



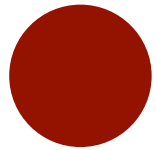
Gaps in Tax Reform

Professor Joshua Gans
CEDA Tax Reform Lunch
17th June 2008



Outline

- The knowledge gap
- The society gap
- The innovation gap
- The convenience gap



The knowledge gap



What we don't know

- The deadweight loss from taxation
 - Estimates range for 20 – 60 cents
- The elasticity of taxable income with respect to the tax rate
 - No policy experiments
- How much income is under-reported
 - Randomised tax audits
 - Eg: in US, rich under-report less than the poor.



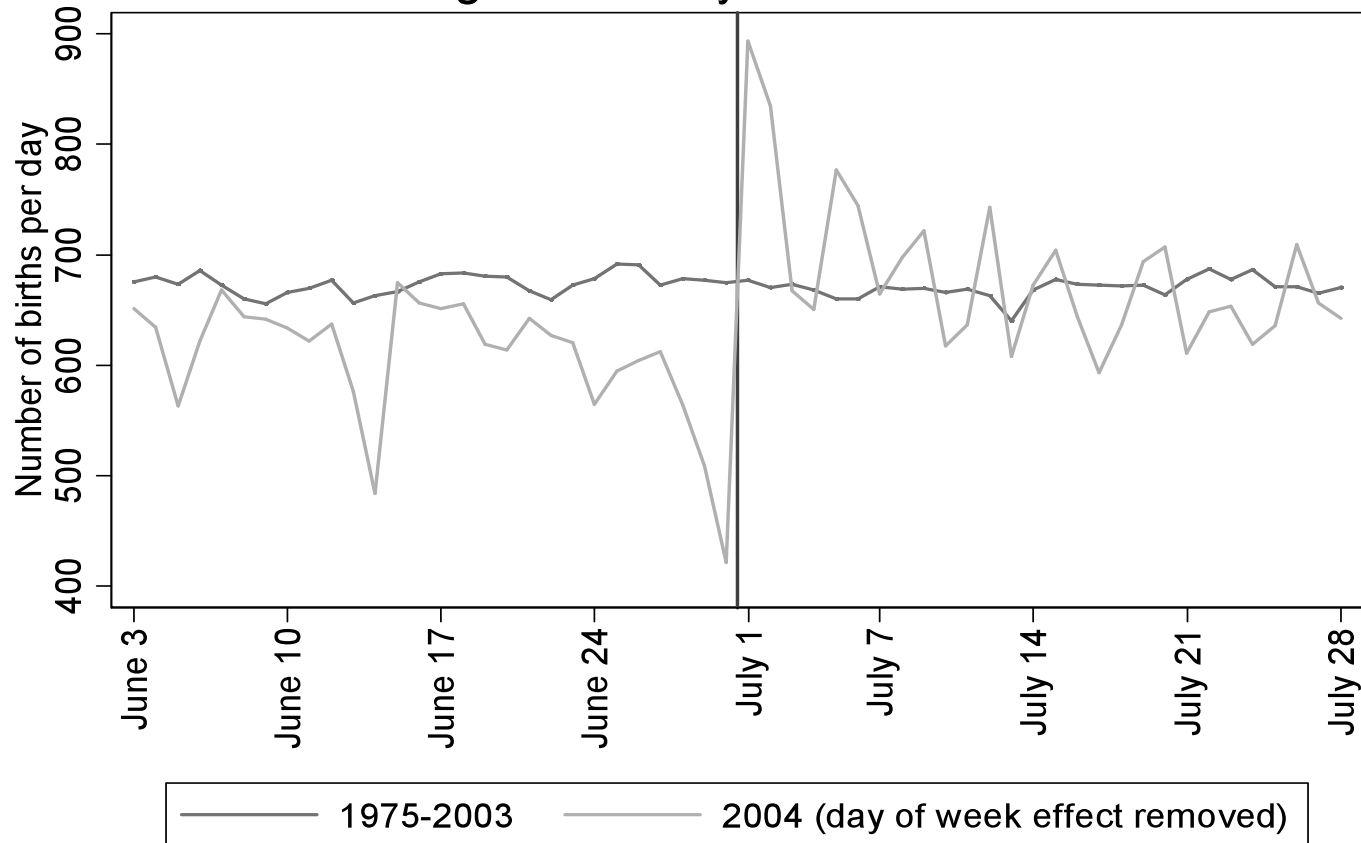
We don't learn

An example ...

- On 11 May 2004, the Australian government announced that it would pay \$3000 to any baby born on or after 1 July 2004.
- A baby born at 11.59pm on 30 June 2004 would be ineligible.
- There was widespread publicity about the change.

What happened

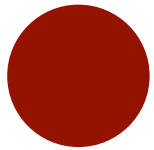
Figure 2: Baby Bonus Effects



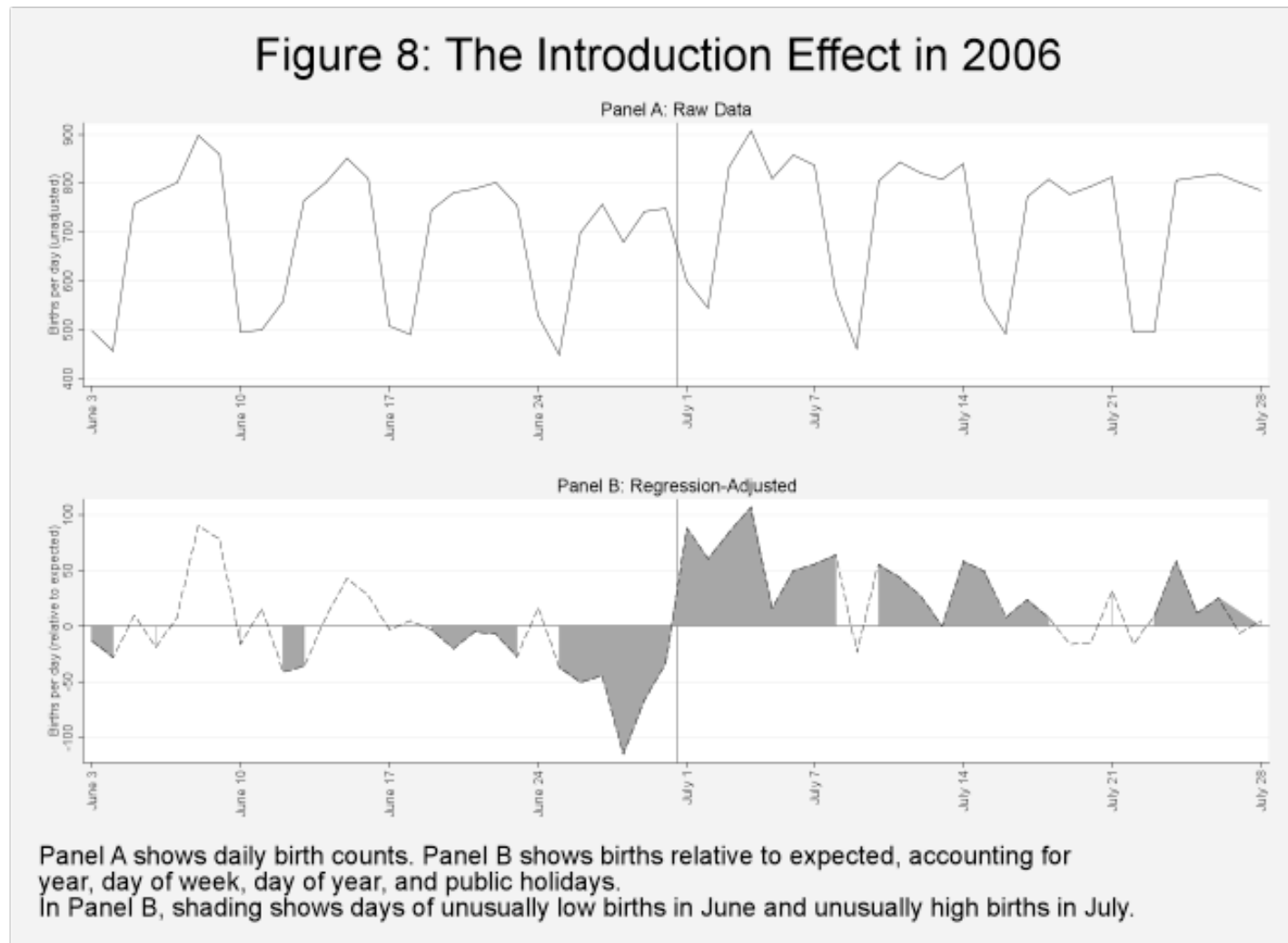


We didn't learn ...

- On 1st July, 2006, the baby bonus increased from \$3166 to \$4000
- A much smaller marginal effect than in 2004
- The government knew what happened in 2004 but changed nothing.
- What was the impact?



... and it happened again





And it continues

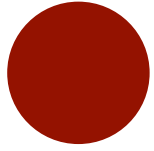
- On 1st July, 2008, the baby bonus will rise to \$5000
- The increase will cost the government \$250m forever
- And the rise will happen as planned



Learning to learn

- Issue Number 1 for tax reform

How do we ensure that government's systematically gather information about the performance of tax policy and learn from it?

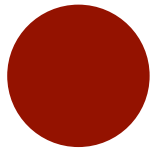


The society gap



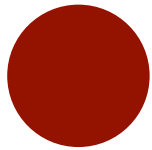
Taxes and society

- On 1st January, 2009, the baby bonus will be means tested.
- On what basis?
 - Households who earn more than \$75,000 in the six months following the birth will not receive the baby bonus
 - Based on **household**, not individual, income



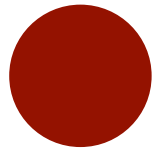
Previous child care rebate

- The Australian government offers a 30 percent tax rebate on childcare expenditures.
- Suppose you sent your child to childcare on the 30th July 2004. All you have to do to receive your 30 percent is to earn money in 2004 and 2005 (I think), make sure that day was registered for another scheme that offered some money back on childcare, make sure your centre was registered for it, do your tax return for 2004-2005 but be careful not to think that that has anything to do with the rebate, wait one year (or so), do your tax return for 2005-2006 being careful to have stored your receipts and proof of registration (for the other government scheme), send your tax return in with a claim for the rebate, have it sent back because in fact it is your spouses' name on the registration (for the other government scheme), do your spouses tax return again, then wait and you receive a rebate (but not for everything) because it turns out that the registration for the other government scheme had some other issues that I will spare you. The good news is that in two years time when you claim for childcare in 2005-2006, you might know what to do unless someone changes something somewhere.



Households are businesses

- Taxes are based on individual income
- Benefits are based on household income
- Wouldn't it be better if we considered a household as a business that sent people to work and to achieve that had to outsource various home functions?
 - Child care, household services, etc., would become a cost (and out of the cash economy)
 - The income of the household would become its revenue
 - And we could offer a menu of options to smooth the tax revenue implications

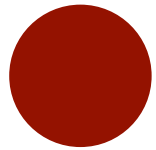


The innovation gap



Ending the handouts

- Moves towards means testing
 - Individual income (tax progressivity)
 - Household income (baby bonus)
 - Consumption (luxury car tax)
- Instead, use the tax system for a universal treatment
 - HECS
 - Parental leave
- We need to deploy policy innovations more widely



The convenience gap



Last, fire the accountants

- Andrew Leigh has suggested making filing a tax return optional
 - No tax deductions but convenience
 - Spend average of 8 hours (\$3.7b loss)
 - In NZ, did this. Only 33% complete tax returns (half of Australian rate) and many of these only had to confirm income.
- ATO has gone half-way there
 - Pre-fill income but still allow deductions
 - Only electronic/tax agent.