Unravelling the Mysteries of the Oracle: The Voice of the Experts

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Studies comparing the Delphi’s results with other methods have confirmed the effectiveness of the methodology on the basis of both its capacity to generate ideas and its effective use of participants’ time. This paper considers the methodology used and also focuses on the outcomes of the process, showing how these outcomes are being used to inform the final phase of a broader research project into personal tax reform in Australia which is being conducted with funding from the Australian Research Council and support from CPA Australia.
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1 Introduction

The personal income tax (PIT) is a vital component of modern tax systems. This is particularly the case in Australia, where in recent years it has accounted for over 40% of total tax revenue (Australian Bureau of Statistics, 2004) and over 12% of GDP (OECD, 2005a). In Australia the PIT has both high visibility and high impact (Evans and Drum, 2006). Roughly 85% of all tax returns are lodged by individuals (usually through a tax agent), and in 2002-03 10.7 million individuals (out of a total population of roughly 19 million) were required to lodge returns (Australian Taxation Office, 2005).

In Australia the PIT currently faces major problems. Solutions need to be found, in Australia as elsewhere, to a variety of defects relating to the tax base, tax rates and tax administration. The tax base has been undermined on a number of fronts, primarily as a result of ad hoc decisions to grant tax exemptions, deductions and rebates (often to specific groups), different entities being taxed differently (individuals, trusts, companies), and a resilient tax avoidance/evasion culture. The tax base areas of the PIT which need repair cover a wide range of issues, including tax expenditures, Capital Gains Tax (CGT), negative gearing, wealth taxes, work-related expenses and artificial tax minimisation.

In terms of tax rates and thresholds, and despite recent reforms, Australia’s high marginal rates still apply from relatively low income thresholds by international standards. In addition, social security recipients face very high effective marginal tax rates on earnings.

In terms of administration, the costs of complying with the PIT in Australia are relatively high. The most recent comprehensive study (Evans et al. 1997, Table 5.3, p 65) estimated the compliance costs of individual taxpayers in 1994–95 at about $2.9 billion, corresponding to 5.6% of individual tax revenue or 0.63% of GDP. Excluding sole traders, the compliance costs of non-business individuals in 1994–95 were estimated at $1.5 billion, corresponding to 4% of relevant tax revenue or 0.34% of GDP. These considerable costs have led to calls for tax simplification, which include proposals for reducing annual filing for non-business individual taxpayers in Australia (see, for example, Evans 2004).

The complexity of the Australian PIT may have also driven Australian personal taxpayers into the hands of tax agents and advisers far more than has been the case in other comparable jurisdictions. An OECD survey (2005b) conducted in 2004 (and relating to the financial year immediately before the survey year) showed that 77% of all personal income tax returns in Australia were prepared with the assistance of tax professionals.
The percentages for other comparable jurisdictions included: Canada: 45%; New Zealand: 30%; UK: 53%; and USA: 56%.

This paper considers one part of a broader research project which aims to develop a model of the Australian personal income tax system that is capable of commanding widespread expert and community support while still delivering the expected revenue flow and tax policy objectives. In this way, it is proposed that the project will inform and influence the contemporary debate about reform of the Australian PIT in particular and the PIT of comparable tax jurisdictions more generally. The project combines various research techniques in an innovative way to:

- construct and test, using micro-simulation techniques, a series of hypothetical models of the personal income tax system in order to establish which models can best deliver the required policy outcomes of assured revenue collection with the optimal blend of equity, efficiency and simplicity. This part of the project has largely been completed, and its major findings have been reported in various papers, including Tran-Nam et al (2006) and Andrew (2005);
- subject some of the central issues and concepts underpinning these models to scrutiny and analysis by a panel of international tax experts (using a Delphi methodology) in order to establish strengths and potential weaknesses in the models and seek to establish a consensus around one single model;
- survey tax community attitudes to this expert-derived model in order to establish levels of potential resistance/acceptance by key stakeholders including tax payers, tax practitioners, tax professional bodies and tax administrators; and
- fine-tune or revise the model to reflect community feedback.

This paper focuses only upon the Delphi methodology and explains how it is being used as a critical component of the overall research project. The Delphi methodology combines quantitative and qualitative techniques to explore future possibilities in systematic and iterative rounds of anonymous testing involving a panel of international experts in the field of personal taxation. The experts have been drawn from Australia and from countries with comparable PIT regimes, such as the UK, the USA, Canada and New Zealand. Over a four month period the panel has responded to a series of open-ended propositions relating to the design and operation of the PIT, with a view to establishing whether a consensus on key PIT reform issues can develop.

The emphasis in the paper is upon both the process of conducting a Delphi and the specific outcomes of the Delphi. The Delphi stage was completed in 2006 and the data

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1 This paper is written and presented as part of an on-going Australian Research Council (ARC) Linkage research grant for 2005 and 2006: Towards systemic reform of the Australian personal income tax: developing a sustainable model for the future. The financial support of the ARC and the partner organization – CPA Australia – is gratefully acknowledged. The author would also like to acknowledge the other project team members – Associate Professor Binh Tran-Nam (Atax, UNSW), Professor Brian Andrew (Atax Visiting Fellow and Charles Darwin University), Paul Drum and Garry Addison (CPA Australia) and Linh Vu (Atax, UNSW) – for their contributions to this paper and the project. Their input is appreciated; any mistakes are my own.
has been collated, analysed and used to inform the final phase of the broader research project, which is scheduled to be completed by March 2007.²

Part 2 of the paper explains in more detail the theory underpinning the Delphi methodology, including references to the extensive literature on the topic. The paper then describes the Delphi process actually adopted in this research project (in Part 3) and the outcomes of the process are examined in Part 4.

2 The Delphi methodology

The word Delphi refers to the hallowed site of the most revered oracle in ancient Greece, where forecasts and advice were sought (Fowles, 1978). The Delphi methodology as commonly understood in modern usage “operates on the principle that several heads are better than one in making subjective conjectures …and that experts will make conjectures based upon rational judgement rather than merely guessing” (Weaver, 1971, p. 268). It is a dialectical process designed to foster the exploration and distillation of expert opinion (Helmer, 1983).

In essence it is “a systematic, iterative method of forecasting based on the collection of opinions from a group of experts. Its objective is to obtain a consensus of opinion from these individuals about future trends, events or changes in a field of practice; or alternatively, to clarify and perhaps explain the nature of revealed dissent or divergence of opinion” (Carley, 1980, quoted in Birkett at page 4). Birkett goes on to note that it “replaces open debate by a carefully designed program of anonymous testing…[utilizing] a nominal group technique; members of the group are confronted by the opinions of other members, but face to face interaction does not occur”. Anonymity ensures that the biasing effect of group pressures, dominant individuals and the like does not occur.

The methodology was originally developed in the 1950s by Norman Dalkey and Olaf Helmer, and combines quantitative and qualitative techniques to explore future possibilities.³ It was initially utilized by the RAND Corporation as a tool for forecasting aspects of future warfare, but has subsequently been used in a variety of ways, well beyond technological forecasting, in industry, government and academia.

One major variation, used in the current research, is the “Policy Delphi”, the main goal of which is to expose different options and opinions regarding an issue and the principal pro and con arguments for these positions (Slocum, 2005). For example, the Policy Delphi methodology has been used to examine public health issues such as drug use (Rainhorn et

² A survey of over 3,000 individual (non-business) taxpayers was undertaken in November 2006 and a survey of over 1,000 tax practitioners dealing with the individual (non-business) taxpayers was conducted in January 2007.
³ Dalkey, however, has claimed that he and Helmer were never entirely happy with the use of the term Delphi, arguing that the term implied “something oracular, something smacking a little of the occult” rather than a methodology designed to identify the best possible outcomes from less than perfect information (Dalkey, 1968, cited in Gunaydin, 2006).
⁴ An acronym for Research and Development.
al, 1994), military policies (Linstone and Turoff, 1975) and educational policy issues (Adler and Ziglio, 1996). It has not been used significantly in the area of taxation, although examples of its use and usefulness in this field include Birkett (1989) and Evans and Walpole (1999). The problems to which the method is applied are generally complex and lacking simple definition or obvious solutions.

Delphi activities are fundamentally exploratory tools, where individuals plumb their knowledge, share it with others, and use what is shared with them to refine their own thinking. Delphi activities, particularly in the policy context, are not necessarily intended to generate consensus, although it is possible for consensus to emerge. Delphi activities are also not intended to quantify beliefs, although quantification can help focus participation. The goal of Delphi activities is simply to reveal (not create) patterns of thought, areas of consensus or disagreement, or questions to pursue (HERO, 2001). Most applications of the method use written questionnaires, either mailed or emailed, but face to face individual and group interviews have also been used, as well as computer conferencing procedures (Dunn, 1994).

The number of participants in a Policy Delphi are typically selected to represent a wide range of opinions, and may comprise anything between 10 and 30 (Dunn, 1994), although successful Delphis have been conducted with as few as four (Slocum, 2005). Research generally indicates that 12-15 constitutes a sufficient number of experts to ensure reliable outcomes. The size of the panel is ultimately determined by the nature of the topic under review and the budget of those administering the technique. Unlike traditional statistical surveying, the goal is not to select a representative sample of the population. The whole premise behind the Delphi theory is that the panel members are in fact experts in their field in order to yield more accurate results (Bourgeois et al, 2006). It is also important to ensure that the experts chosen to participate are capable of representing the many sides of the issues under examination – the intention is not to select a panel of experts who would typically have a consensual or homogenous view from the outset (Slocum, 2005, p. 115).

Rayens and Hahn (2000) outline the major characteristics of the Policy Delphi. It is a multistage process involving the initial measurement of opinions (first stage), followed by data analysis, design of a new questionnaire based on group response to the previous questions, and a second measurement of opinions. Feedback – information about the beliefs of other participants during the first stage survey – is used in the second stage to facilitate consensus on policy beliefs. This process allows participants to reconsider their opinions in the light of the views of other participants and can be repeated until consensus is reached or saturation of opinion occurs.

The number of stages typically ranges between two and five (Critcher and Gladstone, 1998). Rayens and Hahn (2000, p. 309) note that first stage Policy Delphi questions may include four categories of items:

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5 Dedicated software packages for computer based surveys are also available (HERO, 2001).
• forecast items, which provide the panel members with a statistic or estimate of a future event. Participants are asked to judge the reliability of the information presented, and typically use response choices which range from “certainly reliable” to “unreliable”;
• issue items, where panel members rank issues in terms of their importance relative to others, generally using a scale that ranges from “very important” to “unimportant”;
• goal items, which elicit opinions about the desirability of certain policy goals, eliciting responses from “very desirable” to “very undesirable”; and
• option items, where respondents identify the likelihood that specific options might be feasible policy goals. For option items the range of responses is usually from “definitely feasible” to “definitely unfeasible”.

Following this first stage, the data are analysed to determine participants’ positions on each interview item. Based on these measurements, which may be quantitative or (most likely) qualitative or a combination of both, some items are omitted from subsequent stages due to lack of variability in response – items for which consensus has been achieved are not included in subsequent stages (Rayens and Hahn, 2000, p. 310).

Three principles typically underpin the Delphi methodology. These are anonymity (although this may be sacrificed where face to face interview processes are utilized), asynchronicity and controlled feedback.

Anonymity, it is argued, ensures that panelists’ personalities do not influence group behaviour. The status of the respondent does not come into play, and panelists may be more willing to offer opinions that might otherwise be seen to be unpopular or risky. In similar vein, panelists may be more willing to change their opinions rather than having to defend a locked-in position that has their name attached to it (Delbecq et al, 1975, cited in HERO, 2001).

One of the most important aspects of a Delphi is the ability – within broad parameters – for the panelists to respond when and how they want to. They are not constrained to discuss the same topic at the same time, as would be the case in, for example, a focus group or other face to face interaction. Asynchronous communication allows the members of the panel to respond at their own convenience.

The third underlying principle – controlled feedback – emphasizes the iterative nature of the Delphi. The results of one activity or question are used to inform the development of the next. It is obviously critical to the success of the Delphi to ensure that results are fed back to panelists in an unbiased manner as possible.

Studies comparing the Delphi’s results with other methods have confirmed the effectiveness of the methodology on the basis of both its capacity to generate ideas and its effective use of participants’ time (Ulschak, 1983), as well as its capacity for accuracy when forecasting is involved (HERO, 2001). But the methodology is not without its critics. Makridakis and Wheelwright (1978, cited in Gunaydin (2006)) summarise the
general complaints against the Delphi method in terms of (a) a low level reliability of judgements among experts and therefore dependency of outcomes on the particular judges selected; (b) the sensitivity of results to ambiguity in the questionnaire that is used for data collection in each round; and (c) the difficulty in assessing the degree of expertise incorporated into the forecast. Among the major concerns listed by Martino (1978, cited in Gunaydin (2006)) are:

- the simplification urge: experts tend to judge the future of events in isolation from other developments. A holistic view of future events where change has had a pervasive influence cannot be visualized easily. At this point cross-impact analysis is often of some help;
- sloppy execution, both by the research team and the panel of experts: there are many ways to do a poor job. Execution of the Delphi process may lose the required attention easily;
- format bias: it should be recognized that the format of the questionnaire may be unsuitable to some participants, particularly in an international context; and
- manipulation of Delphi: the responses can be altered by the research team in the hope of moving the next round responses in a desired direction.

The research team was conscious of these and other criticisms and shortcomings in the design of the particular Delphi that was employed to investigate issues relating to personal tax reform in Australia, which is explored in the next section.

3 Using the Delphi in the context of personal income tax reform

Selection of panel

The literature is very clear about the critical importance of the selection of the panel of individuals to be involved in the conduct of a Delphi. The panel must obviously comprise experts in the field under review, and the panel must also be capable of adequately and accurately representing a range of possible opinions about the problems or issues being investigated. As noted above, the literature also suggests that the panel should comprise somewhere between 12 and 30 tax experts.

Given that other parts of the broader research project were exploring (by means of surveys and focus groups) the views of “experts” who were tax professionals and representatives of tax professional bodies (as well as non-expert taxpayers more generally), the research team decided that it would exclusively use the Delphi to explore the views of senior tax academics. It was particularly interested in identifying tax academics with a specific interest (evidenced through research and writing) in the field of personal taxation. The research team also wanted to ensure that the panel it chose was capable of reflecting a variety of disciplinary perspectives, and therefore looked for personal tax academics from a mixture of legal, accounting and public finance

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6 “Senior” was defined loosely as being of professorial rank or possessing a doctorate in the area.
backgrounds. Finally, the research team was interested in recruiting tax academics from both Australia and overseas, and particularly from broadly comparable tax jurisdictions such as the UK, USA, Canada and New Zealand.

An initial list of some 35 eminent personal tax academics was compiled by the research team, subsequently short listed (on the basis of the research team’s own knowledge of, and contacts with, the persons on the list) to 18. All 18 academics were contacted in late 2005 or early 2006 to establish their willingness to participate. Thirteen agreed to participate. The panel of 13 experts comprised six academics from Australia, three from the UK, two from the USA and one from each of New Zealand and Canada. In terms of broad disciplinary background, six would be considered as having a primarily legal background, five come from an economics/public finance perspective and two would be categorized as being from an accounting background – although all 13 would be principally seen as tax experts and many had overlapping expertise.

In line with the key principle of anonymity already noted, the identity of each of the participants was kept separate from other members of the panel, so that only the research team knew the composition of the panel. This anonymity was preserved throughout the process, although in the relatively closed community of tax academia it is quite possible that some of the panel members may have been aware of the identity of some other members of the panel – though none of them would have been aware of the composition of the entire panel.

The research team was therefore satisfied, overall, that the panel that it had assembled had the appropriate expertise, breadth of opinion and internal integrity to be able to provide the sort of feedback and information about personal tax issues that was required in the Delphi phase of the project.

**Design and process issues**

The research team held a number of meetings in early 2006 to establish the specific areas upon which it was looking for input, in the first round of the Delphi, from the panel of experts. Ultimately four broad areas were identified – relating to the general principles underpinning tax policy and tax mix, the personal tax base, tax rates and tax administration. The debate about which aspects and issues to include under these four broad headings was further shaped by some of the outcomes that were emerging from the first phase (micro-simulation of potential personal tax models) and by the realization that panel members would only be prepared to devote a certain amount of time to completion of the first round – none had unlimited time to devote to the Delphi. The survey could therefore not be as long or detailed as might otherwise have been desirable.

The survey instrument used in the first round of the Delphi, and issued on 17 March 2006, is contained in Appendix One. It comprised 21 questions categorized under the four headings identified above. Panel members were also given clear instructions about

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7 Those who declined the opportunity of participating generally cited lack of time or lack of current interest in the personal tax area as the reasons for not taking part.
what they were required to do, and some details about the Delphi methodology itself and about personal tax reform in Australia (considered to be vital for international experts). It was decided to administer the survey instrument using email technology – largely on the basis of timeliness, ease of access and general acceptance of that medium within the academic community. At that stage it was anticipated that there would be up to three rounds of questioning involved in the Delphi.

In line with the literature relating to the Delphi process, the 21 questions comprised a mixture of “forecast”, “issue”, “goal” and “option” questions, with an emphasis on the latter two categories. In fact, only one question (Question A3) would readily be classified as a “forecast” question, and only two questions (Questions A2 and B7) are specific “issue” questions. The 18 remaining questions fit broadly equally in either the “goal” or the “option” categories.

Panel members were asked to complete and return the first round surveys within two weeks – by 31 March 2006. Responses were received from nine of the 13 panel members within that timeframe and from the other four within five days of 31 March. This was a somewhat unexpected and exceptionally positive rate of response, perhaps accounted for in part by the novelty of the methodology within the taxation discipline, but perhaps also attributable to the careful priming of the panel by the research team over preceding months.\(^8\) The covering information had suggested that panel members would need about 30 minutes to complete the instrument. This proved to be a significant under-statement, with some panel members indicating that they had spent over an hour on the first round responses.

The information contained in the Round One responses was then collated and analyzed in the period through to mid-June 2006, at which point (18 June 2006) Round Two of the Delphi was issued to the panel. The instructions given to panel members for Round Two are contained in Appendix Two.

The number of questions in Round Two was reduced significantly, from 21 to just six, compared to Round One. This was because the research team found that there was a high level of agreement (or sometimes indifference or expected disagreement) for 15 of the 21 questions asked in Round One. There was therefore no reason to probe those 15 areas any further. Instead Round Two aimed to explore the strength of opinion related to the six key areas upon which consensus had not clearly emerged. These six areas were:

- whether work related expenses should be deductible for salary and wage earners;
- whether negative gearing (the offset of revenue losses, including interest on borrowings, made in holding investments against total income) should be permitted;
- whether certain concessions, including the 50% discount for capital gains, work related expense deductions, superannuation concessions, negative gearing and others, should be removed, and in what priority order;

\(^8\) But perhaps the major factor was the enthusiasm, professionalism and diligence of the panel members themselves.
• what sort and level of tax free threshold might be appropriate;
• whether a hybrid flat tax (involving a tax free threshold combined with a flat rate of tax) might be appropriate; and
• whether a negative income tax might provide a viable solution to the problem (particularly experienced in Australia) of high effective marginal tax rates as a result of the poor meshing of the tax and social security systems.

In Round Two panel members were initially reminded of the question or issue that was being raised in each of the six questions and of the response that they had volunteered in Round One. They were also given a customized anonymous summary of the responses of the other 12 panel members combined with their own response (often tabulated), together with a more detailed document that provided, verbatim, the responses to each of the six questions of all 13 panel members. The 13 experts were then separately asked to re-consider their own Round One responses to each of the six questions, with the opportunity to revise or confirm those responses after having considered the anonymous feedback from other experts.

The panel members were again given a two week time period in which to respond. The timeliness of responses in Round Two was nowhere near as good as that in Round One – only seven members were able to submit their responses within the specified period, with two others responding up to five days late, another two responding up to one month after the initial required response date, and one responding seven weeks after the initial deadline. A response from the final panel member was never received, despite the issue of a number of reminders.

4 Outcomes

The data derived from the Delphi are best examined by separate reference to the answers provided to each of the 21 questions in Round 1 and the six questions that were followed up in Round 2.

Delphi Round 1 responses

(a) Section A: General Principles

The three questions in Section A (refer Appendix One) were concerned with general principles relating to tax policy and tax mix. All 13 panel members agreed that the four criteria of equity, efficiency, simplicity and revenue adequacy were appropriate as primary criteria for evaluating the quality of a PIT (Question A1). There was also a significant degree of agreement about how the four criteria should be ranked in terms of priority or importance (Question A2), although many of the experts questioned the artificiality of the rankings and qualified their rankings and the process of those rankings.

Table One summarises the outcome of this ranking process, from which it can be seen that there is some agreement that equity is the “most important” of the four criteria (it
was ranked first by 9 and second by the other 4 experts), followed in relative order by efficiency, simplicity and revenue adequacy.

### Table One  Ranking of relative significance of primary tax criteria (Question A2)

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<tr>
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<th>Ranked first</th>
<th>Ranked second</th>
<th>Ranked third</th>
<th>Ranked fourth</th>
<th>Weighted score</th>
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<tr>
<td>Equity</td>
<td>9</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>48</td>
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<tr>
<td>Efficiency</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>33</td>
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<tr>
<td>Simplicity</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Revenue adequacy</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>18</td>
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</table>

*Weighted score is 4 for 1st, 3 for 2nd, etc.*

The panel members were also asked to identify other criteria which they considered to be important, and “certainty” and “international compatibility” were both mentioned.

The third question (Question A3) in Section A asked the experts for their opinion on whether Australia was overly reliant on the PIT as a major source of tax revenues. There was no real consensus on this aspect, with three experts (including one Australian) agreeing that Australia was over-reliant on the PIT, seven (including four Australians) disagreeing and three (including one Australian) uncertain. The largest number of experts therefore considered that Australia was not overly-reliant on the PIT for its tax revenue.

None of the questions in Section A was selected for follow up consideration in the second Round of the Delphi.

(b)  *Section B: The Personal Tax Base and Tax Unit*

Twelve of the thirteen panel members agreed (some with minor qualifications) that the tax base for the PIT should be characterised by as broad a base as possible combined with rates that are as low as can be sustained bearing in mind the needs of generating “sufficient” tax revenue (Question B1). The one panel member who disagreed felt that there were strong arguments for having tax breaks in particular circumstances.

Question B2 related to tax expenditures, and asked the experts to identify, in priority order, the Australian tax expenditures that they considered caused the greatest level of distortion of the PIT base (by reference to equity, efficiency and simplicity criteria). Table Two, which summarises the outcome of this ranking process, shows that the CGT discount and superannuation stand out as the tax expenditures considered to cause the greatest degree of distortion. The other tax expenditures appear to be relatively insignificant by comparison.

Three panel members felt unable to provide a ranking.
There was also a significant degree of consensus in panel members’ responses to the third question in Section B, which asked the experts to consider whether capital gains should ideally be taxed on the same basis as other forms of income (Question B3). Twelve of the thirteen experts agreed that this should be the case “ideally”, though many noted the qualifications to this ideal position that have to be made. The thirteenth member was concerned about the cash flow implications of seeking to tax capital gains in this manner.

By way of contrast, responses to Questions B4, B5 and B6 showed very low levels of agreement among the experts, and were therefore selected for further analysis in Round 2 of the Delphi. Question B4 asked whether all work related expenses should be tax deductible for salary and wage earners. Only one expert considered, unequivocally, that they should, and five considered that they should not. The other seven experts expressed varying degrees of support for the proposition, but the data was entirely inconclusive on this question.

The same was true in Question B5, which sought opinions on whether the “negative gearing” which Australia currently permits for tax purposes on passive investments was justifiable in a tax context. Four experts felt it was justified, seven felt it was not and two were unsure.

Question B6 followed up on issues initially raised in Question B2, and asked the experts to identify – in priority order – the tax expenditures they would remove if they were seeking to broaden the tax base. The results for the 12 respondents (one expert felt too uncertain to offer a response) are in Table Three. They indicate that there was the greatest level of agreement about the desirability for the removal of the CGT discount, with seven out of twelve experts suggesting that this would be their first choice of tax expenditure that could be removed to broaden the tax base, followed by negative gearing, work-related expenses and superannuation concessions. The “other” expenditures that were mentioned were “owner occupied housing” (ranked first by one respondent) and “fringe benefits”.

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<td>-</td>
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<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Owner Occupied Housing</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7</td>
</tr>
</tbody>
</table>

Weighted score is 7 for 1st, 6 for 2nd, etc.
Table Three   Ranking for removal of tax expenditures (Question B6)

<table>
<thead>
<tr>
<th></th>
<th>Ranked first</th>
<th>Ranked second</th>
<th>Ranked third</th>
<th>Ranked fourth</th>
<th>Ranked fifth</th>
<th>Weighted score</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% CGT discount</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Negative gearing</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>34</td>
</tr>
<tr>
<td>Super concessions</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Work related expenses</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>7</td>
</tr>
</tbody>
</table>

*Weighted score is 5 for 1st, 4 for 2nd, etc.*

The final question in Section B (B7) sought the experts’ opinion on the appropriate tax unit for the PIT, and offered the possibility of the family, the individual, or hybrids of these. None of the experts considered the family the appropriate unit, and the majority (eight out of thirteen) clearly felt that the individual was most appropriate as the tax unit. Two respondents favoured hybrid arrangements, and three were unsure or unable to offer an opinion on this matter.

(c) Section C: Tax Rates and Thresholds

Section C was concerned with issues relating to tax rates and thresholds. There was considerable agreement (twelve out of thirteen responses) that tax brackets/thresholds should be automatically indexed (Question C1), although some disagreement as to whether it would be more appropriate to use the Consumer Price Index or Average Weekly Earnings as the benchmark.

One area where no clear and over-arching view was derived from the panel in Round 1 was in relation to the level at which the tax-free threshold should be pitched (Question C2). While seven of the experts agreed that it should be increased up to or beyond the individual poverty line (estimated to be $13,500), two others thought it should be reduced to zero and the other four expressed no clear opinion. It was therefore considered that this was an area that could be followed up in the second round of the Delphi.

Questions C3, C4 and C6 were concerned with the optimal number of rates in a PIT. Most of the experts considered that a two or three-rate structure would have primarily simplicity and efficiency advantages over Australia’s current five-rate structure, and that reduced numbers of tax rates might also reduce avoidance and income splitting activity (Question C3). But eight of the thirteen also identified significant equity and progressivity disadvantages (particularly at the margins) if the number of tax rates were reduced from five to three or two. Most of the experts (ten out of thirteen) would not express a view on the optimal number of tax rates in a PIT system (Question C4). In responding to Question C6, however, ten out of the thirteen experts expressed the view that a flat tax (ie one single PIT rate) was inappropriate for Australia.
There was a reasonably strong view that the corporate tax rate and the top personal tax rate should be aligned (six out of thirteen), or that at least the gap between the two rates should be reduced (a further four out of thirteen) (Question C5).

Questions C7 offered the possibility of a flat tax combined with a tax free threshold (the so-called hybrid flat tax), and this option elicited some support from the experts: five were willing to consider the possibility of implementing it in a developed economy such as Australia, and another two indicated that they could be supportive in particular circumstances. But six experts rejected the idea for Australia outright. Given the relatively clean split of opinion on this issue, it was decided that this was another question that would be included in Round 2 of the Delphi.

The final question in Section C was also identified for follow-up in Round 2. Question C8 sought the experts’ views as to whether a properly implemented negative income tax could provide a viable solution to the problem of high effective marginal tax rates (EMTRs) in Australia. Five experts considered that it could; two considered that it could in particular circumstances; three felt that it could not; and three expressed no view.

(d) Section D Tax Administration

The final section of the Round 1 Delphi contained three questions relating to tax administration. The first (Question D1) was designed to elicit the experts’ views on what advantages and disadvantages might arise if the Australian PIT were re-designed to remove the obligation to file for most personal taxpayers. As might be expected, on the positive side most (ten out of thirteen experts) saw the possibility of reductions in compliance and administrative costs, or other unspecified gains to simplicity. When considering the potential disadvantages of less comprehensive annual filing, five comments mentioned issues relating to “non-compliance” – comprising encouragement of the cash economy (two responses), loss of revenue (one), extension of the tax gap (one) and less accurate tax structure (one).

Question D2 delved a little deeper into the possibility of reduced annual filing and sought the panel members’ views on the factors, or “enabling agents” that might permit reduced annual filing. There was some, but not by any means overwhelming, support for the four factors that were identified (fewer tax rates and thresholds; a cumulative PAYE/PAYG system; comprehensive tax deduction at source mechanisms; and the removal of work related deductions for salary and wage earners), and no further factors were suggested by the experts.

The final question in Round 1 (D3) was concerned with potential support for a CGT annual exempt amount or tax free threshold to act as a de minimus mechanism to weed out relatively insignificant capital gains from the tax base. Eight out of thirteen panel members considered this a justifiable compromise between equity and simplicity, while a further two either did not express a view or did not know. Only three of the experts were opposed to the idea. There was less agreement, however, about the level at which this
annual exempt amount should be pitched, with suggestions ranging from $2,500 to $20,000.

**Delphi Round 2 responses**

As noted above, 15 of the 21 Round 1 Delphi questions elicited either a significant degree of agreement from the experts, or it was clear that the panel members were never likely to develop a consensual position, as a result of indifference or polarization of opinions. The focus in Round 2 therefore shifted to six questions (B4 relating to work related expenses; B5 relating to negative gearing; B6 relating to tax expenditures; C2 relating to the tax free threshold; C7 relating to the hybrid flat tax; and C8 relating to the negative income tax) where attitudes and opinions did not appear to be so clear-cut or strongly held. The experts were confronted with their own and with their peers’ responses to determine whether they were willing to shift their views and move towards a more consensual position.

Table Four summarises the outcomes of the second round of the Delphi. Although the process of summarizing is necessarily impressionistic, qualitative and somewhat simplistic, it does accurately capture the sense that the opinions of the experts, once formulated, were hard to shift, even when confronted with defending a minority position in the face of peer pressure. There is very little evidence of views being changed, and where changes did occur they were often relatively insignificant or minor in nature, and sometimes explained on the basis of a misunderstanding in Round 1.

<table>
<thead>
<tr>
<th>Question</th>
<th>B4</th>
<th>B5</th>
<th>B6</th>
<th>C2</th>
<th>C7</th>
<th>C8</th>
</tr>
</thead>
<tbody>
<tr>
<td>No change</td>
<td>11</td>
<td>11</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Change</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Only five of the twelve experts who participated in Round 2 changed a position in relation to any one of the six questions. One respondent recorded a change of opinion on three separate questions; two respondents recorded changes on two separate questions; and two respondents recorded a change on one question. Most respondents, however, maintained their positions on all questions.

In summary, therefore, there was little evidence of changes in opinion as a result of the second round of the Delphi, and little evidence of the likelihood of a consensus emerging on the six questions that were under review. On that basis it was decided not to continue with a third round of the Delphi.
5 Conclusions

It is relatively simple to offer conclusions about the process of the Delphi methodology, but more difficult to provide definitive conclusions about the value of the data derived from that process.

So far as methodology is concerned, the Delphi used in this particular project was remarkably easy to operate, and from that perspective it compares very favourably with other methodologies designed to elicit opinions and attitudes. It also proved to be cheap to administer, and the choice of an electronic (email) platform proved to be very effective. Response rates and times were good, and the cooperation of the experts was generally exceptional.

The most problematic area was in the design of the Delphi, and particularly in framing questions in such a way as to measure the strength or value of changes in responses that can occur over successive rounds. The questioning technique adopted in this particular Delphi was to leave questions open-ended, in order to give the experts as much opportunity as possible to express opinions. This was a perfectly justifiable approach, but in hindsight it made the measurement of change of opinion a very difficult task. A Policy Delphi is, in essence, a qualitative rather than a quantitative methodology, and does not lend itself easily to statistical analysis. If the process were to be repeated, however, it is quite likely that there would be a greater reliance on Likert scales, which can produce measurable outcomes, for many of the questions, rather than the heavy reliance on open-ended questions.

The Delphi has provided the research team with clear insights into a number of areas where there is broad international consensus on certain aspects relating to the design and development of the PIT in an open developed economy, and has also highlighted other areas where there is no consensus. It has established, inter alia that:

- there is broad support from the experts for the generally accepted criteria of equity, efficiency, simplicity and revenue adequacy as appropriate criteria for evaluating a PIT, with general agreement that equity ranks as the single most important criterion;

- there is no general agreement, however, about the appropriate role of the PIT in the overall tax mix;

- there is general agreement that the Australian PIT should be characterized, so far as possible, by as broad a base as possible combined with rates that are as low as can be sustained;

- the experts consider, on the whole, that the individual is a more appropriate tax unit than the family;
there is a strong view expressed by the experts that the superannuation concessions and the 50% CGT discount are the tax expenditures that cause the greatest level of distortion within the Australian PIT. Moreover, the experts generally agree that the CGT discount would be the first choice of tax expenditure that could be removed to broaden the tax base, that “ideally” capital gains should be taxed on the same basis as other forms of income, and that there are strong grounds for introducing a de minimis annual exemption to remove relatively insignificant capital gains from the tax base;

there is strong endorsement for the view that all income tax brackets or thresholds should be indexed annually for inflation, though less agreement on precisely how this elimination of bracket creep should be implemented;

the experts generally agree that alignment of the corporate rate and top personal rate (or at least a reduction in the gap) is desirable, but there is no general agreement on the optimal number of tax rates or scales that should be contained in a PIT;

the experts can identify significant advantages that are likely to ensue with less comprehensive annual filing (primarily relating to simplicity and compliance costs) but also identify some disadvantages (primarily related to the capacity for non-compliance that less filing might permit); and

there is little agreement – even after experts were given the opportunity to reconsider their positions in the light of the views of their peers – on key design issues such as the deductibility of work related expenses, rules relating to negative gearing, the level of the tax free threshold, or on the potential for alternatives such as a negative income tax or a hybrid flat tax to counter some of the problems associated with Australia’s PIT.

The product of the Delphi has therefore been useful in a confirmatory, developmental and clarifying role. It has reinforced outcomes that have emerged from other parts of the broader project. This use of the Delphi for triangulation purposes alone has been sufficient justification for its adoption. Moreover, the Delphi has provided the research team with clarification on a number of issues, and has provided a rich seam of information that has repaid detailed mining. The outcomes have also assisted, in a developmental fashion, in shaping the future direction of the research.
References


Australian Bureau of Statistics (2004), Year Book Australia 2004, Table 27.16, Canberra.

Australian Taxation Office (2005), Taxation Statistics 2002-03, Table 2.1, Canberra.


Linstone, H. and Turoff, M. (Eds) (1975), The Delphi Method: Techniques and Application, Addison-Wesley, Reading, MA.


Dear Colleague

Many thanks for agreeing to participate in this Delphi methodology involving a panel of 12-15 international academic experts in the field of taxation. This is the first round of the Delphi and we provide some background and context about the project and the Delphi immediately below and in the appendix. We expect to conduct the second and third rounds (where you will anonymously comment on the views of the other panel members with a view to seeking a consensus) in April to June 2006.

Background and context to the research project

We are currently involved in an Australian Research Council (ARC) funded research project entitled “Towards systemic reform of the Australian personal income tax: Developing a sustainable model for the future”.

The aim of this project is to develop a model of the Australian personal income tax system that is capable of commanding widespread expert and community support while still delivering the expected revenue flow and tax policy objectives. In this way, we hope the project will inform and influence the contemporary debate about reform of the Australian personal income tax (PIT).

Further background information about the project and the Australian PIT is contained in Appendix A, which members of the panel from overseas may find particularly useful.

About the Delphi methodology

The Delphi methodology “operates on the principle that several heads are better than one in making subjective conjectures …and that experts will make conjectures based upon rational judgement rather than merely guessing” (Weaver, 1971, p. 268). The methodology was originally developed in the 1950s by Norman Dalkey and Olaf Helmer, and combines quantitative and qualitative techniques to explore future possibilities. Studies comparing the Delphi’s results with other methods have confirmed the effectiveness of the methodology on the basis of both its capacity to generate ideas and its effective use of participants’ time (Ulschak, 1983). It has not been used significantly in the area of taxation, although examples of its use and usefulness in this field include Birkett (1989) and Evans and Walpole (1999).

In essence it is “a systematic, iterative method of forecasting based on the collection of opinions from a group of experts. Its objective is to obtain a consensus of opinion from these individuals about future trends, events or changes in a field of practice; or alternatively, to clarify and perhaps explain the nature of revealed dissent or divergence of opinion” (Carley, 1980, quoted in Birkett at page 4). Birkett goes on to note that if
“replaces open debate by a carefully designed program of anonymous testing…[utilizing] a nominal group technique; members of the group are confronted by the opinions of other members, but face to face interaction does not occur”. Anonymity ensures that the biasing effect of group pressures, dominant individuals and the like does not occur.

The project is using the Delphi methodology to engage a panel of 12-15 international PIT experts in an electronic iteration of questioning and analysis of some of the initial modelling that has taken place in our research project. (Research indicates that 12-15 constitutes a sufficient number of experts to ensure reliable outcomes.) Up to three rounds of questioning (over a four month period) about the perceived advantages and weaknesses of the models developed in the first modelling phase is being conducted in an attempt to seek expert coalescence about the characteristics of a model that can best provide the policy objectives required of the PIT. The Delphi panel comprises PIT experts from Australia and from comparable tax jurisdictions (New Zealand, the UK, Canada and the USA). We are hoping that many of these international experts will later be able to participate in a PIT Symposium scheduled for March/April 2007.

**DELPHI ROUND ONE**

This first round of the Delphi contains four sections. Section A seeks your views on some broad tax principles and the tax mix, while Sections B-D seek your input on more specific issues relating to (respectively) the personal tax base, personal tax rates, and personal tax administration issues.

Feel free to write, in open-ended sections, as much or as little as you please (do not feel constrained by the space available). As you will appreciate, there are no right or wrong answers – we are merely seeking your opinions with a view to identifying what level of consensus (if any) may initially exist within the panel. Future rounds (we anticipate that there will be two further rounds) will (anonymously) seek feedback on the views of members of the panel and further seek to develop a consensus (which may prove impossible!).

We have estimated that you should not need more than about 30 minutes to respond to these questions. We would really appreciate it if you could complete the Round One Survey below and return the document to Chris Evans (email cc.evans@unsw.edu.au or fax +612 9385 9383) by 31 March 2006.

Please move to the next page to commence the Delphi.

Chris Evans Atax, UNSW  
Binh Tran-Nam Atax, UNSW  
Brian Andrew Charles Darwin University  
Paul Drum Senior Tax Counsel, CPA Australia  
March 2006
SECTION A  GENERAL PRINCIPLES

The research team has adopted, as a starting position, the oft-cited criteria of “equity”, “efficiency” and “simplicity” along with “revenue adequacy”, as the appropriate criteria for evaluating the Australian PIT.

A1  Do you consider these four criteria (equity, efficiency, simplicity and revenue adequacy) are appropriate as the primary criteria for evaluating the quality of a PIT? If not, what other criteria would you suggest, and why?

A2  What is your ranking, as a tax expert, of the relative significance (in terms of priority or importance) of the following criteria in the design and evaluation of a PIT (where 1 is the criterion that should be assigned the highest priority or importance, 2, the second highest and so on):

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>_______</td>
</tr>
<tr>
<td>Efficiency</td>
<td>_______</td>
</tr>
<tr>
<td>Simplicity</td>
<td>_______</td>
</tr>
<tr>
<td>Revenue adequacy</td>
<td>_______</td>
</tr>
<tr>
<td>Other(s) (please specify)</td>
<td>_______</td>
</tr>
</tbody>
</table>

A3  In Australia, in 2004, tax revenue from the PIT was just over 12% of GDP, compared to an OECD average of just under 10% (OECD Revenue Statistics 2004). By way of comparison, the figure for New Zealand was just over 14%, for the UK it was 10%, for the USA it was 9% and for Canada it was nearly 12%. Excluding social security contributions, in 2001 the personal income tax accounted for about 41% of total taxes in Australia, compared to an OECD average of 26.5% (OECD Revenue Statistics 1965-2002).

On the basis of your experience/views and also the data provided above, do you consider that Australia is overly reliant on the PIT as a major source of tax revenues? (Yes/No/Don’t know is fine, but any elaboration will be useful, particularly relating to what you consider might be an appropriate tax mix for a developed economy such as Australia.)
SECTION B THE PERSONAL TAX BASE AND TAX UNIT

B1 It is often suggested that the PIT should be characterised by as broad a base as possible combined with rates that are as low as can be sustained bearing in mind the needs of generating “sufficient” tax revenue. Do you generally support this view? If not, how would you describe the approach that you think is appropriate in the design of the PIT base in a developed economy?

B2 The Tax Expenditures Statement 2005, published by the Australian Treasury indicates that tax expenditures have risen from AUD$30b* in 2001-02 to AUD$39b in 2005-06, though remaining at about 4.1% of GDP over the period. The main tax expenditures listed in the statement were:

(*AUD$1 = approx US$0.73 or £0.42 or CAN$0.85 or NZ$1.15 as at 13 Mar 06.)

- Concessional taxation of superannuation: AUD$15.5b
- The CGT discount for individuals: AUD$4.4b
- Exemption of Family Tax Benefits: AUD$2.5b
- Seniors Tax Offset: AUD$1.8b
- Social security Offsets: AUD$1.4b
- Fringe Benefits Tax Concessions: AUD$1.1b
- Exemption of income support payments: AUD$0.9b

From your existing knowledge of the Australian PIT (which we appreciate may be limited for overseas experts), which tax expenditures (in priority order, where 1 is the most significant and 2 is the next most significant) do you consider cause the greatest level of distortion (by reference to the equity, efficiency and simplicity criteria) of the PIT base.

B3 Ideally (and as a broad generalisation), should capital gains (as commonly understood) be taxed on the same basis as income from personal exertion and income from passive investments (interest, rent etc) and other income sources? If this is not your view, how and why should capital gains be treated differently from other sources of income?
B4 Should all work related expenses be tax deductible for salary and wage earners? (Yes/No/Don’t know is fine, but any elaboration will be useful.)

B5 Australia (unlike many other comparable regimes) currently permits individuals who incur losses on revenue account as a result of holding passive investments (equities, property etc) to set those losses off against any other income including income from salary and wages (so-called “negative gearing”).

Is this treatment justified? If not, what treatment might be more appropriate?

B6 If you were seeking to broaden the tax base in Australia, what priority order would you apply in removing each of the following concessions (where a ranking of 1 would suggest that this would be your highest priority for removal, 2 would be the second highest etc):

<table>
<thead>
<tr>
<th>Concession</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 50% discount for capital gains</td>
<td>_______</td>
</tr>
<tr>
<td>Work related deductions</td>
<td>_______</td>
</tr>
<tr>
<td>Superannuation concessions</td>
<td>_______</td>
</tr>
<tr>
<td>Negative gearing concessions</td>
<td>_______</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>_______</td>
</tr>
</tbody>
</table>

B7 Australia (in common with many other comparable PIT regimes) bases its PIT on the individual (although its social security system is often predicated upon the household or family unit). In your estimation, what is the ideal tax unit for the PIT: the individual, the family, hybrids of this or other? Why?
SECTION C  TAX RATES AND THRESHOLDS

The 2006-07 Australian PIT rate structure for residents involves a five rate structure with marginal tax rates (MTRs) as follows:

<table>
<thead>
<tr>
<th>Taxable Income (AUD$)*</th>
<th>MTR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 6,000</td>
<td>Nil</td>
</tr>
<tr>
<td>6,001 – 21,600</td>
<td>15</td>
</tr>
<tr>
<td>21,601 – 70,000</td>
<td>30</td>
</tr>
<tr>
<td>70,001 – 125,000</td>
<td>42</td>
</tr>
<tr>
<td>&gt; 125,000</td>
<td>47</td>
</tr>
</tbody>
</table>

* AUD$1 = approx US$0.73 or £0.42 or CAN$0.85 or NZ$1.15 as at 13 Mar 06

In addition a Medicare levy of 1.5% is charged on income greater than AUD$17,191, and there are various rebates and offsets including a low income rebate.

C1  In your estimation, should all tax brackets/thresholds be automatically indexed on an annual basis in line with inflation? (Yes/No/Don’t know is fine, but any elaboration is welcome.)

C2  Currently around 40% of taxpayers in Australia pay no net tax because of a range of rebates and concessions, and the two lowest income deciles have almost zero taxable income and do not benefit from the tax free threshold.

If reform of the Australian PIT were undertaken, which of the following options would you prefer to see implemented with respect to the initial tax free threshold (currently AUD$6,000):

- Option A: Increase it to the individual poverty line (currently approx AUD$13,500).
- Option B: Increase it above AUD$13,500.
- Option C: Leave it unchanged.
- Option D: reduce it to zero.
- Option E: Other (please specify) __________________________________

Preferred Option (specify A, B, C, D or E):    ____

(Feel free to elaborate on your preferred option.)
C3 Assuming the revenue impact can be neutralised (ie that the same tax revenue can be generated) and that there are no adverse distributional outcomes, what advantages or positive benefits could you envisage if Australia were to implement a two or three rate PIT rate structure (rather than the current five rate structure)? What disadvantages or negative implications might arise?

Advantages/positive implications:

Disadvantages/negative implications:

C4 Is there an optimal number of rates and thresholds for an equitable, efficient and simple PIT system? If yes, indicate that optimal position and say why. If no, indicate why not?

C5 The current top marginal PIT rate is 47%. The corporate rate is 30%. Ideally, should the rates be aligned? (Yes/No/Don’t know is fine, but any elaboration is welcome. If you do not consider full alignment is possible, are there grounds for seeking, at least, to reduce the gap?)

C6 Should a flat tax (ie one single PIT rate) be considered as an option in a developed economy such as Australia? (Yes/No/Don’t know is fine, but any elaboration is welcome.)

C7 Should a hybrid flat tax (i.e. a tax free threshold plus a flat rate) be considered as an option in a developed economy such as Australia? (Yes/No/Don’t know is fine, but any elaboration is welcome.)

C8 Australia has a particular problem with high effective marginal tax rates (EMTRs) as a result of the poor meshing of its tax and transfer systems. For example, middle and lower income recipients can face EMTRs in excess of 60% (and sometimes over 100%). Can a properly implemented negative income tax provide a viable solution to the problem of high EMTRs? (Yes/No/Don’t know is fine, but any elaboration is welcome.)
SECTION D  TAX ADMINISTRATION

D1  In some comparable PIT systems (for example the UK and New Zealand), only a minority of personal taxpayers are obliged to file an annual tax return. In Australia (as in the USA) all personal taxpayers are obliged to file.

What advantages do you envisage if the Australian PIT were re-designed such that most personal taxpayers would no longer be required to file on an annual basis?

What disadvantages might there be if this were the case?

D2  It has been suggested that the principal conditions precedent or “enabling agents” to permit a significant reduction in the number of taxpayers required to file an annual tax return in Australia would include:

- Fewer rates of tax and thresholds;
- A cumulative Pay As You Earn (PAYE) or Pay As You Go (PAYG) system;
- Comprehensive tax deduction at source mechanisms (to cover interest and dividend withholding as well as PAYE /PAYG etc);
- Fewer (or no) work related deductions for salary and wage earners.

Do you agree that these are the principal conditions precedent or “enabling agents” that would permit reduced annual filing? (Yes/No/Don’t know is fine, but any elaboration is welcome.)

Are you aware of any further conditions precedent or “enabling agents” that would assist in reducing the number of annual filers?

D3  Some countries (for example the UK) provide an annual exempt amount or tax free threshold for personal taxpayers making capital gains in order to “weed out the minnows and tiddlers”. (In the UK there is currently an annual exempt amount of approximately AUD$20,000.)

Do you consider that this de minimus rule is a justifiable compromise between equity and simplicity? (Yes/No/Don’t know is fine, but any elaboration is welcome.)

If you do consider that an annual exempt amount is justifiable, what is the maximum amount that you would consider appropriate for the exemption? (Feel free to express it in your own currency, so long as you clearly specify the currency involved.)

Many thanks for your assistance in this project. Your input is greatly appreciated. Please return the document to Chris Evans (email cc.evans@unsw.edu.au or fax +612 9385 9383).
Appendix A Further background

In recent years Australia has undergone significant but incomplete reforms of its taxation system, largely as a result of the Government’s proposals in *A New Tax System* (Treasury, 1998) and the Review of Business Taxation (Treasury, 1999). The focus of these reforms has been on business and indirect taxation, including the introduction of the GST. However, other than moderate income tax cuts (already largely eroded by fiscal drag) and changes to the low income rebates, there has yet to be a genuine attempt to work with the community to develop and implement a personal tax regime that can begin to address a number of defects that are apparent in the current regime.

This is surprising, given that the personal tax system affects most Australian taxpayers. Over 10 million out of 12 million taxpayers (85.5%) are individuals, and more than 6 million of these are “simple” salary and wage earners and/or individuals with less than $1000 non-business income (Australian Taxation Office, 2003, Tables 2.1 and 2.2). There is, in Australia, a heavy reliance on personal taxation as a source of revenue relative to other comparable countries. In Australia in 2000-01, personal taxation accounted for 40.2% of total revenue collection (Australian Bureau of Statistics 2004, Table 27.16); the corresponding average for OECD was 26.5% (Warren 2004, Table 3.1, p 53).

The PIT therefore has both high visibility and high impact – it is a crucial component of the overall Australian tax system. But it is also a system with many perceived defects, and there has been widespread demand for reform from academics, think tank organisations and tax professional organisations over the years (see, for example, Freebairn 1997, Evatt Foundation Group 1999, ACOSS 2003, Saunders 2003 and CPA 2004). The growing demand for PIT reform has identified and considered major problems with respect to the tax base, tax rate/threshold (including effective marginal tax rates) and administration of the Australian PIT system.

In terms of revenue security, the Australian personal income tax base has been undermined on a number of fronts, primarily as a result of (i) ad hoc decisions to grant tax exemptions, deductions and rebates (often to specific groups), (ii) different entities being taxed differently (individuals, trusts, companies), and (iii) a resilient tax avoidance/evasion culture. The tax-base areas of the PIT which need repair cover a wide range of issues, including tax expenditures, Capital Gains Tax (CGT), negative gearing, wealth taxes, work-related expenses and artificial tax minimisation. The project proposes that priority should be given to broadening the income tax base, as a way of facilitating the reduction of tax rates.

In terms of tax rates and thresholds, it is important to recognise that the Australian PIT system differs from those of most other OECD countries in that other countries impose separate social security tax and sub-national income taxes. After allowing for these differences, Australia’s high marginal rates still apply from relatively low income thresholds by international standards. There is a case to be made for cuts in PIT, where
these can be made in a fair and responsible manner. In considering such rate cuts, it is important to be mindful of the interaction between the PIT and the welfare system. Currently social security recipients face very high effective marginal tax rates on earnings. This requires urgent reform in the tax system or the welfare system or both.

In terms of administration, the costs of complying with the PIT in Australia are relatively high. A study by Evans et al (1997, Table 5.3, p 65) estimated the compliance costs of individual taxpayers in 1994–95 at about $b2.9, corresponding to 5.6% of individual tax revenue or 0.63% of GDP. Excluding sole traders, the compliance costs of non-business individuals in 1994–95 were estimated at $b1.5, corresponding to 4% of relevant tax revenue or 0.34% of GDP. These considerable costs have led to calls for tax simplification, which include proposals for reducing annual filing for non-business individual taxpayers in Australia (see, for example, Evans 2004).

The above discussion clearly indicates an urgent need for reforms in the Australian PIT system with a view to developing a healthier tax culture and a simpler, fairer and more efficient PIT system which is revenue robust, acceptable to stakeholders and sustainable over time. As a way forward, this project intends to combine various research techniques in an innovative way to:

- construct and test, using micro-simulation techniques, a series of hypothetical models of the personal income tax system in order to establish which models can best deliver the required policy outcomes of assured revenue collection with the optimal blend of equity, efficiency and simplicity;
- subject the “best” of these models to scrutiny and analysis by a panel of international tax experts (using a Delphi methodology) in order to establish strengths and potential weaknesses in the models and seek to establish a consensus around one single model;
- survey tax community attitudes to this expert-derived model in order to establish levels of potential resistance/acceptance by key stakeholders including tax payers, tax practitioners, tax professional bodies and tax administrators; and
- fine-tune or revise the model to reflect community feedback.

Personal tax reform of a systemic nature will not take place overnight, and this project will help to ensure that the debate takes place on an informed and politically independent basis, using best international practice as a guide and with the assurance of extensive consultation with interested parties. Most importantly, the project will seek to ensure that any tax policy changes are not considered in a vacuum. Sensible tax reform must be informed by an understanding of the impact that reform will have on the tax and compliance burdens that taxpayers will face and the administrative costs that the revenue authority (and therefore, ultimately, taxpayers) will be required to carry. As Grbich (1990) has noted, “by integrating the design and implementation of taxes, to cut down on the inconvenience for ordinary taxpayers and compliance costs, significant gains can be made in the legitimacy of the tax system”.

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The development of an acceptable and sustainable personal tax model will greatly assist in the tax reform process, ensuring that informed and dispassionate debate can take place in what is always a politically sensitive area. The research needs to be undertaken by independent researchers, as Treasury and Taxation Office-led proposals inevitably face the difficulty that they are perceived to lack independence. For these reasons, it would not be appropriate to seek partnerships with formal Government agencies in this project. In contrast, the partnership of multi-disciplinary tax academics with a broadly based representative body such as CPA Australia does not run the risk of the outcomes being treated as inevitably biased.

All of the methodologies involved in the project are mainstream research tools, and have been used in many other research projects. Indeed, the proposed researchers have successfully utilised each of these methodologies in their own recent work. Professor Andrew has extensively applied the micro-simulation technique in his study of the Australian tax system (Andrew 1996; CPA, 1998) and A/Prof Tran-Nam has had considerable experience in dealing with unit record data (eg, Tran-Nam and Whiteford 1990; Tran-Nam and Podder 2003). Prof Evans has successfully utilised the Delphi methodology in research into the use of Tax Impact Statements in the OECD (Evans and Walpole, 1999) and all three CIs have extensively used survey techniques of various types (eg, Gul; Teoh and Andrew, 1989; Evans et al, 1997; Tran-Nam and Glover 2002).

What is innovative and unique about the research design of this project is that the CIs propose to combine all three methodologies in the context of the development of a viable personal tax model. While each of these research methodologies has been employed in the past, it will be the first time that they are combined together in a single study. Greene, Caracelli and Graham (1989, pp. 255-263) identify a number of purposes for combining methodologies from different research paradigms in a single study. These include the ability to ‘triangulate’ outcomes in the classic sense of seeking convergence of results, and the ability to identify ‘complementary’ outcomes, in that overlapping and different facets of a phenomenon may emerge. Other purposes include ‘development’ (wherein methods are used sequentially to help to inform outcomes from other methods), ‘initiation’ (wherein contradictions and fresh perspectives emerge) and ‘expansion’ (wherein the mixed methods add scope and breadth to a study). The researchers see all of these strengths adding value to the project, although the principal drivers are clearly the opportunities for ‘development’ and ‘initiation’.

Any analysis of the process through which tax reform (culminating in the implementation of legislative change) takes place (see for example, Robinson and Sandford, 1983; Arnold, 1990; Treasury 1999; Sandford 2000) will illustrate a number of key points. The process is complex, but there are certain elements (conception of the ideas for change, formulation of the ideas, consultation, preparation for the legislative process, legislation, implementation, monitoring and modification) that are core. The phases may appear to be sequential, but they are in fact highly inter-dependent and iterative. The process is integrated, and consultation (with taxpayers, tax practitioners and more likely their representative professional bodies) at all stages is increasingly seen as a vital factor in achieving effective outcomes. Responsibility for particular elements may be allocated to
one government department or another, but ultimately responsibility has to be shared. The approach has to be multi-disciplinary and effective means of communication between the various stakeholders from the public and private sectors have to be in place.

Above all, the process is highly political. It is not trite to continuously remind ourselves that “tax is politics with a dollar sign in front.” For reform to succeed there has to be a clear recognition of who are the winners and who are the losers. There also has to be an ability to package the reforms such that the former can recognise their gains and the latter do not consider that they have only lost. The shared concern about the need for reform of the Australian PIT, shown by all of the current stakeholders, makes reform more straightforward and achievable.

It is within this conceptual framework that the design of the current project has taken place. The three major methodologies involved – micro-simulation, Delphi methodology and survey – feed off each other and into each other as an iterative loop.
APPENDIX TWO: ROUND TWO INSTRUMENT (Instructions only)

Towards systemic reform of the Australian personal income tax:
Developing a sustainable model for the future.
Delphi: Round Two (June 2006)

Dear Colleague

Many thanks for submitting your responses to the first round of the Delphi in March/April. We have now had the opportunity to collate the responses from the 13 members of the panel. We found that there was a high level of agreement (or sometimes indifference or expected disagreement) for 15 of the 21 questions we asked in Round One and so do not wish to probe those 15 areas any further.

We are therefore focusing on just six of the original questions in this Second Round, and in the separate pdf attachment (Delphi Round One_Summary for Round Two_Jun 06) you will find the responses for all 13 panel members to the six questions we are probing more deeply in this second round: Questions B4, B5, B6, C2, C7 and C8). Please print them off (seven pages) and refer to them when you are responding to this second round of the Delphi.

(Incidentally, if you would like a copy of the document which anonymously collates the responses of all 13 panel members to all 21 questions, please flick me an email and I will forward it to you. We are conscious that we do want to over burden you with data so have not automatically sent it.)

In this survey document, for each of the six questions, we provide below:

- The six Round One questions we asked you to respond which we are now probing further. These questions are italicized for easy identification;
- Your personal responses to each of those six Round One questions. These are underlined for easy identification;
- The summarised responses to each of the Round One question from the 13 member panel of experts (including your response): we refer to this as the “group response”. The group response is emboldened for easy identification; and
- a space, immediately below the group response, for you to comment on the responses of other panel members and to re-consider your original responses (this section is in red for easy identification). This is the essence of the second round of the Delphi – an opportunity for you to re-evaluate your response in the light of the responses received from the rest of the panel. Please use the space to indicate any comments, amendments or revisions that you may wish to make to your original response in the light of other responses, or any further thoughts on the matter you may have. Simply leave the space blank if you do not wish to change your original response and have no comments to add.

We have estimated that you should not need more than one hour to respond to these questions. We would really appreciate it if you could complete the Round Two Survey below and return the document to Chris Evans (email cc.evans@unsw.edu.au or fax +612 9385 9383) by 30 June 2006.

Please move to the next page to commence the Delphi.