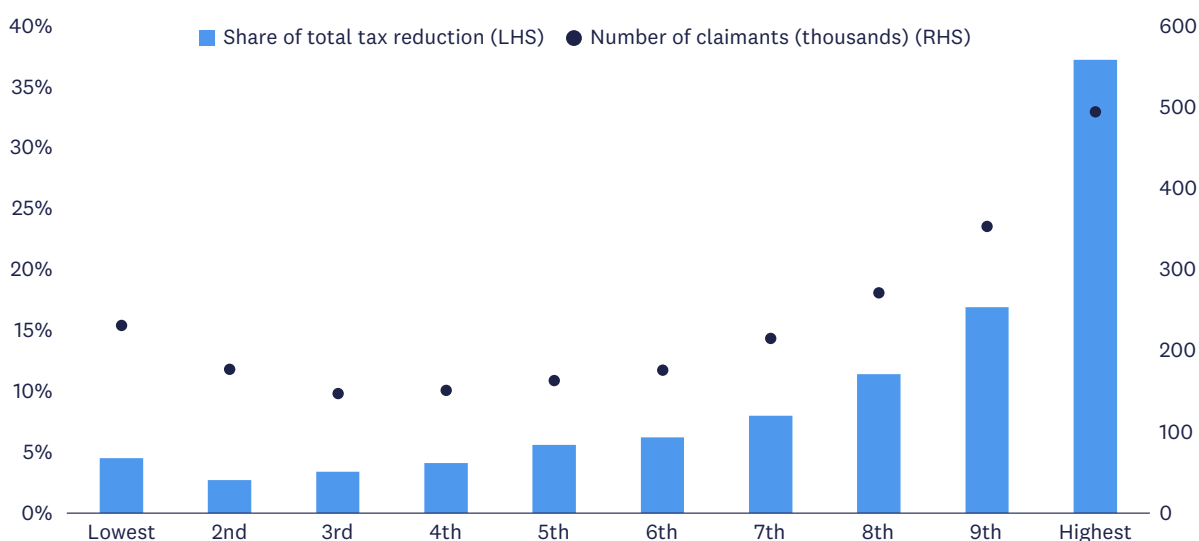


Figure 8 Share of total tax reduction and claimants by taxable income decile (2020–21)

Source [Treasury](#)

In 2019–20, negative gearing cost the public purse [\\$3.6 billion](#)—a figure that has continued to rise with interest rates. Total rental deductions, consisting mostly of negative gearing, resulted in [\\$27.1 billion](#) in forgone tax revenue. Parliamentary Budget Office analysis shows that the fiscal cost of negative gearing could skyrocket to [\\$97 billion](#) over the next decade.

As high rates persist, the tax break status quo becomes more appealing to property investors. With high borrowing costs, investors are [further incentivised](#) to deduct rental losses against other earnings, spurring a vicious spiral in the rental market as fewer and fewer tenants can break into homeownership. Despite double-digit surges in rents nationally, mortgage repayments continue to outpace them—as it remains cheaper to rent

than buy in [90%](#) of Australian suburbs.

In an overheated housing market and affordability crisis, we should not persist with a tax break which is effectively a subsidy that protects the investor’s downside risk. In this interest rate environment, these concessions [push prices up](#), increase the banking sector’s [exposure](#) to market volatility, and increase intergenerational inequality (see [Figure 9](#)).

We know winding back tax breaks for property investors comes at a significant political cost—one that the [Shorten Labor Government](#) learned the hard way when they [lost the unlosable election](#) in 2019. But we also know these reforms are an important investment in Australia’s long-term prosperity and equity.

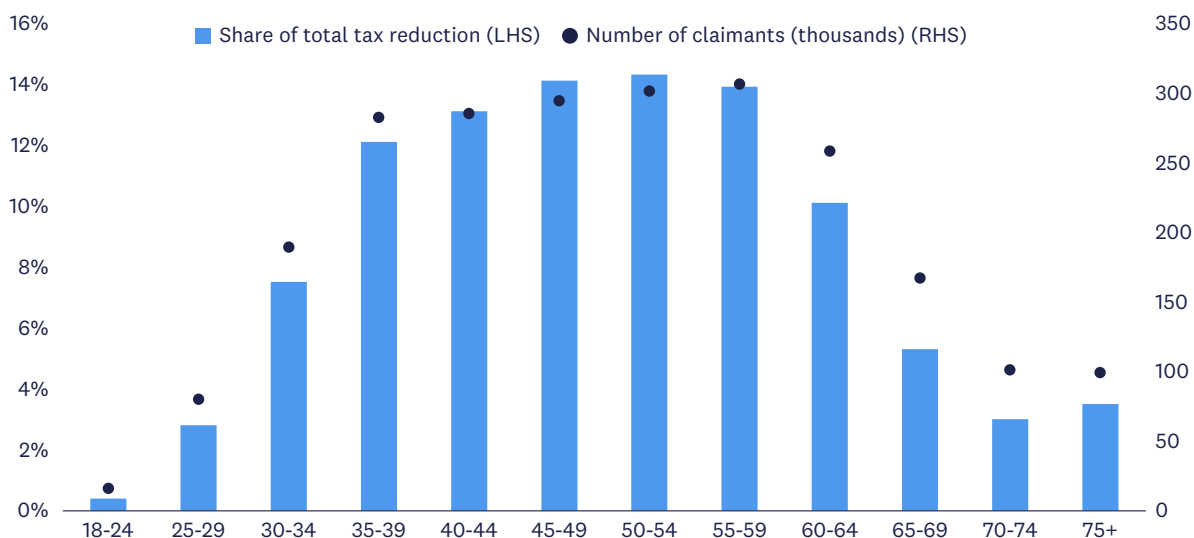


Figure 9 Share of total tax reduction and claimants by age (2020–21)

Source [Treasury](#)

Abolish stamp duty on residential, commercial, and industrial property purchases

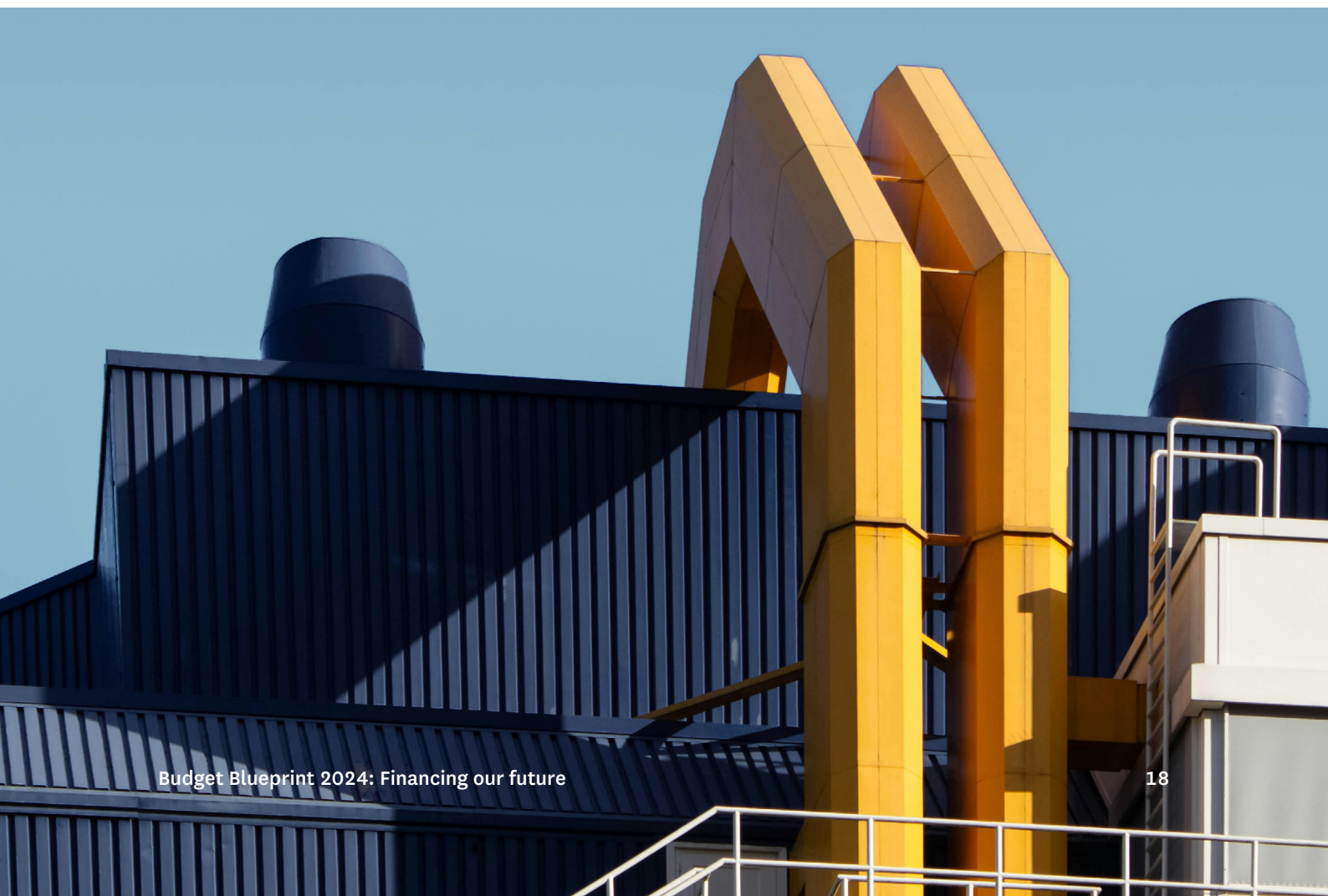
We recommend implementing a uniform model to wean the states off stamp duties for all property purchases—models that can draw inspiration from the ACT and Victoria’s industrial property stamp duty reform.

Some states are already leading the way. South Australia has phased out stamp duty for [commercial and industrial properties](#) and Victoria will follow suit effective in July this year—removing barriers for new business growth and promoting the efficient use of industrial land. But stamp duty on residential property—bar limited relief for first home buyers—remains steadfast.

While state governments have collected [considerable revenue](#) from stamp duties on property transfers, it is an [inefficient](#) way to boost revenue, [economically harmful](#), and a tax the states rely on [far too heavily](#)—incurring some of the highest levels of excess burden in Australia’s tax system. Stamp duty imposes [significant](#)

[transaction costs](#) on the purchase and sale of property, which creates efficiency problems. The perverse tax incentive against housing mobility [disproportionately affects](#) those moving house out of necessity, for example due to changes in family circumstances. It is also a drag on [labour mobility](#) as it discourages people moving home and optimising residential choices—while encouraging existing homeowners to [overinvest](#) in larger properties and renovate, rather than downsize.

From the revenue side, stamp duty is highly volatile, as it is [pro-cyclical](#). In boom periods, revenues increase because stamp duty is a function of prices and turnover—and vice versa in a downturn. As some [heterodox stamp duty proponents](#) have pointed out, these automatic stabiliser effects may seem desirable—however, from the perspective of long-term budget repair and stability, it would be prudent to implement revenue raising measures that are divorced from the fluctuations of the business cycle. It is very risky to entrench revenue dependency on the transactions of an asset class that is prone to volatility.



Boost productivity

Reduce the corporate tax rate to 25%

The way we tax business is a huge determinant of productivity, and is in need of an overhaul. The current company tax rate is [25%](#) for small and medium firms, and 30% for large firms—we recommend a standardised 25% rate to be applied to the normal returns on capital for all enterprises. [Modelling](#) suggests that cutting the corporate tax rate to 25% in Australia would produce a \$4.9 billion net consumer welfare gain, for a \$4.7 billion annual fiscal cost. Lost corporate tax revenue may be recouped via stronger resource taxes, thereby using undue gains from extractive industries to spur productivity in alternate sectors.

As [Figure 10](#) shows, we offer the second least competitive after-tax rate of return in the OECD. The current 30% tax rate for large firms is a [significant deterrent](#) for foreign investment. A one percent decrease in the tax rate could raise capital inflows by close to [five percent](#). Moreover, the concessional 25% rate for small and medium-sized enterprises as it stands is unlikely to encourage foreign investment due to imputation—the mechanism that permits a company’s tax to be attributed to shareholders to eliminate double taxation of corporate profits. Dividend imputation is an implicit tariff on foreign investment as it favours domestic shareholders. This can also be exploited by high net worth individuals who shelter income through zombie corporate structures so they can avoid the highest marginal income tax rate.

Extending the 25% rate to large firms who earn normal returns on capital will make Australian businesses more attractive to international investment. It will also boost innovation, as a lower corporate tax rate will be a [significant tailwind](#) for large companies to commercialise emerging technologies.

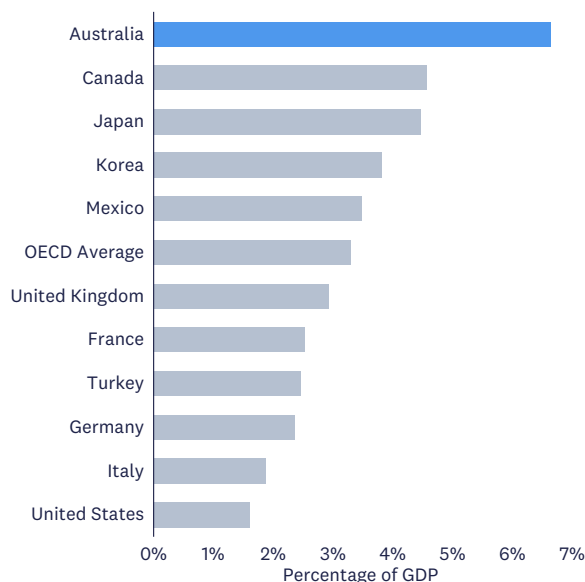


Figure 10 Corporate tax as a share of GDP (2021)

Source [OECD](#)

A core component of our productivity and dynamism crises is the [dramatic fall in business investment](#) (with the exception of the mining sector) across recent decades (see [Figure 11](#)). The level of national savings has surpassed investment, meaning Australia has become a [net exporter of capital](#). The cost of doing business in Australia is not [globally competitive](#).

Over the past two decades, non-mining business investment has been at [levels](#) comparable to the early 1990s recession. This is an extraordinary indictment on our economic health considering the decade after the global financial crisis (GFC) was mostly defined by low interest rates and high corporate profits—perfect economic conditions for business investment. And even though the GFC made it [harder](#) for Australia to implement serious tax reform, we emerged practically unscathed compared to other OECD nations. The business investment slump in Australia since the early 2010s indicates a significant structural weakness in our economy which cannot be ignored.

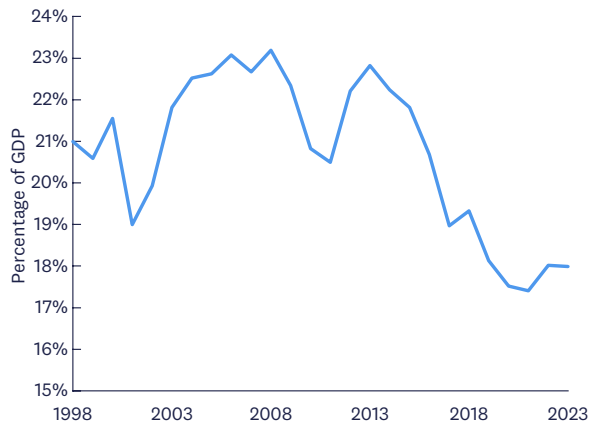


Figure 11 Business investment as a proportion of GDP (1998–2023)

Source [ABS](#)

To uplift our economic diversification, we must incentivise investment into Australian businesses beyond the resources sector. As foreign demand for fossil fuels wanes in a global economy more cognisant of climate change, Australia’s need for economic diversification becomes more palpable by the day.

