



Ticket clippers

The new hidden cost for DIY super funds

Smart Investor liftoat

Losing it

The slippery path from diabetes to dementia

Men's Health Jill Margo p42



Pizza with a lot

Domino's chief exec about to get \$15m

Companies p17



THE AUSTRALIAN FINANCIAL REVIEW

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► Federal tax system 'fails' key principle

Hockey tells states to lift GST income

Phillip Coorey
Chief political correspondent

Treasurer Joe Hockey will pressure the state governments to rethink their opposition to increasing the GST, saying the taxation capacities of each level of government should match their spending requirements.

In a speech outlining the principles for the Coalition's tax reform plans, Mr Hockey will today call on states to use a summit next week with Prime Minister Tony Abbott to take responsibility for their budgets and wholly fund such services as public hospitals and public schools.

"Surely it is not beyond the capacity of us as a country to have a sensible, mature debate about long-term tax reform more generally," he will tell a PwC tax reform forum.

So far, the NSW Liberal government has been open-minded about the GST while South Australian Labor Premier Jay Weatherill says it should be extended to financial services. But otherwise, Mr Hockey's push will probably encounter resistance at the state level.

He also wants lower income and company taxes, lower capital gains



HEAR THE TREASURER

Joe Hockey will headline the AFR Tax Summit on 22-23 September.

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taxes, more incentives for start-ups and innovation, tax incentives to decrease welfare dependency, and a reluctance to tax or legislate digital disrupters.

"It simply won't work if governments try to tax or legislate them out of existence," he will say.

Mr Hockey will say that many of the submissions to the tax white paper process have called for increasing the rate or base of the GST, or both, and for the states to abolish remaining inefficient duties and taxes.

"As best as possible, the revenue-raising capacity of each tier of government should be aligned to responsibilities of funding and service delivery," his speech notes say.

"Our current federal system clearly fails this objective. Because of the high concentration of revenue-raising capacity at the federal level, vertical fiscal imbalance is higher in Australia than

Continued p5



Upset the apple cart... PwC senior manager Shomalin Naidoo. PHOTO: PAUL JEFFERS

Disruptive influence | As a junior manager in KPMG's Adelaide office two years ago, Shomalin Naidoo won an in-house competition for an online marketplace to smooth out the peaks and troughs in demand for accountants. Last year he founded Task Central for businesses to compare quotes from professional services firms. Others are following. **Accounting p37**

Qld Labor hopes QIC could find the money

Queensland's new Labor government is considering forcing the state's highly successful investment manager, QIC, to invest in state-owned companies. Treasurer Curtis Pitt, delivering his first budget, said QIC would only have to put money in productivity-enhancing infrastructure that would deliver commercial returns. The government will suspend contributions to its \$30 billion superannuation scheme for five years to help reduce its large debt. "Nothing is being raided," Mr Pitt said.

► News Reports, comment p8

Slaters engages top Melbourne lawyer

Law firm Slater & Gordon has called on top Melbourne lawyer Leon Zwier as an adviser while its accounts are scrutinised by the Australian Securities and Investments Commission. The engagement of Mr Zwier, a partner at Arnold Bloch Leibler, shows how seriously Slater & Gordon is taking the investigation. Mr Zwier advised Labor leader Bill Shorten at the union royal commission and the late Richard Pratt when he was pursued by the ACCC.

► Companies p15

Vale cost cut turns up heat on Fortescue

Brazilian iron ore giant Vale is cutting costs by replacing up to 30 million tonnes a year of unprofitable iron ore with cheaper iron ore, putting more pressure on rival Fortescue Metals Group and high-cost producers battling to survive. Barclays analyst Amos Fletcher said Vale was "effectively lowering the cost curve" of the global iron ore market.

► Companies p15

► Matthew Stevens p34

Greece warning, China growth fine

Jacob Greber
Economics correspondent

Treasurer Joe Hockey says he is sticking to his budget forecasts for the Chinese economy, Australia's biggest trade partner, and described Europe's rescue deal with Greece as "a salient" lesson in tackling difficult reform early.

"If you don't undertake the necessary reforms to get your house in order when you can, then ultimately the pain will be much more significant down

the track," he said. "Now Greece has to undertake the privatisation program that they promised they would never undertake; the reform to their tax system that they said they wouldn't undertake, and, of course, a reform to their pension system that they said they wouldn't undertake."

Mr Hockey said Greece showed it was the most vulnerable and poorest people who were paying the heaviest price for years of reform failure, with the wealthiest having already moved

their money out of the troubled nation. "When you don't undertake that necessary reform, it ends up being the most vulnerable, the most disadvantaged that pay the greatest price."

Mr Hockey also moved to assuage fears about China's stockmarket turmoil, saying that despite falling 25 per cent in four weeks, it was already 18 per cent above its low point last Thursday and 90 per cent higher than 12 months ago.

Continued p5

Inside today's AFR



Perhaps the main reason no one is celebrating the new Greek bailout is because the deal represents a failure of the European project and its goal of an "ever closer" union.

James Chessell p13

- World Reports, comment p13
- Financial Times Gideon Rachman p22
- Markets Greece drives shares p28
- Kerr Neilson positive on growth p29



If anyone had any doubt that conservative forces are now in the ascendancy in Europe, they need only look at the punishing conditions of Greece's third bailout.

Karen Maley p29

- Features Don't leave this room p44-p45
- Editorial The euro money marriage p46
- Alan Mitchell Split still possible p46
- Peter Drysdale Beijing mustn't blink p47

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