

# Taxation Reform: Subsidiarity and the AEC Republican Model

## Abstract

The Australian Unity Republic proposes a transformative overhaul of the tax system under the Australian Executive Council (AEC)—a collective head of state comprising the Prime Minister and state/territory Premiers—applying subsidiarity to enhance local decision-making while streamlining national standards. Building on the AEC model from *Common Sense* (June 2025), *Productivity, Republicanism and Improving Whole of Australian Government Efficiency* (August 2025), *A National Election Day* (September 2025), *Subsidiarity: Towards an Australian Republic that Improves the Country* (September 2025), and *Reshaping Honours and Australia's Soul* (September 2025), this reform addresses Australia's tax system's vertical fiscal imbalance and \$6 billion annual compliance cost (Productivity Commission, 2025). Spearheaded by AEC Leaders' Forums, it includes rationalizing federal-state taxes, expanding GST with equity safeguards, phasing out inefficient levies like payroll and stamp duties, and establishing a Tax Coordination Board. Aligned with the Albanese government's productivity agenda, these reforms could yield \$4–6 billion in annual savings, reduce red tape, and boost equity, fostering a republic that makes the country better through fairer resource allocation, local autonomy, and economic growth. Australians will endorse this republic in a 2026 referendum only if convinced it delivers safe, effective improvements—avoiding corruption via collective checks, enhancing subsidiarity for local empowerment, overhauling colonial structures for productivity gains, and enriching cultural life through elder and community investment. Taxation reform exemplifies how the collective head of state enables these outcomes more effectively than the current fragmented system.

## Outline of the AEC Republican Head of State Model

The Australian Executive Council (AEC) redefines the head of state function, replacing the Governor-General and state governors with a collaborative body of nine elected officials—the Prime Minister and state/territory Premiers/Chief Ministers—rooted in subsidiarity and national unity:

- **Composition and Authority:** Comprising nine members, the AEC exercises federal and state reserve powers (e.g., dissolving parliaments, appointing leaders) via majority (5/9) or supermajority (6/9) votes, with the Prime Minister's tie-breaking role limited to procedural matters, ensuring balanced governance.
- **Operational Framework:** Leaders' Forums address key reforms (e.g., national standards for driver's licenses); quarterly in-person summits rotate among state capitals for strategic alignment; ad-hoc emergency sessions maintain agility without bureaucratic bloat.
- **Financial Efficiency:** Eliminates \$25.5–42.5 million in annual viceregal costs, reallocating funds to productivity gains (e.g., tax rationalization) and cultural projects (e.g., Government Houses as reconciliation museums).
- **Democratic Integrity:** Guards against demagoguery by anchoring authority in locally elected representatives, facilitating referendums (e.g., local government recognition) with cross-party support; unlike the self-perpetuating Council of Australian Governments (COAG), the AEC remains lean, urging leaders to prioritize national welfare over parochial interests.
- **Unity and Cohesion:** Introduces "Unity Vote Day" (first Saturday in May, every four years) to synchronize federal, state, and local elections, reflecting subsidiarity—national standards with local execution—to strengthen federal harmony.
- **Higher Evolution of Leadership:** The AEC evolves beyond monarchies (hereditary power), presidencies (demagogic risks, e.g., Trump's 2021 insurrection), and bureaucratic bodies (COAG/National Cabinet delays) by rooting authority in locally elected caucuses, ensuring accountability via 5/9 votes and mutual discipline—safe, corruption-resistant governance enhancing productivity and cultural vitality.

This model, ready for a referendum in 2026 ("Do you approve establishing the Australian Executive Council, comprising the Prime Minister and state/territory Premiers, as Australia's collective head of state, replacing the Governor-General and state governors?"), embodies pragmatic governance, aligning with Australia's egalitarian roots and preparing for a sovereign future that makes the country better.

## Subsidiarity: The Guiding Principle for Efficient Governance

Subsidiarity—the principle that decisions should be made at the lowest effective level, with higher tiers intervening only for scale or equity—forms the philosophical backbone of the AEC Unity Republic. Inherited from European federalism and embedded in Australia's Constitution since 1901, it balances central coordination with local autonomy, addressing the federation's vertical fiscal imbalance where the federal government collects 80% of revenue but states deliver most services (Productivity Commission, 2025). In the AEC model, subsidiarity ensures national standards (e.g., uniform licensing) while devolving delivery to states and locals, reducing duplication and empowering communities—as articulated in *Subsidiarity: Towards an Australian Republic that Improves the Country* (September 2025).

In tax devolution, subsidiarity would decentralize revenue powers: a 2–3% GST share (\$5–7 billion annually) to local councils for infrastructure, mirroring Canada's provincial tax autonomy with federal transfers (e.g., 50% provincial revenue from own sources, Statistics Canada, 2025). States could vary rates on devolved levies (e.g., property taxes), reducing federal overreach while federal oversight via the Tax Coordination Board ensures equity. This contrasts Australia's centralized 80% federal collection with Canada's 60/40 split, enabling provinces like Quebec to tailor education taxes—boosting local efficiency by 15% (Fraser Institute, 2022). Sweden's model, with municipalities raising 20% of revenue via local income taxes (20–25% rates) and receiving 60% of national grants (\$50 billion SEK annually, 2025 Swedish Fiscal Council), emphasizes fiscal autonomy: counties handle 80% of health spending, adjusted for need via equalisation grants (\$10 billion SEK, ensuring 90% equity in service levels, Government.se, 2025). Sweden's devolution reduces central control, cutting compliance costs by 10% (OECD, 2025), but risks inequality; Canada's equalization mitigates this with \$20.9 billion CAD annually (Finance Canada, 2025) to less prosperous provinces (e.g., Manitoba, \$2.5 billion; Quebec, \$13.2 billion), adjusted for tax capacity. The AEC's collective oversight, with 5/9 vote and caucus checks, prevents corruption (e.g., Quebec's 2011 Charbonneau scandal, \$100 million fines), ensuring a safe, effective system that improves cultural life (*Reshaping Honours*, September 2025).

Currently, Australia's tax system exemplifies inefficiency: overlapping levies like GST (federal) and payroll taxes (state) cost \$6 billion yearly in compliance, distort investment, and exacerbate inequities (Henry Tax Review, 2010; updated 2025). The AEC, through Leaders' Forums, would apply subsidiarity to harmonize these, fostering a republic that makes the country better by cutting red tape, boosting productivity, and ensuring fairer resource flows—much like Medicare's federal funding with state administration. This aligns with the productivity ethos in *Productivity, Republicanism*

*and Improving Whole of Australian Government Efficiency* (August 2025), where the AEC replaces overgovernance with streamlined, merit-based coordination.

## Anthony Albanese: Uniquely Positioned to Lead These Reforms

Prime Minister Anthony Albanese is uniquely placed to champion these reforms, leveraging his majority government, cross-state alliances, and commitment to productivity and equity. Re-elected in May 2025 with a strong mandate—including seats across NSW, WA, and other states—Albanese no longer relies on WA's political leverage that preserved its GST deal under previous coalitions (ABC News, September 2025). His administration's 2025 Productivity Summit and Economic Reform Roundtable signal openness to bold changes, as Chalmers noted proposals would be "considered by cabinet" (Guardian, August 2025). Albanese's history—rising from Sydney's working-class roots and advocating federal-state balance—positions him to resolve long-standing tensions, like the GST carve-up where WA's 75-cent floor (introduced 2018) yields a \$60 billion windfall (2025-2030), while NSW (27.1% share vs. 31% population) faces a \$12.7 billion shortfall (Daily Mail, June 2025; NSW Budget 2025).

Albanese's Labor has extended the WA deal but signaled review via the Productivity Commission's GST inquiry (ABC, September 2025), echoing his pre-election pledge for "fair and truthful" relations (*Common Sense*, June 2025). With states like Victoria and NSW demanding equity (SMH, June 2025), Albanese can mediate through the AEC, applying subsidiarity to redistribute equitably—e.g., per capita baselines adjusted for need—while funding local innovations like reconciliation museums (*Reshaping Honours*, September 2025). His rejection of GST hikes pre-summit (AFR, July 2025) shows caution, but the roundtable's focus on "fair and affordable" incentives (AFR, September 2025) aligns with AEC consensus, enabling reforms that unify the federation and drive growth. As a lifelong republican (BBC, May 3, 2025), Albanese's cross-party rapport positions him to secure the 2026 referendum, demonstrating a safe, effective republic that avoids corruption and enhances cultural life.

## Rehearsing the AEC: Bypassing COAG with Leaders' Forums

Albanese and state premiers can begin rehearsing the AEC model by initiating Leaders' Forums, bypassing the bureaucratic-heavy National Cabinet (COAG's successor since 2020) to form a meaningful collective head of state in practice. National Cabinet, established under Morrison in 2020 to coordinate COVID-19 responses, includes premiers, chief ministers, and senior officials, meeting monthly or as needed via video or in-person (e.g., Canberra, March 2020; Sydney, June 2021). While it replaced COAG's 20+ member structure with a leaner 11-member core, it retains departmental input and agendas, diluting leader focus and slowing decisions—e.g., the 18-month GST review delay (ABC, September 2025). *Productivity, Republicanism* (August 2025) critiques this overgovernance, advocating for a leader-only model.

The National Cabinet serves as a logical precursor to the AEC, evolving from its emergency origins to a regular intergovernmental body. Its inception in March 2020, prompted by the COVID-19 crisis, marked a shift from COAG's infrequent, unwieldy meetings—held biannually or as needed since 1992—to a more responsive framework. Early successes included the \$130 billion JobKeeper package (approved March 2020) and a 80% vaccination rollout by late 2021 (PMO, 2022), showcasing leader-driven efficacy. However, its structure expanded with officials—e.g., 15-hour meetings with 50+ attendees (SMH, April 2021)—reintroducing COAG-like delays, such as the 2021 housing accord taking six months due to departmental debates. The 2023 National Reconstruction Fund (\$15 billion) and 2025 Productivity Fund (\$900 million) allocations highlight its role, but consensus requirements (e.g., unanimous GST reform stalling, SMH, June 2025) limit agility.

The AEC refines this evolution, building on National Cabinet's intent but stripping official bloat for true subsidiarity. Leaders' Forums, proposed as monthly gatherings of the nine elected leaders—Prime Minister and Premiers/Chief Ministers—would exclude aides, fostering direct dialogue. Starting October 2025, these could rotate hosts (e.g., Canberra, Perth, Sydney), lasting 2–3 hours with pre-circulated briefs from Treasury or the Productivity Commission. Agendas would prioritize one issue—e.g., GST equity, tax pilots, or Unity Vote Day (*A National Election Day*, September 2025)—with decisions recorded for cabinet referral, rehearsing the AEC's quarterly summits and ad-hoc agility. The 2024 COVID virtual meetings (12 sessions, 80% attendance) prove feasibility, saving \$50–100 million per election cycle and redirecting funds to elder stipends (*Reshaping Honours*, September 2025).

Compared to National Cabinet, Leaders' Forums offer sharper focus: no officials enabled the 2020 JobKeeper decision in two days versus COAG's weeks. National Cabinet's broader input ensures detail—e.g., \$900 million Productivity Fund (2025 Budget)—which Forums could replicate with expert briefs. Risks include parochialism; AEC's 5/9 vote mitigates this, unlike National Cabinet's unanimous consensus

requirement. As a precursor, National Cabinet's evolution validates the AEC's potential, making the country better through a collaborative head of state.



## GST Reform Impacts: Economic, Social, and Regional Outcomes

Expanding and reforming the GST under the AEC framework offers transformative impacts across Australia's economic, social, and regional landscape, aligning with the republic's goals to make the country better.

### Economic Impacts

- **Revenue Boost:** Broadening the GST base to include fresh food, financial services, health, and education—currently exempt—could generate a \$152 billion windfall over 10 years (Guardian, 2025). Raising the rate to 15% with a \$3,300 rebate per adult adds a net \$24 billion annually (EndureGo Tax, 2025), funding tax cuts (\$2,700 per household) and infrastructure.
- **Productivity Gains:** Modeling predicts a 6% real GDP increase and 11% rise in business investment (Guardian, 2025), as reduced compliance costs (\$6 billion saved, Productivity Commission, 2025) and a broader base stimulate economic activity. Sectors like retail and finance, newly taxed, may see initial resistance but long-term growth from investment stability.
- **Business Efficiency:** Harmonizing GST with state rebates cuts \$200–300 million in registration overlaps, boosting small businesses (KPMG, 2025).

### Social Impacts

- **Equity Enhancement:** A \$22,000 GST-free threshold benefits the bottom 60% of earners, lifting disposable income by \$3,300 annually per adult (EndureGo Tax, 2025). This counters regressive tax critiques, with rebates targeting low-income households—e.g., 1.5 million families gaining \$5,000 yearly (Treasury modeling, 2025).
- **Closing the Gap:** Redirected funds (\$5–7 billion to councils) could double Indigenous employment programs (e.g., \$842 million Closing the Gap, 2025), reducing the 8.6-year life expectancy gap (ABS, 2025) through local health initiatives.
- **Public Acceptance:** Albanese's progressive framing (Guardian, August 2025) mitigates backlash, though urban areas may resist food tax inclusion—mitigated by rebates and education campaigns.

### Regional Impacts

- **Balancing State Inequities:** The current GST distribution—WA's \$60 billion windfall (2018–2030) versus NSW's \$12.7 billion shortfall (NSW Budget, 2025)—can be resolved by reforming GST and raising the threshold to 15%. The AEC's plan ensures no state is out of pocket: a per capita baseline adjusted for need adds \$3–4 billion annually to NSW and Victoria, while WA's mining windfall

phases down 50% over five years (\$30 billion retained), redistributing \$12 billion to other states. Final harmonization via the Tax Coordination Board (2027) guarantees equitable state shares, ending the 75-cent floor disparity. Local governments receive 2–3% GST shares (\$5–7 billion), ensuring no council is disadvantaged, enhancing local fiscal autonomy.

- **Local Empowerment:** Subsidiarity delivers stable funding for remote infrastructure—e.g., solar grids in WA’s Pilbara (15% cost reduction, 2025 ABS)—and reduces service access disparities (20% lower in remote areas, ABS, 2025).
- **Regional Growth:** Northern Territory and Queensland could see \$1–2 billion boosts, enhancing tourism and agriculture, though rural compliance costs may rise 5–10% initially (KPMG, 2025).

## Challenges and Mitigation

- **Political Resistance:** States like WA may oppose cuts; AEC’s 5/9 vote and Albanese’s cross-state mandate enforce consensus, with pilots (e.g., SA, TAS) testing equity by 2028.
- **Inflation Risks:** Broadening the base may lift CPI 0.5–1% (RBA, 2025); rebates and tax cuts offset this, with Reserve Bank monitoring.
- **Implementation:** A 2027 Tax Coordination Board, modeled on the UK’s 2005 oversight, ensures smooth transition, avoiding COAG’s 18-month delays (ABC, 2025).

## Comparison with Canadian Equalization Payments

Canada’s Equalization Program, under the 1957 Federal-Provincial Fiscal Arrangements Act, redistributes \$20.9 billion CAD annually (2025–2026, Finance Canada) to less prosperous provinces (e.g., Manitoba, \$2.5 billion; Quebec, \$13.2 billion) from richer ones (e.g., Ontario, Alberta), based on a 10-province standard adjusted for tax capacity and population (Statistics Canada, 2025). Covering 23% of provincial revenue for recipients, it ensures comparable service levels, though Quebec’s 2011 Charbonneau scandal (\$100 million fines) highlights corruption risks mitigated by oversight. The AEC’s GST reform, with \$15–20 billion annual redistribution by 2030, mirrors this but uses a 5/9 vote for transparency, ensuring no state loses out, unlike Canada’s occasional provincial imbalances (e.g., Alberta’s \$0 allocation).

## NZ GST Equity Measures

New Zealand’s 15% GST, applied universally since 2010, raises 27% of tax revenue (\$30 billion NZD, 2025 IRD) without exemptions, less progressive with a Gini coefficient of 0.34 (Stats NZ, 2025) versus Australia’s potential 0.31 with rebates. NZ offsets this with progressive income tax (33% top rate) and family tax credits (\$3 billion annually),

reducing child poverty by 10% (Ministry of Social Development, 2025). The AEC's \$3,300 rebate and \$22,000 threshold enhance equity, channeling \$5–7 billion to councils, surpassing NZ's centralized approach for local empowerment.

GST reform under the AEC amplifies economic vitality, social equity, and regional balance, making the country better through subsidiarity-driven governance.

## Spearheading Tax Reforms: AEC-Led Pathways to Equity and Efficiency

The AEC's lean structure positions it ideally to drive tax reforms, replacing COAG's bureaucratic inertia with consensus-driven action. Drawing from the 2025 Productivity Summit where Treasurer Chalmers signaled broad changes, and the Australia Institute's "Raising Revenue Right" proposals, key reforms include:

### Rationalizing Federal-State Taxes

Address vertical fiscal imbalance by consolidating overlapping taxes. Phase out state payroll taxes (\$30 billion annually) and stamp duties (\$40 billion), offset by a revised GST formula via the Commonwealth Grants Commission—ensuring equitable shares based on population and need (FSC Pre-Election Priorities, 2025). The AEC's Tax Coordination Board, established under new legislation like the National Tax Rationalization Act 2027, would oversee harmonization, capping political interference akin to the UK's 2005 reforms.

### Expanding GST with Equity Safeguards

Broaden the GST base to include fresh food, financial services, health, education, and other exempt items, potentially generating a \$152 billion windfall over a decade while returning \$2,700 per household via income tax cuts (Guardian analysis, 2025). Raise the rate to 15% with a \$3,300 annual rebate per adult, creating a \$22,000 GST-free threshold benefiting the bottom 60% of earners (EndureGo Tax, 2025). Subsidiarity applies: federal collection with state rebates for low-income and regional areas, reducing distortions and funding local services—e.g., \$5–7 billion redirected to councils for infrastructure. Albanese's roundtable (August 2025) highlighted this as a "progressive GST" to tackle intergenerational inequality (Guardian, August 2025), with modeling showing 6% GDP lift and 11% investment boost.

### Reforming Negative Gearing and Super Concessions

Cap negative gearing deductions at \$100,000 and limit super tax concessions to \$50,000 annually, raising \$20 billion over four years (Australia Institute, 2025). These funds could support Closing the Gap, with AEC oversight ensuring devolution to Indigenous-led initiatives, countering urban bias.

AEC spearheading: Leaders' Forums refine proposals with Treasury input, presenting to cabinets for implementation—e.g., pilots in SA and TAS by 2028—bypassing COAG's delays.

### Savings and Benefits: A Roadmap to a Stronger Economy

These reforms promise multifaceted gains, making the republic more efficient and equitable:

## Financial Savings

- **Compliance Reduction:** \$4–6 billion annually from streamlined taxes (Productivity Commission, 2025).
- **Efficiency Dividends:** \$200–300 million from harmonized business registrations; \$50–100 million from synchronized elections freeing administrative resources.
- **Revenue Windfall:** \$152 billion over 10 years from GST expansion, offset by \$2,700 household rebates; additional \$24 billion net per year from 15% rate with rebates (EndureGo Tax, 2025).

## Broader Benefits

- **Productivity Boost:** 6% real GDP lift, 11% increase in business investment (Guardian modeling, 2025).
- **Equity and Inclusion:** Fairer GST distribution closes regional gaps (e.g., NSW gains \$12.7 billion); super reforms fund Indigenous programs, advancing Closing the Gap targets.
- **Subsidiarity in Action:** Local governments gain stable funding (2–3% GST share), empowering community-led change—e.g., Shepparton’s Kaiela Institute scaling without begging.
- **National Unity:** AEC consensus reduces intergovernmental friction, fostering a republic that makes the country better through shared prosperity.

Challenges like political resistance are mitigated by AEC’s cross-party mandate and the 2026 referendum. This blueprint, rooted in subsidiarity, positions the AEC to deliver a tax system that serves all Australians.

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