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## **MEDIA RELEASE**

### **IFPA Calls for Intergenerational Overhaul of Australia's Broken Tax System**

Peak professional body's President says the 2026-27 Federal Budget has deepened the dysfunction of a tax architecture that has never been fit for purpose — and calls for structural reform, not more complexity

The Institute of Financial Professionals Australia (IFPA) is calling for a comprehensive, intergenerational overhaul of Australia's income tax system, warning that the 2026-27 Federal Budget has compounded the inequities of a structure that successive governments — Coalition and Labor alike — have lacked the courage to fix.

Scott Heathwood, President and Chairman of IFPA, published an open letter this week in *The Spectator Australia* addressed to Barnaby Joyce MP and Shadow Treasurer Angus Taylor MP, arguing that the budget's sweeping changes to trusts, capital gains and negative gearing treat symptoms while leaving the disease untreated.

"Every carve-out Australians have relied on — trusts, negative gearing, capital gains discounts — exists because the underlying tax system is so broken that people have been forced to route around it," Mr Heathwood said. "Now a government that refuses to fix the base system is closing the escape hatches. That is not reform. That is punishing people for surviving a system no one has had the courage to change."

## The Journal's Verdict: A System Running Out of Easy Options

IFPA's *Tax Policy Journal 2026*, published by the Taxpayers Research Foundation Limited — chaired by IFPA board member and Foundation Research Committee Chairman Stephen Ware — directly informs the Institute's position. The Journal brings together analysis from the IMF, economist Michael Brennan of the e61 Institute, the Productivity Commission, and Deloitte, all of whom converge on the same uncomfortable conclusion.

The Journal's editorial is unambiguous: the pressures reshaping Australia's budget "are not short-term fluctuations that can be managed with incremental adjustments. They are structural forces that will define the next several decades." It describes a tax system "anchored to a model built around personal income tax, supported quietly by bracket creep and constrained by longstanding political caution" — producing "a growing mismatch between what governments are expected to deliver and the revenue tools they are prepared to use."

The IMF's 2024 Article IV consultation, examined in the Journal, warns that Australia's heavy reliance on direct taxation — particularly personal income tax — while making limited use of broad-based consumption taxes creates a system where bracket creep "can gradually increase effective tax rates without explicit policy decisions." The IMF specifically flags the CGT discount and superannuation concessions as narrowing the revenue base while disproportionately benefiting higher-income households, but they are a legacy of a failed system.

Economist Michael Brennan, in his paper *Australia's Public Revenue Constraint*, goes further. The Journal summarises his central argument as a direct challenge to the political framing that dominates Australian tax debate: sustained increases in public spending cannot be financed without broader participation in the tax system. Relying on a small group of taxpayers — whether multinational corporations or very high earners — "obscures the underlying fiscal reality."

Deloitte's framework, also examined in the Journal, calls for a shift away from income taxation toward broader consumption and wealth-based measures, explicitly proposing a uniform 20% corporate tax rate and a broadened GST base. The Journal's conclusion is pointed: "The debate is no longer about fine-tuning the existing system or

adjusting a few parameters at the edges. It is about choosing the direction of the system itself."

### **The Budget Measures and What They Mean**

IFPA's own budget summary, published on 13 May 2026, sets out the key changes handed down on 12 May. The headline measures — replacing the 50% CGT discount with cost-base indexation and a 30% minimum tax on real gains from 1 July 2027; restricting negative gearing to new residential builds for properties acquired after Budget night; and imposing a 30% minimum tax on discretionary trust distributions from 1 July 2028 — are presented by the government as fairness reforms.

Mr Heathwood rejects that framing. "These structures exist because the rate scale is punitive. In 1965-66, the top marginal rate of 66.7 cents in the dollar only caught income above what would be equivalent to over \$230,000 in today's purchasing power. Today, the 45% rate — 47% with Medicare — kicks in at \$190,000, catching professionals, tradespeople and dual-income families who are by no objective measure wealthy. The government isn't fixing inequality. It is harvesting it."

The small business measures in the budget — the permanent \$20,000 instant asset write-off and reinstated loss carry-back for companies with turnover under \$1 billion — are acknowledged by IFPA as constructive. But Mr Heathwood said they were peripheral to the structural problem.

### **Dispatching the Regressive Tax Furphy**

Mr Heathwood directly challenged the argument that a simpler, flatter income tax would be unacceptably "regressive."

"The GST is the most regressive broad-based tax ever introduced in this country. Every excise duty — on fuel, on beer, on tobacco — is regressive. The luxury car tax, which now

applies to standard family vehicles at \$80,567, is regressive. These taxes have been in place for years and the progressive side of politics has been conspicuously silent about all of them. The regressivity argument is selectively deployed only against the one reform that would actually simplify the burden on ordinary Australians — and that makes it a furphy, not a principle."

The Journal itself underscores the point. Deloitte's analysis, summarised in the *Tax Policy Journal 2026*, acknowledges that GST broadening would require compensatory measures for lower-income households — but presents this as a design question, not a reason to preserve the status quo.

### **The IFPA Position: What Structural Reform Looks Like**

Drawing on the Journal's research and IFPA's 104 years of professional advocacy, Mr Heathwood is calling on both sides of politics to move beyond the current cycle of complexity and consider genuine structural alternatives:

A flat income tax rate — replacing the current graduated scale with a single proportional rate, consistent with Adam Smith's first maxim of taxation in *The Wealth of Nations*, which describes contribution in proportion to one's abilities as the foundation of a fair system.

A fully broad-based GST at 10% covering 100% of consumption including food and essential services, paired with a one-off compensation payment to fixed-income and Centrelink recipients — eliminating the need for most of the structural carve-outs governments keep trying to close.

A five-year rolling average for small entity company tax assessments — smoothing income volatility for small businesses and removing the incentive to use trust structures as income-management tools, addressing one of the specific problems the government's trust tax is purportedly designed to solve.



"The Journal makes the point that the debate has shifted from 'how do we improve the system' to 'who actually pays,'" Mr Heathwood said. "Tax reform is not a technical exercise. It is a distribution decision. And the generation entering the workforce today is paying for a distribution decision made in 1942 under wartime emergency powers that was never revisited. That is what intergenerational inequity looks like. Flattening the income tax rate is not the end point — it is the starting point."

### **About IFPA**

The Institute of Financial Professionals Australia (IFPA) — formerly Tax & Super Australia — is the peak professional body for financial advisers, tax agents, accountants and superannuation professionals in Australia. IFPA has represented and supported members for over 104 years.

The *Tax Policy Journal 2026* is published by the Taxpayers Research Foundation Limited. The Research Committee is chaired by Stephen Ware; members include Kurtis Alaeddin FIPA FIPA(Tax) and David Scott CA. The Foundation is committed to evidence-based, independent research into public policy issues affecting Australian taxpayers.

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