

Original
- Combined summary report -
All locations

Prepared by

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**Perceptions & Attitudes towards the
current Tax & Transfer System**

prepared for

FaHCSIA &

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1 EXECUTIVE SUMMARY

1.1 Introduction

Colmar Brunton Social Research (CBSR) was commissioned by FaHCSIA and the Department of Treasury to facilitate public consultation meetings for the purposes of gaining feedback on Australia's Future Tax System Review. These meetings were conducted across eight metropolitan and two regional locations, with an open invitation to all Australians to have their say on Australia's Tax and Transfer system.

The Review Panel will make recommendations by the end of 2009 on how to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

1.2 Key findings

A brief summary of the key results of the project is provided below.

1.2.1 What parts of the tax and transfer system are not working well?

Complexity

- Most attendees felt the current tax and transfer system was overly complex and that reform should focus on simplification of the tax system, with the objective of allowing most people to do their own tax return.

Complexity impacts negatively on administration of tax system

- Reports were given of a system laden with inaccessible legal jargon and inconsistencies in the use of terms.
 - Some felt that completing a tax return has become too difficult and that tax packs were becoming longer and more complicated each year.
 - Some felt that completing a tax return had become an exercise in beating the system and attempts to reduce or avoid tax were wrongly influencing decisions of both individuals and business operators.
 - Accounts of poor service from the Tax Office were given by a few who had to speak with up to 30 different people across the organisation, some of whom had poor English, an aggressive attitude or were perceived as uncompassionate and *"non-feeling"*.
 - Some had experienced inconsistencies in advice on the same issue, had hired tax accountants who got it wrong, or had dealt with Tax Office staff who admitted that they do not know the right answer. There were also some reports of the material on the Tax Office website often being *"dumbed down"* to the extent of being useless.
 - Some expressed concern with the dual role of the Tax Office in running the tax administration process while also being responsible for dispute resolution.
 - Some noted the Seniors Pack, which is felt to be much simpler and appropriate for retired people, was no longer available at newsagents. This had forced some to use the standard Tax Pack.

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- Some felt the burden of having to keep all their paper work and receipts “forever” due to capital gains tax obligations was unreasonable.
 - Taxing interest on bank accounts was seen as unnecessary and a waste of Tax Office resources.

Complexity raises compliance costs for business and results in non compliance

- Some farmers and small business attendees admitted to only hiring contractors or paying cash “under the table” so that they could avoid the multitude of paperwork involved in taking on an employee. Small businesses also disliked (what they perceived as) having to act like a “tax collector”, i.e. ensuring that employees had disclosed the correct information. To avoid these compliance costs, small businesses felt forced to either do the work themselves (which cuts down production), pay workers “cash in hand” and forfeit eligibility for WorkCover, or only use sub-contractors.

Collection of taxes through businesses

- In Hobart it was perceived that the process of collecting taxes through the business tax system was ineffective. It was proposed that imports should be taxed, so revenue could be collected at a common level.

Inconsistency between the tax and transfer system

- Some attendees pointed to a key difference between the tax and transfer systems: taxation is currently based on individual income, while payments and allowances are based on household/family income. It was thought that a consistent basis should be used across both the tax and transfer systems.

Lack of government accountability

- Some voiced concerns about the ability to Federal and State Governments to increase all forms of taxation without adequate accountability to the taxpayer.

State and Federal tax interplay

- Most attendees were highly critical of State taxes like fire service levies, payroll tax, property taxes including stamp duty and the failure of GST to replace State taxes generally.

The lack of security and other issues with superannuation

- Some in Darwin and Canberra expressed concern about the impact of investment losses in superannuation accounts and felt they had been misled by government about the security of their super savings.

Super to be converted to a guaranteed annuity

- There was a call for private superannuation to be converted to a guaranteed annuity with the government taking on the longevity risk.

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- If the government were able to deliver security of annuity without the restrictions of Centrelink, some attendees would be more accepting of government managed retirement income schemes.

HECS and superannuation

- Some young people thought it an injustice that they were forced to contribute to a pension scheme when HECS payments were outstanding.

Super contributions in too low

- The levels of contributions to superannuation were criticised by some as being too low and some suggested these need to increase to 15 percent.

Lack of incentive to work

- The current tax system was felt to institutionalise disincentives to work, particularly in regard to high marginal tax rates and benefit abatement rates faced by low income earners, single parents, old age pensioners, women and multi child families. Some also felt the top tax rate for high income earners was too high while others felt it was too low. A few also felt that the level of corporate tax was too high at 30%.

Lack of incentive to invest in education

- Some felt that taxation settings in regard to education are not fostering sufficient uptake of higher education places.

Lack of incentive to save

- Some felt that placing a tax on savings discourages people from saving.

Too much focus on taxing labour

- A few felt that the current tax system places too much focus on taxing income from labour.

Ponzi-type Schemes

- A few expressed concern about the existence of Ponzi-type schemes.

1.2.2 What components of the tax and transfer system are working well?

Dividend imputation system

- Dividend imputation was mentioned as working well in most meetings. A number of benefits of this system were discussed.
 - The system currently provides strong incentives for people to invest in Australian businesses.
 - The system also provides an alternative to property investment; and added motivation to invest in shares.

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- The system could be used to encourage people with a disability and others to obtain an independent income stream.
 - Some attendees expressed grave concern about the possibility of the Australian government moving away from this system.

Salary sacrifice

- Some attendees felt that salary sacrifice was working well. Therefore, it was believed that the current system should be maintained and preserved.

Change of threshold for paying income tax for low income earners

- For low-income retirees, the change of threshold for paying income tax on pensions was seen to make a huge positive difference, particularly within the current economic downturn.

Recent changes to superannuation

- It was recognised that the government's recent changes to superannuation funds have effectively reduced the complexity of superannuation, particularly for retirees.

Health system

- The health system was recognised to be working well by some attendees, especially in comparison with some other countries around the world.

E-tax

- Several positive comments were made regarding the ease and simplicity of e-tax in comparison to earlier tax return systems.

Not charging capital gains on private homes or on assets owned before 1985

- Not charging capital gains on private homes or on assets owned before 1985 was felt to be fair by some attendees in Wagga Wagga.

HECS

- Some felt that the HECS/HELP system was fair and equitable because those who get the benefit of obtaining education and higher paid employment are the ones who pay for that benefit. Some disagreed with this position, arguing the system potentially discourages some people from obtaining a tertiary education.

Income tax

- Some felt that income tax was essentially working well for most people although (as noted above) there was recognition that it was by no means perfect.

Super and the co-contribution scheme

- Some attendees believed that the current system of taxation on superannuation was working well and should not be changed. In particular, super co-contribution scheme,

was believed to be beneficial in encouraging women (who often don't have the same chance to earn as much as men) to contribute more to their superannuation.

GST

- Although not covered in the terms of reference, some attendees felt that the GST was a good tax because of its simplicity.

DGR given the tick

- As with other meetings, the Deductible Gift Recipient (DGR) status was recognised as working well in terms of fostering higher levels of donation to charitable organisations.

1.2.3 Are there taxes or transfers you see as fair or unfair?

- Some attendees in Canberra felt there was an underlying bias in discussing fairness in the tax system review as opposed to focusing on economic efficiency. Fairness was believed to increase the complexity and unworkability of the tax system whereas some believe an efficient tax system could benefit all by enhancing economic growth.

Level of transfers

- Some felt that current transfer payment levels were inadequate.

Capital gains tax

- In Canberra it was felt to be unfair that reported losses can only be written off and claimed against capital gains for 7 years, especially given the current economic climate. Other capital gains issues felt to be unfair were as follows.
 - Capital gains for investors in property trusts.
 - The different treatment of capital gains depending on the tax entity used and the inequality in the rates at which different forms of capital are taxed (ie interest tax is different to super).
 - The capital gains tax exemption on principal place of residence.
 - Capital gains in relation to small business owners who attempt to sell their business.
 - The inconsistency of tax rates for employed vs unemployed people who sell property or assets.

Centrelink treatment of income

- The way Centrelink treats income (ie benefit abatement rates, treatment of irregular earnings, and treatment of volunteers out of pocket expenses) and does not provide allowances for grandparents was felt to be unfair.

Superannuation

Superannuation rules for over 70s

- Superannuation rules for over 70s were perceived as unfair as workers over 70 pay the same tax (15%) on their superannuation as high income earners who can put large amounts of money into super. It is also not compulsory for employers to pay superannuation to over 70s and people over 75 are not able to put money into superannuation themselves.

Pensioners paying income tax under the Commonwealth Superannuation Scheme

- An example of the unfair nature of superannuation was given by some as the Commonwealth Superannuation Scheme. This still requires pensioners to pay income tax, whereas for independent retirees it is generally tax free.

Tax free treatment of superannuation

- The tax-free treatment for superannuation benefits paid out of a funded superannuation scheme to people aged 60 or more was felt to be unfair as their tax treatment is different (ie some income is included, while some income is not included). Thus, they are only partially treated as taxpayers.

Future uncertainty over superannuation

- In Wagga Wagga, concern was expressed about any proposed changes to the taxation of superannuation. More certainty is required to restore confidence in superannuation to encourage people to make long-term decisions to invest in their future.

Lack of sustainability of current super arrangements

- Some are concerned about the sustainability of current super arrangements, with a view that the benefits of recent tax concessions have been skewed towards those on middle to higher incomes.

Women and superannuation

- Some attendees felt there should be more consideration about the specific issues facing women in relation to providing for an adequate retirement income.

Greater recognition of self-funded retirees

- Attendees felt that the lack of tax benefits, ineligibility for health cards and omission from the recent stimulus package for self funded retirees was unfair.

Abolish unfair taxes on residents of retirement villages

- There was mention that some bigger companies that own retirement villages are trying to pass on an increasing number of charges to residents (eg residents required to pay a liquor licence fee to the State of NSW to cover 'happy hour' – this may have changed more recently).

Ensure large companies pay their fair share

- Some attendees in Perth expressed a view that current transfer pricing arrangements help large businesses to not pay tax in Australia.

Family tax benefits

- The focus on benefits for people with children was seen as unfair on those who could not or did not have children.

Carer support

- Carer support was perceived by some to be abused and was seen as a disincentive to work.

Concession cards

- There was some concern among participants that access to concession cards provided too great an incentive to receive a pension. Some people don't want direct financial assistance, but do want and feel entitled to the benefits provided by concession cards.

Lack of accountability of Prescribed Private Benefit Funds

- Prescribed Private Benefit Funds were seen by some as a potential opportunity for tax avoidance (and there was perceived to be a lack of public knowledge of their existence).

Rebate on private health insurance

- The suggestion that the 30% rebate on private health insurance was to be revoked was thought to be unjust by some and potentially a disincentive to having private medical insurance.

Tax bonus payouts

- Eligibility for the proposed tax bonuses to be paid by the Australian Government in the coming months was felt to be unfair by those who were not going to receive them.

Public service staff cuts

- Public service staff cuts affecting the Australian Taxation Office service standards were thought to be unfair by some as more staff were thought to be needed to ensure better levels of compliance.

Penalties and late charges for small business

- Late lodgement penalties and general interest charges which compound over time were believed to have not been designed for long-term situations, but were being applied in this way. Some felt these were penalising small business owners who did not have the time or resources to dispute them.

Dispute settlements is unfair

- Some felt the way in which a dispute in taxation law is dealt with was unfair as the Commissioner is generally in a much better position to win the dispute than the tax payer.

“Golden handshakes”

- Large pay-outs or “golden handshakes” for executives were felt to be unfair.

Tax evasion and avoidance

- Some felt that there were too many people evading tax in Australia and overseas.

Foreign investment and “buy Australian”

- There was a perception at the Wagga Wagga session that a considerable sum of money was leaving Australia and that this could potentially be taxed to strengthen the Australian economy. A tax incentive to “buy Australian” was also suggested by some attendees.

Salary sacrifice not available to self employed

- A few felt it was unfair that self employed people could not salary sacrifice.

Aged care pension paid to asset rich

- Some felt it unfair that the original intention of the aged pension was as a safety net payment for those who couldn't save for retirement, but was now being paid to some people who had considerable savings including highly priced properties.

Maintenance and remuneration of Ex Prime Ministers and Governor Generals

- The maintenance and remuneration of Ex Prime ministers and Governor Generals was provided as an example of an unfair transfer.

Fair legislation for same sex couples

- In Adelaide there was concern about changes in legislation surrounding same sex couples. It was hoped that these changes would be put in place in a fair and equitable way.

1.2.4 What priorities do you see for improving the tax and transfer system?

Simplification and clarification of the tax system

Most attendees felt it was important to simplify the tax and transfer system to reduce the number of people who have to use a tax accountant for basic tax requirements. Recommended areas of simplification were as follows.

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- Regarding transfers, it is important to reduce the information requirements of those claiming transfers (eg it was felt to be excessive to require a 89 year old to fill out a 20 page questionnaire).
 - Merging legislation from 1936 and 1997 to obtain one piece of legislation.
 - Less detail/complexity, with the focus on revenue collection.
 - Separate the tax system from the transfer system.
 - Prefilled tax returns or even better the elimination of the Tax Return for certain segments of the community.
 - Removal of fringe benefits tax.
 - Abolish all deductions, ABNs and State taxes but keep TFNs and local government taxes.
 - Reduce the complexity of record keeping for capital gains tax.
 - Separate tax on income from tax on capital.
 - Remove tax on superannuation and apply a consistent tax rate on capital gains no matter what tax entity makes the gain.
 - Clarification of legislation to reduce loopholes within the system.

Transparency

- An apolitical and transparent taxation system was seen as a priority to foster trust in the Government from the general public and improve taxation compliance.

Simplification of tax administration

Specific suggestions to simplify the way the tax system is administered were as follows.

- Remove the need to keep receipts for 5 years and CGT documentation *"forever"*.
- Require all quotes to include the GST component.
- Reduce the length and complexity of the income tax form.
- Make all tax forms available at the local newsagents and post offices (including the Seniors Pack).
- Only one tax form should be required per tax payer.

Long term view and complete overhaul is required to reduce complexity

- In several locations there were pleas for the review to take a long term view of taxation reform and not to be influenced by political expediency or short term events like the current financial crisis.

Flat tax

- In Wagga Wagga a flat rate of tax was suggested to ensure the system is simplistic and transparent. Similar calls for a flat tax were made in Hobart.

Debit tax

- In Melbourne a debit tax was suggested.

Improve incentives to work

- Some felt the current settings with regard to workforce participation need to be reviewed both in terms of encouraging participation and also to offer greater work force flexibility.

Improve incentives to save

- Reducing/eliminating taxes on savings and removing the limitations and tax on contributions to super was suggested by some.
- Developing a Government lifetime annuity product to protect retirees against investment and longevity risks was also suggested by some.

Improve incentives to become educated

- Attendees in Adelaide recommend students could pay HECs out of their pre tax income – *"just as a tradie would claim for use of their UTE."* (Adelaide)
- Some felt that tax deductibility in regards to education should also be investigated as it is perceived by some as a long term investment in the future of Australia.

Working for Not-for-profits (NFP) and claiming tax

- For people working on an irregular basis for community organisations (eg junior sporting clubs) taxation was felt to be over-complicated and in need of simplification.

Community organisations and volunteers

- Some felt there was a need to support volunteering by increasing the number of organisations recognised as social welfare organisations and by ensuring donors receive full tax deductions for donations.

Tax credits for work performed

- Some felt the provision of taxation credits for work performed might improve recognition for volunteers and encourage volunteering.

Accountability still important

- Some felt that charitable and NRP organisations should be required to have their 'books published', particularly if more organisations were going to be receiving private donations.

Reform for self-funded retirees

- Retirees drawing self-funded superannuation indicated they are no longer paying tax, but many suggested they seem to be worse off financially. Some felt these people should be eligible for rebates instead of deductions.
- Some suggested tax rates for self-funded retirees need to be changed and brought in line with those paying superannuation.

Reform for senior citizens generally

- Reform for senior citizens in the form of exemptions from having to lodge a tax return was proposed by some due to complexity and the cost of the process. Concessions for retirees were also suggested for consideration (such as not paying GST on utilities) as a reward to the older generation for shaping the nation as it is today.

Reform and review of transfers, cash bonuses and deductions

Align tax and transfer systems on the family unit

- As the transfer system is currently based on family units, some suggested that the tax system be aligned with this to be consistent.

Housing payments tax deductible for low income earners

- To provide further assistance to low income earners, some suggested that housing payments for this group should be deductible to improve housing affordability.

Removal of cash bonuses

- Some felt that the future tax system would benefit from the removal of cash bonuses for the middle class from the transfer system (eg the baby bonus or bonus \$7,000 for first home buyers).

Eliminate consumer based tax deductions

- Some attendees felt it was important to eliminate consumer based tax deductions.

Paid maternity for every family

- Some attendees felt that paid maternity leave should be introduced for every family.

Review true financial/asset status of beneficiaries

- A review of transfers in relation to addressing inconsistencies was suggested by some (specifically in the aged pension and the unemployment benefit) to reduce the number of people taking advantage of the system.

Shaking up the tax and transfer system

Some novel ideas for tax reform were also provided as follows.

Remove State taxes

- At some meetings it was suggested that three levels of government are now obsolete and by removing the State Government level, significant cost savings could be achieved.

Philosophical basis for tax system: revenue versus encouraging desirable behaviours

- Some attendees said discussion of the taxation system needed to also encompass whether the tax system should be used to purely generate revenue or whether the settings within the system should be such as to foster 'social engineering'.

Encourage health behaviours

- Some expressed the view that the tax system should be more effectively used to send signals on healthy and unhealthy behaviours. For example, taxing things that are unhealthy like sugar and saturated fat.

Encourage environmental sustainability

- Some felt the tax system was making Australia a fuel dependent economy by facilitating cheap petrol. Alternatively, a few argued that if the taxes on petrol were reduced it would reduce pressure on low income earners.
- In Melbourne there were calls for taxation to encourage environmentally sustainable productive enterprise.

Allow losses to be quarantined against other recovery streams

- As a way of creating savings, a few felt that losses should be quarantined against other recovery streams.

Allow investment in infrastructure projects through prospectuses

- A few felt that investment in infrastructure projects through prospectuses (eg providing the option to invest in a company that might want to build a railway line) might allow a corresponding deduction to income tax.

Enabling through education

- A few felt that the tax system could be improved by enabling people more. For example, a few suggested that improved education regarding the dividend imputation system could result in an additional income stream for low income earners or people on disability pensions.

Increasing revenue base

- A few felt the review should be looking more widely at how government could obtain non tax revenue. For example, a few suggested that the CSIRO and Defence could be used to generate income so that individuals would not need to pay so much tax.

Encouraging innovation

- A few suggested the removal of taxes on patent royalty income to encourage innovation.

Dividend imputation and off-shore investments

- A few suggested that 'conduit foreign income' should work the same way as the imputation system does in relation to Australian sourced income.

Property

- A few felt there was a need to create more of an incentive to invest in property when the market was not rising. Others suggested providing a tax incentive to own your own home.
- A few suggested that stamp duties should be abolished and replaced with a flat rate land tax system.

Other suggestions for shaking up the system were as follows.

Families

- Ensure that when couples separate the parent who is left to care for the children does not become a 'pauper'.
- Introduce tax deductions for funeral expenses for relatives.
- Provide more generous arrangements for the repayment of the HECs/HELP debt.
- Legalise illicit drugs so they will incur a tax. This will increase tax revenue and diminish the profit of drug lords.

Economic

- Introduce a lower rate of tax for emerging industries.
- Introduce a card (like a driver's licence) that employees have to give to their employer. This would be linked back to database at the Tax Office to alert employers of employees' tax obligations.

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- Implement 100% depreciation for capital expenditure and cancel all interest tax deductions in order to radically improve business tax system.
 - Eliminate expenditure taxes.
 - Eliminate multiple taxes.
 - Create measures to promote national savings and decrease foreign debt.

International

- A joint economy for New Zealand and Australia.
- Abolish tax all together and adopt the Hong Kong system.
- Place a tax on currency exchanges or a tax on the transfers. It was believed that people investing in currency are currently *"making heaps"* whilst avoiding taxation.
- Remove taxation of non-permanent residents whilst withdrawing their eligibility to receive benefits. *"If you don't live here permanently, you don't pay tax or receive benefits."*

Changing the way people think about taxes and tackling non compliance

Views on taxes versus transfers

- Some felt there was a need recognise an effective system requires a mix of both tax and transfer elements.

Naming and shaming

- Some suggested that *"naming and shaming"* tax avoiders would work more effectively to motivate people to pay their taxes than the current system.

Incentives to improve compliance

- In Adelaide it was suggested the government could encourage tax returns by looking at the British system where, for example, lottery tickets are given to people who pay the most tax.

Promote benefits of paying taxes

- Canberra attendees spoke about the need to promote taxes as a positive thing.

Fixed accounting principals

- A reform for corporate tax was suggested by Canberra attendees who suggested locking companies into fixed accounting principals to limit their ability to manipulate the amount of tax they pay.

Better training, manuals and tax amnesty

- Better training for people who work in the Tax Office, the production of well written and comprehensive manuals and giving taxation amnesty to those who have made honest mistakes were recommended by some.

Use real world examples

- Current legislation was described as *"mealy-mouthed"* by some and needing a revamp using real-world examples and situations. Rulings were perceived to be much more useful if they used real-life examples.

GST

- Some suggested GST should be frozen at the current rate of 10%, others suggested that it should be eliminated because it failed to stop the cash economy and had increased the cost of living for those on low and fixed incomes.

Consultation, consultation, and more consultation

- Some recommended that there should be more consultation with key groups who will be impacted by the changes resulting from the review.

1.2.5 Comments on specific tax issues

Business tax

Improve incentives to employ

- Tax reform for business was suggested by some to encourage them to create jobs, train people and stay afloat.

Other comments were as follows.

Financial assistance

- Reduce corporate income tax to levels comparable with EU countries.
- For small businesses under financial stress and experiencing cash flow problems, provide an alternative option to quarterly BAS payments, such as pledging asset equity against taxes due.
- Self employed tax payers reported difficulties in forecasting revenue, getting it wrong and then having to pay extra tax retrospectively. It was suggested that if more money is earned than fore-cased, then the higher tax rate should apply to future earnings rather than past income earned.

Reduce compliance coats

- Reducing taxation paperwork for businesses to one form.
- Some suggested the ATO could help small business by providing them with pre populated tax forms based on previous submissions.
- Simplification of the BAS was requested.
- Small business highlighted the difficulty of earning interest on money set aside for staff long service leave and other liabilities, to the point where some businesses chose to forgo this interest just to avoid dealing with the tax implications involved.
- Employee share arrangements and related taxation was considered complicated and a disincentive to their establishment and effective use as a tool for employee attraction, reward and retention. Some felt that right now was a good time to make it easier for employee owned companies to reduce salary costs and offer attractive employee share options, especially in start up operations.
- Fringe Benefits Tax (FBT) was criticised as encouraging non compliance and being impossible to administer for the average small to medium business.

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- Some attendees noted that constant changes to the tax and transfer system represented huge ongoing costs for business. Therefore, the need for ongoing change should be minimised.

Personal income tax

Improve incentives to work

- There was some call for the zero tax threshold to be increased and for the maximum marginal personal income tax levels to equate to corporate tax.
- Consider a sliding tax free threshold depending on income.
- Consider increasing the number of tax bands to prevent people from trying to avoid moving into the next tax bracket.

Improve incentives to save

- Submissions were made for even lower levels of tax on income drawn from superannuation.

Emergency services equipment deductions

- A few suggested that the reform give consideration to making emergency services equipment deductible.

More help for low income families

- Some felt more provision needed to be made for single income families, low income families and single women especially, in times of economic upheaval. There were also several calls for tax rates to be indexed and subsequently adjusted in line with inflation. In Hobart there were calls for spouses to be allowed to “*income split*” to encourage parents to stay at home.

State and Territory tax

- There were calls for States to be removed from the revenue raising process and to be made accountable to productive utilization of tax funds.

Transfers

Poverty traps

- Some felt the system currently encourages poverty through ‘traps’ for couples in which one person is receiving welfare (eg pension) and the other person is restricted from working in order to prevent the loss of that pension.

Carers payments

- Some felt that carer payments and how carer’s are taxed needed careful review as the role and number of carers is increasing.

Health system

- There are huge medical costs associated with disabilities (eg equipment, respite care), and a perception there is little compensation or rebate provided. A solution offered by one attendee would be to create an extra levy on top of the existing marginal tax rate that would be allocated to helping people with disabilities.

Age pension

-
- A few suggested separating the age pension from the from other forms of income support.

2 INTRODUCTION

Colmar Brunton Social Research (CBSR) was commissioned by FaHCSIA and the Department of Treasury to facilitate public consultation meetings for the purposes of gaining comments back on Australia's Future Tax System Review. These meetings were conducted across metropolitan and regional locations, with an open invitation to all Australians to have their say on Australia's Tax and Transfer system. The Review Panel will make recommendations by the end of 2009 on how to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

The terms of reference of the review acknowledge the impact that the design of the taxation system can have on the growth rate and allocation of resources in the economy and recognise the need for revenue raising to be done in a way which results in least harm to economic efficiency, provides equity (horizontal, vertical and intergenerational) and minimises complexity for taxpayers and the community. Thus the review will consider six key aspects of the tax system including:

- The balance between taxation and income from work, investment and savings, consumption and the role of environmental taxes;
- Improvements to the tax and transfer payment system;
- Enhancing the taxation of savings, assets and investments (including the role of company taxation);
- Enhancing the taxation arrangements on consumption, property, and other State-collected taxes;
- Simplifying the tax system; and
- The interrelationships between the tax systems and the proposed emissions trading system.

Previously in 2008, the public were invited to respond in writing to the terms of reference of the review, guided by the following questions:

- What major challenges facing Australia need to be addressed through the tax-transfer system?
- What features should the system have in order to respond to these challenges?
- What are the problems with the current system?
- What reforms do we need to address these problems?

Feedback received through the formal submissions process has been analysed and will play a key role in shaping the outcome of the review. As a key second phase of the review process, the Review Panel conducted a series of ten public consultations, offering the broader Australian community the opportunity to also share their views in a face to face context. Attendees at the sessions were asked their thoughts in response to the following three focus questions:

- What parts of the tax and transfer system are not working well? What components are working well?
- Are there taxes or transfers you see as fair or unfair?
- What priorities do you see for improving things that are not working well?

IMPORTANT: This document captures the key themes and issues that were raised by attendees at the public consultation sessions. All themes and comments are conveyed in the manner put forward by participants, and CBSR has made no assessment as to the technical validity of these contributions. Rather, all comments and issues are included to present as comprehensive picture as possible of how attendees view the current system, and the key elements of the system they would like to see reformed.

2.1 Methodology

The consultation involved ten public consultation meetings. Each meeting was two hours in duration and followed an agenda as appended to this document. The meeting locations are shown in the table below.

City	Dates	Venue	AFTS Review Panel Member Attendee
Brisbane	Monday 16 March	Brisbane City Hall, King George Square 6pm-8pm	Ken Henry
Darwin	Monday 16 March	Crowne Plaza Darwin 6pm -8pm	Greg Smith
Perth	Tuesday 17 March	Perth Convention Exhibition Centre 6pm -8pm	Greg Smith
Sydney	Wednesday 18 March	Mercure Sydney 6pm -8pm	John Piggott
Wagga Wagga	Wednesday 18 March	Wagga Commercial Club 6pm -8pm	John Lonsdale – Treasury
Canberra	Thursday 19 March	Southern Cross Club Woden 6pm -8pm	Greg Smith
Melbourne	Monday 23 March	Jasper Hotel 6pm -8pm	Greg Smith
Geelong	Tuesday 24 March	Geelong conference Centre 6pm -8pm	John Piggott
Hobart	Wednesday 25 March	Hobart Function and Conference Centre 6pm -8pm	John Piggott
Adelaide	Thursday 26 March	Mercure Grosvenor Hotel Adelaide 6pm -8pm	Jeff Harmer
Total	10		

3 KEY OUTCOMES FROM FORUMS

3.1 What parts of the tax and transfer system are not working well?

3.1.1 Complexity of the tax-transfer system

A recurring theme in most consultation meetings was the belief that the current tax system was overly complex. Attendees reported that reform should focus upon simplification of the tax system with the objective of decreasing the number of people who need to use a tax accountant in order to submit their tax return. Most attendees believed that a simplified system should allow the vast majority of people to do their own tax return.

Consistent across most meetings, attendees criticised the complexity of documentation required to claim payments/transfers and the inequality that arises between people who can and can't afford tax advice.

"I'm a tax payer and a very angry one. We have a system that's become so cumbersome it has brought our country in to a recession or depression...Efficiency, convenience, certainty and equity, - our current system does not come up to scratch, it inhibits production."
(Hobart)

"Taxes should be easy and cheap to collect but people have to pay for the cost of a tax agent which means the rich can pay to avoid their share. It's not fair - it doesn't differentiate at all between paid or unpaid income."

(Hobart)

"I'd like to make an illustration of the complexity, unless you have a single job, one group certificate. [Accumulated capital gains foreign income] The Tax Offices' own guide takes ten or twelve hours to read it - the chances of getting it right by themselves is close to zero. [Said it was so complex it was almost opaque] to defraud the Commonwealth after years of not paying sufficient taxes - an outcome of complexity. QCs navigate their way through being able to gain the tax system instead of it being fair. There are people starting from scratch and they have Buckley's chance of getting it right."
(Hobart)

"I'm a tax agent and when I first started the tax guide was 174 pages on very thick paper - this is last year's version of the same thing. It's 1400 pages, and the pages are hard to read for someone having trouble to read. As a professional tax agent I have trouble keeping up with it. Unless you simplify things to make it easier for people it's going to fall over. Four and a half thousand tax returns per annum. Treasurers need to take responsibility for financial planners, I don't really want to take on that role as well. I don't see how anyone could do their own tax return...capital gains is a trap...and get it right. So many have shares, many have inherited them Coles Myer and Alinta, now they've been taken over there are capital gains that they don't understand. There are too many things in the tax system like education rebate. What's it got to do with tax? I have to learn it; teach it to my clients. I'm supposed to know who the primary caregiver is. I haven't had any instructions from the Tax Office, like childcare rebates. The tax system has been used for social engineering so many times, like with the film system we used to have that they got rid of it. It made life a lot fairer and easier. You don't have any control of the price. If you had it through a rebate system there would be much more control. I'm restricted with time, and more and more people are coming for second visit because they didn't know what they needed to bring the first time. Simplify."
(Hobart)

"I'm a retired individual and when I first filled out my first tax return it was four pages - foolscap pages. Now some years later it comes with a booklet of explanation. I pride myself that without an accountancy degree I still do my own taxes. It's now over 60 pages and the complexity it's been through in that time is almost mind-boggling. I bought 400 shares in Coles hoping to get the discount. The complexities of capital gains tax or in AMP's case, loss, was difficult for an agent and is multiplied by the other complexities. The system is too complex, whereas the Tax Office used to employ thousands just to check returns. I do mine on e-tax and it saves them thousands, as do many others, yet the bureaucracy on that end seems to grow and they can't answer the questions that you ask." (Hobart)

"I'm retired, I'm still paying tax, but I'm on the receiving end of a transfer for an age pension. Two government agencies in control of my finances concerns me. Not-for-profit organisations that there are thousands of providers for the community – compared to what the government provides. They do it cheaper, better, and fairer. Finally, the difficulties of multiple taxation on top of taxation - everything multiplies and that's an impost on the individual." (Hobart)

"The system needs to be easy to manage and comply with, and the small business sector tends not to comply, mostly because of the complexity of the system. Any system changed should make it easier for small business to comply." (Hobart)

"They [senior citizens] very much begrudge having to go to a tax agent or accountant and pay \$200 or \$300 or whatever, because they can't understand what is necessary, and in addition, they are concerned that even after they have been to that tax agent or whatever, that they are still at risk." (Canberra)

"The tax system is full of all these various concessions which are a terrible burden and create a whole industry of accountants to investigate." (Canberra)

"Keeping up with the changes in the tax system is very difficult. Even my accountant has trouble." (Canberra)

"I have lots of things that I think are unfair. One of them is the complexity of things. Most people do tax through their tax agents. Just on the transfer side, my 89-year-old mother had to fill out forms that ask what sort of car you drive, describe your investments – the detail required is crazy. Ask some questions on one form and then go back to people if they need more; a 20-page questionnaire to an 89-year-old woman is unfair." (Brisbane)

"Complexity benefits accountants only." (Perth)

"There are 154 potential taxation points in Australia. What [is] a system?" (Geelong)

"The individual tax administration based on tax pack and e-taxis not working well...When I did my first tax return in 1997 I was given a six page document as a tax guide. I have not only done my own tax return for the last so many years, I have also done, as a part timer working for a tax agent for the last 5 years, hundreds of tax returns for individuals every year. I speak on behalf of people who have dealt with this pain every year. I suggest that for 80% of the individual income tax payers/wage earners there should be no need to file a tax return." (Melbourne)

"Not well administrated by the tax man or tax agent. There should be a mechanism to allow standard deductions. Why should people have to go through such

rigmarole? Take out the noise and concentrate on the other 20% who should do a tax return.”
(Melbourne)

Several attendees put forward their experiences as case studies in trying to deal with the complexities of the system, particularly when dealing with multiple government agencies.

“Single mothers have an effective tax free amount of \$23,000 a year what you can earn plus pension. I can earn about \$14,000 and not pay tax, and take \$10,000 of pension. Once I step over that point, I start losing the pension tax offset – every dollar you earn reduces offset by 12.5c. At \$30,000 I start losing LITO money, face a marginal tax rate of 60c, and every dollar I earn decreases child support of the children’s father where I get to the point of earning 28c per dollar. When I figured this out, you talk with the ATO and they don’t know. When I realised what was happening to me I thought I’ll go full time and see if I can earn enough to bring help into house to take care of cleaning etc. I calculated I’d be worse off because of health debt, Medicare levy, which apply to whole income. Also [∧] lose my daughter’s youth allowance because I’m in receipt of pension card [∧ receive because of this]. Most single mothers don’t know how it all works. A lot of them overestimate the [value] of their dollars. Newstart – 60c goes back to government if in public housing. I’m going to keep 15c in dollar. It works against them. Not their fault, because [the Department] don’t understand. Their figures are out by \$40 a fortnight. They are charged with responsibility for administering a test, yet they can’t even calculate it [given complexity of the system].”
(Sydney)

Pensioners also gave some examples of complexity.

“I refer to 30c in the dollar tax rate comes in at \$30,000, if you’re a pensioner [and] you’ve hit that level, you lose 40c a dollar from pension, you then lose your low income tax offset of 4c, senior Australians offset of 12.5c, which takes your payments of loss of income to 96.5c per dollar leaving you with sum of 3.5c per dollar per hour.” (Sydney)

“We don’t need complexities in current system. Nobody in social security or ATO understands. Nobody in public service understands, politicians don’t understand.”
(Sydney)

For many attendees from an older demographic, the administration and cost around compliance for self managed superannuation funds was frustrating.

“One page has expanded to 17 pages...which has increased the cost of my accountant.” The need to have an auditor is another expense for the retiree.”
(Geelong)

Taxation legislation on distributions from trust investments were also highlighted as requiring urgent simplification.

It was also noted in Perth that English is not first language for a high percentage of Australians and consequently this makes the challenge of understanding the system even harder for this section of the community. Elsewhere it was noted that falling levels of literacy and numeracy in the population generally were also making it harder for people to complete their tax returns.

“I’m on the Small Business Council and I have a personal comment and an organisational one. Complexity, unfairness, and an inability to understand the system. Deliberations and outcomes should take into account that 53% of 15 to 19 year old people are functionally illiterate. 57% are functionally innumerate. If that’s not bad enough we need to recognise that 47% of all Australians from all backgrounds are functionally illiterate. The kids coming out of school today are

coming out in worse circumstances. If it's not understood by all of us it's not a good and fair system for all Australians." (Hobart)

3.1.2 Dual role of collection and transfers adds to complexity

Separate collection and transfers

At some meetings like Darwin, Wagga Wagga and Hobart, some attendees called for the separation of revenue collection from social equity (transfers side of the system). The combination of the two was seen as a major reason for complexity resulting in higher levels of non compliance.

"[The system is] too complex. Government wants [taxpayers] to do an annual reconciliation about how much money [people] should have paid. Taxpayer [effectively] makes an interest free loan with their money but politicians want to use reconciliation policy to drive the social agenda. It changes each year. I have copies of the tax returns going back 15 years. Every year there are changes to the form and how it's done and its complexity. Done again this year. People will come to people like myself and want money back for accelerated depreciation, tax is already complex is becoming more and more complicated." (Darwin)

"Can we separate taxation from transfer, so we can see what is clearly addressed?" (Wagga Wagga)

"The fundamental problem is with interlinking collection and social security. It's almost impossible to disentangle them. The ATO is not working well. I used to get good competent advice from them but now they're happy to tell us we got it wrong, but refuse to produce worksheets to facilitate getting it right. It took me 7 hours to figure out the protocol to get it right [in relation to the tax consequences of the Coles takeover by Wesfarmers] – there are still tax agents across Australia trying to get it right. The Tax Office has failed the system when it became revenue oriented rather than service oriented." (Hobart)

Merge collection and transfers

However, some people in Adelaide had a different view. In this meeting those who perceived that taxes and transfers were two separate entities felt the current arrangements were not working well and their solution revolved around merging these systems to improve their operation.

"And the priority, I would think of things that aren't working well would be to merge the tax and transfer areas because they are two sides to the one coin – why don't they just merge the two?" (Adelaide)

"The word 'merge' was used in the shift of tax and social security. I believe this is very, very important for both tax and transfers to work from the same page. The withdrawal rate where it is stepped so currently if you earn \$100 you lose \$200 [as an example]. There would be a withdrawal where there is a 40c withdrawal which is a tax on the monies earned. So the person trying to get back into the workforce has 60c of the monies earned. This reduces the unfairness of the current system." (Adelaide)

Historical piecemeal tinkering and reform has led to current complexity

Some attendees also felt that the tax and transfer system was out-dated. Whilst it may have been fine when it was first established and introduced, it has been added to in a piecemeal fashion by different governments over the decades and is no longer appropriate. It was believed that many of the complexities and inconsistencies in the current system were a

result of this haphazard approach to reform and that the last official review of the system was generally ignored.

"The system is 100 years old and is full of holes." (Canberra)

"There is no doubt the system is archaic. I mean, the gentleman up the front there said it's 35 years since the last review and they didn't do anything with it anyway. So, it sounds a bit like the Kings Highway." (Canberra)

3.1.3 Complexity impacts negatively on administration of tax system

Reports were given of a system laden with inaccessible legal jargon making it incomprehensible for the average citizen. Inconsistencies in the use of terms relating to similar functions were also reported to be a barrier to understanding.

"Don't call them all these other things, stamp duty, levies, fees, charges. A tax is a tax. Just call it tax." (Canberra)

Issues with the tax pack

Some attendees felt that completing a tax return had become too difficult a task from the perspective of the individual. Tax packs were reportedly becoming longer and more complicated each year. While some attendees suggested the Tax Office's free e-tax software is quicker and less complicated (and thus a step in the right direction), there were still some issues with this from an access and equity perspective (eg some attendees said the package does not work on older computers).

"For people like me, it would be so much easier if we could fill them in electronically, but unfortunately my computer is an ancient Macintosh and the tax system doesn't work on ancient Macintoshes. It crashes when you even look at the form." (Canberra)

"I think the personal taxation form you fill in each year is getting so complicated that you need an accountant to go through it with you. It's enormously over complicated." (Wagga Wagga)

Tax returns are an exercise in beating the system

It was felt by some that completing a tax return had become an exercise in beating the system. Some believed accountants were giving advice to investors on where to place their money in order to get the best tax breaks or to minimise their tax, rather than putting their money where it could work best for them and help the economy. It was believed that some of Australia's smartest people were going into careers in accountancy, leading to waste of talent in this unproductive sector.

"...the very best brains in Australia being tied up in what I can only call tax evasion methods, which is tax minimisation or whatever other thing you like to call it." (Canberra)

Furthermore, Canberra attendees thought that attempts to reduce or avoid tax through ensuring one meets the qualifications for a number of tax concessions were wrongly influencing decisions of both individuals and business operators.

"I think what is unfair is that what is defining the way I make decision is tax. I'm salary packaging, not because I want the new car, but because of tax. I'm putting my money in super, not because I think that long term investment is the best place for my money, I think it is the best tax effect for my money." (Canberra)

Poor service from Tax Office

Accounts of poor service from the Tax Office were given by some attendees who recalled having had to speak with up to 30 different people across the organisation, some of whom had poor English, an aggressive attitude or were perceived to be uncompassionate and “*non-feeling*”.

“I have had phone calls from all points of Australia, from different people, different nationalities, with broken English some of them. I would not even attempt to try and explain to them what my problem is. There is absolutely no way that in a five second grab on the phone they are going to understand what I am trying to go through.” (Canberra)

“The image that came across was that they are debt collectors, and like all debt collectors, they are after your blood.” (Canberra)

Inconsistency in tax advice

Attendees described having experienced inconsistencies in advice on the same issue, hiring tax accountants who got it wrong, and having dealt with Tax Office staff who admitted they did not know the right answer. It was thought that easy access to better information was necessary, but there were reports of the material on the Tax Office website often being “*dumbed down*” to the extent of being useless.

“Even the agents at the Tax Office don’t fully comprehend it themselves [given its complexity].” (Canberra)

“Inputs into participants in tax system requires a high level of qualification needed to draft and advise. [Those charged with] enforcing these laws – what qualifications do they need? Compliance officers, to them it’s just a case, look through facts, make a decision. It costs clients of mine hundreds of thousands of dollars to push things up through [relevant appeal] channels eg supreme court. [I feel those making the original decisions] don’t have enough of a [knowledge and skills] basis in the beginning.” (Sydney)

Dual role difficulties: administration and dispute resolution

Attendees expressed concern with the dual role of the Tax Office of being charged with both running the tax administration process and also being responsible for dispute resolution. There was a call for some form of ‘taxation ombudsman’ (or more use made of the Commonwealth Ombudsman) as an impartial person in dispute resolution and to be charged with ongoing review of the system to ensure it is flexible and responsive (interestingly, there seemed little awareness of the office of Inspector of Taxation or the role of this position).

“It occurs to me that it is difficult if they are also making the decision, if they are running the process, it is legitimate to have someone neutral and impartial to run the process.” (Canberra)

There was also a belief amongst some attendees that taxation policies are often impractical, being made by Treasury without due regard to the administration and workings of these policies for the Tax Office and the ‘average’ tax payer. It was suggested that the Tax Office were encouraged to just “*find a way around*” these policies rather than getting together to review them and come up with a workable solution. This is seen to be further exacerbated by a lot of movement of people within the Tax Office, creating a lack of expertise in some areas.

“Policies really are made in a cocoon without due regard to the end user or the consequences, and the victim in a sense is the Tax Office.” (Canberra)

Issues with distribution of senior pack

Some noted the Seniors Pack, which is felt to be much simpler and appropriate for retired people, is no longer available at newsagents and now is only available on request. This has forced some people to use the standard Tax Pack.

"One year sent out a special form that was specially tailored for the needs of very elderly people and she very gratefully got it and we filled it in. And the next year we didn't get one. So I phoned the Tax Office and asked them why we didn't get one since we didn't get any kind of tax form that year, and they said to me 'oh, the tax forms have already been sent out and you should have got one. You can get one from your newsagent.' So I went to the newsagent and they only had the normal tax form." (Canberra)

The burden of having to keep all paper work and receipts 'forever' due to capital gains tax obligations was felt by attendees to be unreasonable in terms of storage capacity and the costs associated for the average person.

"The other problem is the vast amount of paper work that one has keep if one has investments because of the capital gains tax." (Canberra)

Tax on bank accounts

Taxing interest on bank accounts was suggested to be a cause of unnecessary administration and wasted Tax Office resources. It was suggested that this could be resolved via not taxing savings at all, or not taxing people with less than a nominated amount of money in their bank account, rather than trying to monitor all the bank accounts in Australia (these comments suggested low awareness of the self-assessment basis on which the system currently operates).

"There's so much admin to keep track of bank accounts, just get rid of it." (Canberra)

"I'm just thinking that in terms of the administration of all this, keeping track of everybody's bank accounts, surely it would be so much more sensible if you just forgot about it." (Canberra)

3.1.4 Complexity raises compliance costs for business and results in non compliance

Some farmers and small business attendees in Wagga Wagga admitted to only hiring contractors or paying cash "under the table" so that they could avoid the multitude of paperwork involved in taking on an employee casually, part-time or full-time. Specific examples given of the excessive 'paperwork' required to comply with the tax system included applying for or verifying tax file numbers, organising superannuation payments, WorkCover and ensuring deductions are made from wages (such as child support payments). These attendees felt they simply did not have the time to complete this type of paperwork and suggested that it should be possible to claim this time/cost back in their own tax returns.

"I am a farmer and if I employ anybody on the tax system that I pay wages to it's a hell of a job. If I have a contractor I'm right. I don't employ anybody that doesn't have a tax file number or young people that aren't contractors...there's too much paperwork involved." (Wagga Wagga)

"I do it all [the paper work] myself and this cuts down the production of my farm. I need additional people but I can't spare the time for all the paperwork." (Wagga Wagga)

"There's a lot of paper work to complete for putting on new people and you can't claim it as an expense." (Wagga Wagga)

Another barrier to employing people for small businesses is the perception that the business has to act as a “tax collector”, ensuring that employees have disclosed the correct information.

“If they owe child allowance, I have to take it out. If I don't ... then I can be liable for a \$5,000 fine. That is why I keep constantly looking for contractors. It's complicated. Sometimes the people you employ do not give you the right information. There's also a lot of paper work when employees have not been honest. I had a lot of paperwork to complete because one of our employees was not paying child support. Small business are doing too much of the Tax Office's work.”

To avoid these compliance costs small businesses felt forced to either do the work themselves (which cuts down production) or pay workers ‘cash in hand’ and forfeit eligibility for WorkCover or only use sub-contractors.

Similarly in Hobart the adverse impact of tax complexity upon home businesses was raised. The view was that due to the increasing number of home-based businesses the tax system requires significant simplification for people to be able to understand their obligations and submit the correct information.

“I'm on the Tasmanian Small Business Council. The home base business sector is increasing in number, there are nearly a million of those. There's significant complexity on the family home where you are running a small business from there. Few understand their obligations. It needs to be significantly simplified so those embarking on it know what they're getting themselves into.” (Hobart)

3.1.5 Collection of taxes through businesses

In Hobart it was perceived that the process of collecting taxes through the business tax system was ineffective. It was proposed that imports be taxed, so money could be collected at a common level. It was felt this might also reduce costs for Australian producers.

“I would like to put forward for the panel's consideration that the current Australian tax system is wasteful, ineffective, failing to take into consideration [not a proposal to reduce tax though that could be a productive outcome] the process of collecting taxes through the business tax system results in less than 1%. Taxes by definition input costs into the business. By the time those costs have been put into goods or services and get to the consumer they have in effect multiplied by a figure of 3.7 times, meaning that one dollar ultimately costs the consumer around 4 dollars on top of which there is a GST. The rationale we would like to put forward is that this year the Tasmanian government will collect \$250 million in payroll tax, but by the time it reaches consumers it would have grown to more than \$1000 million dollars because it has multiplied on the way through. Our contention is that an approach to tax on import tax is that the money should ultimately be collected at common level. On the basis that every dollar multiplies to four dollars there should be a paradigm shift in the way this country collects tax.” (Hobart)

3.1.6 Inconsistency between the tax and transfer system

Some attendees pointed to a key difference between the tax and transfer systems: taxation is currently based on individual income, while payments and allowances are based on household/family income. It was thought that a consistent basis should be used.

“I think it's imperative that you have a family unit of taxation. The transfer system is based on family units. It's a unit; it's not two individuals living together. There are a whole range of arguments against this, and the one I have the most trouble with is the effect of marginal tax rates. I think it's a flawed logic to be against this. There

shouldn't be a focus on 'Is that individual getting highly taxed?' It should be 'What's the family getting?' (Brisbane)

"I have a personal enquiry. I am a single income earner whose wife works part-time. It seems that the system is biased towards a predominantly professional family...I am earning \$80,000 per year; compared to two people on \$40,000 per year, there is a tax difference in what we pay and that needs to be equalised." (Brisbane)

Some felt there should be a focus on what the family is getting as a whole, rather than as individuals, which may simplify or reduce the number of transfer payments made, particularly those made to the middle class.

"I'm a solicitor in private practice, and the issues I'd like to raise surround the transfer system and the complexities of income tax. My concern is that the difficulties in the transfer system could be resolved by making income tax divided equally between spouses. This will remove the need for a host of government benefits; they could be removed by spreading income. I'm concerned with the simplicity of the system – the wealthy being able to spread their income through companies and trusts. It would remove the need for many of those by spreading tax." (Hobart)

In Perth, where there was minimal attendance from young families, there was still strong support for the idea of a family based (group) single return and tax threshold to allow for one parent families who choose to remain at home to do so (on a single income and survive).

3.1.7 Lack of government accountability

Some voiced concerns about the ability to Federal and State Governments to increase all forms of taxation without adequate accountability to the taxpayer.

"There is no such thing as a good State tax. State taxes, stamp duty, land tax – are inefficient. If you buy a property and sell the capital gain has to take into account the cost of stamp duty. Straight away when you buy a property [it is] devalued by value of stamp duty." (Darwin)

"There is no link between taxation and efficiencies. Business people [who] want to go out and do something set a budget. Public servants have no understanding. Budget set and dysfunctional relationship between what is raised and spent – governments and civil servants are trained to spend that money rather than save that money." (Darwin)

Similarly in Canberra there was mention of the need to review the management of tax distribution and keep check of the preference in government to stealthily reduce services (through efficiency dividends) while taking advantage of 'bracket creep' (a larger proportion of tax being collected from wage and salary earners as incomes rise but the tax brackets remain fixed).

3.1.8 State and Federal tax interplay

At most meetings, some of the most negative sentiment tended to be focussed on the local State taxation regime. Some attendees called for a further streamlining (or ideally removal) of revenue collection at the State level.

"What parts of the tax and transfer system are not working well? Well, first I have to say just about every State tax you can imagine across each State and Territory. Chief amongst them must be payroll tax and secondly land tax." (Geelong)

"As far as what parts of the tax system aren't working well, I'd say the whole taxation system is a systemic failure. It has encouraged asset price stipulation to stimulate the Australian property market which can be resembled as a State sponsored policy scheme where local governments have profited through higher rates revenue, State governments have profited through higher stamp duty revenue and Federal Governments have profited through these policies." (Melbourne)

In Wagga Wagga State taxes were perceived to be *"taxes on taxes"* and it was suggested that these add further complexities to the system and should be abolished. It was suggested by some that the Federal Government (through the Australian Taxation Office) should take charge of all taxation in Australia to ensure consistency and eliminate duplication.

"You want to get the Tax Office in to take care of all these unrelated issues or right out of it. You can't have the States just doing some things." (Wagga Wagga)

In the ACT attendees felt that the States have the authority to just *"dream up"* and impose new taxes (despite the understanding that GST was intended to replace most State taxes) with little or no justification. The example given was of a utility tax recently implemented in the ACT, newly taxing access to existing utilities. It is felt that the tax rates in all States need to be uniform to be equitable and make it easy for residents to transfer between States, which in turn may have economic benefits in terms of labour force mobility.

Fire service levies

The fire service levies charged on insurance premiums in New South Wales and Victoria are perceived to be unfair when charged in conjunction with stamp duty and GST. It was felt to be inappropriate that the only people who pay fire service levies are those with insurance and this is only the case in these two States. Both the fire service levy and stamp duty taxes were thought to be unfair State taxes which should have been discontinued when GST was introduced.

Payroll tax

Differences in payroll taxation between States were also seen to discourage employment and to add complications in transferring employment from one State to another. The rate of payroll tax in NSW was also believed to be too high.

"If you want to stimulate employment, you need to reduce payroll tax."
(Wagga Wagga)

In the ACT, payroll taxes were also felt to be too high, inconsistent and to discourage employment.

Property Taxes

Within the property sector, and from a small business perspective, some felt there needs to be a review of taxes such as stamp duty and land tax. Currently these taxes are perceived as inefficient and inequitable. It was reported that stamp duty no longer covers purely the administrative costs of transfers at a State level, while land tax is also inequitable, as it is linked to the unimproved land values, which are cyclical and able to be manipulated at the State government level (through refusal to review and improve land values). These inequities are felt in turn to impact the property industry, tenants, and all parts of commerce.

Perth attendees felt that in Western Australia, land tax is a real issue as the growth in land tax has been astronomical, with some attendees citing examples as high as a 250% increase in the past 2 years. There was also a view that land tax is not correctly handled currently as most valuations are way out of date. Further, in regards to land tax, attendees noted the problem is that it is assessed on the underlying capital value of a parcel of land, which is an unrealised gain. There was a suggestion this system could be made fairer if land was taxed more in relation the capacity of the land to provide income for the owner.

In the ACT, land tax is also believed to be too high, discouraging people from buying investment properties. This is particularly relevant given the rental property shortage (and owners are expected to pay the same land tax per quarter if they only rent it out for one day in a quarter or the entire quarter).

In Adelaide stamp duty was also felt to be unfair.

"One of the taxes we think is unfair is stamp duty. Stamp duty is a State tax and I was wondering how the review was going to relate to State Governments and local governments."
(Adelaide)

"I thought that with introduction of the GST that one of the deals was for the distribution of money back to the State Governments was that stamp duty would be eliminated. If that is true is this review going to try to make that happen?"
(Adelaide)

GST

The GST was mentioned a number of times in relation to State taxes. Some attendees felt there was currently a lot of double taxation happening between State and Federal taxes, with the GST perceived as largely to blame. It was understood by many that the introduction of the GST would see the removal of several out-dated or unnecessary taxes (including stamp duty) and would act to stop the cash economy. Attendees believed that the GST had failed on both accounts and now people were being taxed twice on their properties (i.e. one might pay their State tax on houses as well as GST on top of that), and the cash economy is also flourishing.

3.1.9 Disincentives to work

High marginal tax rates

Strong arguments were tabled against the manner in which taxes increased with increases in income. This was particularly a problem among the low income earners, although preferred solutions to this differed depending on each individual's circumstances and point of view.

"[We're] not getting anywhere until we look at progression in income tax structure in Australia. There have been people who support [the] very steep progression we have in income tax structure. I argue vehemently against this – [and see it as the] root cause for all debate. We have system currently where we have \$6000 tax free and low income tax offset (LITO) which is a time bomb, and I don't know if you realise what time bomb it is. When LITO was \$600, five million tax payers took advantage of it. It's now \$1200 and 10 of 12 million are now classified in some form of being a low income tax payer worthy of some redemption. With a tax system that is ridiculous, you have to look at progression." (Sydney)

"[We] won't get far until [we] look at the system of threshold, which in my opinion is being exploited by the rich – massive income splitting occurring in some respects calls for higher progression...splitting income burden falls on PAYE tax payer. Won't get anywhere in this tax debate until we look at steep progression in Australia's income tax problem and until that's overcome and people understand then we'll have endless debate...marginal tax rates and negative marginal tax rates are too high. Why can't we have a system where combined margin tax rate is no more than 30c in the dollar, as opposed to 80c in the dollar of certain welfare tax systems/wages?" (Sydney)

A relatively common theme observed in Sydney was the fact that components of the system (such as tax rates, fringe benefits tax, family benefits, rebates etc.) seem to be rarely viewed as operating in concert, ie what is the sum or net effect on the taxpayer and their financial situation. Some called for the review to try and consider the impact of reforms in a more holistic manner.

"[The] problem is not the current tax rates but fringe benefits tax and other associated horrors that push up [marginal tax rates], when you're desperate to better yourself and go back to work. There are huge disincentives to do this." (Sydney)

One wage earner complained about the step up in marginal tax when they worked overtime, indicating this was a disincentive to work longer hours.

"People on a low wage – to say \$50,000 – if they work overtime should be exempt from tax on overtime. I do not know how this can be done but to me it's an encouragement for those in the lower bracket. If I want to work more I can and pay less tax. Somehow you have to encourage those on low wages to earn more and many would, but the tax is a disincentive. Why? Most of it is paid in tax." (Darwin)

Also some young attendees indicated that the NEWSTART payment did not provide sufficient differential to working income as to provide the right incentives to taking a job.

"Complexities of Centrelink. A friend gets magic money put into his account. If he starts working – if he got a part time job at McDonalds – worked 8 or 16 hours a week would be earning less than not working at all. So he does not bother." (Darwin)

One attendee suggested that earned and unearned income be taxed different to provide more incentives to work.

Low income earners and single parents

Numerous examples were put forward by Sydney attendees of how the current tax and transfer settings for low income earners and single parents do not provide the right level of incentives for greater workforce participation.

"[I'm a] single mother of four children. [I feel I'm] trapped in a stranger welfare trap – upper welfare trap. If I work full time, I'm worse off than being on welfare and working part time. If I contribute more [to the economy through working] my household sees less."
(Sydney)

"There is good and bad welfare. I receive child support from [the] children's father, his money and earnings converted to income welfare dollars is less than welfare to [a] coupled household with a single primary earner. My welfare is income support – bad welfare. [I'm also] subject to income to work rules. I receive less money yet I have to go to Centrelink fortnightly and [meet with] participation officers because I haven't worked 30 hrs this week, even though I earn more than a minimum wage earner. I am still subjected to humiliating procedures than other families who earn [similar amounts]."
(Sydney)

"Single mothers have a two tier welfare system. Some on parenting single [payment], some on Newstart. If Newstart, then [they are] receiving much less than the former. Significantly less. [There is often] misunderstanding in [the] community that single mothers are receiving more money... we are not. We are often trapped by a system that sees our work as valueless, child support valueless, 50c of Family Tax Benefit payments taken away. I'd like the government to consider [the] level of payment for allowances - you cannot raise a family if you are shifted to Newstart – this forces women to go into full time work, but we have full time care obligations. I'd like to encourage government [to consider] that people in [the] same situation should be eligible for full time wages."
(Sydney)

"[We need to] encourage government to think about single parents...that income of partners affects payments that come to a household. When you're a partner it doesn't mean they are capable of picking up the slack for somebody' else's children. I'd like a system where people in similar circumstances are treated equitably."
(Sydney)

Women

One women's advocate suggested there was evidence that tax levels had more impact on women's decision to work than on men's. In particular, this attendee advocated the bulk of evidence available suggests that tax rates have a far greater impact on the decisions of second income earners to work (who are more often than not women), and this is something the review should actively consider.

High income earners

In Perth the top tax rate is an issue that some feel needs to be addressed, with an argument put forward that the top tax bracket currently provides a disincentive to work longer hours.

Conversely in Adelaide, it was perceived that high income earners were not being taxed enough, if at all. Suggestions were made to introduce a 'wealth tax' to ensure that large income earners are paying their share of tax.

"A particular part of the tax system that doesn't work well is the taxing of very, very large incomes. We've heard a lot about taxing of payments for executives receiving

large payments and I am sure they are not being taxed and I would like to have comment on that. (Adelaide)

Corporate tax

A few attendees also felt that corporate tax was too high at 30%.

Multiple child families

The welfare system for parents with multiple children was deemed to be inefficient in terms of motivating people to work. It was perceived that some people with three or more children were being paid more money not to work than they would receive if they were working.

"With the welfare system here, we seem to have in Australia a ridiculous situation where a person with three or four kids gets more money for not working than they do for working. However you have the welfare system, there should always be some incentive to work." (Brisbane)

Mature age people

In Brisbane it was felt that incentives were also required to encourage mature people (retirement aged) and others (eg mum's coming back to work from having children) into part-time or job-share roles. The need for a coordinated program, led by government, was mentioned as well as the provision of incentives to motivate people to move into part-time or job-share working arrangements.

"My concern is that there seems to be a bias in both consultation papers against part-time work and job-sharing, and obviously older people, as they get towards retirement age, need to be able to move into job-sharing and part time work. The same applies to baby boomers, as they come back into the workforce; and of course it applies to lots of other people like mums coming back to work. I think there needs to be a coordinated program led by government as part of the tax system which really encourages people into part-time and job-sharing work. They've got to be treated equally; we've got to extract the right amount of tax." (Brisbane)

In Darwin some were concerned with the effect of recent economic events on retirees' super funds and the perceived disincentives for independently funded super annuitants to return to the workforce. Some attendees had suffered significant losses to the value of their private pension funds and were wanting to return to work rather than be subject to the restrictions associated with being on the aged pension, yet the tax disincentives for this were felt to be significant.

"What does the Government want...us to save for old age or wait for old age and then go on the pension or to go back into the workforce."

(80 year old ex-self employed pensioner - Darwin)

Some called for means tests (governing taxation treatment of retirement income streams) to be abolished as they were seen to target those who wanted to work and take care of themselves as an alternative to being a government beneficiary. The tax free thresholds for retirees were also considered an issue by some.

"Single pensioners can earn \$3,600 pa without reduction but a working person can earn \$10,000 tax free but nil tax payable on first \$6,000. To create a level playing field retirees should be able to earn \$10,000 [per annum] and couples \$20000 [per annum] before the pension is reduced. Galling for pensioners – once you earn more than \$138 per fortnight you get taxed – a wage earner earns up to \$34,000. In fairness, remove the disincentive the same 15c in the dollar and not exorbitant 40c in the dollar. There is a total disincentive for older people to work – we have to create a level playing field so people over 65 can work if they choose. We need to

address inequities between working Australians and those in retirement who want to come back.” (Darwin)

3.1.10 The lack of security and other issues with superannuation

Some attendees in Darwin and Canberra expressed concern about the impact of investment losses on their superannuation and felt misled by the signals sent by government about the security of super, especially given recent economic events.

“How many people sold hard assets or buildings to get a million in their super? That was the government’s retirement industry. Most sold property or hard assets to do that and [that has now been] wiped out.” (Darwin)

“I just can’t believe that at all. What it means is that people can’t plan ahead for their retirement with any certainty, because no matter what sort of budget you do as an individual, constantly the goal posts are changing all the time, which means that your useable income is declining and very much at the moment, you know, with the way that things are.” (Canberra)

“As a small business person – the onus is on us to collect and send off and provide a super guarantee. It has created a whole industry. A whole industry has been taken out of peoples’ hands, forced the onus on small business all the compliance and after 20 years, trillions of dollars invested in government institutions and banks. Retirement income policy...needs to be looked at and the consequences. Compulsory super – a whole industry that has failed. Individual investors, the economy and our grandchildren will be paying back debt for two generations.” (Canberra)

Others thought it ironic that they were encouraged to provide for their own retirement only to find their efforts had been impacted by the market, while those who had not provided for themselves were offered a guaranteed income.

“It is a great injustice that the private sector is open [to risk] but Government pensions are guaranteed by tax payer.” (Darwin)

Super to be converted to a guaranteed annuity

There was a call for private super to be converted to a guaranteed annuity with the government taking on the longevity risk. There was concern about the private sector managing this longevity risk due to associated fees and charges; complexity; conflicts with shareholder interests; poor financial advice and institutional failure.

“We actually started a super fund in 2006 and \$275,000 has gone out of it – of which we have received \$135,000, so someone’s receiving our super, not us. [We’re] asked to save for our old age and the older people are being severely penalised by the tax system.” (Darwin)

There were also concerns about structure of the retirement income system as it has practically forced people to take up investments exposing them to investment risk which they may not be comfortable with.

If the government were able to deliver security of annuity without the restrictions of Centerlink, some attendees felt they would be more accepting of government managed retirement income schemes. The main benefit attendees saw in such a move was the avoidance of the profit and greed motive that some view as the reason for recent investment losses.

"If at 60 or 65 people had a choice to continue with their money in investment markets or to put it in a government guaranteed annuity scheme --- if when I die it may be reversionary to my spouse. Government [would take on] longevity and investment risk as they have time on their side which individuals do not have, it might put some faith back into the superannuation industry" (Darwin)

HECS and Super

Some young people thought it was unfair that they were forced to contribute to super when HECS payments were outstanding or they had other savings priorities, such as saving for a home or for holidays.

Super contributions are too low

The level of super contributions were also criticised as being too low by some and an argument was put forward that these needed to increase to 15 percent.

3.1.11 Lack of incentive to invest in education

Another key weakness in the system identified by some attendees was that taxation settings in regard to education are not fostering sufficient uptake of higher education places. This has the potential to exacerbate skills shortages experienced across a number of professions.

"Students [are] upset with the cost of education. We need to have more professionals. Can we set up a system where students [do] not come out with a debt? [This would] enable [them] to purchase a house etc." (Geelong)

Some attendees also felt that a lack of tax deductions for education was unfair and contributing to some professions being undervalued (teaching, nursing and trades were mentioned). Scholarships were suggested to make these career options more worthwhile. Tax benefits for employers and supervisors were also suggested to make it more attractive to train future professionals.

Attendees at the Wagga Wagga consultation wanted to see Commonwealth scholarships for teachers and nurses/other medical professionals bought back to address the perception that these careers are worthwhile professions and to attract intelligent applicants. It was felt that mandating that scholarship recipient's work in regional areas for a nominated amount of time would also bring people to country areas.

3.1.12 Lack of incentive to save

It was thought that the current tax system seems to discourage savings through requiring tax to be paid on savings.

"Cut out tax on savings or at least adjust inflation for income tax or income on shares. We're favouring debt and not encouraging savings... savings is so discouraged and debt is so encouraged." (Hobart)

"The other thing is interest is calculated in nominal terms so for instance, if I save money, I am only actually gaining after inflation and similarly with borrowing, you only get that discount after inflation. So if you combine the two, the current tax system is encouraging borrowing, discouraging saving, encouraging speculating and discouraging working. If you combine them all what you would expect is for people to borrow huge amounts of money, gamble, speculate and eventually there would be a massive debt bubble that would inflate us...and I believe this has helped get us into the situation we are in now." (Adelaide)

3.1.13 Too much focus on taxing labour

A few attendees felt that the current tax system places too much focus on taxing labour. It was felt that there were three elements that could be taxed (labour, capital and land) and that the review needed to consider the weight of each of these. It was felt that taxing capital discourages production, while taxing labour makes Australia uncompetitive, therefore land tax and minerals should be more in focus to promote the long term economic health of Australia.

"In designing a system for the future, I see no value whatsoever in taxing labour; it makes us uncompetitive against other trading partners. We can't tax capital, that's bad, we'll stop production. We could tax land and natural resources - we all take benefit of our natural environment. That will take us with countries that are moving in that direction like Hong Kong, Singapore and Taiwan. Otherwise we'll slide backwards like some African countries have." (Hobart)

3.1.14 Ponzi-type Schemes

A few attendees in Brisbane expressed concern about the existence of Ponzi-type schemes. It was recommended that more effort be put into eliminating these schemes.

3.2 What components of the tax and transfer system are working well?

3.2.1 Dividend imputation system

The dividend imputation system was mentioned as working well in most meetings. Some attendees expressed grave concern about the possibility of the Australian government moving away from this system (as may have been indicated by Dr Ken Henry). A number of benefits of this system were discussed:

- This system currently provides strong incentive for people to invest in Australian businesses.
- This system also provides an alternative to property investment; and motivation to invest in shares.
- It could be used to encourage people with a disability and others to obtain an independent income stream.

"I think the dividend imputation system is working well, and as an individual I think it's really good, and I just noticed in the consultation paper there was some talk about moving away from it; this concerned me a little." (Brisbane)

"My motivation for dividend imputation is that I didn't want to invest in property; I wanted to invest in shares. I think that for myself and my family, there is a future where – I won't say guarantee – I can derive an income stream that I can build over time. That way I'm not dependent on someone else, and someone on disability too could be encouraged to build on an income stream." (Brisbane)

"Imputation is very important to shareholders, and as a company with significant offshore links, one of the recommendations they'd like to put out there is looking to extend the existing conduit foreign income legislation specifically as it applies to Australian resident shareholders." (Brisbane)

"Imputation certainly provides a strong encouragement to invest in Australian businesses, and my clients express a strong concern that any watering down of the dividend implementation system would make for significant problems." (Brisbane)

"I am a self-funded retiree. The reduction, or worse, removal of dividend imputation would impact severely on my income (eg company tax reduced by 25 cents in the dollar and a 50% reduction in franking credits – a \$100 fully franked dividend would only pay me \$87.50). This at a time when my super assets have halved and income this year is down a possible 30% is very concerning!" (Brisbane)

"Imputation credits should continue under current law." (Melbourne)

"The proposal to remove dividend imputation credits affects self funded retirees – keep it." (Melbourne)

"I chose to be an employee for 45 years and chose to put as much money as I could in super. I work long hours and now a self funded retiree. My health suffered so I opted for early retirement. Continue imputation credits and pensions from complying funds for persons over 60. It's my choice to keep off the public purse." (Melbourne)

"Because of imputation credits – we get by on less...[without this I'd be forced to] go back to work." (Geelong)

"Take away franking credits...they wouldn't be taxing super funds but taxing the other side. [Australia's] share market – [we have] the highest participation in the

world because of compulsory super and franking credits. If franking credits [are] removed more people will be on the pension system and scheme. [I'm] concerned that franking credits being removed will affect every retiree." (Geelong)

"Because of imputation credits, we get by on less or go back to work. I considered retiring but I enjoy work. To be faced with having to go back to work, young pharmacists will be denied opportunities because I am more flexible [with my time] due to my age." (Geelong)

"Dividend imputation – [I'm a] self-funded retired with franking credits and dividends. Super funds 35%, company dividends 20%. When you allow for super funds they rely on contributions over several years with compounding interest." (Geelong)

"Doing away with it [imputation] means back to bad old days of double taxation. No other countries have capital gains tax so it's not a fair comparison. What is doing away with it trying to achieve? The bust [Global Financial Crisis] has already taken share market prices down and if imputation is gone, money will just flow out of the country! We will have people out on the streets. It will have an effect on the share market and economy... It's a damning time and it's not time to do it now. We're already punished enough for being Australian by paying capital gains for every dollar we earn and people are in fear that [the government] will change it." (Wagga Wagga)

"SFR's don't seem to be mentioned much in the paper. I'm terrified that someone may be taking away my franking credits and I would have to join the queue at social security. I have done my best to stay out of the taxpayers pocket for as long as possible. I am suspicious that I will have to join that cue if these changes don't come with compensating mechanisms to allow me to survive the way I am at the moment. There are a couple of things that make it difficult every time there is a change in the tax law. There don't seem to be easy mechanisms for adjusting my portfolio and how much is in super and how much I get from dividends and whatever I do to make an income. It seems whenever I move some of that because the laws have changed, I get large capital gains taxes as I move from one area to another or if I move stuff between my wife and I who have different levels of income. In the US they have married filing joint or income averaging - both of those things are useful to allow somebody to ride over the changes in the tax law in order to put themselves in the position of surviving the new regulations." (Adelaide)

"Why anybody would want to change this system is a mystery, seeing it is working so well and is fair." (Canberra)

"It should be extended, foreign tax credits flow through so that shareholders can get the benefit of taxes paid overseas and in relation to superannuation." (Canberra)

3.2.2 Salary sacrifice

Some attendees felt that salary sacrifice was working well. It was believed that the current system should be maintained and preserved.

3.2.3 Change of threshold for paying income tax for low income earners

For low-income retirees, the change of threshold for paying income tax on pensions was seen to make a huge positive difference, particularly within the current economic situation.

"Income tax should be abolished altogether. The government keeps lowering the threshold of the amount where the taxes change. It's \$6000 dollars now, if it was

raised each time it would be a much fairer way of helping the poor the most.” (Hobart)

“Instead of paying income tax on your pension, that has been lifted, and it’s a very generous threshold, so thank you for that.” (Brisbane)

3.2.4 Recent changes to superannuation

It was recognised that the government’s recent changes to superannuation funds have effectively reduced the complexity of superannuation, particularly for retirees.

“I would like to compliment government on the superannuation funds, which are now not so complicated as to confuse retirees.” (Brisbane)

3.2.5 Health system

The health system was recognised to be working well by some attendees, especially in comparison with other countries around the world.

“We are lucky to have such a good system that keeps us in good health. [We are a] wealthy country. We are getting it easier than Europe.” (Geelong)

“I would like to raise the matter of health and the safety net. I would certainly hope the safety net stays. Not just for the benefit of families but also for self funded retirees who may just miss out on a seniors card. I wouldn’t like to see people frozen out at a time when they really need health care.” (Adelaide)

3.2.6 e-tax

Several positive comments were made regarding the improvement of ease and simplicity of e-tax in comparison to earlier systems.

“Hit a few buttons and hey presto, you get a refund.” (Wagga Wagga)

“I am 30 and since 17 I have been doing my own and helping others do their tax returns and have found e-tax makes it easier – if it could be simplified even more so [that would] be excellent. I find if people not earning much – \$50,000 or under their tax needs are very simple. I flick through so many redundant pages...and finally to a page that is relevant. Simplified yet again would be good.” (Darwin)

3.2.7 Not charging capital gains on private homes or on assets owned before 1985

Not charging capital gains on private homes or on assets owned before 1985 was felt to be fair by some attendees in Wagga Wagga. It was suggested that an *“Ivory Tower Economist”* solution might be to revoke the exemption on assets owned before 1985, but this would financially disadvantage those with these assets who would not have factored this tax into their budget.

“If a proposal was put up to remove that protection, we’d be taxed on every dollar and would have to try and claw our way back up to where we were before.” (Wagga Wagga)

Some feared that economic principals may govern the current review and that this would lead to the introduction of taxes on unrealised gains or previously untaxed gains.

“Everyone is very scared about what is going to come out of this because the panel is dominated by economists. Instead of measuring income, there is an idea that everything a person gets in a gain is an income. So if you understand that logically, you’ll throw out the whole tax system. The danger in that is, if you’re measuring a position ‘here’ and then again

'there' at the end – how do you measure here and there? You'll end up taxing unrealised gains. This will create much bigger problems."

(Wagga Wagga)

3.2.8 HECS

Some felt that the HECS/HELP system was fair and equitable because those who get the benefit of obtaining education and higher paid employment are the ones who pay for the benefit. Some disagreed with this position, arguing the system potentially discourages people to obtain a tertiary education.

"I can't help but think that that whole system is flawed. I think it was brought in to prop up some other problems that the Government had at the time. I see it as a great impost on intellectual benefits to this country, and I see it flawed because in the end these graduates are going to become the professional qualified people of this country." (Canberra)

3.2.9 Income tax

Some felt that income tax was essentially working well for most people although (as noted in detail above) there was recognition that it is by no means perfect.

"There is one major tax which works very well and everybody takes it for granted, and that is income tax. There are complications with it and it is really being made more complicated than it is necessary." (Canberra)

3.2.10 Super and the co-contribution scheme

Some attendees believed that the current system of taxation on superannuation worked well and should not be changed. This included not attempting to nationalise superannuation as the system works well as it is.

"I would briefly like to endorse the idea that the superannuation system should not be nationalised. I mean, the kind of crisis could get much worse. There has been talk in the United States of nationalising their social security system in terms of retirement accounts. I think that the system works quite well. It has the backstop of the idea of property rights; it's my superannuation, I just can't spend it yet. And I think the superannuation system works quite well as it is." (Canberra)

The super co-contribution scheme was also believed to be beneficial in encouraging women (who often don't have the same chance to earn as much money over the life span as men) to contribute more into their super. It was felt that this incentive should continue.

"There are a lot of women in particular who have not had the opportunities that males have had to put money into super and this provides them that opportunity." (Canberra)

"I actually think the super co-contribution is a good incentive." (Adelaide)

3.2.11 GST

Although not covered in the terms of reference, some attendees felt that the GST was a good tax because of its simplicity.

"The simplistic administration of the GST through paying it in the shop and it's over and done with, and you don't have to pay your receipts could be spread to income tax to make it simple and a pay at the point of income system. Take advantages of the simplicity of the GST and spread to other areas." (Canberra)

3.2.12 DGR Given the Tick

As with other meetings, the Deductible Gift Recipient (DGR) status was recognised as working well in terms of fostering higher levels of donations to charitable organisations.

“One of the components that is working well is the DGR. Internationally Australia doesn’t do well as far as statistics are concerned [in terms of patterns of giving] but that is primarily due to leaving out the tax deduction effect.” (Adelaide)

3.3 Are there taxes or transfers you see as fair or unfair?

In Canberra the comment was made that there is an underlying bias in discussing 'fairness' in the tax system review as opposed to focusing on economic efficiency. Fairness was believed to increase the complexity and unworkability of the tax system, and that the concept of fairness in itself is not beneficial for the poor (and potentially has less advantage to the poor than the advantages gained in increasing the growth rate through an efficient tax system).

"I would like to say also in terms of economics that fairness in itself is not very beneficial for the poor. In fact, redistribution has less advantages to the poor, in getting them more rich, than increasing the growth rate which a more efficient tax system would cause." (Canberra)

3.3.1 Level of transfers

In Perth current transfer payment levels were perceived as inadequate across all groups, from aged pensioners to the unemployed. There was a sense that the effects of the global financial crisis on many Australians means a greater safety net is required. However, there was a small but vocal minority that disagreed with transfers, with a view that it was an inefficient process to take from one group and then hand it back to another as a transfer payment.

In Hobart attention was drawn to the number of people living below the poverty line. The low level of financial support provided by Youth Allowance payments was perceived to be unfair as it was placing many students at a low level of support, putting them at a disadvantage which they could not overcome while they were studying. Increased support and encouragement for students to undertake education through the provision of higher transfer payments was felt to be necessary.

"Some of our major considerations concern the overall spread of pensions and payments in welfare that place 58% below the poverty line. Youth Allowance is one of the areas that we have tagged as being particularly unfair by placing many at that low level of support. Not only are they disadvantaged but they have no way of coming out of that. The Centrelink process is also an issue." (Hobart)

"The inequity of the transfer system needs to be addressed, particularly to students as opposed to other sectors. We must encourage students to study and contribute to this country." (Hobart)

In Geelong too, there was belief that the government did not do enough to support social justice, and that more scope needed to be given to local community organisations to engage in social justice and social welfare issues.

3.3.2 Capital gains tax

In Canberra it was reported that for investors facing write offs - losses can only be written off and claimed against capital gains and these can only be carried over for 7 years. This was seen as unfair in the current economic climate where capital gains are sparse and there is a real potential for there to be more losses and fewer gains to claim against. The capital gains treatment currently practiced in the UK was seen to be the fairest iteration of this tax system.

"Now under the present climate, there is not going to be too many capital gains but there is going to be a lot of capital losses and even though I had to pay a

considerable amount of tax last year, I couldn't write off any of the taxation losses."
(Canberra)

Property trusts

Capital gains for investors in property trusts was also highlighted as requiring review. In the current system investors in these trusts are taxed twice, while individuals are taxed only once.

"I am an investor in a property trust, and I have a situation where because I am invested in a property trust rather than an individual I am unfairly penalised. A tax-free contribution/deduction comes off my cost base, and when the trust sells the property, it returns to me and I get taxed again. So I get hit up twice, where the individual owner pays tax only once...in this same trust, they have given me a figure as to what the gains tax was on a sale. They didn't give me the money, but I was forced to pay tax on it. So the gain went to the fund, but the individuals' paid the tax. On the same note, if the trust sells a unit in the future, I will again be forced to pay tax which I'd already paid." (Brisbane)

"Of self-funded retirees, 80% of our membership would be paying tax at 30 cents in the dollar rate. Capital gains tax should be looked at. It was Keating's response to the probate disappearing. Our members suffer when many own property and have a rental income; they are involved in pursuing the tenants, collecting the rent - but according to tax people that's considered as a passive investment. It's not passive. If one in old age decides they cannot continue with this demanding activity they have to pay capital gains tax if they sell it. It's been reduced by 50%, but it's still there."
(Hobart)

"Capital gains tax seemed fair when it came out but now it's a 50/50 hit. I built a shack 20 years ago, no benefit that I paid money when money was worth something. This changed in 1999. People don't keep records after 7 years, people are over taxed because they didn't keep records, they haven't made as much money as the money they're paying to the tax department." (Hobart)

Inequity due to tax entity provisions

The different treatment of capital gains depending on the tax entity used was also felt to be unfair in Wagga Wagga and in need of review. The example was given that if you buy an asset in the name of a company you are taxed on 100% of the gain, but if you buy it as a trust you are taxed on only 50% of the gain, and if you buy it through your superannuation, you are taxed on 0% of the gains. It was believed that this system may be forcing people to run their business according to the tax they receive on their gains rather than what is best for their business. To have a system that ranges from 0-100% taxation on the gain from purchasing the same asset because of the tax entity which purchased it was felt to be inappropriate.

Also requiring consideration for reform is the capital gains exemption on the principal place of residence. Some attendees felt this exemption contributes to the problem of housing affordability by over-inflating the value of the principal place of residence.

Small business

Small business owners felt they were potentially less able to draw on the benefits of selling their business (and fund their own retirement) due to a large proportion of the proceeds of the sale having to be paid in capital gains tax. Others suggested a more progressive taxation

approach might be fairer (eg, taxation at multiple points over the time an asset is held rather than one large payment when the asset is sold).

"I have to sell my company after owning it for over 30 years. With capital gains tax my income goes up by \$40,000 and my tax goes up by \$20,000. Is there a fairer way? [For example], when you're selling your company have a look at what you are selling it for and what you have to pay in capital gains tax." (Geelong)

"Capital gains tax, a fairer system [would be] to make it progressive. [For example], a 50% reduction for 12 months." (Geelong)

Different forms of capital

An inequality in the rates at which different forms of capital are taxed was believed to be largely unjustified (ie interest tax is different to super) and consequently unfair. This was supported with examples from attendees of using their private home as a tax free haven and 'turning over homes' often (buying, renovating and selling) or people owning highly priced properties and still receiving a pension. Taxing savings was believed to be especially counter-productive and unfair.

Employed versus unemployed

A review of capital gains tax was also called for in Adelaide. In this instance, it was associated with the inconsistency of tax rates for employed vs unemployed people that have sold property or assets.

"With the 50% capital gains discount, at the moment, someone who works pays twice the marginal tax rate as someone who just makes a capital gain [and doesn't work]. So if I go to work each day, I pay twice the tax on my working as someone who spends money and sells something and makes a profit – and I don't believe that's fair." (Adelaide)

3.3.3 Centrelink payment deductions and allowances

Disincentives to work

Some attendees felt there were issues associated with Centrelink payment deductions that required review. For example, those people receiving Centrelink allowances are "penalised" if they seek work as most of it is taken away if they are still receiving income support. This financial disincentive coupled with the loss of the safety net for the six week stand-down period (in case the job falls through) was felt to act as a barrier for people to become self reliant.

"You're penalised if you do so they don't bother. Very complex, complicated and back to front." (Wagga Wagga)

"[People receiving benefits] face the highest margin in the tax system in Australia for the little bits of work which [attendee] referred to, where you can be paying up to 60 per cent of your earnings when you do bits of work, which is gross." (Canberra)

Treatment of irregular earnings

Another key concern was that irregular earnings were treated (eg taxed) as if they were earned on a regular basis.

"... I am a consumer advocate on many government committees, and I am the only voice at a State-wide conference for older people...When the end of the financial

year came, many of these committees decided they should have been paying me. I got \$350 for five months work, but I was hit as if I earned that every Friday. I wrote very clear letters, sent things in; I was bullied in a face-to-face interview at Centrelink. I showed them my letter of appointment, gold-embossed and everything, and I was just told 'Everyone expects to be paid'. Centrelink is a massive tangle and treats nobody fairly.' (Brisbane)

Treatment of volunteers

Some attendees felt that volunteers were currently being penalised when they had to declare their reimbursements for out-of-pocket expenses associated with volunteering (eg travel and meals). Currently these reimbursements are being considered as income by Centrelink, thereby effectively reducing their pension, even though it is simply reimbursement for money spent while volunteering. It was suggested that greater flexibility was required to avoid penalising people who were simply being reimbursed for their costs for volunteering or who were being paid a nominal figure.

"The biggest problem that affects volunteers is payment for out-of-pocket expenses – meal, travel, that sort of thing. There is a grant system that not-for-profit organisations can apply for, but if the volunteer receives payment for their out-of-pocket expenses, of course, Centrelink regards that as a payment for your pension and your pension is reduced; the anomaly is stupid." (Brisbane)

Allocation of allowances to grandparents

Some felt it unfair that there was no dedicated allowance for grandparents caring for grandchildren. Some felt this was already a very complicated situation, as family breakdown was present, often due to parental substance abuse. In these cases children could end up in the care of their grandparents, often at extreme financial cost to grandparents (eg family court costs, costs of raising children). Without financial help, some attendees noted children would either suffer with parents that abuse substances, or receive love and care from their grandparents – but at significant cost to the grandparents. Some felt the optimal solution would be a dedicated allowance for grandparents caring for grandchildren; a second solution would be to extend the carer's allowance to cover grandparents in these types of circumstances.

"The first step to a solution is to recognise that there is a problem; once you've recognised the problem you can address it. There are lots of grandparenting groups which can provide a lot more information on this. Obviously the optimal solution would be a special allowance, but one more allowance is probably not possible. So the fallback is to extend provisions of the carers payment and carers allowance to cover grandparenting under those circumstances. After all, let's face it: they are carers." (Brisbane)

A related issue is the continuation of payment of Centrelink benefits to parents, even though the parents are no longer caring for the children (as children are living with the grandparents). Currently, it is difficult for grandparents to prove that the children are living with them. Accordingly, some felt the tax review needed to consider how payments could be allocated correctly to grandparents while ensuring that assistance is not being given to parents who are no longer the primary care givers to their children (without risking a situation of parents seeking custody of children just to secure child payments).

3.3.4 Superannuation

Superannuation rules for over 70s

Three elements of superannuation rules for over 70s were perceived as unfair for the following reasons:

- Workers over 70 pay the same tax (15%) on their superannuation as high income earners who can put large amounts of money into super.
- It is not compulsory for employers to pay superannuation to over 70s and many are not doing so. Rising numbers of over 70s feel they have to work, but are not being paid superannuation.
- People over 75 are not able to put money into superannuation themselves.

It was suggested that changes need to be made to ensure employers pay superannuation and that older workers have the right to contribute to and receive superannuation.

"My 70-year-old father's superannuation contributions are taxed at 15% and he barely earns anything. I'm not too sure how much superannuation in general has in the scope of the review, but it's not compulsory for employers to pay super for people over 70 and I see more and more of that age group wanting to work. A lot of employers won't pay that, and I think that needs to be addressed; I don't understand it at all." (Brisbane)

"For a number of years, my husband has had to work part-time to help our financial situation, because when we were working, we were not allowed to earn super. We don't have enough money for super. I think it is unfair that we can't be paid super and intend to put in a submission." (Brisbane)

Pensioners paying income tax under the Commonwealth Superannuation Scheme

A more specific example relating to the unfair nature of superannuation was given as the Commonwealth Superannuation Scheme which still requires pensioners to pay income tax, whereas for independent retirees it is generally free. Additionally the contributions under the general scheme were generally higher than the 9% now charged. While it was recognised that CPS pensioners were also not indexed in the same way as aged pensioners and politicians, the unfairness of this different contribution rate paired with the requirement to pay income tax puts ex-CPS staff at a disadvantage.

Tax free treatment of superannuation

Tax free treatment of superannuation was also discussed. The tax-free treatment of superannuation benefits paid out of a funded superannuation scheme to people aged 60 or more was thought to be unfair as their tax treatment is different (ie some income is included, while some income is not included). Thus, they are only partially treated as taxpayers. Some attendees also felt that changes should be made to the definition of income, to exclude the tax exempt components of superannuation income streams.

In Wagga Wagga there was also a suggestion that people on higher incomes should pay a higher rate of tax on their superannuation as they benefit more than those on lower incomes, there was stronger support for reducing the tax rate on superannuation across the board to encourage people to save and reduce their dependence on future tax payers. The current rates were thought to be a disincentive for people to save, in turn increasing welfare dependency and exacerbating the current economic crisis.

"Why are people on a higher incomes taxed at the same rate for super when they get more from it?" (Wagga Wagga)

"Encourage superannuation; look at the rate of 15%. Bring down the taxes on their savings super; bring it down to 10%, less than 15%." (Wagga Wagga)

Future uncertainty over superannuation

In Wagga Wagga concern was expressed about any proposed changes to the taxation of superannuation. It was felt that there is uncertainty about what will change (in terms of taxation) before people retire. More certainty is required to restore confidence in superannuation to encourage people to make long-term decisions to invest in their future.

"Please do not change the super plan again! There have been too many changes and people are staying out of super because they do not know what the situation will be like when they retire." (Wagga Wagga)

Lack of sustainability of current super arrangements

Some are concerned about the sustainability of current super arrangements, with a view that the benefits of recent tax concessions have been skewed towards those on middle to higher incomes (and thus ability to further reduce tax through greater contributions).

"Section 6 of [the retirement income] consultation paper raises the issue of sustainability. Expected to rise with ageing of population but this is welfare for the less well off. Super concessions cost 25 billion dollars also but largely targeted to better-off people.[We need to] make the whole structure more sustainable." (Sydney)

Women and superannuation

Some attendees felt there should be more consideration on the specific issues facing women in relation to income tax retirement provisions. The premise was that women often have different working career opportunities than men (eg generally far fewer opportunities to build superannuation savings, stay at work longer, be promoted etc), and in retirement the tax system should provide for them more generously.

"We are looking at this proposal from the point of view of women who, by and large are disadvantaged because of the nature of their employment during their working life and their pay inequities as well as in retirement. What we would like to know is whether these inequities can be taken into account in terms of retirement income especially for women who will be behind the eight ball in terms of the superannuation they receive. In terms of fairness of the whole system, I would like to know if there is analysis of the impact of taxation in terms of gender desegregated data so we know what is actually the impact on women and actually single household women who live in poverty later on and to what extent they actually have a security net that will look after them." (Adelaide)

"I just wanted to reinforce the point that is being made about women and a lifetime of lack of access for women to superannuation and how important that is. Particularly to older women in same sex couples who are going to be subject to changes as of 1 July. This is an incredibly serious situation as many may already be living in poverty and have no access to superannuation, had all sorts of expenses through their lives and generally if, in the past, have been married and have notoriously bad divorce settlements. They have raised children or whatever they had to do. If they are receiving transfer payments, these will be reduced. If they have been in a same sex couple all their lives, they have not had the benefit of a male income so we may even plunge them into a serious poverty situation. I think that is something the inquiry really needs to take into account." (Adelaide)

In Adelaide there was also a request, specifically in relation to women's superannuation, that interest earnings of \$5,000 or less be interest free.

"With regard to retirees, a lot of women in the early years did not contribute to superannuation and so have little superannuation and whatever money they have will have to be will have to be outside super. Because of that, we suggest that the tax system looks at taxing interest and income. We are urging that you look at \$5,000 interest earnings as tax free also because some are struggling." (Adelaide)

Greater recognition of self-funded retirees

Some attendees felt that the lack of tax benefits, ineligibility for health cards and omission from the recent stimulus package for self funded retirees was unfair. Self funded retirees were perceived to have worked hard all their lives to ensure funds for their future, and were felt to be not afforded the same concessions as those who did not work hard and save.

"I do not get a gold card. I get nothing out of this stimulus package, and anyhow, when I got the money out of the stock market, I put it in good cash deposits, which you know, are very heavily taxed, which I think is a little bit unfair because you save money, you make all the effort and they tax it heavily." (Canberra)

"All the unproductive takers are getting help. Productive givers are getting nothing." (Canberra)

Self-funded retirees suggested that the health care card should be introduced for all retirees. Their reasoning was that all retirees have paid tax throughout their lifetime and eligibility for the health care card should not be different depending on investment choices (eg investment in assets vs a family home that is exempt from the means test).

"Why should you have to pay \$32.70 for medicine when someone who drank up their money or gambled it away only pays \$5.70? It's not a fair go." (Brisbane)

Additionally, for those retirees that have shares, these may fluctuate (eg a company goes public and is subject to capital gains) resulting in health care cards being taken away and reinstated multiple times (along with the associated paperwork and waiting times).

"Shares can fluctuate – the card can be taken away, given back, taken away – and you have to apply for it every time, there's a lot of red tape. Why can't seniors just have that card – they have earned it." (Brisbane)

"I'm the acting president of the association of retirees' Tasmanian division. I'm concerned about item 2. The taxable income has not been expanded but one's income from 2008 budget has been required to include elements that taxes have already been paid on allocated pensions, but the 20,000 retired Australians will lose the health care card that is important to purchase medications. We see this as unjust and inflicted on a group who are already suffering tremendously. I believe it's in the government's best interests to look after this group. The cost of the health card is 1% - a minor expenditure, but significant to retirees." (Hobart)

"I did have it [health care card] and because now I'm renting out a property, I find that I have to list all my properties that I have, and on this special form, and all the properties have to be valued, even though I have some land [that] I don't get any income from... but it seems to me that it's too complicated for me to fill out that form... I think 'well why am I penalised just because instead of super I brought the property with a couple of other people?' and they make it so difficult." (Canberra)

3.3.5 Abolish unfair taxes on residents of retirement villages

There was mention that some bigger companies that own retirement villages were trying to pass on an increasing number of charges to residents (eg residents required to pay a liquor licence fee to the State of NSW to cover 'happy hour' – this may have been changed). There were also cases of companies trying to pass payroll tax charges on to residents. There is

nothing in the legislation to cover this. Current legislation is also being ignored by these companies, resulting in unnecessary high fees to residents.

"...the big operators are trying to put more and more charges onto residents for their fees that they must pay to live in the village. Now, one of the other NSW taxes that has been applied simply because the corporation is charged payroll tax; they tried to apply that tax to the residents of a village. There's nothing in legislation to cover this yet; each State individually or the Commonwealth as a whole needs to introduce some legislation in relation to payroll tax being charged to residents."

(Brisbane)

Some attendees in Adelaide felt that taxes associated with residential aged care were not equitable and that these required review. Currently, land tax is imposed in South Australia on residential aged care facilities and that is not the case in other States. There was also perceived to be a need to look at the assessment process for the residential aged care subsidy and the way it does or does not exclude the family home from the asset test.

"My understanding is that land tax is also imposed on residential aged care facilities in South Australia and that is not the case elsewhere. I think that would be a good thing for the review to look at. I am also hoping the enquiry will look at the assessment process for the residential aged care subsidy and the way it does or does not exclude the family home from the test. The restrictions to the Aged Care Act will result in greater and greater complications from all this stuff about definitions of a couple/family etc. If we look at setting a system for the future we really need to have that defined as it will have a huge amount of impact in the aged care sector."

(Adelaide)

3.3.6 Ensure large companies pay their fair share

Some attendees in Perth expressed a view that current transfer pricing arrangements help large businesses to not pay tax in Australia. These attendees felt that any review should look at the taxes imposed by government to get big companies paying tax. Again this comes down to the equity issue and a request to treat all groups within society the same.

3.3.7 Family tax benefits

The focus on benefits for people with children was seen as being unfair on those who could not or did not have children.

"They are purposely having children to have babies. I can't have kids. So are others...Thankfully I am getting something [from the stimulus package] this time. These people pumping out kids for more money – [and] claiming all that goes with it."

(Darwin)

"They manipulate the system and [their] culture [is to have] three or four wives and produce 13 children." (Darwin)

3.3.8 Income management

There was some support for the income management approaches that have been trialled among indigenous communities in the Northern Territory to be extended to other parts of Australia.

"Some indigenous guys have three or four wives then the sort of money coming in from Federal Government is very much. Now [they are being] income managed [I] can see the difference where spending money on food and not substance abuse and not gambling. Any benefit other than aged pension income should be managed. Spending money on disposable stuff and not stuff for their kids." (Darwin)

3.3.9 Carer support

Some felt that carer support provisions were being abused and were a disincentive to work.

"The carer's pension should be more strictly controlled... Quite often there are young people capable of work who don't work because they are getting the carer's [payment]. Lots of people in [the] system are doing that. How to address? I do not have the answer." (Darwin)

3.3.10 Concession cards

There was some concern among attendees that access to concession cards provided too great an incentive to receive a pension. Some people don't want direct financial assistance, but they do want access to the benefits provided by the cards.

3.3.11 Lack of accountability of Prescribed Private Benefit Funds

Prescribed Private Benefit Funds were seen by some as a potential opportunity for tax avoidance (and there was also perceived to be a lack of lack of public knowledge about their existence). This lack of accountability of these funds was a concern for some.

"Prescribed Private Benefit Funds – I am a director of a body that works on a NFP basis; we get charities and foundations to fund us. The Australian tax payer gives concessions to charities and agreed to set up Prescribed Private Benefit Funds which are not accountable – nobody knows what they do with their money. Worthy charities don't know where to go for funding, benefiting from tax payer funds? The US solved this problem a long time ago. The Australian system sees these as not accountable." (Sydney)

3.3.12 Rebate on private health insurance

The suggestion that the 30% rebate on private health insurance was to be revoked was thought to be unjust and potentially a disincentive to having insurance as there would then be no tax benefits to having private health insurance. As one attendees remarked: the rebate is *"all we've got."* (Wagga Wagga)

"We don't get a tax benefit for having private health insurance, we only get this rebate... and they're thinking about taking that away?"
(Wagga Wagga)

3.3.13 Tax bonus payouts

Eligibility for the proposed tax bonuses to be paid by the Australian Government in the coming months was felt to be unfair in a number of ways.

- It was thought to be unfair that all people who pay tax are not eligible for the tax bonus when there are people overseas who are eligible. Sending these bonuses overseas was seen to not use the money to *"help Australia"* in any way, which was believed to be the whole point of the bonus.

"Tax bonus payments are fair and unfair. Being a taxpayer, I would like to get a bonus. I don't think it is fair that people who are not paying tax get them and people who are overseas also get them. It's not fair but maybe it was not intentional, maybe it was a glitch?" (Wagga Wagga)

- The tax bonus in conjunction with receipt of franking credits could take people up into the next tax bracket to be taxed at a higher rate – this was felt to be unfair.

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- The money paid out in tax bonuses was seen in many ways to be wasted and it was suggested that there would be more benefit from reducing taxes on investment in infrastructure or business tax to encourage businesses to employ more people.

"This country is trying to make life easy and is giving away money to those who don't deserve it. I question baby bonuses, first home owner grants; we should encourage society to be frugal and save money." (Hobart)

3.3.14 Public service staff cuts

Some felt that public service staff cuts affecting the Australian Taxation Office were unfair as more staff were thought to be needed to ensure compliance.

"Why cut staff at ATO when they're supposed to be out there chasing the villains?"
(Wagga Wagga)

3.3.15 Penalties and late charges for small business

Late lodgement penalties and general interest charges which compound over time were believed to have not been designed for long-term situations, but were nevertheless being applied in this way. This was thought to penalise small business owners who did not have the time or resources to dispute them.

"[As a small business owner] you work very hard, long hours and [you don't have] all the time in the world to pay attention to your own financial affairs. That led to situation where I submitted a tax return late, my accountant submitted it late, there were other complicating factors but outcome was the imposition of two penalties, late lodgement penalty and general interest. This is a compounding interest rate that varies with rate at the time and currently it is around 13.7% or thereabouts percent. If you have a sizeable income from a small business and you submit a late lodgement, the late lodgement penalty itself is a significant sum, on top of the tax that you should have paid." (Canberra)

3.3.16 Dispute settlements is unfair

Some attendees felt the way in which a dispute in taxation law was dealt with was perceived as unfair in that the Commissioner is in better position than the tax payer to win the dispute. It is believed that the Commissioner is a 'hard ball litigator' and the burden of the onus of proof should be on the Tax Office rather than the taxpayer.

"When it comes to litigation, the Commissioner is a hard ball litigant, he is not a model litigant and one fundamental reform that should be made is to restore Judiciary Act principal; so that in all disputes between the tax payer and the Commissioner, they should be in the same position as each other." (Canberra)

3.3.17 "Golden handshakes"

Large pay-outs or "golden handshakes" for executives were felt to be unfair and it was suggested that there should be a cap on the payout and a higher rate of tax incurred (potentially in the form of a fringe benefit tax) which is charged both to the company and the executive to "stop the greed."

3.3.18 Tax evasion and avoidance

Attendees at the Canberra meeting felt that there were too many people evading tax in Australia and overseas. Examples were given of overseas investors not paying taxes owed to Australia; people who are taking inappropriate advantage of the social welfare system; people who continuously live in an investment properties for 13 months, renovate it and make lots of money but pay no capital gains tax because they can call it their primary

residence; and senior citizens living in multi-million dollar homes but still receiving the pension.

3.3.19 Foreign investment and “buy Australian”

There was a perception at the Wagga Wagga meeting that a considerable sum of money is leaving the Australia which could potentially be taxed to strengthen the Australian economy. Increasing the taxes paid by offshore companies who work or mine in Australia but send their profits overseas was proposed as a way of keeping this money in Australia. People were concerned that offshore companies are attempting to gain control of Australia’s natural resources (especially coal and natural gas) and then sell them on to affiliated companies at below market value. This practice was felt to result in Australia not being adequately compensated for losing irreplaceable resources.

“Don’t let China in our back door. The less China owns in Australia, the better off we’ll be in the future. Energy resources should be highly prized.” (Wagga Wagga)

“Income derived in Australian should be subject to Australian tax liability. No exceptions.” (Canberra)

Some attendees felt this produce was from “our land” and should be profiting “our community”. It was suggested that Australia should allocate the income gained from specific areas to reinvest in those areas. For example, all income generated from taxing overseas owned resource companies could be allocated to go back into Australian infrastructure and not just into a general “slush fund”. A tax incentive to “buy Australian” was also suggested by some attendees.

“We should have a system that encourages us to educate our own, employ our own and buy our own product without shutting off the rest of the world. We should be proud to use own products and encouraged to do it and if we could get a quality product, we would pay a bit more.”
(Wagga Wagga)

3.3.20 Salary sacrifice not available to self employed

The comment was made that it is unfair that self employed people cannot salary sacrifice.

3.3.21 Aged care pension paid to asset rich

It was deemed unfair that the original intention of the aged pension was as a safety net payment for those who couldn’t save enough for retirement. Whereas now it is paid to some people who have considerable savings including highly priced properties. This was not only seen as unfair to self funded retirees, but also to young people who are never likely to be able to own their own home and whose income is being taxed to support retired people with those assets.

“It was a safety net payment. It was a welfare payment for those people who could not for whatever reason provide for their own retirement. Over time that seems to have changed from being both a safety net payment, but also a supplement to those people who had made some provision for their retirement, and I think the latter is becoming more and more the case.” (Canberra)

3.3.22 Maintenance and remuneration of Ex Prime Ministers and Governor Generals

The maintenance and remuneration of Ex Prime ministers and Governor Generals was provided as an example of an unfair transfer. It was felt to be an impost on the tax payer to fund seemingly extravagant lifestyles whilst those who pay taxes go without.

"It's a huge expense that I object to!" (Wagga Wagga)

3.3.23 Fair legislation for same sex couples

In Adelaide there was concern about changes in legislation surrounding same sex couples. It was hoped that these changes would be put in place in a fair and equitable way.

"I am sure the Jeff Harmer is well aware that same sex couples are going to be recognised for transfers and payments through Centrelink as couples from the 1st of July and if they fail to declare as couples they will be investigated and penalised. I am concerned as are many others about the impact of this and the way it relates to the tax and transfer system in the way it regards a unit that is by no means consistent across the tax and transfer system. The way that Centrelink determines a couple is based on assumptions of dependency, especially the male bread winner and female dependant. It is outdated and has got to be reformed and I would be very interested to hear what the panel has to say about that." (Adelaide)

3.3.24 Treat everyone equally

In Melbourne, inequity was a key theme, and in general attendees simply wanted everyone to be treated equally. A few examples were stated as follows.

- All people and business to pay the same rate of tax, not just those that can afford expensive tax lawyers.
- Taxing of independent contractors should be taxed the same way as employees.
- It is considered unfair that some individuals can have travel to and from work as tax deduction, while others cannot.
- It was also considered unfair that people made redundant cannot access a tax free component.

3.4 What priorities do you see for improving the tax and transfer system?

3.4.1 Simplification and clarification of the tax system

Most attendees felt it was important to simplify the tax and transfer system to reduce the number of people having to use a tax accountant for basic tax requirements. Additionally, the point was made that those that cannot afford to get tax advice were essentially penalised for this. Other specific issues raised regarding simplification were as follows.

- Regarding transfers, it will be important to reduce the information requirements of those claiming transfers (eg 89 year old required to fill out a 20 page questionnaire).
- Merging legislation from 1936 and 1997 to obtain one piece of legislation.

"Make it simple and cheap, as simple as that." (Geelong)

"Meetings like this raise a lot of personal issues, situations that are important to individuals. But you've got to look at the bigger picture. A lot of little things get sorted out in their own right... And so a simplification and the productivities you get out of that will enable the system to clear itself up in a more natural sort of way, rather than the government sorting out every little injustice." (Brisbane)

"I'd just like to say on simplification, I get my savings from a managed fund and property trust, and take one look at it and go 'I'm going to a tax accountant.' I don't think things should be that complex." (Brisbane)

"I apologise in advance if this is too general, but it seems from a layperson's point of view that the taxation system requires people to obtain tax advice to get through an average return. I don't see that that is sustainable, and society's attitude is changing. Surely that means inevitably that people the least able to pay for someone to translate our legislation are, in the current system, penalised for not having tax advice." (Brisbane)

"I did my own tax in the 60s to 80s, and I was studying full-time and working full-time in the 80s so I went to a tax accountant. Until then, regular everyday individuals could do their own tax. But nowadays you've started a new industry and even those of us who are relatively competent have to go to a tax agent, because there are so many intricacies." (Brisbane)

"I would like to endorse the person that said that tax forms should go back to being simple enough for everyone to fill them out. I feel it's disgusting that professional people feel tax forms are too complicated to fill out." (Brisbane)

Other recommended areas of simplification were as follows.

- Less detail/complexity, with the focus on revenue collection.
- Prefilled tax returns for those with simple tax affairs. Some even suggested elimination of the tax return for certain segments of the community.
- Removal of fringe benefits tax.
- Abolish all deductions, ABNs and State taxes but keep TFNs and local government taxes.
- Separate the tax system from the transfer system.

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- Reduce the complexity of record keeping for capital gains tax.
 - Separate tax on income from tax on capital.
 - Remove tax on superannuation and apply a consistent tax rate on capital gains no matter what tax entity makes the gain.
 - Eradication of inefficient and distortional State taxes. There was a consistent view that there needs to be better alignment of Federal and State tax systems, with a preference for the Commonwealth to take on more responsibility in this area. For example a common view in Sydney was that the tax system was likely to be administered more efficiently at the Federal level and that if States required more funds, this should be achieved through extension of the GST rather than directly collected at the State level.

"I'm a fan of GST... we could abolish State taxes and revenue lost in that area subsidised by GST. We would then have a uniform system across country. It all becomes uniform." (Sydney)

Clarification

Related to simplification is clarification of legislation to reduce loopholes within the system. Some felt the current level of complexity has allowed people to exploit loopholes but that a simpler system would require people to be more honest when completing their tax return.

"The complexity of the taxation system is its own enemy...because of complexity it has loop holes. [We need to] go back to a system that requires you to be honest." (Geelong)

Transparency

An apolitical and transparent taxation system was seen as a priority to foster trust in the government from the general public and improve taxation compliance.

"If you had a system that was going to spend money wisely and was trusted – too much of an attitude here 'why give my money to Kevin or Johnny and not have it wisely spent?' – if you could trust the system despite government – un-politicised- we all know you need tax."
(Wagga Wagga)

In Adelaide it was suggested that the introduction of a more transparent system, (with Japan's open system identified as a model) would encourage businesses and wealthy individual to pay correct taxes.

"There is a perception in Australia that large income earners, high wealth individuals and the big end of town in terms of corporations do not pay their fair share of tax. That perception is probably true. The way that this can be overcome is to remove the secrecy provision of the tax law. In Japan, tax return information is public information and instead of competing to pay the least amount of tax, there is competition as to be amongst the highest tax payers."
(Adelaide)

Simplification of tax administration

Specific suggestions to simplify the way the tax system is administered were as follows.

- Remove the need to keep receipts for five years and CGT documentation forever. Records should only need to be retained for one year. If there continues to be a

requirement to keep records for more than 12 months produce all receipts on non-fading paper.

- Require all quotes to include the GST component.
- Reduce the length and complexity of the income tax form.
- Make all tax forms available at the local newsagents and post office (including the Seniors Pack).
- Only one tax form should be required per tax payer.

Consistent with simplifying the tax system is the issue of incorrect or misleading explanations in ATO documents. It was suggested that the reform be used as an opportunity to rectify issues such as that explained below.

"The 45 day rule - explanation in the ATO's pamphlet is incorrect or misleading. When you go to look it up, the qualifications for those who can get franking credit are included in the former (because it has been repealed) part 3a) of ITA 36. Which was one of the 4000 pages of tax legislation that had been repealed but you still need to look it up if you want to know who is going to get a franking credit under the 45 day rule for people who own shares. That sort of thing could be tidied up if government would take a slightly broader approach." (Adelaide)

3.4.2 Long term view and complete overhaul is required to reduce complexity

In several locations there were pleas for the review to take a long term view of taxation reform and not to be influenced by political expediency or short term events like the current financial crisis. In line with this view, in Sydney and Melbourne there were calls for a complete overhaul and simplification of the total system, rather than just making piecemeal changes to the existing system.

"There are solutions for a better tax system but we have to have courage to dismantle the mess."

(Sydney)

"Problem with current system: complexity. It wins a gold medal for complexity and is second lowest in terms of fairness."

(Sydney)

"Complexity leads to confusion and costs. [We're] lucky to get 73c out of the dollar – huge cost for collecting tax. In business we're unsure of liability so we get private and binding rulings. Thousands of rulings are prepared by ATO, [yet the] legal people representing [the] ATO are not accountable for this. They can give you a ruling one week and take it back the next. These things need to be eliminated."

(Sydney)

"The problem with complexity is tax evasion- Dr Chris Prejada [has] estimated 50% of GDP is lost in tax evasion. Solution is: eliminate 125 or 128 taxes we have now? Whatever the number, replace them all with a single flat tax, target rate of 5% introduce it over 5% at 1% a year and delete various tax systems – everybody pays the same rate, the rate can be reviewed each month to be reviewed by treasury if we need more, tax goes up, if less, it goes down. Fair and simple system. One exemption - no tax on private residence. Benefits – simplicity [and] clarity of liability. We don't know whether we have to pay tax or not [under the current system]. Under this [proposed] system (simple unified) there is clarity and liability. We all know how much we pay. 5% of income. [This would produce] productivity incentives for wage and salary earners. [Encourage some to take a] second job,

earn more money [and] they are taxed on a flat rate – everybody treated the same. The ultimate test for fairness... One system. One rate.” (Sydney)

Flat tax

Various options were put forward as to the potential design of the new system, including a flat rate of tax and a debit tax. For example, in Wagga Wagga a flat rate of tax was suggested to ensure the system is simplistic and transparent. The need to increase the threshold was discussed and it was acknowledged that this would need to be balanced with the requirement to ensure the same amount of revenue was collected; otherwise expenditure would have to be cut. Whilst there were different views about the effectiveness of GST the simplicity of the system - having one rate of tax which everyone pays automatically was felt to be a positive feature which could be applied to income tax. It was also noted that if a flat rate of tax was introduced, the threshold would have to increase and there would be a need to ensure the same amount of revenue was collected, otherwise expenditure would have to be cut. Similar calls for a flat tax were made in Hobart.

“This question may seem simplistic. What would happen if everybody was taxed at the same rate? It would be an incentive for those who make money to make more money, and for those not earning the bite wouldn't be so big. The quick answer is 11 million tax returns in a population of 24million - we would laugh all the way to the bank, it would double the amount of tax returns in Australia.” (Hobart)

“Logically a few years ago [with GST which we're not allowed to talk about] now it's in place it is possible to have a flat tax system if everybody below that has a flat tax rate. We could spread the whole thing out as a flat tax on every dollar. We could probably make that work. Probably. We would have a progressive rate of tax as long as they spend it in Australia, it doesn't matter where you put your thresholds. I'm paying a lot more tax if I spend a dollar more.” (Hobart)

“If an income tax was an okay tax to start with having a threshold and flat tax would be okay. It still intrusive; they have personal information about us. We don't need income taxes to run our country. We have people with our information which is going into freedom and liberty that were huge issues decades ago but we seemed to have accepted them now.” (Hobart)

Debit tax

In Melbourne a debit tax was suggested. The issue of a Debit tax was discussed passionately and frequently by members of the Australian Taxation Reform Group (ATRGR – who turned out in numbers and very well prepared). This transaction-based electronic transfer tax was tabled by ATRGR as the only transparent, simple, fair and equitable taxation system that comes at no cost to collect. They proposed it would work by debiting 1% extra on all amounts each and every time individuals and business operators withdraw money from their financial institutions. The 1% would then be transferred straight into the Federal treasury. ATRGR proposed this tax would replace all other taxes, Federal, State and Local.

“We would say none of it is working efficiently and we have a system that can replace that and make it fair for everybody, attract overseas businesses which create employment and all that sort of thing.” (President of The Australian Taxation Reform Group – ATRGR www.onefairtax.org.au)

A few felt that in undertaking any review to reduce complexity, the interrelationship between taxes and transfers needed to be examined across many different individual and family structures and situations to ensure potential negative impacts are identified and appropriately addressed.

3.4.3 Improve incentives to work

Some felt that the current settings with regard to workforce participation needed to be reviewed both in terms of encouraging participation and also to offer greater flexibility. For example, in Wagga Wagga personal income tax was generally felt to be too high. There was a belief that the highest rate of tax should be 20-30%, otherwise there is no incentive to work. The current tax free threshold was also believed to be too low and it was suggested that it be raised from \$6,000 to \$20,000.

"I would like to see the transfer system changed to encourage people to work. I could be on a pension but I chose to be independent and I gather that some people need more encouragement to do that and I would like to see that happen."
(Adelaide)

3.4.4 Improve incentives to save

Reducing/eliminating taxes on savings and removing the limitations and tax on contributions to super was suggested by some attendees to encourage people to save for and invest in their futures. Removing deductions for interest payments was also suggested to vastly improve effectiveness and efficiency of tax system. Furthermore, some attendees felt that imputation credits must be retained for retirees as an incentive to invest.

"You should be able to put as much as you like into super, as tax deductible. No tax on it, but just if you withdraw it, have it as a life annuity." (Canberra)

"Incentives for saving, and looking back on your life and being really grateful that you did that and thankful that you put the effort in and knowing it paid off rather than sitting on the Government's books would be really worth looking at."
(Canberra)

3.4.5 Managing investment and longevity risk in the retirement income system

A few attendees also suggested developing a government lifetime annuity product to protect retirees against investment and longevity risks.

3.4.6 Improve incentives to become educated

Attendees in Adelaide recommend students could pay HECs out of their pre tax income – *"just as a tradie would claim for use of their UTE."* (Adelaide)

Some felt that tax deductibility in regards to education should also be investigated as it perceived by the majority as a long term investment in the future of Australia.

3.4.7 Working for Not-for-profits (NFP) and claiming tax

For people working on an irregular basis for community organisations (eg junior sporting clubs) taxation was felt to be over-complicated. These people are employed for small roles only; however they are still required to be paid under the PAYG system. For the employer, there is uncertainty about how to pay these workers, and it also discourages people willing to take on this work because they are concerned about taxation requirements and 'doing the right thing at tax time'.

"I employ people from time to time on a fairly minor basis, and I find it's very awkward that not-for-profit clubs like junior sporting clubs still must register their employees under PAYG. The complicated tax system is a disincentive to adults to assist these clubs, and we all want kids to play sport. There is a big concern about the Tax Office's involvement in this." (Brisbane)

"Is it an honorarium or an allowance? Falling in the three to five thousand area - it's very confusing." (Brisbane)

In Adelaide it was noted that there is a problem in the NFP sector with attracting and retaining staff with the requisite skills. It was suggested that a tax incentive could be given to employees in the NFP sector to assist with both attraction and retention.

"I am concerned about income tax in the NFP sector. If it is complex for small business, I suggest it is similarly complex for NFP sector. One of the problems we have in the sector is attracting and retaining staff with the skill sets required. It is very difficult to run a small organisation on very low resources. When we lose staff it costs a lot to replace them. I am interested in how we can free up some incentive to employees through the tax system to address that issue." (Adelaide)

3.4.8 Community organisations and volunteers

Suggestions for rectifying the problems associated with volunteering were twofold. Firstly, through deductible gift recipient (DGR) status, the government could increase the number of organisations recognised as 'social welfare' organisations and thus appropriate to be given donations (eg sporting clubs and religious groups will all play a much bigger role with the continuation of the aging population). Further, by ensuring donors receive full tax deductions for donations, investment would be encouraged, and those at lower levels of the community using these organisations would benefit. Secondly, these organisations would benefit from one-off cash bonuses, in addition to that paid to low income earners.

"I wanted to touch on those comments about volunteers. This can be addressed both in the transfer side but in particular DGR, with opening up categories of those recipients who are recognised as appropriate to give donations to...Perhaps some consideration might be had to opening up the DGR requirements so that these social welfare groups can be supported under our system." (Brisbane)

"I want to address an issue in the consultation paper about the type of society that we want to live in and how the tax system might shape that society, and want to refer particularly to organisations with a charitable or benevolent or philanthropic purpose. I was drawn to that NZ legislation that was changed in 2008 that provides 33% deductibility for contributions to organisations that have a 'donee' status. These are organisations that are defined as doing a public good and rely on contributions from the community. In Australia we have a donor gift recipient framework – those are primarily charities that are relieving poverty and I believe educational. But the range of the sector covered by the DGR status is limited and there are many other organisations involved doing good which in some way address the negative issues or problems facing society (sporting, religious, cultural etc). Tax deductibility of contributions to these organisations would substantially expand the amount of private money going into that sector which is engaged in doing public benevolent good. This impacts the size of government in Australia. If we can maximise the amount of private money going into benevolent purposes in Australia via the government tax system that provides a greater overall result for the country. Evidence from research done in the US is that the level of tax deductibility has a result on the amount of money flowing into private organisations doing public good." (Adelaide)

"To allow tax deduction for charitable organisations who do not lobby government for policy change and are not running commercial business ventures. I would like to see the use of donated funds for educational, health and welfare areas providing a tax benefit. In the submission I make I note that charitable organisations provide a great deal of support for individuals and family, for caring for the needy and

educational support. There is a great deal of money, time and labour which is not expected to be accounted for. This strengthens communities and families help community members to live law abiding lives to the benefit of community, government and society...A large number want to contribute to organisations not described on the DGR's 30b table. A donation to a charitable organisation or a church has these real benefits - it would result in greater display and use of resources. For example Capital works, activities for the youth and young adults, education and learning, career workshops and the like...those who receive help by a charitable organisation are like those who have been taught to fish for life. I would like to see more opportunity for the recognition of contributions to charitable organisations by way of tax deductions." (Adelaide)

Tax credits for work performed

Some suggested providing taxation credits for work performed to improve the recognition for volunteers and encourage volunteering.

"At present volunteers who receive payments for 'work performed' for State government departments (ATSI/LGBT/Seniors/Youth Workers) are taxed on their 'income' (one-off payments < \$500). This then affects their pensions/Centrelink benefits. State government departments are therefore moving toward reimbursing costs incurred by volunteers during their time spent towards the cause. The Federal Government should recognise this time spent as working towards GDP and economic output and reimburse at Federal Government level instead of being a State government expense, ie the Federal Government has a national system that governs 'Work for the Dole', therefore (ideally) there could be an opportunity to 'piggy-back' this system and reflect the benefits in a 'Work for Tax Credits' incentive." (Adelaide)

Extending donor status

Some attendees advocated for an extension of 'donor' status to a wider range of organisations that deliver positive outcomes for society (eg not just charities or religious groups, but also youth oriented organisations and sporting clubs).

"Donations are tax deductible. Donations are discouraged if not tax deductible. Contributions increase [if donations are tax deductible] – the government [contribution] decreases – money to a charity is much more utilised. A new tax deduction should be not just for education but also church buildings and youth and also strengthening families."

(Geelong)

"Tax deductions on [donations to] not for profit organisations...[I'm] happy with tax deductions on donations."

(Geelong)

"My believe is that the giving of charitable donations would be discouraged without the benefit of a tax deduction."

(Melbourne)

"Treatment of donations to community organisations such as churches is important, better recognition of the value that groups deliver for society." (Melbourne)

"I've worked in mental health and provide invaluable service to government agencies. I work for nothing to support people. This is invaluable for these organisations and the part they play in maintaining the well being of community and families." (Melbourne)

"I think there could be improvement in the not-for-profit sector and tax deductibility for the religious sector if they're not involved in the public sector would lead to a lot of good if they were tax deductible." (Hobart)

"With the marginal tax rates that have been eluded to, higher tax rates are as high as eighty percent for some. This gives nobody the incentive to go out to work." (Hobart)

Accountability still important

In response to the opening up of donations to more charitable and NRP organisations, some felt that these types of organisations should be required to have their 'books published', particularly if more organisations were going to be receiving private donations. This would allow transparency and provide reassurance as to how much money was going to those that needed help, making these charities more credible and more appealing to donate to.

"We had a couple people talking about NFPs and Charities. I think if you look at that area then their books should be published, because we have a lot of bodies getting help and their books are not published – they are not forced to report to ASIC or anything. We have no idea how much of this money actually gets to the needy. We must have this corrected. Our charities will then also be more credible." (Adelaide)

Similarly in Canberra it was felt that there was a need to review those institutions that qualify for an exemption in the tax system (ie charities and churches) yet are running their affairs like businesses. A few perceived that these organisations were essentially avoiding taxes by using their institution as a guise to run their business.

"Company tax law was built 100 years ago. There were provisions in there about exemptions for charities, religious organisations, trade unions and dare I say various other associations [such as] universities. A lot of those bodies are now running clubs, are running massive multimillion businesses and not paying tax." (Canberra)

3.4.9 Reform for self-funded retirees

Retirees drawing self-funded superannuation indicated they are no longer paying tax, but many suggested they seem to be worse off financially. Tax offsets, such as medical expenses in excess of \$1500, contribute to financial loss. It was suggested that these should be rebates instead of deductions. It was also noted that this problem will only worsen as retirees get older.

"We are in the fortunate position of being over 60 and drawing self-funded super. We no longer pay tax, but we are actually worse off. We paid very little tax under the previous system, but this year we have medical expenses well in excess of \$1,500, but because it's a tax offset and not a rebate we lost out to the tune of some thousands of dollars. I can only see this as being a problem that increases as we get older and require more medical care. We would be slightly better off had we paid tax in this last financial year." (Brisbane)

"I became a self funded retiree through ill health. I'm not over 60 and I had the situation last year that my tax went up on my low income. There were some of us last year who suddenly started paying tax where not before. I had hoped to go back into the workforce. My siblings earn more and had tax cuts. I was embarrassed. I am here because I am able to speak now." (Melbourne)

Self-funded retirees were also mentioned in conjunction with high tax rates. In some cases, self-funded retirees have never been allowed to invest in superannuation. The superannuation rules have never catered for their situation. These people felt they had

worked hard all their lives to fund their retirement, however they were charged the highest rate of tax and were given no concessions as their income was regarded as “too high.” Some suggested tax rates for self-funded retirees needed to be changed and brought in line with those paying superannuation.

“My wife and I are both self-funded retirees; we achieved that position by working 7 days a week most of our working lives; we retired in 1978... Up until the time we retired in 1978 we were never allowed to invest in super; we weren't working enough hours or we were too old to invest. I believe those laws have changed. We have been paying the top rate of tax, and we are not very rich people but we are financially secure. If my money had been invested in superannuation, I would be paying little or no tax. I'd like that position to change somewhat – to bring a little peace to those with no super. We are self-funded retirees; I would like to be treated as such.” (Brisbane)

“The tax system should be centred around long term planning for self funded retirement and equality of treatment for all tax payers.” (Geelong)

“Super – retired people...a lot do not have super and pay tax. There should be something done for those people.” (Geelong)

Some attendees felt that a review of taxation on superannuated and non superannuated incomes was required. Currently there are different rates of taxation applied on each of these, resulting in inequitable taxes for retirees, depending on the type of incomes they have. One attendee commented on tax on superannuated incomes and was concerned with some of the review's analysis in the consultation paper.

“Seriously concerned by an item in the Dec 2008 retirement income consultation paper that is really a taxation matter and highly relevant to members. Should members of untaxed source funds have their superannuated and non superannuated incomes taxed separately after age 60? On page 26 of that document it compared two \$40,000 incomes, one from a taxed fund, one not, with both pensioners having an additional non superannuated income of \$20,000. The document says “the individual taking the pension from the tax sourced fund hasn't already prepaid tax on their pension of \$7,058. The prepaid tax more than offsets the income tax treatment that the tax sourced pension receives compared with the untaxed source pension. That is, if you add the prepaid tax to the income tax for the tax sourced pension, that pension is actually more heavily taxed than the untaxed source one. This assumption of 15% prepaid tax is simply wrong. This is mostly because members own contributions are exempt from 15% tax and so are pre July 1988 contributions from the employer. In fact any tax source pensioner who is currently receiving a pension has paid anything like 15% of their pension in tax. The actual amount is more in the range of 0-7% depending on when the person retired. For almost all members of tax sourced schemes who have not yet retired, the prepaid tax will never be at 15% because of the employees' contribution. Our deepest concern is the process that has been used. The panel has made a wrong assumption about taxation and using this has produced a report that carries a strong implication claiming that there is unfair tax on non-pension income. The published review on this is not based on sound analysis and detailed superannuation expertise. We strongly believe that whatever recommendations the panel makes must be founded on valid arguments. Can you give us assurance that the 15% assumption will be founded on expert and detailed analysis? If it is, we confidently predict that it will be found inaccurate and misleading.” (Adelaide)

3.4.10 Reform for senior citizens generally

Reform for senior citizens in the form of exemptions from having to lodge a tax return was proposed due to complexity and cost of the process. Senior citizens were thought to face an unnecessary cost of hiring a tax agent to complete their returns when their income was often felt to be insignificant.

"I have power of attorney over the affairs of my mother aged 99. She hasn't had to pay any tax since about 1999 because her income is so low, but she still has to fill in a tax form, and at her age she is not mentally capable of filling in a tax form."
(Canberra)

Given the ageing population, it was suggested that a review of eligibility to submit a tax form be completed to minimise the number of people who have to submit returns. Concessions for retirees were also suggested for consideration (such as not paying GST on utilities) as a reward to the older generation for shaping the nation of today.

"Maybe the new system should, whilst being simple, should reflect the contribution that people have made over their life times. And I find just out there, things like if you are completely retired that you don't pay GST on utilities or something like that sort of and give the money back in incentives." (Canberra)

3.4.11 Reform and review of transfers, cash bonuses and deductions

Align tax and transfer systems on the family unit

As the transfer system is currently based on family units, it was suggested that the tax system be aligned with this to be consistent. It was thought that there should be a focus on what the family is getting as a whole, rather than as individuals, which may simplify or reduce the number of transfer payments made, particularly those made to the middle class. This could also be provided as an option to families, to give them the choice of individual or family taxation.

With regards to the family taxation unit, some attendees noted that caution needed be taken when considering students that are not independent. The possibility of students becoming "*designated streams of income*" (when they are assessed separately within the family unit) was mentioned, or alternatively, students who are earning income while studying may be taxed at a higher rate due to inflated income from the family unit.

In addition, some felt that eligibility for HECS and HELP should also be based on the family unit. For example, if a taxpayers is liable for 8% from tax as a single person, it was questioned why this could not be 4% for a single income family.

Furthermore, tax credits could be assessed as part of the family taxation unit, providing credit against other income earners taxable amount (eg wife working 10 hours per week at the school tuckshop could gain credit against her husband's taxable income).

Housing payments tax deductible for low income earners

To provide further assistance to low income earners, some suggested that housing payments for this group should be deductible to improve housing affordability. However, the comment was made that this could result in people increasing their debt against their homes as much as possible to increase the tax benefits, with some suggesting this could lead to a situation similar to America's sub prime crisis.

Removal of cash bonuses

Some felt that the future tax system would benefit from the removal of cash bonuses for the middle class from the transfer system (eg the baby bonus or bonus \$7,000 for first home buyers). While it was recognised that some sectors of the population do need help (ie low

income earners) in the form of these payments, for other groups (ie middle class) these payments were being used for large luxury purchases. With reference to the first home buyers' grant, it was perceived that this grant achieved little more than increasing the price of houses overnight.

"I can't tell you how many homes I've walked into where the owner's gone, 'This is my baby bonus,' and pointed at his new big-screen TV on the wall. I agree that some sectors need help, but for the vast majority, I think the welfare payments are going nowhere. This might be outside the tax review perhaps but I would like to see each and every family and couple responsible for their own affairs, rather than creating winners or losers by picking sectors or areas of need to dump some cash. Let's make the changes structural; let's drop the tax bonus out of that transfer system." (Brisbane)

Eliminate consumer based tax deductions

Some attendees also felt it was important to eliminate consumer based tax deductions. For example, tradesmen that purchase a truck simply to claim the tax deduction and people who go driving around the country just before the end of the tax year in order to increase their work related kilometres and reduce FBT.

"Reduce personal income tax rates but at the same time eliminate level deductions to move away from culture of tax returns as a national sport." (Brisbane)

Paid maternity for every family

Some attendees felt that paid maternity leave should be introduced for every family.

"I am in favour of income replacement issues, specifically around things like paid maternity leave – a new baby can be very hard for a young working couple when one income is lost and there are so many additional expenses." (Brisbane)

Review true financial/asset status of beneficiaries

A review of transfers in relation to addressing inconsistencies was suggested (specifically in the aged pension and the unemployment benefit) to reduce the number of people taking advantage of the system. Attendees believed there were a number of people 'hiding' money in their houses (in terms of living in high value properties) to receive benefits.

3.4.12 Elimination of the tax return?

For those people with simple PAYG incomes, it was suggested that tax returns should not be required (similar to New Zealand). In Brisbane, Dr Ken Henry talked through this with attendees and provided two options that could be considered. Firstly, in cases where the government provides tax payers with a pre-filled form (Option 1 given by Dr Ken Henry); it was thought that issues of privacy may arise. The second option given, the 'withholding' option, produced comment that this would place the burden of information-gathering upon the financial sector; and makes a complex area even more so, which may further increase problems encountered with reporting. To prevent this from happening, it was suggested that a domestic withholding approach be adopted; if people choose to lodge a tax return, they would expect to receive a refund due to eligibility for further deductions.

"I think the withholding option is probably preferable. The thing we have to balance up is that ultimately all this is information-gathering. The burden of that falls on the financial sector, and just getting tax right in relation to those sorts of areas is already complicated. Work in the financial sector, specifically independents, are already grappling internally with reporting. Perhaps it's better if we move towards a domestic sort of withholding approach; and then under that sort of scenario, if you

do choose to lodge a tax return, you'd expect to receive a refund because you might be eligible for further deductions.” (Brisbane)

Another suggestion regarding pre-filled forms related to deductions occurring throughout the year being aligned with Tax File Numbers, so the ATO has access to deductions as well as income. Further consideration regarding pre-filled forms would also need to be given regarding the way that people will respond to these forms. Some felt that most people receiving a pre-filled form may still feel the need to check it, therefore would still require the services of a tax accountant to review their tax return.

On the negative side, it was believed that eliminating tax returns might put a stop to the “forced savings” that often occur around tax-return time. It would also put many tax accountants out of work.

3.4.13 Shaking up the tax and transfer system

Some novel ideas for tax reform were also provided as follows.

Remove State taxes

At some meetings it was suggested that three levels of government were now obsolete and by removing the State government level, significant cost savings could be achieved. Furthermore, this adjustment would improve the efficiency of administration such as revenue collection and transfer and delivery. In Perth there were views that the new tax system should seriously look at abolishing local and State government taxes as this provides further complexity and an additional (and many believe unnecessary) layer of administration. Some attendees in Perth also suggested Federal and State relationships don't make sense in the areas of transport and use of oil. In particular there are differences noted in how fuel taxes are handled (eg Queensland taxing oil differently to other States).

Philosophical basis for tax system: revenue versus encouraging desirable behaviours

Some attendees said discussion of the taxation system needed to also encompass whether the tax system should be used to purely generate revenue (and for this to then be utilised by Government in addressing social problems), or whether the settings within the system should be such as to foster ‘social engineering’ (eg taxing those products with an impact on health at a higher rate so as to drive healthier behaviour within the community).

“The tax system is the easy way out, [rather than tackling issues via] legislation.”
(Geelong)

In Perth some felt that they did not mind paying a fair rate of tax but they wanted the system to also encourage “*the right kind of behaviour*”. One example of this was negative gearing, identified as a positive part of the current system as it provides incentives to behave in a way that will help others (through investing in property, which in turn provides greater stock of housing for the community. An alternative view to this is that tax incentives to invest in property over other assets have distorted investment market price signals, over inflated the price of housing and contributed to the current housing affordability crisis).

Encourage health behaviours

Some expressed the view that the tax system could also be more effectively used to send signals on healthy and unhealthy behaviours. Taxing things that are unhealthy – certain drinks, food types ie sugar and saturated fat, and pursuits - was considered sensible when designing a new tax system.

Encourage environmental sustainability

In Sydney, one attendee drew attention to the global oil production cycle and suggested changes in the tax system were required to reduce the use of private motor vehicles and increase the use of public transport. This attendee also advocated for an oil tax to help stabilise oil prices.

"We need an oil tax – apart from high oil prices which damage the economy, we have a rollercoaster of [oil prices]. Think of any organisation that is oil dependent – government needs to think about if they want an 'oil neutral' system. [If so, they] need to impose [some form of oil equilibrium tax]...to subsidise oil in short periods of spikes." (Sydney)

The tax system was also believed by some attendees to be making Australia a fuel dependent economy by facilitating cheap petrol. This was thought to be happening through offering fringe benefits concessions for car parking spaces which allow people in the cities to drive their cars more, resulting in State Government having to spend on toll roads to manage traffic.

Alternatively, a few argued that if the taxes on petrol were reduced (being a major contributor to the increased cost of living for people on low incomes) it would reduce pressure on low income earners. In Wagga Wagga it was reported that 70% of Australia's fuel is produced within Australia, but is being taxed at the Singapore rate with an additional 30% on top.

"...the Australia-wide problem of petrol prices, does that come within your terms of reference? There's GST, there's taxes of all sorts, but the oil companies also seem to be very smart when they decreased their prices at the time of the surveys, which gives an artificial reading into the CPI." (Brisbane)

In Melbourne there were calls for taxation to encourage environmentally sustainable productive enterprise.

"It's my belief that the three core areas of focus are that taxation should be simpler, less expensive and it should encourage environmentally sustainable productive enterprise. I believe the best vehicle to do this is through the primary or exclusive taxation of physical consumption. This would provide incentive to businesses and individuals to become more efficient in the use of natural resources, to reduce consumption of natural resources, reduce pollution, improve business process and productivity and encourage investment innovation. This, I believe, will lead to greater wealth creation, more competitive Australian businesses in international markets, a tax system that is less expensive to comply with and enforce, harder to defraud, more easy to understand by the average Australian and foreign investors alike and encourage all Australians to live within our means without destroying the environment. It may also have the residual benefit as a tax aid for foreign companies for some industries which may in turn lead to an increase in domestic employment and foreign investment." (Melbourne)

Some attendees felt current taxes in relation to motor vehicles and transport generally encourage increased motor vehicle use, and that the review offered the chance to put issues such as climate change and relieving traffic congestion at the forefront. Some suggested it would be good to see the implementation of a new vision to encourage public transport and to achieve more positive environmental outcomes in general. The GST on public transport was considered unfair as the GST was perceived to have encouraged car ownership, and that did not make sense when the environment was so important to all.

"The GST must be removed from all public transport fees to increase the fairness and equity for the community in general. When the 22% sales tax was removed from cars the 10% GST was applied in its place thus reducing the cost of vehicles."

At the same time the cost of public transport fares increased. This is completely unfair and inequitable and must be changed as a matter of urgent priority."

(Melbourne)

Similar calls for taxation to support environmental sustainability were echoed in Canberra. It was believed that the tax system should review and take into account the environmental impacts of 'managed investment schemes', looking at the big picture of how much money will come in from taxes versus the cost to the tax payer of repairing the environmental damage these schemes create.

"Look at the fact that Senator Xenophon has just negotiated \$900 million to fix up the Murray Darling, when there has actually been an in impact on that through irrigation, presumably as a result of, in some cases managed investment schemes, ie, vineyards olives." (Canberra)

Attendees suggested tax settings that encourage sustainable living practices should be a focus for the review. At present, rental housing is negatively geared at the same level whether or not the property is energy efficient or 'eco-friendly'. It was suggested that the tax system should encourage sustainable housing through appropriate incentives or penalties for investors. A review of the tax exemptions available for people on rural properties was called for, as there was currently an exemption available to those who have livestock yet there were negative environmental implications to this (with a suggestion that livestock are generally not properly managed by those who have them just to attain the tax exemption). It was suggested that the tax exemptions should be available to people to regenerate the land instead, and that people would do it just as willingly as they are currently willing to buy livestock to get tax advantages.

"If you actually provided the same incentive for those people to remediate the land, they would be happy to do that. They get the taxation incentive and it would be a positive outcome for the environment and the land as well." (Canberra)

Canberra attendees felt that the review should consider employing an environmental consultant in the Taxation Office and the Department of Treasury. This was thought to guarantee that the economic efficiency in fixing environmental damage created by tax concessions was considered before tax concessions were given. Introducing high-level policies in relation to strategic environmental aims such as carbon pollution reduction and oil dependency were also suggested. This was thought to be simple to administer as only a few companies need do the taxing for the Taxation Office.

Allow losses to be quarantined against other recovery streams

A few attendees felt that losses should be quarantined against other recovery streams – so that people can deduct capital losses, share investments or other property investments of a capital nature, subject to some sort of threshold, in each tax year (eg 20% of taxable income) – as a way of creating savings.

Allow investment in infrastructure projects through prospectuses

A few attendees felt that investment in infrastructure projects through prospectuses (eg providing the option to invest in a company that might want to build a railway line) would allow a corresponding deduction to income tax. It also reduces government (financial) involvement as rather than money being paid to the Tax Office and then being used by the government to fund infrastructure – individuals could put the money into these projects themselves and *"cut out the middle man."*

"As a potential area of reform, why not allow people to invest in infrastructure projects through prospectuses and what not, so you can optionally invest in a

company that might want to build a railway line for example and get a corresponding deduction in your income tax.” (Brisbane)

Enabling through education

A few attendees felt that the tax system could also be further improved by enabling people more. Improved education regarding the dividend imputation system – as an additional income stream for low income earners or people on disability pensions, for example. It was also suggested that the focus of the Tax Office should change to helping people pay more tax because they are earning more money.

Increasing revenue base

A few attendees felt the review should be looking more widely at how government could obtain income via alternative sources to the tax payer. As an example, the CSIRO and Defence could be used to generate income so that individuals don't need to pay so much tax.

“The other question is ‘How do we predict our future? We have organisations like CSIRO and defence organisations – why can't these companies generate income so that we don't even need to pay tax? Or do we have to pay tax so that people will get something moving? I am aware that the Federal superannuation is just funded out of the tax system, - there's a lot more money that's needed and people need to think more widely about what we can do.” (Brisbane)

Encouraging innovation

A few felt that taxes on patent royalty income should be removed to encourage invention and innovation, and that extra incentives were required to encourage this patent income to be reinvested into research.

Dividend imputation and off-shore investments

Some felt the rules associated with dividend imputation and off-shore investments were a disincentive for Australian resident shareholders to invest in Australian companies that receive foreign-sourced income. It was suggested that what is currently declared as 'conduit foreign income' should work the same way as the imputation system does to Australian sourced income, as this (as it was argued by one attendee) would reduce the burden on Australian shareholder taxpayers and would also provide additional incentive for Australian companies to invest offshore.

Other suggestion to shake up the system

Property

- Create more of an incentive to invest in property when the market was not rising.
- Provide a tax incentive to own your own home.
- Abolish stamp duties and replace with a flat rate land tax system.

Families

- Ensure that when couples separate the parent who is left to care for the children does not become a 'pauper'.
- Introduce deductions for funeral expenses for relatives.
- Introduce more generous arrangements for the repayment of the HECs/HELP debt to elevate the burden on young professionals trying to establish their careers and lives (ie not billed after they have bought a house).

-
- Legalise drugs so they will incur a tax. This will increase tax revenue and diminish the profit of drug lords.

Economic

- Introduce a lower rate of tax for emerging industries.
- Introduce a card (like a driver's licence) that employees have to give to an employer which is linked back to database at the Tax Office to alert employers to the fact that employee child support payments are required to be deducted. It would also enable the employer's tax return to be checked against the employees by the Tax Office to ensure both are paying and declaring their earnings correctly.
- Implement 100% depreciation for capital expenditure and cancel all interest tax deductions in order to radically improve business tax system.
- Eliminate expenditure taxes.
- Eliminate multiple taxes.
- Create measures to promote national savings and decrease foreign debt.

International

- A joint economy for New Zealand and Australia.
- Abolish tax and adopt the Hong Kong system.
- Place a tax on currency exchanges or a tax on the transfers. It was believed that people investing in currency are currently *"making heaps"* whilst avoiding taxation.
- Remove taxation of non-permanent residents whilst withdrawing their eligibility to receive benefits. *"If you don't live here permanently, you don't pay tax or receive benefits."*

3.4.14 Changing the way people think about taxes

Views on taxes versus transfers

Sydney attendees raised concerns about the underlying attitude in society to the tax and transfer system and asked that the debate be preceded by the question of the kind of society we all wanted to live in. From this perspective, there appears to be a need to challenge cultural norms in Australia about what parts or functions of the system are intrinsically 'good' or 'bad' and to recognise an effective system requires a mix of both tax and transfer elements.

"We have an irrational bifurcation between [the] tax system and transfers. Transfers are [viewed as being] nasty. If somebody gets a \$5,000 deduction they feel they are entitled to it. If somebody gets a baby bonus there is a carry on about middle class [welfare] – how dare they do that?... Why is there a [positive] emotional attachment to tax [deductions], and a negative emotion to welfare?" (Sydney)

"Differences between the social security and tax system – it is badge of honour to avoid tax. But beware being caught with an inappropriate Centrelink payment. If people get payment of \$5,000 they are done up for fraud. Treatment is different if you get a tax debt vs social security debt. [We need] alignment of [the two] systems – treat all as citizens rather than criminals." (Sydney)

Tackling non compliance and helping tax payers do the right thing

Naming and shaming

It was suggested that "*naming and shaming*" tax avoiders would work more effectively to motivate people to pay their taxes than the current system (which allows non-payers to enter into agreements to pay tax back); in effect providing 'punishment' rather than 'reward' for doing the wrong thing.

Incentives to improve compliance

In Adelaide it was suggested the government could encourage tax returns by looking at the British system where for example lottery tickets are given to people based on how much tax they pay.

"The British have systems (and it amazes me that it works) – every dollar that a tax payer puts into the system gives them a ticket in the national lottery – apparently makes people want to pay their tax." (Adelaide)

Promote benefits of paying taxes

Canberra attendees also spoke about the promotion of taxes as a positive thing and managing the way people think about taxes through communicating all the reasons for the taxes (including funding infrastructure, worthwhile projects, welfare etc) would help remind the general public of the bigger picture. Attendees felt it was difficult for people to remove themselves from the immediate cost and see the long term benefits (and this should be addressed). Improving government accountability was also thought to go some way towards encouraging people and businesses to pay tax.

"For as long as I can remember the tax man has always been the bad man, because he is taking money off us. We all too often forget what money is used for. We've got one of the best health systems in the world. We don't have too bad roads. I know they are not as good as Europe, and you know we have more roads and fewer taxpayers. I think the Tax Office needs to remind the public occasionally, perhaps more frequently than it does, why they collect taxes and how they are used." (Canberra)

"If you can afford to pay tax, we should be happy to pay tax, not evade or minimise tax." (Canberra)

Fixed accounting principals

A reform for corporate taxes in terms of taxing corporate profits was suggested by Canberra attendees to lock companies into fixed accounting principals and limit their ability to manipulate the amount of tax they pay. This was thought to potentially be achieved through a threshold or tax free exemption for profits up to \$50,000. Another suggestion was to tax executives, directors and CEOs of public companies on high salary contracts, bonuses, golden handshakes, or gifts of shares at 100% if they exceed \$1,000,000 in total value. A greater focus on tax evasion was deemed necessary to ensure that those who are dodging tax pay a fair and equitable amount. This was thought to potentially increase tax revenue and make the system fairer.

Better training, manuals and an amnesty

Better training for people who work in the Tax Office or the production of well written and comprehensive manuals for their reference was seen by Canberra attendees as essential to improve customer service and consistency in tax advice. Canberra attendees also identified a need to give taxation amnesty to those who have made honest mistakes believing that people are afraid of the Tax Office.

Use real world examples

Current legislation was described as “mealy-mouthed” and needing a revamp using some real-world examples of how the ATO considers real-world situations. Rulings were perceived to be much more useful if they utilised real-life examples.

3.4.15 GST

Concern was expressed that the GST was not included in the terms of reference for the review as there were strong and differing views about it. Some suggested it should be frozen at the current rate of 10%. Others suggested that it should be eliminated because it failed to stop the cash economy and had increased the cost of living for those on low and fixed incomes. There was also a view that if the GST base was broadened, other forms of taxes could be eliminated (as was understood to occur in Singapore).

“I would lock the GST rate in now so it could NEVER EVER be changed. It’s hanging over our heads now.” (Wagga Wagga)

3.4.16 Consultation, consultation, and more consultation

Finally, after discussion and ideas, and before new reforms are initiated, it will be important to have further consultation with key groups who will be impacted by the changes (eg superannuation companies and banks) to ensure that changes will be implemented in a way that minimises the burden on these companies (it was suggested this was not done with the changes to ‘simplifying’ super which has made super far more complicated for the sector to deliver).

“Just in regards to what happens after all of the reviews – it’s been a very complicated two years in superannuation and it’s a huge administrative burden in a lot of small superannuation funds just because the burden of change has been so large. It’s a huge thing to go through, but overall, I think it’s been done well. I just don’t know if enough consultation was done well. In particular, the tax file number collection of most superannuation funds – that was obviously something that wasn’t consulted with a lot of State government bodies when they first appeared and it’s causing problems.” (Brisbane)

3.5 Comments on specific tax issues

3.5.1 Business tax

Tax reform for business was suggested to encourage them to create jobs, train people and stay afloat.

Improve incentives to employ

- Provide incentives for businesses to employ staff, such as removing payroll tax. Similar views were shared in Perth where many felt that payroll tax was a disincentive to employ people and should be abolished as soon as possible. Payroll tax was also considered a disincentive to employ in Darwin where there were requests for thresholds to be increased so that small and small/medium sized companies that employ most of the workforce were exempt.
- Wagga Wagga attendees recommended the introduction of tax incentives to encourage businesses to employ people and train apprentices.

"They should have something for employing apprentices. I give up a whole day to look after them but am still taxed in the same system. I'm really only working 4 days, not 5, but I'm losing that 5th day of tax. You've got to encourage tradesmen to take on apprentices because the apprentice bonus is peanuts but you should not looking at helping out the owner of the company, but the guy who is training him so they'll be willing to go to the boss and take on an apprentice." (Wagga Wagga)

- Some attendees also felt that small business would benefit greatly from the provision of rebates for training new or inexperienced staff.

Reduce level of corporate tax

- Reduce corporate income tax to levels comparable with EU countries.

"Abolish payroll tax – it's quite ridiculous to tax employees for the privilege of employing people."

(Brisbane)

"I was director of an after house emergency veterinary centre with 30 staff, mostly part-time. Almost all wages were at penalty rates. Our wages bill was over \$850,000 (gross \$2.5 million). Payroll tax was up to \$50,000 per year. BUT, I know an IT company with 4 employees, wages are \$800,000 (gross \$2.5 million) and they pay no payroll tax. Payroll tax makes no sense."

(Brisbane)

"The payroll tax threshold needs to be lifted to ensure that most small and medium sized companies are exempt. It is OK to collect taxes like this from BHP or Rio Tinto as they will not change but it makes small businesses careful about employing and they are the biggest employers." (Darwin)

"I have helped a number of companies trying to comply with tax obligations and it's not easy. [Payroll tax] discourages companies that are labour intensive from keeping those people on the books, it has a bizarre definition of wages and how you have a common law definition of wages inside the legislative instrument which means an ordinary reader of the Act wonders how it works. Not approachable"

legislation. Office of State revenue thinks this also. Act has been applied in so many different ways there is no consistency. Clients have been 'taken to the cleaners' with payroll tax levied on them, whereas another client in exact situation can get through. I would like more education for the people who enforce taxation laws so there is consistency and it's not fuzzy." (Sydney)

Financial help for small business

- For small businesses under financial stress and experiencing cash flow problems, provide an alternative option to quarterly BAS payments, such as pledging asset equity against taxes due.
- Self employed tax payers reported difficulties in forecasting revenue, getting it wrong and then having to pay extra tax retrospectively. It was suggested that if more money is earned than forecasted, the higher tax rate should apply to future earnings rather than past income earned.

"It's hard to plan a year ahead for self employed people. If I'm paying 5.2% on every \$100 earned, and I have a good year, it will shoot me up above into the new tax rate to 10%. Then that has to be applied back to all my jobs over the year that I have paid 5.2% on, and I have factor in that extra tax. So I can't plan it and in the last few weeks of the year I'm essentially working for nothing because I know I've just got to pay it all in tax, which means there is no incentive to work at the end of the year. I would like it to go to March (pay quarterly) and then the Tax Office will say in June "will you go over and under" so I can say yes or no. If yes, then I can pay the 10% from March through and then pay that 10% in the next year instead. Paint doesn't dry in the winter so there's always less money." (Wagga Wagga)

Reduce compliance costs

- Reducing taxation 'paperwork' for businesses to one form was suggested.

"When the drought is over, there is going to be a huge amount of work on the farm for young people but will they even look at it? It's all too short term [work on the farm] and because the paperwork is too much, you have to find a contractor."
- Some suggested the ATO could help small business by providing them with prepopulated tax forms based on previous submissions.

"There is a need to be able to distinguish between a small business and a large company. The single operator business, whether that be a newsagent, pharmacy etc, I think the Tax Office has decades of history on people knowing what a newsagent makes. I don't know why we just don't send him a bill – because the cash register is the most transparent." (Adelaide)
- Simplification of the Business Activity Statement was requested, particularly for small businesses that work long hours.

"Small business pay [large compliance costs] for BAS Statements. Simplify it. Not fair for people on their feet for 12 hours." (Geelong)
- Small business highlighted the difficulty of earning interest on money set aside for staff long service leave and other liabilities, to the point where some businesses forgo this interest just to avoid dealing with the tax implications involved.

"Earning interest – It's difficult to put aside money for long service leave for staff and other liabilities. [This is] not done because the taxing on the gain on some asset is an unhelpful consequence of our system for the future." (Geelong)

- Employee share arrangements and related taxation was considered complicated and a disincentive to their establishment and effective use as a tool for employee attraction, reward and retention. There was a view that right now is a good time to make it easier for employee owned companies to reduce salary costs and offer attractive employee share options, especially in start up operations.
- Fringe Benefits Tax (FBT) was criticised as encouraging non compliance and being impossible to administer for the average small to medium business.

"Massive non compliance with small to medium businesses. FBT is most hated and the issue would be that all get benefit through tax system instead of taxing goods and services. Reform and eliminate - move [this] into income tax system and more revenue [would be] captured. The years do not match up. Absolutely detested by small and medium business."

(Darwin)

"Greatest non compliance in Australia is FBT. 90% of small and medium businesses do not respond to the tax – it is there, cumbersome. A simple company has to do the same return whether mum and dad or BHP do it. Form too complicated and the desire for the politicians to use as social agenda. Get the form back to reconciliation of what you owe Government and stop filling with supplementary questions - no ordinary person can do it."

(Darwin)

"There is a fringe benefits tax for child care facilities if childcare facility is not [sponsored], which is unfair on small-medium enterprise. Deloitte carried out [a] study in 2005 [and] investigated how many of these employer-sponsored facilities [there are] in Australia. Something like 25 employer-sponsored facilities in Australia. It's unfair on small to medium enterprises. Maintenance of a child care facility is in excess of \$2 million [per annum]. [I'd] Like to see an FBT exemption on all child care facilities in the country, [which would provide an] incentive for workforce participation and increase in female participation in workforce." (Sydney)

Try to keep changes to a minimum

- Some attendees noted that constant changes to the tax and transfer system represented huge ongoing costs for business. For example, recent changes to the superannuation system have greatly increased the workload for small business.

"The other thing with small business is that it keeps getting lumbered with more work. Super contributions mean all small businesses need to report more information. It's just been introduced by treasury and it's supposed to come in this year but we haven't been warned about what we're going to be saddled with. It's extra work imposed by the government. Treasury don't understand the extra work they're creating." (Hobart)

"Every time something is introduced it is a burden on people. There should be some measurement of community cost." (Hobart)

3.5.2 Personal income tax

Improve incentives to work

- There was some call for the zero tax threshold to be increased and for the maximum marginal personal income tax levels to equate to corporate tax.

- Consider a sliding tax free threshold depending on income.
- Consider increasing the number of tax bands, to prevent people from trying to avoid moving into the next tax bracket (eg through deductions).

Improve incentives to save

- Submissions were made for even lower levels of tax on income drawn from superannuation.

Deductions

- A few suggested that the reform give consideration to making emergency services equipment deductible (people donate time and take time off work and still need to buy a lot of safety equipment that is not deductible).

"It is time that emergency services volunteers received the benefit of tax deduction for items purchased specifically to membership." (Geelong)

"Our taxation system should support those who would like to contribute to their community. For example, fire fighters have to purchase special socks - [currently] that's not tax deductible. Volunteer time - to all sorts of community organisations (religious and non profit etc)...they really make a community and society. For the most part [despite] the contribution they make, they are taxed on their contributions." (Geelong)

More help for low income families

- Some felt that more provision needed to be made for single income families, low income families and single women especially, in times of economic upheaval.

"[I want to discuss] household tax for single people. I started work in the seventies...It took a long time to accumulate [savings]. [There was] no home owners grant when I bought a house. [Now I'm] seeking support from Centrelink for the first time in my life. If I was renting I would get more money. I have a mortgage and I was refused benefits for the first 6 days due to buying a house. The whole system is for families and [there is] no consideration for those of us who are not wealthy and don't qualify for welfare housing...[There are] big payouts for people who have babies – and first home owners – I've worked continuously but I don't have enough funds to be independent. Where am I better off – unemployed for life or working?" (Geelong)

"I strongly support the alteration to the tax arrangements to remove the significant disability imposed on single income families as compared to multi income families who receive a hugely distorted benefit in the taxation system." (Geelong)

- There were also several calls for tax rates to be indexed and subsequently adjusted in line with inflation.

"Income tax should have been indexed. Whatever rate you are on it should have been indexed. High income earners should pay a higher rate of tax. Paying the accountants to engineer this is not equitable." (Geelong)

- In Hobart there were calls for spouses to be allowed to "income split" to acknowledge and encourage stay at home parents. This was considered an investment in Australia's future.

"There's the issue of spreading of incomes between couples. I see a lot of women who are pressured and find it hard. They spend an awful lot of money on childcare; many women are keen to stay at home if there was some advantage in that. The

spreading of income between partners is a long term issue to take care of our children.” (Hobart)

3.5.3 State and territory tax

GST

- Some felt that the States needed to be removed from the revenue raising process and to be made accountable for the productive utilization of tax funds.

“All money collected in Australia collected needs to cut out inefficient taxes at the Commonwealth level and State, not so much local – and distributed and there is some accountability. [I see] all this money paid for GST to NT and other States and see no improvement in public transport, in health, outcomes in security and policing. Where has [the] money gone? I hope one of your group challenges the constitutional arrangements that create inefficiencies. No Federal Government is going to say to a State or Territory Government have to give up payroll tax or stamp duty [but that’s what’s needed].” (Darwin)

“State taxes – there’s no uniformity across States. In each State we replicated complex systems and resource those systems in each State. Many years ago we worked out that rail system from Sydney to Perth was on different gauges so we changed that.” (Sydney)

*“We could... I’m a fan of GST... we could abolish State taxes and revenue lost in that area subsidised by GST. We then have a uniform system across country. It all becomes uniform.”
(Sydney)*

“I’m a member of the chamber of commerce and industry. Can we backup about payroll tax; a very efficient tax like other State taxes, including duties. What we see is a more efficient tax through a levy on income tax through the ATO to remove State taxes altogether, or an increase in GST.” (Hobart)

“I think we were sold the introduction of the GST, on the basis that a lot of these State taxes would disappear. Tasmania has one of the highest land taxes which discourages investment. I’m bewildered personally that I haven’t seen much disappear; although the GST is well imbedded we still have all those taxes hanging around. We should simplify it and encourage investment.” (Hobart)

“I have no vested interest in taxes on gambling but the State’s reliance on gambling taxes I wonder what the government’s going to do. People who own the pokie machines know who plays them - the poorest members of the community. The State government is so dependent on the gaming taxes, but we need to look after those who use pokies. Anywhere you can get alcohol, - ATM and pokie machines is irresponsible; anywhere you can get those three things. I’m a student of fraud over the years and amazed at pokie machines and gambling: the price that a narrow section of the community are paying, with the exception of WA, on gaming machines.” (Hobart)

Land taxes

- New South Wales land taxes were felt to be putting a burden on inner city low income tenants.

"[My] 2009 land tax bill I recently paid effective 100% rate, leaving me with no money left for maintenance or any insurance, effective 100% tax rate from Office of State Revenue.. not much time to pay. Rental income [for] 2010 is becoming almost impossible - I have to squeeze all my tenants who I know personally – [some may] have to move out. [We have a] donut effect in Sydney where you get anomaly of 2 identical units, 1 investor-owned pays eg 10 grand in land tax, adjacent property totally tax-free. This is inequitable for tenants because of flow-through effect paid by residential tenants with nothing paid by an occupier." (Sydney)

This situation is forcing tenants out of the inner suburbs.

"Land tax and no positive income means that 8 people go out into society, push people further away, or find cheaper rent somewhere else, change in society where within an area there are no longer the people that may be lower income and servicing people in a wealthier area. Pushes more of Sydney to the outskirts." (Sydney)

- The need to review land taxes was also raised in Hobart especially in relation to the disconnect between land tax and council rates and the impact these taxes are having on distorting the housing market.

"Duties on purchasing of property: I've lived in the same house for over 40 years but others with families and renovations have probably paid 100 thousand dollars of stamp duties. The State Government seems to be doing something about the system seems to narrow the base. People are perfectly prepared to pay hundreds of dollars but when they get their land tax bill it seems so disassociated. Economists see it as very efficient because you cannot remove the land. The impact of land tax on capital is that people in retirement when they get their land tax bill won't be able to afford their holiday homes. There's a disconnection between tax and council rates." (Hobart)

"The efficiency of land tax as recognised by economists: It's purely a political decision not to go there. People do see a link between the services they receive and tax. The benefit would be to young home buyers who wouldn't have to pay exorbitant prices. Those who are doing quite nicely are doing that at the expense of the next generation coming through. The current economic doom of the world could have been avoided by the land tax." (Hobart)

"Stamp duty on land transfers is distorting the market at the moment. I have friends who would happily move from a four or five bedroom house but for the stamp duty for the privilege of moving house for a couple is too much. Land tax is only levied on income-producing property; ultimately it's paid by the final consumer. The good socialist line of we will have a land tax on the capitalists falls down because ultimately it's paid by the final consumer." (Hobart)

"I'm Chair of a reference group of State taxes and regulation. Interface between Commonwealth and State tax – land taxes falls on a narrow section of the population, there are inefficient State taxes, taxes raised by Commonwealth but spent by the State. When it was first raised the economy was in a different State than it is now. Milton Freedman said "Never waste a recession." Efficiency and equity is required now we don't have any choice – the global financial crisis will make us face these issues. We should raise the general level of GST and wipe out inefficient State taxes. What is the substitute if we're going to have another tax and collect on State income tax because Commonwealth levies the tax. Brings us into competitive federalism, single stroke of peanut farmer from Queensland wiped out death duties and that gave Queensland a short term benefit but then all of the States did the same and Australia loses. What's going to be done about the rag-bag

of inefficient State taxes? How do we have a better relationship between State and Federal Governments? Harmonisation is not necessarily the best outcome.” (Hobart)

Abolition of State taxes

- Some attendees called for the reduction or abolition of all State taxes.

“We ask if that could be the case – if that possibility is not likely to eventuate abolition of State taxes, that at least to reverse what we’ve done over the last 25-30 years to reduce the tax rates. I noticed in a paper that you asked question about what the global crisis mean for tax review. What does tax review mean for crisis? Petrol/oil may be triggers. I think one of triggers is taxes. Stamp duty cascading at these rates has meant property transactions at stand still, revenue for States is low. Cut rates.” (Sydney)

- In Adelaide it was suggested that there was a need to merge some State and Federal departments, that the State’s reliance on gambling taxes needed to be investigated and that there should be a tax to reduce over-investment in property like the California prop 13 example where each year you pay a percentage of what you originally paid for the property in the first place.

“Someone was talking about taxing property to prevent overinvestment perhaps something like California prop 13 may help. Each year you pay a percentage of what you originally paid for the property in the first place.” (Adelaide)

3.5.4 Transfers

Poverty traps

- Some attendees felt the system currently encourages poverty through ‘traps’ for couples in which one person is receiving welfare (eg pension) and the other person is restricted from working in order to prevent the loss of that pension (where the income derived from the work, after tax, does not make up for the loss of benefit income received).

“I’m a tax agent and regarding the questions I believe tax and family assistance transfer is not effective - some people are paying over half their effective income at fairly low income levels in tax. This is a ridiculous situation going to work if you are going to lose money in a year – tell your clients that you’re paying more transfer benefits are not adding to the other things, costing so much. When they come in you have to tell them that they lost so much which encourages them to give up their job entirely.” (Hobart)

Carers payments

- Some attendees felt that carer payments and how carers are taxed needed careful review as the role and number of carers is increasing and there are potentially massive economic consequences for the country.

“More and more of us are going to be in the role of carers as Australia’s population ages and that’s going to have massive implications as well for the tax base that we need to provide health and support services. The point that I’d like to make first is that the current system doesn’t support transitions in and out of work adequately. The current tax and transfer system makes transitions between caring, for example, and paid employment risky. So if you have caring responsibilities and you’re unable to work full time or even part time because you’re looking after someone else, you

may have a choice between going on Newstart which is paid at a lower rate than carer payments and if you go on carer payment, you're actually limited by the number of hours that you can work and then even if you do part time, your wages are taxed at a very high effective marginal tax rate. So you end up making a decision between caring or work and it's very difficult to go between the two and part time work is difficult and that's based on an outmoded understanding of how society works and not on a gender specific note." (Melbourne)

"We need to consider single income replacement schemes that eliminate perverse incentives of this sort that trap people in the caring role and they become deskilled and unable to actually participate in the workforce." (Melbourne)

Health system

- In response to the comment that the health system was working well; another attendee wanted to mention that this is not the case for people with disabilities. There were huge medical costs associated with disabilities (eg equipment, respite care), and a perception there was little compensation or rebate provided. A solution offered by one attendee would be to create an extra levy on top of the existing marginal tax rate that would be allocated to helping people with disabilities.

"...[With regards to the] health system, we are lucky except for the disabled. Scooters, shower chairs, hoists to get into the car etc – [these are] huge medical expenses. It all adds up – respite, etc. Out of \$20,000 for a scooter they receive \$6,000 back. [We need an] extra levy on top of marginal tax rates that goes towards helping people with a disability. To help teach people how to walk etc. [This will] help with equity and access and also helps with efficiency. The case manager is paid to help raise funds and access government funding. Extra levy on marginal tax rates on a needs basis." (Geelong)

"I've advised a number of clients regarding deductible gift status. I have a disabled child and I would like to see an expansion of the availability of deductible gift recipient status for community organisations and to some extent religious organisations." (Hobart)

Age pension

- A few suggested separating the age pension from other forms of income support.

4 APPENDIX A: ATTENDEE PROFILE

Sample profile

Target	Number achieved N= 463
Individuals	276
Representing business sector association or other association	49
Representing business	50
Not for Profit	54
government officials	24
Media	6
Other	4
TOTAL	463

Overall, there was a reasonable mix of interest groups represented in the consultation meetings. While the number representing themselves as individuals far outnumbered other groups, there were roughly equal proportions of association members, business representatives and not for profit representatives.

Area of interest

Area of interest	
Personal income tax	271
Retirement income	198
Complexity and administration of the system	176
Savings and investment	174
Business tax	151
State government taxes	130
Transfers	84
Environment	67
Other	68

Please note that the totals shown in the table add up to more than the total number of participants as many people had more than one area of interest.

Reflecting the high proportion of attendees representing themselves as individuals, most interest was in topics like personal income tax, retirement income, and savings and investment. There was also significant interest in topics like complexity and administration of the system, business tax and State government taxes. Proportionally, there was much less interest in topics like transfers and the environment.

Where heard about the meeting

Target	N= 463
Australia's Future Tax System website or email	107
Newspaper advertisement	90
Word of mouth	83
Media	54
Reference in consultation papers	34
N/A	95
TOTAL	463

Most attendees heard about the consultation meetings via the Australia's Future Tax System website or email, newspaper advertisements or via word of mouth.

5 APPENDIX B: SUMMARY NOTES

5.1.1 Brisbane

AFTS Public Consultation Forum

Brisbane 16th March 2009]

Brisbane City Hall

6pm-8pm

Comments on the broader tax and transfer system

A) What parts of the tax and transfer system are not working well?

- Capital gains for investors in property trusts. Investors in property trust get taxed twice, while individuals investing in property directly get taxed just once.
 - With the trust, a figure is given for the capital gains on the sale, however no money is given to the investor and tax is paid on it. If the trust is sold in the future, there is a requirement to pay tax again.
 - Would like an ombudsman to oversee these matters.
- Concern about the bias in both consultation papers regarding part-time work and job-sharing
 - There needs to be a coordinated program, led by Government, to encourage older people (retirement aged) and others (eg mum's coming back to work from having children) into part-time and job-share roles.
 - There need to be incentives to encourage people to move into part-time and job-share work.
- Taxation is based on individual income, payments and allowances are based on household/family income – this needs to be addressed so that a consistent basis is used.
- In the property sector there needs to be a review of taxes such as stamp duty and Land Tax
 - Currently they are inefficient and inequitable.
 - Stamp duty no longer covers the administrative costs of transfers at a State level.
 - Land tax is also inequitable, as it is linked to the unimproved land values, which are cyclical and able to be manipulated at the State government level (through refusal to review and improve land values).
 - This in turn impacts the property industry, tenants and all parts of commerce.
- The Capital Gains Tax exemption on principal place of residence
 - Has a flow-on effect to housing affordability through over inflating the value of principal place of residence.
- Irregular earnings and Centrelink deductions to pensions
 - Irregular earnings are taxed (or Centrelink earnings deducted) as if they are earned on a regular basis.
 - Greater flexibility is required to avoid penalising people who are reimbursed their costs for volunteering or paid a nominal figure.
- The existence of Ponzi-type schemes in relation to Dividend Imputation
 - These need to be driven out of existence.
- The tax system is too complicated
 - It is not right that most people need to use a tax accountant to be able to submit their tax return.

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- It also perpetuates inequality as those with the least are more likely to pay more tax as they can't afford tax agents.

B) What components are working well?

- From both an individual and business perspective the Dividend Imputation System is working well
 - Attendees would be concerned if the Australia government were to move away from this system (as may have been indicated by Dr Ken Henry).
 - This system currently provides strong incentive for people to invest in Australian businesses.
 - This system also provides an alternative to property investment; and motivation to invest in shares.
 - Could be used to encourage people with a disability and others to obtain an independent income stream.
- The change of threshold for paying income tax on pensions.
 - This change to the threshold has made a huge positive difference.
- The complexity of superannuation funds has been reduced, which is now less confusing for retirees, in particular.

1. Are there taxes or transfers you see as fair or unfair?

- Tax treatment of over 60s
 - Only part of this income is included.
 - Only partly treated as taxpayers.
- Grandparents caring for grandchildren
 - Very complicated situation.
 - The breakdown in family is often due to parental substance abuse and children end up with grandparents, often at extreme financial cost to grandparents (eg family court costs, costs of raising children).
 - So either children suffer with parents that abuse substance or receive love and care of grandparents (at the cost to grandparents).
 - Optimal solution is a special allowance.
 - A second solution is to extend the carer's allowance to cover grandparents.
- Grandparents not receiving Centrelink benefits
 - Centrelink payments for children frequently go to the parents, even though the parents are no longer caring for the children (children are living with the grandparents).
 - There is a difficulty in proving that the children are living with the grandparents. How can this be done so grandparents can receive required assistance (payments going in the right direction).
- Volunteers are being penalised for their contributions
 - Volunteering is another way of ageing positively.
 - Volunteers contribute a lot to the GNP, even though not contributing to tax and transfer system.
 - However, volunteers that receive payment/reimbursement for out-of-pocket expenses are penalised when Centrelink regards these as payments.
 - Effectively, their pension is reduced, even though it is simply reimbursement for money spent while volunteering.
- Superannuation rules for over 70s
 - For workers over 70, employers have the option of providing 9% super, however this is taxed at 15%.
 - This is unfair, as high income earners can put large amounts of money into super, and are also taxed at the same rate of 15%.

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- Everyone is being taxed at the same level, despite contributions.
 - Additionally, for over 70s, it is not compulsory for employers to pay super to these people and many don't.
 - Rising numbers of over 70s feel they have to work but are not paid super and those over 75 are not able to put money into superannuation themselves.
 - Self-funded retirees and concessions eligibility for the health care card
 - The health care card should be introduced for all retirees.
 - All retirees have paid tax throughout their lifetime and eligibility for the health care card should not be different depending on investment choices (eg investment in assets vs a family home that is exempt from the means test).
 - Shares can fluctuate (eg a company goes public and is subject to capital gains) resulting in health care cards being taken away and reinstated multiples times (along with the associated paperwork and waiting times).
 - *"Seniors have earned that card."*
 - Welfare system for parents with multiple children
 - People with 3+ children are being paid more money not to work.
 - There needs to be an incentive to work, rather than stay home all day.
 - Working on an irregular basis for community organisations (eg Junior Sporting Club)
 - Employ people for small roles.
 - Still required to pay employees under PAYG.
 - There is a grey area regarding paying these workers and people are reluctant to do this work as they are concerned about taxation requirements (concern of doing the wrong thing at tax time).
 - Companies that own retirement villages passing on unfair charges to residents
 - Bigger companies are trying to pass an increasing number of charges on to residents (eg residents required to pay a liquor licence fee to the State of NSW to cover 'happy hour' – this may have been changed).
 - There have been cases of companies trying to pass payroll tax charges on to residents.
 - There is nothing in the legislation to cover this; this needs to be rectified at either the State or Commonwealth level.
 - Current legislation is also being ignored by these companies, resulting in unnecessary high fees to residents.
 - 2. What priorities do you see for improving the tax and transfer system?**
 - Simplification of the tax and transfer system – income taxes, GST and taxation at the State level
 - It is important to simplify taxation to reduce the number of people having to use a tax accountant for basic tax requirements.
 - A number of comments were made about the number of professional people who are not confident completing their own tax for fear of missing out something important, let alone people without tertiary qualifications.
 - Regarding transfers, it will be important to reduce the information requirements of those claiming transfers (eg 89 year old required to fill out 20 page questionnaire).
 - Currently people are incentivised to get tax advice for an average tax return and others are penalised for not getting tax advice.
 - Radical change needed.
 - There are a number of personal issues raised at these types of meetings, which highlight individuals' situations. However, simplifying the tax system overall will solve a number of these problems without the government needing to address each and every individual problem.
 - Merging legislation from 1936 and 1997 to obtain one piece of legislation.

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- Self-funded retirees and tax offsets
 - Retirees drawing self-funded superannuation are no longer paying tax, but seem to be worse off financially.
 - Tax offsets, such as medical expenses in excess of \$1500, contribute to financial loss
 - These should be rebates instead of deductions.
 - This problem will only worsen as retirees get older.
 - Self-funded retirees and taxation rates
 - Self-funded retirees, in some cases, have never been allowed to invest in superannuation.
 - The super rules have never catered for their situation.
 - These people have worked hard all their lives to fund their retirement, however they are charged the highest rate of tax and are given no concessions as their income is regarded as "too high."
 - *"If our money had been put into superannuation, we would be paying little or no tax."*
 - Tax rates for self-funded retirees need to be changed and brought in line with those paying superannuation.
 - Imputation and off-shore investments
 - At the moment rules act as a disincentive for Australian resident shareholders to invest in an Australian corporate which obtains foreign income - what is currently declared as conduit foreign income should work the same way as the imputation system does to Australian sourced income – it would reduce the burden on Australian shareholder taxpayers and would also provide additional capital incentive for Australian corporates to invest offshore.
 - Improved education regarding the Dividend Imputation System – as an additional income stream for low income earners or people on disability pensions, for example.
 - Rectifying the problems associated with volunteering
 - Address this in 2 ways: through the transfer system and DGR
 - i. Through DGR, open up the categories of those recognised as 'social welfare' organisations and appropriate to receive donations (eg sporting clubs, religious groups will all play a much bigger role with the continuation of the aging population).
 - ii. Provide a one-off cash bonus to these organisations in addition to that paid to low income earners.
 - Tax legislation is currently "mealy-mouthed"
 - Instead there needs to be some real-world examples of how the ATO considers real-world situations – Rulings are much more useful as they use real-life examples.
 - Removing cash bonuses for the middle class from the transfer system (eg baby bonus or bonus \$7,000 for first home buyers)
 - Some sectors of the population do need help, but for most of the middle class these payments are being used for large luxury purchases.
 - In the case of the \$7,000 bonus (to \$14,000) for first home buyers, housing prices seemed to rise overnight.
 - Every family and couple should be responsible for their own affairs, rather than favouring some sectors with large cash bonuses.
 - Remove the tax bonus from the transfer system.
 - Introduce a family unit of taxation
 - The transfer system is based on family units, so why not the tax system?

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- There are a number of arguments against this; the most difficult to comprehend is the effect on marginal tax rates.
 - There should be a focus on what the family is getting as a whole.
 - By having a family unit of taxation, transfer payments to the middle class can be avoided.
 - This should be optional, providing choice for those families that want to keep their incomes separate.
 - Australian petrol prices
 - Reduce the taxes on petrol as this is a major contributor to increased cost of living for people on low incomes.
 - Naming and shaming tax avoiders
 - In the long term this would work better than the current system (which allows non-payers to enter into agreements to pay tax back) in reducing the number of people not paying taxes.
 - Allow low income housing payments to be deductible to improve housing affordability. However, the comment was made that this could result in people increasing their debt against their homes as much as possible to increase the tax benefits, leading to a situation similar to America's at the moment.
 - Allow losses to be quarantined against other recovery streams – so that people could deduct capital losses, share investments or other property investments of a capital nature, subject to some sort of threshold, in each tax year – 20% of taxable income? – as a way of creating savings.
 - Introduce paid maternity leave – a new baby can be very hard for a young working couple when one income is lost and there are so many additional expenses.
 - Reform through investment in infrastructure projects
 - Allow people to invest in infrastructure projects through prospectuses (eg providing the option to invest in a company that might want to build a railway line) this would allow a corresponding deduction to income tax. It also reduces government (financial) involvement as rather than money being paid to the Tax Office and then being used by the government to fund infrastructure – individuals could put the money into these projects themselves and *“cut out the middle man”*.
 - It will be important to have further consultation with key groups who will be impacted by the changes (eg superannuation companies and banks) to ensure that changes will be implemented in a way that minimises the burden on these companies (it was suggested this was not done with the changes to 'simplifying' super).
 - People with simple PAYG incomes are not required to submit tax returns (similar to New Zealand)
 - In cases where the government provides tax payers with a pre-filled form (Option 1 given by Dr Ken Henry), issues of privacy may arise.
 - Can deductions throughout the year be aligned with Tax File Numbers, so the ATO has access to deductions as well as income?
 - The withholding option (Option 2 given by Dr Ken Henry) places the burden of information-gathering upon the financial sector; and makes a complex area even more so. This will further increase problems encountered with reporting.
 - Suggestion to move towards a domestic withholding approach; if people choose to lodge a tax return, they would expect to receive a refund due to eligibility for further deductions.
 - This may not eliminate the need for tax accountants. For most people when they are sent a bill or invoice, they would check it. Therefore individuals may still need tax accountant's assistance to review their tax return.

- Eliminating tax returns might put a stop to the “forced savings” that often occur around tax-return time.
- Limitation of consumer-based tax deductions
 - For example, tradesmen that purchase a truck simply to claim the tax deduction and people who go driving around the country just before the end of the tax year in order to increase their work related kilometers and reduce FBT.
- Clarification on legislation relating to principal place of residence
 - While there can't be two principal places of residence, there are exceptions such as when moving to a nursing home for a period of time, that person could rent the property out even though it is still their principal place of residence.
- Change the focus of the Tax Office to how can we help people pay more tax?
 - If the tax system could change its focus to helping people gain higher incomes and thus pay more tax.
- Look more widely at how government can obtain income
 - Use CSIRO and defence organisations to generate income so that individuals don't need to pay tax.
 “I am aware that the Federal superannuation is just funded out of the tax system, - there's a lot more money that's needed and people need to think more widely about what we can do.”

5.1.2 Adelaide

AFTS Public Consultation Forum

Adelaide 26th March 2009

Mercure Grosvenor Hotel Adelaide 6pm-8pm

Comments on the broader tax and transfer system

Audience

My question relates to all three guiding questions you've got. What parts aren't working well? Quite a few of them. Taxes and transfers you see as fair or unfair particularly in the Centrelink area there are many examples. And the priority, I would think of things that aren't working well would be to merge the Tax and transfer areas because they are two sides to the one coin – why don't they just merge the two?

Audience

I would like to focus on the first one and a particular part of the tax system that doesn't work well and that is the taxing of very, very large incomes. We've heard a lot about taxing of payments for executives receiving large payments and I am sure they are not being taxed and I would like to have comment on that.

Audience - National Council of Women of Australia

We are looking at this proposal from the point of view of women who, by and large are disadvantaged because of the nature of their employment during their working life and their pay inequities as well as in retirement.

What we would like to know is whether these inequities can be taken into account in terms of retirement income especially for women who will be behind the 8 ball especially in terms of the Superannuation they receive. In terms of fairness of the whole system, I would like to know if there is analysis of the impact of taxation in terms of gender disaggregated data so we know what is actually the impact on women and actually single household women who

actually live in poverty later on and to what extent they actually have a security net that will look after them.

Audience

Just a question first for a summary of the transfer system by somebody that knows.

(It was clarified that this was basically income support payments, pension payments etc...payments that essentially go through Centrelink)

Audience –Working women’s centre & Security for women Representative

Concerned about income tax in the NFP sector. If it is complex for small business, I suggest it is similarly complex for NFP sector. One of the problems we have in the sector is attracting and retaining staff with the skill sets required. It is very difficult to run a small organisation on very low resources. When we lose staff it costs a lot to replace them. I am interested in how we can free up some incentive to employees through the tax system to address that issue.

Audience – The Farmers’ Federation

One of the taxes we think is unfair is stamp duty. Stamp duty is a State tax and I was wondering how the review was going to relate to State governments and local governments. I was wondering how they would relate findings to the State and local governments.

Audience – University of SA

I am sure the Jeff Harmer is well aware that same sex couples are going to be recognised for transfers and payments through Centrelink as couples from the 1st of July and if they fail to declare as couples they will be investigated and penalised. I am concerned as are many others about the impact of this and the way it relates to the tax and transfer system in the way it regards a unit that is by no means consistent across the tax and transfer system. The way that Centrelink determines a couple is based on assumptions of dependency, especially male bread winner and female dependant. It is outdated and has got to be reformed and I would be very interested to hear what the panel has to say about that.

Audience

With the 50% Capital Gains discount, at the moment, someone who works pays twice the marginal tax rate as someone who just makes a capital gain. So if I go to work each day, I pay twice the tax on my working as someone who spends money and sells something and makes a profit – and I don't believe that's fair. The other thing is interest calculated in nominal terms so for instance, if I save money, I am only actually gaining after inflation and similarly with borrowing, you only get that discount after inflation. So if you combine the two, the current tax system is encouraging borrowing, discouraging saving, encouraging speculating and discouraging working. If you combine them all what you would expect is for people to borrow huge amounts of money, gamble, speculate and eventually there would be a massive debt bubble that would inflate us in markets and then and I believe this has helped get us into the situation we are in now.

Audience – Revenue review foundation

I accept the concept of transfers – in other words, those who have a surplus goes to the less fortunate. However our system – the money that isn't there to be transferred is caused by the 40&45% rate and that drives a lot of money out of our economy. I believe without the 40/45 rate that about 36-48 million would come back into our economy. So the geese that lay the golden egg will fly back into Australia and I think we need that at this point in our history.

Audience

To follow up what a participant said before. There is a perception in Australia that large income earners, high wealth individuals and the big end of town in terms of Corporations do not pay their fair share of tax. That perception is probably true. The way that this can be overcome is to remove the secrecy provision of the tax law. In Japan, tax return information is public information and instead of competing to pay the least amount of tax, there is competition to be amongst the highest tax payers

Audience – Disability SA

I would like to see the Transfer system changed to encourage people to work. I could be on a pension but I chose to be independent and I gather that some people need more encouragement to do that and I would like to see that happen.

Audience

I want to address an issue in the consultation paper about the type of society that we want to live in and how the tax system might shape that society and want to refer particularly to organisations with a charitable or benevolent or philanthropic purpose, I was drawn to the NZ legislation which was changed in 2008 that provides 33% deductibility for contributions to organisations that have a donee status. These are organisations that are defined as doing a public good and rely on contributions from the community. In Australia we have donor gift recipient framework those are primarily charities that are relieving poverty and I believe educational. But the range of the sector covered by the DGR status is limited and there are many other organisations involved doing good which in some way address the negative issues or problems facing society (sporting, religious, cultural etc). Tax deductibility of contributions to these organisations would substantially expand the amount of private money going into that sector which is engaged in doing public benevolent good. This impacts the size of government in Australia. If we can maximise the amount of private money going into benevolent purposes in Australia via the government tax system that provides a greater overall result for the country. Evidence from research done in the US is that the level of tax deductibility has a result on the amount of money flowing into private organisations doing public good.

Audience

One of the components that is working well is the DGR. Internationally Aust doesn't do well as far as statistics are concerned but that is primarily due to leaving out the tax deduction effect.

What I don't think is working well is the horrendous complexity of the taxes acts. I have a friend who was an inspector of Inland Revenue in the UK and he like 72% of taxpayers here uses a tax agent. I have to deal with division 775 of ITA '97 which is about foreign exchange. The thing is about 100 pages – it took a week when it first came out to read, understand and work out how to comply with it. There must be a large number of Australians who would be in breach of those items simply because they don't know about them. Too complex.

The 45 day rule - Explanation in the ATO's pamphlet is incorrect or misleading. When you go to look it up, the qualifications for those who can get franking credit are included in the former (because it has been repealed) part 3a)a) of ITA 36. Which was one of the 4000 pages of tax legislation that had been repealed but you still need to look it up if you want to know who is going to get a franking credit under the 45 day rule for people who own shares. That sort of thing could be tidied up if government would take a slightly more broad approach.

Audience – SFR

SFRs don't seem to be mentioned much in the paper. I'm terrified that someone may be taking away my franking credits and I would have to join the queue at Social Security. I have done my best to stay out of the taxpayers pocket for as long as possible. I am suspicious that I will have to join that queue if these changes don't come with compensating mechanisms to allow me to survive the way I am at the moment. There are a couple of things that make it difficult every time there is a change in the tax law. There don't seem to be easy mechanisms for adjusting my portfolio and how much is in super and how much I get from dividends and whatever I do to make an income. It seems whenever I move some of that because the laws have changed, I get large capital gains taxes as I move from one area to another or if I move stuff between my wife and I who have different levels of income. In US they have married filing joint or income averaging - both of those things are useful to allow somebody to ride over the changes in the tax law in order to put themselves in the position of surviving the new regulations.

Audience – SA government superannuated employees association

Seriously concerned by an item in the Dec 2008 retirement income consultation paper that is really a taxation matter and highly relevant to members. Should members of untaxed source funds have their superannuated and non superannuated incomes taxed separately after age 60? On page 26 of that document it compared two \$40,000 incomes, one from a taxed fund, one not with both pensioners having an additional non superannuated income of \$20,000. The document says "the individual taking the pension from the tax sourced fund has already prepaid tax on their pension of \$7,058. The prepaid tax more than offsets the income tax treatment that the tax sourced pension receives compared with the untaxed source pension. That is if you add the prepaid tax to the income tax for the tax source d pension, that pension is actually more heavily taxed than the untaxed source one. This assumption of 15% prepaid tax is simply wrong. This is mostly because members own contributions are exempt from 15% tax and so are pre July 1988 contributions from the employer. In fact any tax source pensioner who is currently receiving a pension hasn't paid anything like 15% of their pension in tax. The actual amount is more in the range of 0-7% depending on when the person retired. For almost all members of tax sourced schemes who have not yet retired, the prepaid tax will never be at 15% because of the employees contribution. Our deepest concern is the process that has been used. The panel has made a wrong assumption about taxation and using this has produced a report that carries a strong implication claiming that their unfair tax on non-pension income. The published review on this is not based on sound analysis & detailed superannuation expertise. We strongly believe that whatever recommendations the panel makes must be founded on valid arguments can you give us assurance that 15% assumption will be founded on expert and detailed analysis. If it is, we confidently predict that it will be found inaccurate and misleading.

Audience – Lawyer

In papers acknowledge that NFPs provide real benefit to society - I want to include in that, charitable organisations. I would like to see the review address these issues:

To allow tax deduction for charitable organisations who do not lobby government for policy change and are not running commercial business ventures. I would like to see the use of donated funds for educational, health and welfare areas providing a tax benefit. In the submission I make I note that charitable organisations provide a great deal of support for individuals and family, for caring for the needy and educational support. There is a great deal of money, time and labour which is not expected to be accounted for. This strengthens communities and families help community members to live law abiding lives to the benefit of

community, government and society. I don't think that we should be at be at the government largess for funds of course there will always be a need for government contributions for capital works. A large number want to contribute to organisations not described on the DGR's 30b table. A donation to a charitable organisation or a church has these real benefits it would result in greater display and use of resources. For example Capital works activities for the youth and young adults, education and learning, career workshops and the like. People who are involved in this kind of thing genuinely care. Sure the best bang for your buck is the family that rec'd assistance from the government are like people who have been given fish for a night, those who receive help by a charitable organisation are like the those who have been taught to fish for life. I would like to see a more opportunity for the recognition of contributions to charitable organisations by way of tax deductions.

Dr Harmer summarised key points so far (refer #1 below)

Peter Harris: Opened up the floor again

Audience

I would like to raise matter of health and the safety net. I would certainly hope the safety net stays. Not just for the benefit of families but also SFRs may just miss out on seniors' card. I wouldn't like to see people be frozen out at a time when they really need health care.

Audience

I think the Tax free threshold is extremely low. If you are earning that kind of money, it just seems that there is a lot of effort in taking money from people whose income is very low only to return it to them via the transfer system described. The government takes the money away, shuffle it around gets distributed and then gets given back and that just seems silly to me.

Audience

With regard to retirees, a lot of women in the early years did not contribute to superannuation and so have little superannuation and whatever money they have will have to be will have to be outside super. Because of that, we suggest that the tax system looks at taxing interest and income. We are urging that you look at \$5,000 interest earnings as tax free also because some are struggling.

Audience

When GST was introduced some might remember that threshold prior to that was \$5,000. At the time, increase was to \$6,000 and Andrew Murray has proposed to raise threshold to \$20,000. I think the thresholds shouldn't apply equally right across the board. There should be a threshold of \$20,000 for those on an income of \$20,000 and a gradually sliding scale of that threshold down to what is currently \$6,000 for people on a higher income. Actuaries could work out a tax neutral system.

Audience

We had a couple people talking about NFPs and Charities. I think if you look at that area then their books should be published, because we have a lot of bodies getting help and their books are not published – they are not forced to report to ASIC or anything. We have no idea how much of this money actually gets to the needy. We must have this corrected. Our charities will then also be more credible.

Audience

Why do we only have two or three tax bands or jumps? Why not many more and much smaller steps so there is more incentive to stop trying to avoid the next step.

Audience

The word merge was used in the shift of tax and social security. I believe this is very, very important for both tax and transfers to work from the same page. The withdrawal rate is stepped so currently if you earn \$100 you lose \$200 (as an example). There would be a withdrawal where there is a 40c withdrawal which is a tax on the monies earned. So the person trying to get back into the workforce has 60c of the monies earned. This reduces unfairness of the current system

Audience

I just wanted to reinforce the point that is being made about women and a lifetime of lack of access for women to superannuation and how important that is. Particularly to older women in same sex couples who are going to be subject to changes as of 1 July. This is an incredibly serious situation as many may already be living in poverty and had no access to superannuation had all sorts of expenses through their lives and generally if, in the past, have been married have notoriously bad divorce settlements and have got nothing out of that. They have raised children or whatever they had to do. If they are receiving transfer payments, these will be reduced. If they have been in a same sex couple all their lives, they have not had the benefit of a male income so we may even plunge them into a serious poverty situation. I think that is something the inquiry really needs to take into account.

Audience – SFR

I have taken money out of super after seeing all the crash last year. So it is sitting in cash and I am sure I am going to be penalised. The lady up front suggested a \$5,000 threshold. I probably won't go back to super. At the moment just qualifies for a small pension but if they changes, I may need to use my savings to survive and that does not seem fair.

Peter Harris encouraged questions around savings and investments.

Audience

One of the problems with savings in cash is the effect of inflation basically means you are getting a negative return after tax. One of the ways around it is a wealth tax at a lower threshold of say, \$500,000. This would solve the issue of being taxed on interest. Other savings and investments get very good rates of return.

Audience

If you have a tax source pension of any amount then you don't pay the Medicare levy. That seems bizarre to me because surely the aim of a universal health care is that all people pay in and everyone is entitled to take out. The 15% on tax source funds doesn't contain a Medicare component.

Peter Harris encouraged moving on to designing a tax system for next century. What are the key points?

Audience

I would like to look at the NFP sector, not the tax deductibility of donations rather the contribution of volunteers. The contribution they are making to the economy – Productivity Commission inquiry has commenced. The issue is that for someone who is retired, volunteering is actually out of pocket given funding for volunteers to use for transport etc. It seems inequitable that they are contributing to the economy and then they are out of pocket. I suggest that NFPs run by volunteers be given funding to pay for transportation costs for volunteers and insurance.

Audience

I wanted to comment on what the other person said.... There is a window where you can contribute to super tax free. The other thing is that you can go to super balances of cash. The other thing is with the welfare system; perhaps for the pension, very high value residences should count as part of the assets test.

Audience

I disagree with that – property values double every 7-10 years and if you are a person with a house, I am concerned about asset tests in the transfer system. My parents live in a home and if they were not to have a pension, they couldn't survive on the value of their house so I don't agree with that at all. I actually think the super Co-contribution is a good incentive.

Audience

Just want to comment on not taking money out of super. If I kept it in super I would have got 1.9% interest. I am now getting 4.5% which isn't much but is better than 1.9. With regard to co-contribution, I worked in 2007 and am still waiting for that co-contribution. Is that because ATO put off 300 people and they don't have the admin team to do it?

Peter Harris reminded all of the comments sheets on their seats.

Audience

I've had a little bit to do with the Centrelink system recently. I have learnt through Centrelink that through the assets test and income test they look under both tests and they give you the lowest one that you are eligible for. There seems to be a bit of inequity or penny pinching. The other issue is that in current asset volatility structure you can qualify this week for a pension and the next week you don't qualify because your assets have come up. I don't know how to overcome that but there needs to be some better transition method

Audience

You talk of parts of tax transfer system that are not working well when numerous submissions were made to the transfer system in the pension review which was supposed to be made public towards the end of February and I am not sure that is the case now. There is some suggestion in the press now that there will be findings given rather than recommendations.

Dr Harmer summarised key issues (refer #2 below)

Peter Harris: Invited questions from the floor regarding business tax and complexity.

Audience

It's business tax and complexity as well. Complexities impacts most on business. Australia has the highest tax compliance costs in the whole world. I've heard Dr Harmer say they will address the complexity of the tax system and going to simplify it. I've had 40 years of public servants and politicians claim that it will be simplified and none have achieved that, even to the slightest degree. The reason the tax system is complex is because politicians are wanting to be perceived as giving something to tax payers - this happens at election time mostly.

We also desire a system of equity and fairness ... to simplify that system then equity & fairness will need to be sacrificed. If you are going to make broad rules, then somebody will miss out.

Tax avoidance and tax minimisation -Tax laws are not drafted for the general public but for the taxation lawyers and accountants employed to reduce large companies' tax obligations and are hidden by secrecy provisions. This is where the greatest change can occur. I was

disappointed to hear Dr Harmer dismiss that as out of character with the people. I believe that it is not out of character with what the people want.

Audience

There needs to be a distinction between small business and large company. The single operator business, whether that be a newsagent pharmacy etc I think the Tax office has decades of history on people knowing what a newsagent makes. I don't know why we just don't send him a bill – because the cash register is the most transparent.

Audience

Complexity – it is perfectly true that one of the reasons for our complexity is because of avoidance. There are very old anti avoidance provisions that have been made redundant by part 4a. What we can do for people who try to fulfil their obligations is a system offering statutory concessions such as the ones used in the UK.

Audience

One thing that needs to be looked at is NFP organisations and companies. It seems ridiculous that you can have two companies operating in the same market where one is paying tax and one not.

Audience

I thought that with introduction of the GST that one of the deals was for the distribution of money back to the State governments was that Stamp duty would be eliminated. If that is true is this review going to try to make that happen?

Audience

These companies that have no profits – I don't see why there couldn't be 2% tax on turnover applied that has no abatement against future tax losses. The other thing that is weird is that Company tax is set at 30% and in the budget paper it was reported at 19%. Where is the missing 11%? R&D is an important issue. Where there is a company that is only intellectual or technical knowledge to start with but there is no reason with an already going concern to make a claim for R&D.

Audience

I would like to make a comment on land tax. We are concerned with equity of taxes and who we tax. We also need to think about the impact of who pays. For example Land taxes - the State Government's tax has had an impact on people who are disadvantaged because those costs are merely passed on to tenants by landlords.

Audience

My understanding is that land tax is also imposed on Residential Aged care facilities in SA and that is not the case elsewhere. I think that would be a good thing for the review to look at. I am also hoping the enquiry will look at the assessment process for the residential aged care subsidy and the way it does or does not exclude the family home from the test. The restrictions to the Aged Care Act will result in greater and greater complications as all this stuff about definitions of a couple/family etc. If we look at setting a system for the future we really need to have that defined as it will have a huge amount of impact in the aged care sector.

Audience

I query the assumption that the cash register is infallible. If you go to the casino any night, there are a number of people going through (all with under \$10,000), they will gamble this, lose a bit and then have remaining money as legitimate money. Income from gambling needs to be looked at.

Audience

Just a few quick ideas

Maybe you could index brackets – this may lessen bracket creep

Recommend paying HECS out of pre tax income (just as a tradie would claim for use of their ute).

Audience - trustee for self managed super fund

Many friends of mine are in the grey area with some money to invest – not a lot. This is why we are in a self managed fund because we could not afford the drain of management fees on a managed super fund. Is there something in tax system for these people (who are probably on part pension at least) that will allow them to use their savings more effectively to augment their pension without having to “do the hard yards” of managing the complex administration?

Audience

It was disappointing to me that GST was not included in this review. GST is a complex task for business. This is not a comprehensive review of the tax system if GST is not included. This is only half a review without that.

Audience

On the issue of the Federation, I think nothing has been said before. State revenue before Commonwealth receipts 15.4%; State revenue after Commonwealth receipts was 37%. The only suggestion is that (because you can't change the constitution) there should be a merger of some of the Federal and State departments that are duplicated. This should be reviewed.

Peter Harris offered opportunity for final comments

Audience

Someone was talking about taxing property to prevent overinvestment perhaps something like California prop 13 may help. Each year you pay a % of what you originally paid for the property in the first place.

Audience

The British have systems (and it amazes me that it works) - every \$ that a tax payer puts into the system gives them a ticket in the national lottery – apparently makes people want to pay their tax.

Dr Harmer summarised key issues (#3 below):

Jeff Harmer: I appreciate all giving up time to share your views and comments. I urge you all to put your ideas, comments and concerns into submissions by the 1st of May. The views you expressed tonight will be viewed by all panel members and we appreciate you being part of this important process.

Thank you for sharing tonight. We are glad that you spoke up over the last two hours. We particularly encourage submissions from SA. Currently SA submissions are low. (The submission website was put up on PPT.)

Dr Harmer clarified that the same panel that did the pension review is conducting this tax review.

Peter Harris -

Thank you all very much. If there's anything else that you wanted to say about improving the tax and transfer system or the future of Australia's tax and transfer system, please take

the time now to fill out those forms on the seats. We very much encourage you to write down your thoughts, and also to stick around for coffee and refreshments.

5.1.3 Perth

AFTS Public Consultation Forum - Perth

Tuesday 17 16 March 2009

Perth Convention Exhibition Centre

6pm – 8pm

Overall comments on how the meeting went and any suggestions for improvement

The meeting was a success, despite the number of attendees being less than expected.

Thirty nine individuals attended, eighteen as representing themselves, five as business people, five government officials and six representing associations/organisations. There was at least one journalist from the West Australian Newspaper who was silent.

Four members of the Treasury team attended plus the AFTS Board representative (Greg Smith). The meeting began on time and finished at 5 minutes past 8pm. At least half of the attendees stayed on afterwards to chat further to David and Greg over tea and coffee. 23 feedback forms were completed and collected.

The meeting was more structured than Darwin but it also allowed for free and informal discussion where all attendees who wished to express their thoughts had ample opportunity. 29 attendees spoke, 14 spoke multiple times. The tone of the meeting was constructive with regular and valuable dialogue between the attendees and the Panel Member (Greg Smith). At the conclusion several attendees expressed their appreciation to me for the ability to share their views with government and public sector in this manner. There were at least 2 attendees representing Pension groups who also attended the consultation meetings on Homelessness and the Pension Review conducted by CBR in 2008.

Greg Smith was concerned at the start that having the panel off to one side in the front of the room was going to be an issue but as the evening progressed, the format worked well.

There were a number of attendees expressing disappointment that not more people attended. Most people that did attend heard about the meeting from the website (15) or via word of mouth (12). The newspaper advertisement and media articles attracted seven attendees.

Comments on the broader tax and transfer system

3. What parts of the tax and transfer system are not working well? What components are working well?
 - Complexity was a central theme and was the first topic that attendees wanted to discuss/table. Overall respondents argued the tax system was too complex, even for those that are involved in tax accounting and management.
 - Speakers were concerned about the impact of current investment losses in Super.
 - A lot of objections to tax system can be described as failing to tax the substance rather than the form of transaction
 - The issue of a Debit tax was discussed and for some it was seen as a problem solver to complexity, but for others it would be a return to the days of a large hidden cash economy.
 - Negative gearing was identified as a positive
4. Are there taxes or transfers you see as fair or unfair?

- There were so many different opinions tabled here with no clear consistency. It completely depends on who you are representing or your own personal situation.
5. What priorities do you see for improving things that are not working well?
- Simplify everything (look around the world for good examples)
 - Fairness across groups
 - Incentivizing hard work
 - Look for ways for businesses to incentivize without having to increase payroll and payroll tax

Comments on specific tax topic issues

1. Personal Income Tax

Personal tax was not an overly contentious area. There were a few important exceptions

- Consider the specific issues of women and the provision of income tax retirement provisions as women have often had different working career opportunities than men (eg an ability to build super) and in retirement they need to be dealt with differently.
 - Top tax bracket provides a disincentive to work harder and that does not make sense.
 - Stability of tax system and perceptibility – don't think anyone minds paying a fair rate of tax, but some perceive top tax rate as a disincentive for people to work harder, rather than concentrating on their job and increasing their general wealth. Top tax rate is an issue that needs to be addressed.
 - Loopholes are there for the very wealthy.
 - Tax on savings – a disincentive, talked about many times doing away with that tax and that money while being invested could be used more constructively into the development of the economy.
 - Why we haven't been able to index the tax thresholds?
 - Tax deductibility in regards to education should be investigated as it surely is a long term investment in our future.
2. Transfers (eg income support, family payments)
- Not adequate across all groups from aged pensioners to unemployed. Right now with the GFC impacting a greater safety net is required.
 - There was a small but vocal minority that disagreed with transfers, it was considered an inefficient process to take from one group and then hand it back in another payment.
 - *"There is a perception that if you're a pensioner you're a burden on Australia – they've paid their taxes and mortgages in their own way. It's all part of the generational change".*
3. Business Tax
- Payroll tax considered a disincentive to employ and there was a call to abolish.
 - Employee share arrangements and the taxation of those is complicated and a disincentive. Right now is a good time to make it easier for employee owned companies to reduce salary and offer attractive employee share options, especially in start up operations.
 - Taxing things that are unhealthy – taxing drinks, food, pursuits that are not healthy.
 - Need to look at the exemption section for 'not for profit organisations'
 - Transfer pricing helps large business not pay tax in Australia. Any review should look at the taxes imposed by government to get big companies paying tax. A call to not treat all groups within society the same.

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4. Complexity/administration of the system
 - A high % of Australians use tax agents because the system is so complex, forms are complex, English is not first language for a high percentage of Australians.
 5. State & local government taxes
 - Land Tax issue – growth in land tax has been astronomical – 250% increase in their land tax. Land tax is incorrectly handled as most valuations are way out of date.
 - In regards to land tax the problem is that it's assessed on the underlying capital value, which is an un-realization gain. Fairness in regards to land tax could be that it is more related to the capacity to grow income.
 - Federal and State relationships don't make sense in the areas of transport and shortage of oil and in particular there are differences in how fuel taxes are handled (eg Qld).

Considerations for Group discussion recruitment or content

- In terms of group discussion recruitment it may be important to structure groups around life stage; ie Gen X, Gen Y, Baby Boomers or at least Young Families and older working families, those on an aged pension as they have very different needs, issues and perspectives.
- Self employed vs other employed is a key difference
- Investigate Australia's Future Tax system as a component of the global economy and take into account what is happening around the world with tax free havens. We are now a global economy and any future planning needs to take this into account.
- Repeat the issue from Darwin that it will be important to probe whether calls for reform are being driven by shorter term priorities (eg financial crisis, impact on employment, impact on retirement savings etc.) versus shaping a system that will serve Australia well for the longer term. Note Greg Smith repeatedly mentioned it was a long term view but attendees kept asking the question.
- A key issue to explore in groups is whether tax policy should better cater to family structure (eg single income families and the current disincentive to stay at home and look after children, or even the lack of an incentive to donate your time to help the under privileged or religious groups that are trying to help others).
- Self funded retirees have a significant set of issues to relay and are different to other older aged groups. Issues around equity.

5.1.4 Darwin

AFTS Public Consultation Forum - Darwin

Monday 16 March 2009

Crowne Plaza Hotel

6pm – 8pm

Overall comments on how the meeting went and any suggestions for improvement

The meeting was a success.

16 individuals attended, six as individuals, five as business people, three government officials, one representing an organisation and one other.

Four members of the Treasury team attended plus the AFTS Board representative (Greg Smith). The meeting began on time and finished at 5 minutes past 8pm. Most attendees stayed on afterwards to chat further over tea and coffee.

The small group allowed for free and informal discussion where all attendees who wished to express their thoughts had ample opportunity. The tone of the meeting was constructive with regular and valuable dialogue between the attendees and the Panel Member (Greg Smith). At the conclusion several attendees expressed their appreciation for the ability to share their views with government and public sector in this manner.

With respect to matters to watch out for in future meetings where small numbers attend, the following may be of value:

1. Ensure the room is not laid out in theatre style but as horseshoe with only 2 rows of chairs. Add chairs as attendees arrive to ensure all sit at the front and avoid the impression of non attendance.
2. Dispense with the sound systems - they are not needed with groups under 30
3. Encourage informality and exchanges between the attendees and the panel members and Treasury staff
4. Do not use large rooms where numbers are small.

Comments on the broader tax and transfer system

6. What parts of the tax and transfer system are not working well? What components are working well?
 - The floor opened with commentary regarding the superannuation system. In particular concerns were voiced regarding the recent economic events on retiree's super funds and the perceived disincentives for independently funded super annuitants to go back into the workforce. There was a call for means tests to be abolished.
 - Speakers were concerned about the impact of investment losses in Super and some felt misled by the security signals sent about super given recent events. There was a call for private super to be converted to a guaranteed annuity with the government taking on the longevity risk.
 - The aged pension was considered a lesser alternative to private super because of the restrictions imposed and the nature of dealings with Centrelink. Objections were generally not ideological but experiential in nature.
 - Overall respondents argued the tax system was too complex.
7. Are there taxes or transfers you see as fair or unfair?
 - Opinions varied significantly on fairness with individuals arguing for or against certain taxes or transfer payments.
 - Overall it was acknowledged the matters were too complex for the average person.
 - The most rounded and consistent comments were from those in the tax area (eg tax professionals) or those representing others
8. What priorities do you see for improving things that are not working well?
 - If the government were able to deliver security of annuity without the restrictions of Centrelink, attendees would be more accepting of government schemes. The main benefit would be the avoidance of the profit and greed motive that some view as the reason for recent investment losses.
 - Some called for the separation of revenue collection from social equity. The combination of the two was seen as a major reason for complexity and non

compliance (eg Tax Office has traditionally not been a facilitator of transfers, but is playing an increasing role in this area)

Comments on specific tax topic issues

6. Personal Income Tax

Personal tax was not an overly contentious area, albeit with superannuation and its link with personal income tax the subject of more focused discussion.

- Tax thresholds were seen as reasonable.
- There was some call for the zero tax thresholds to be increased and for the maximum marginal personal income tax levels to equate to corporate tax.
- Younger attendees and some employers asked for income tax to change to encourage younger people to work rather than accept benefits.
- The impact of short term changes in income, in the case of hourly rates increasing for overtime, resulting in higher PAYG, was counter to this approach.
- Giving an interest free loan to the government for up to 12 months is not what young people want. Instead they are driven by money in their hand now.
- Submissions were made for even lower levels of tax on super based on income.
- Concerns for the recent economic events on retiree's super funds and the perceived disincentives for independently funded super annuitants to go back into the workforce.
- Concerns about the impact of investment losses in Super and feelings of being misled by the security signals sent about super given recent events.
- Private super to be converted to a guaranteed annuity with the government taking on the longevity risk.

7. Transfers (eg income support, family payments)

A contentious area;

- Administratively difficult and often misdirected.
- As mentioned above, some called for separation from revenue collection.
- Baby bonus criticized (not means tested).
- Super contributions criticised by the young.

8. Business Tax

- Payroll tax considered a disincentive to employ.
- Requests for thresholds to be increased so that small and small/medium sized companies that employ most of the workforce are exempt.
- FBT was criticised as encouraging non compliance and being impossible to administer
- Corporate tax levels were considered about right, however the gap between corporate and maximum marginal personal income tax felt to distort how income is accounted for (eg as wages/salary vs distributions from corporate structures)

9. Complexity/administration of the system

- A major point of concern for all taxes, particularly problematic on FBT, CGT, and BAS.
- PAYG was also a problem.
- Calls were made for a simpler system for low income earners.
- The ATO was good but the compliance was not (eg a perception they do their best to administer a poor/overly complex system as well as they can).
- State and Territory tax authorities were criticised.

10. State & local government taxes

- The most heavily criticised.
- Considered disruptive (see above on PT).
- Local stamp duties were distorting markets and adding to the complexity of CGT calculations.

-
- There were calls for States to be removed from the revenue raising process and to be made accountable to productive utilization of tax funds.

Considerations for Group discussion recruitment or content

- Important to probe whether calls for reform are being driven by shorter term priorities (eg financial crisis, impact on employment, impact on retirement savings etc.) versus shaping a system that will serve Australia well for the longer term.
- A key issue to explore in groups is whether tax policy should better cater to family structure (eg better match between tax liabilities and transfer payment eligibility)
- State & local government taxes are of significant interest, mostly negative. We potentially need to have an understanding of key State taxes in each focus group location so as to facilitate informed discussion (and we note these are flagged in the Architecture paper of 2008)
- Superannuation & retirement incomes were topics of considerable interest. We need to consider the extent to which these issues will have been explored and dealt as part of the retirement incomes review, and if so perhaps refocus groups on other (younger) audiences.

5.1.5 Geelong

AFTS Public Consultation Forum - Geelong

Tuesday 24 March 2009

Geelong conference Centre

6pm – 8pm

Comments on the broader tax and transfer system

General comments on current tax transfer system:

What parts of the tax and transfer system are not working well? What components are working well?

- What parts of the tax and transfer system are not working well? Well, first I have to say just about every State tax you can imagine across each State and territory. Chief amongst them must be payroll tax and secondly land tax. Payroll tax stifles the incentive to employ anybody and land tax is just a tax on business to pass onto business items. In terms of income tax I would have thought the taxation system as it applies to trusts is also pretty much out of date and well in need of revamping and rethinking. There is no clear law. There are no clear guidelines on how you apply those laws. In terms of superannuation, I think the superannuation system has been simplified and works really well at the moment but I think the mix of super income tax needs to be reviewed and we might need to bring some compulsory super infrastructures and reduce income tax on super. The top priorities I see for improving things that are not working well are to fix up Commonwealth State tax relationships and one streamlined set of tax rules for all the country.

General comments on current tax transfer system:

What parts of the tax and transfer system are not working well?

-
- The tax system is used for things other than tax. The tax system is complicated. We use tax for welfare social engineering, etc but not used for revenue collection. We have a welfare system to distribute payments for people who cannot pay for themselves. We have tax systems to discourage cigarettes and alcohol....let's licence it. The tax system is the easy way out for legislation. Three principles based on aspects of law – simple – ordinary people should not need to see an accountant to complete their tax. Income splitting is much more tax effective because the tax rates are lower. Personal tax rates are much higher. Over a number of years business avoid a high tax rate and now the law is changed. A certain amount of your business from your supplier means you get taxed less. Tax evasion without paying the highest rate of tax. Operate through a partnership – In summary – 3 principles , simplicity – non distortive – used for revenue collection and no other purpose
 - Superannuation was not mentioned –runs a self managed super fund. Finds it difficult. One page expanded to 17 pages from accountant. Compulsory random paper work participant feels is “crap”. Going through a charade that also costs to put all possible taxes in there – non preserved, unrestricted etc. \$150 levy he needs to pay – the cost of the entire exercise is \$1500 and would like it to be made simpler.
 - 154 potential taxation points in Aust. What a system? What are they for? Why do we need Federal taxation? We need it because we all desire to live together. When we have all this infrastructure – everyone know what it does. Hospital Railway etc – what is the value? Land...the value of land is what measures what you pay your taxes for. Simple – tax land value. To leave the pensioners free. What we have is our fathers when establish federation...collecting rent – site rent. Every one benefits. Liberal party got rid of site rent. Imagine if we collect taxes from labour and from capital, they can't work without each other. They generate wealth. Taxation – tax it and you loose it. We tax the very things that make this nation good. Access to land is the key.
 - Representing himself. Five year tax payer in Aust. Donations are tax deductible. Donations are discouraged if not tax detectable. Contributions increase – the government decreases – money to a charity is much more utilised. A new tax deduction should be not just for education but also church buildings and youth and also strengthen families.
 - Paul Keating – criticise for language in parliament but a good treasurer. Dividend invitation scheme. Aust share market taxed twice. Reverse the legislation – would benefit retirees.
 - Government ministers of the day protect the parliamentary pension scheme. Raise the level of our parliamentarians. A reduction for self funded pensions will increase the level.
 - Increase government expenditure.
 - Seek support of submissions of the enquiry. Ask the present dividend invitation system to be changed. If it ain't broke – don't fix it. We are not broke, we are under

pressure. Retain dividend invitation parameters – bruise but not broken. Consider the forgoing.

- Background in community fields. Policy officer in government payroll.
- Contributions to charity - non profit sector. Tax exemptions (if) for behaviour (Alco pops) Concessions fail to cure rather than prevent. Provide for the profit sector – the system.
- Household tax – single people – started work in the seventies. Ready to scream re politicians discussing working families. It takes a long time for one person to accumulate. No home owners grant when she bought a house. Seeking support for Centrelink for the 1st time in her life. If she was renting she would get more money. She has a mortgage – and was refused benefits for the first 6 days due to buying a house. The whole system is for families and no consideration for those of us who are not wealthy and don't qualify for welfare housing. No plans for ten years in future if she sells her house. Crawling on her knees before she gets any support. Big payouts for people who have babies – home owners grant – worked continuously but has not enough funds to be independent. Where is she better off – unemployed for life or working?
- Negative gearing – banks cause the situation – if they could quarantine the losses on property.
- Tax done on super fund – retiree – concerned with – Dr Ken Henry taking franking credits off. Make up your retirement fund through super. Take away franking credits they wouldn't be taxing super funds but taxing the other side. Eg super fund. Share market – highest participation in the world because of compulsory super and franking credits. If franking credits removed more people will be on the pension system and scheme. Concerned re franking credits being removed will affect every retiree.
- Add – Aust NZ only two countries in world with dividend imputation system.
- Tax deductions on non profit – the ties help build their buildings – teaching all age groups with mental issues – worked with youth to contribute back to the community. All voluntarily....we hope to work with the whole community to help you become independent. Happy with tax deduction on donations.

Priorities – fairness

- Students upset with the cost of education. We need to have more professionals. Can we not come out with a debt. To enable to purchases a house. Speaking on behalf of her students. We taught another generation to fear the future....super – adults can get it wrong. The global financial crisis will give them a hell of a shock – tax system should say if you don't know how to do it we will get you somewhere regarding super and to teach the youth to trust the government.
- Have to sell company after owning for over 30 years with Capital Gains Tax. Income goes up by 40k and tax goes up by 20k. Is there a fairer way? When you're selling

your company have a look at what you are selling it for and what you have to pay in Capital Gains Tax.

- Cap gains tax. – Fairer system to have it progressive. 50% reduction for 12 months. Inflation would not be a large part of that gain. High cost of auditing is complicated. Interest – income tax – with inflation at 4 % interest rates have come down. People have been divert money on funds they have invested but they make no money and are still taxed on it. Not inflation recomponent taken into account.
- Compliance and avoidance tax avoidance – we need a tax system that is simple. Land tax – you cannot avoid it if it's paid on land.
- Because of imputation credits – we get by on less or go back to work. Considered retiring but I enjoy work. To be faced with having to go back to work young pharmacists will be denied opportunities because flexible due to his age. Would we like to create this – not a positive position to have a self managed super fund because the cost of it. Capital gains tax is an equity – already paid. When you have a business you are working to get taxed for it not for your retirement.
- Distributions from trust investments – disappointed. Several pages, needs to be simplified.
- We are lucky to have such a good system that keeps us in good health. Wealthy country. We are getting it easier than Europe. Geelong Chamber of Commerce put submissions to government that has covered a number of things mentioned here. Joint income tax return for couples to make the system fairer. Reduce the gap. Reduce payroll tax , it has been coming down to stimulate employment. Simplify the tax system. Income tax started in 1936 and in 1997 act announced it would be written in simpler English. In this century (it can't be done over night) since the turn of the century not much has been done to simplify it. We shouldn't have to complete personal tax. Only businesses.
- Suggestion – health system we are lucky except for disabled. Huge medical expenses – all adds up – respite etc. Out of 20k for a scooter they received 6k back. Extra levy on top of marginal tax rates that goes towards helping people with a disability. To help teach people how to walk etc. Help with equity and access and also helps with efficiency. The case manager is payed to help raise funds and access government funding. Extra levy on marginal tax rates on a needs basis.
- Complexity of taxation system is it's own enemy...because of complexity it has loop wholes. Go back to a system that requires you to be honest. Complexity also is used for engineering and control on people while he government is using the money for this we cannot do ourselves eg defence force etc – Our taxation system should support those who would like to contribute to their community. Eg fire fighters have to purchase special socks that's not tax deductible. – volunteer time - to all sorts of community organisations religious and non profit etc....they really make a community and society. For the most part no jst the contribution they make they are taxed on their contributions.

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- The government does social things badly – does not want social system run by local communities etc – the option of social justice for disabled people etc are people rights. The government can administer if it has enough money. Too much money is wasted on wars. We don't have a right to be rewarded for what we need to live – should look at supporting groups and we may not pay enough tax to enable people to live fairly. Health issues due to work. Don't tax resources more than necessary.
 - Super – retired people a lot of do not have super and pay tax. There should be something done for those people.
 - Income tax should have been indexed. Whatever rate you are on it should have been indexed. High income earners should pay a higher rate of tax. Paying the accountants to engineer this is not equitable.
 - Why is everyone paid a flat rate of tax, rather than a sliding scale based on income?
 - Do tax rates and thresholds encourage or discourage workforce participation?
 - Dividend invitation – self funded retired with franking credits and dividend. Super funds 35% company dividends 20%
 - When you allow for super funds they rely on contributions over several years with compounding interest.
 - Flat tax rate to use the welfare system for people on Centrelink – removes opportunity for distortion and avoidance. Abolish the levy. It would help re marginal tax rate. Scaling back Centrelink – marginal tax rate was going up.
 - People in poverty traps or pension traps doesn't allow one person to work and the other to be on pension.
 - Direct payments would profit better? Yes we like non deductible gift – if it were turned into direct funding it would be done in a simpler way.

Business taxes

- Small business pay 30% more to match bas Statements. Simplify it. Not fair for people on there feet for 12 hours.
- Earning interest is difficult. Put aside money for long service leave for staff and other liabilities. Not done because the taxing on the gain on some asset is an unhelpful consequence of our system for the future.

Complexity/Administration of the system

- If the system was simplified, would more people manage their own tax affairs?
- The need to have an auditor is another expense for the retiree.

State & Local Govt. Taxes/charges

The way the system is developed we don't have representation. Monies spent by government do not bare the pain of collecting it. The people own the money and the government

5.1.6 Wagga Wagga

AFTS Public Consultation Forum

Wagga Wagga 18th March 2009

Wagga Wagga Commercial Club

6pm-8pm

Comments on the broader tax and transfer system

- **A) What parts of the tax and transfer system are not working well?**
 - Having taxes and transfers mixed up in the same system – should be kept separated.
 - Corporate tax is too high at 30%.
 - Deductions are too complicated a system.
 - Contributions tax on super – could be less than 15% to encourage people to save.
 - Why are people on a higher income taxed at the same rate for super when they get more from it?
 - Too much paperwork to take on a part-time, casual or full-time employee – forces small businesses to either do the work themselves or pay workers cash (put them at risk with WorkCover) or only hire contractors "
 - *"Young people... can't give them a job because it's too much paperwork. "*
 - *"Rather than do all the paperwork, I do it all myself and cuts down production of my farm – I need additional people but can't spare the time for all the paperwork."*
 - Another small business owner felt that small businesses should not have to be tax collectors and will not employ anyone who has to have child support removed from their pay
 - *"If they owe child allowance – I have to take it out, too much hassle so I won't employ them. Can be liable for not paying – \$5000k fine."*
 - Concern was expressed that GST was not included in the terms of reference as people wanted the rate to be frozen, felt that it was not working to stop the cash economy and there was a suggestion that if the GST base was broadened other forms of taxes could be eliminated as was understood to occur in Singapore.
 - Personal taxation forms too complicated – requires an accountant.
 - State taxes are often taxes on taxes and should be abolished. For example the fire service levies are charged on an insurance premium + stamp duty + GST (NSW & Vic). The comment was also made that it was unfair that the only people who pay fire service levies are those with insurance
 - Unfair distribution of tax bonuses – not eligible because the tax bonus and franking credits can take people to the next tax rate.
 - The money paid out in tax bonuses should have been used to reduce taxes on investment in infrastructure or paid by businesses which employ people.
 - Different treatment of capital gains depending on the tax entity – so if you buy an asset in the name of the company you are taxed on 100% of the gains, if you buy it as a trust – 50% gains, and if you buy it through super – you are taxed on 0% - unfair to have a range from 0-100%.
 - Different payroll taxes between States adds further complexity.

- Why can a self employed person not do salary sacrifice?
- Don't change the super goal posts again! People are unsure of what is going to change before they retire so they're staying out of super – it's a long term investment.
- Concern about changing Imputation – concern that just because other countries apart from NZ do not have it that is not reason to change it
 - *"Doing away with it means back to bad old days of double taxation – no other countries have Capital Gains Tax, it's not a fair comparison – what is doing away with it trying to achieve. Bust has already taken share market down, if imputation gone, money will flow out. Will have people out on the streets – will have effect on the share market and economy – it's a damning time, not time to do it now. Already punished for being Australian paying capital gains for every dollar – people are in fear that [Government] will change it."*

B) What components are working well?

- Imputation system
- Being able to salary sacrifice
- No Capital Gains Tax on private home
- Not charging capital gains on assets owned before 1985

9. Are there taxes or transfers you see as fair or unfair?

- *"It's fair that we all pay taxes but it's unfair how it's distributed. No one would argue that we pay taxes."*
- *"Why cut staff at ATO when they're supposed to be out there chasing the villains?"*
- Large pay-outs/golden handshakes seem unfair – there should be a cap on the payout and a higher rate of tax on it/fringe benefit tax charged both to the company and the executive to *"stop the greed"*.
- Unfair that people who pay tax don't get the tax bonus "I pay tax, I should get one". Particularly unfair to pay them to people living overseas as that money can't help Australia unless they send it back.
- Fire service and stamp duty are unfair – these taxes were supposed to go when GST was introduced.
- IF you want to stimulate employment, you need to reduce payroll tax.
- 30% rebate on private insurance – we don't get a tax benefit for having private health insurance but only get this rebate and they're thinking about taking that away.
- No concession on any form for educating the next generation is unfair.
- There should be deductions for funeral expenses for relatives.
- Lack of incentive in the system is unfair – people receiving Centrelink payments are penalised if they go out and seek work
 - *"You're penalised if you do so they don't bother. Very complex, complicated and back to front."*
- *Has new computer system found any tax cheats or avoidants?*
- *"Can we separate taxation from transfer, so we can see what is clearly addressed?"*
- Paying and maintaining our ex prime ministers and governor generals – *"huge expense that I object to"*.

10. What are the priorities for change/what would the ideal future tax/transfer system for Australia look like?

- Flat rate of tax – simplistic and transparent.
- Introduce a lower rate of tax for emerging industries.
- Keep tax separate from transfers and separate tax on income from tax on capital.
 - *"To see the segregation of welfare away from the tax system – complicates the tax system, all these welfare A's and B's."*

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- *"You want to get the Tax Office in to do all these unrelated issues or right out of it – can't have the State doing some things".*
 - Remove choice of business entity – driven by tax treatment.
 - Broaden the base of the GST – do away all these deductions –like Singapore.
 - The more simple it is, the less ways to rort the system – *"you can do that with deductions now".*
 - Would lock the GST rate in now so it could NEVER EVER be changed – it's hanging over our heads now.
 - Improve system for self-employed - *"Hard to plan year ahead for self employed – if paying 5.2% on every \$100 – might have a good year, will shoot me up above into the new tax rate to 10% then that has to be applied back to all my jobs over the year that I have paid 5.2% on and I have factor in that extra tax – so I cannot plan it and the last few weeks I'm working for nothing because I know I've just got to pay it all in tax – no incentive to work at the end of the year. Would like it to go to March (pay quarterly) and then the Tax Office can say in June "will you go over and under" so I can say yes or no – if yes, then I can pay 10% from march through and then pay that 10% in the next year instead. Paint doesn't dry in the winter – less money".*
 - Infrastructure – instead of tax bonuses, should be going into infrastructure- and doing it yesterday.
 - If there was some way of keeping earnings in Australia – not taking interest overseas- taxing them so it stays in Australia.
 - Place a tax on currency exchanges – tax on the transfers – they're making heaps.
 - Bring back Commonwealth scholarships for teachers and nurses/other medical professionals – scholarships for teachers don't exist – teaching can be a fall-back position as a career – needs to be addressed to make it a worthwhile profession. Teaching is a challenging job – society want you to not just educate but raise – not going to attract people to profession with pay and tax – enhance it so people want to do it. Tie scholarships into working in country areas – would bring people to country areas.
 - *"People who want to go into those fields – don't get the opportunity – it's retrograde for both Australia and the developing countries that we have to get people from other countries to do it."*
 - Working to support selves through uni – no pleasure in learning if you've got to race off and be a waitress.
 - Change taxes for offshore companies who work or mine in Australia but money goes offshore – more of that to be left in Australia.
 - *"Don't let China in our back door – the less china owns in Australia – the better off we'll be in the future. Energy resources should be highly prized...."*
 - *"A system that encourages us to educate our own, employ our own and buy our own product without shutting off the rest of the world – should be proud to use own products and encouraged to do it (if could get a quality product , would pay a bit more)"*
 - Abolish the State system – stop duplication of all the health systems.
 - *"If you had a system that was going to spend money wisely and was trusted – too much of an attitude here 'why give my money to Kevin or Johnny and not wisely spent?' – if you could trust system despite government – un-politicised- we all know you need tax."*
 - Introduce tax incentives for both businesses and individuals who train apprentices.
 - *"employing apprentices, I give up a whole day to look after them but am still taxed in the same system. I'm only working 4 days, not 5, but I'm losing that 5th day of tax. Got to encourage tradesmen to take on apprentices – apprentice bonus is peanuts. Not looking at the owner of the company but the*

guy who is training him so they'll be willing to go to the boss and take on an apprentice."

- Simplification of the tax system – accountants may not want to see if simplified – is there an interest in keeping it difficult so that tax accountants have a job?
- Tie income gained through taxes into specific areas the income was generated from eg money from taxing overseas owned resource companies should go back into Australian infrastructure – not just into 'slush fund'.
- Reduce fuel tax – 70% is produced here taxed at the Singapore rate and then whack 30% on top of that too.
- Simplify the requirements for businesses who wish to employ people eg one form.
 - *"When the drought is over, huge amount of work on the farm for young people but will they look at it? Too short term – because paperwork is too much, you have to find a contractor – effects super – young people all looking for jobs."*
 - *"People don't give correct information – hadn't been paying child support, hadn't done taxes, too hard."*
 - *"Tax payer being asked to do much of the tax collection. It's a nightmare!"*
 - *"Too much paperwork – pay them cash but then we can't claim it and forfeit workers comp etc."*
- Introduce a card like a driver's licence that the employee has to give to an employer so that employers know whether child support payments are required. It would also enable the employers return to be checked against the employees by the ATO to ensure both are paying and declaring correctly.

Personal Income Tax

- Highest rate of tax should be 20-30% - otherwise no incentive to work.
- If a flat rate of tax is introduced threshold would have to increase and there would be a need to ensure same amount of revenue was collected otherwise expenditure would have to be cut.
- Current tax free threshold is too small – should be to 20k – not 6k or up to 14k.

Savings & Investments

- Reduce tax on savings and remove tax on superannuation.
 - *"Australians don't save enough, but they just don't. So why don't they just stop the tax?"*
- Why is it that all different types of capitals are taxed differently and at different rates?
- Do not introduce taxes on unrealised gains
 - *"Everyone very scared about what is going to come out of this – panel is dominated by economists – instead of measuring income – there is an idea that everything a person gets in a gain is an income – if you understand that logically, you'll throw out whole tax system. Danger in that is if you're measuring a position 'here' and then at the end of the time – how do you measure here and there and you'll tax on unrealised gains. Will create much bigger problems."*
- Pages of formula on packages – can't tell what that means- the regular person can't understand that! You're talking about simplifying.
- Provide a tax incentive to own your own home.
- Do not introduce Capital Gains Tax on gains from assets owned prior to 1985.
 - *"If I were an ivory tower economist – getting rid of the no capital gains before 1985. All ords is up – if removed that protection and installed cost places so that we get taxed on every dollar as we try to claw our way back to where they were – DONT DO IT!!"*

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- Create more of an incentive to invest in property when the market is not rising - negative gearing on real eState is only good in a rising market, if not rising – not worth it.

Transfer system

- How can we discourage people taking advantage of those payments?
- Making it more equitable if there is a family separation so that if one spouse makes less than the other, the one who earns less isn't turned into a pauper? Larger income has to support partner.
- Fathers who pay support to children – go to be some way that these blokes bear their share of responsibility for children being raised. Mums doing the best that they can. Leading to a lot of social upheaval.

Complexity and administration of the system

- Too much paperwork for farmers – the need to keep receipts for 5 years.
- Should be mandated that GST is always included in the quote.
- ABN system is a failure and should be scrapped. Politicians emasculated that with so many concessions that it doesn't work and the cash economy is flourishing. Abolish the ABN system – only achieving more paperwork and nothing else. Forget it entirely – need tax file no, scraping the ABN completely or go back and make it work properly as it was originally intended.
- Accountants are required because the tax return form is too long (120 pages), rules about superannuation have changed, depreciation, don't know about deductions, fear of missing out on deductions and also getting it wrong
- CGT – got to keep all your records forever
- Being electronic has been a big plus – *“hit a few buttons and hey presto, you get a refund”*.
- More people would do their own tax returns if the system were simplified.

State and local taxes

- Abolish State government and State taxes
 - *“In a lot of cases, a tax on a tax – all that fire service levy – only people who pay it are people who take out insurance – that is obscene.”*
- Agreement about the need for local councils and the need to pay rates.
- Make payroll tax the same in every State – so many different rates in every State.
- Social issues – State's dependence on alcohol and gambling tax and volatility of reliance on stamp duty.

5.1.7 Melbourne

AFTS Public Consultation Forum

Melbourne 23rd March 2009]

Jasper Hotel

6pm-8pm

Comments on the broader tax and transfer system

General comments on current tax transfer system:

What parts of the tax and transfer system are not working well? What components are working well?

- What parts of the tax and transfer system are not working well? Well, first I have to say just about every State tax you can imagine across each State and territory. Chief amongst them must be payroll tax and secondly land tax. Payroll tax stifles the incentive to employ anybody and land tax is just a tax on business to pass onto business items. In terms of income tax I would have thought the taxation system as it applies to trusts is also pretty much out of date and well in need of revamping and rethinking. There is no clear law. There are no clear guidelines on how you apply those laws. In terms of superannuation, I think the superannuation system has been simplified and works really well at the moment but I think the mix of super income tax needs to be reviewed and we might need to bring some compulsory super infrastructures and reduce income tax on super. The top priorities I see for improving things that are not working well are to fix up Commonwealth State tax relationships and one streamlined set of tax rules for all the country.
- I also have issues with land tax and beyond the cost on business on individual investments and the impact of that has as a disincentive to invest in those sort of asset classes. Also probably some issues around not for profit organisations and in general.
- As far as what parts of the tax system aren't working well, I'd say the whole taxation system is a systemic failure. It has encouraged asset price stipulation to stimulate the Australian property market which can be resembled as a State sponsored policy scheme where local governments have profited through higher rates revenue, State governments have profited through higher stamp duty revenue and Federal Governments have profited through these policies. At the same time, the State's taxation system is punishing productive enterprise. It punishes people who work longer and smarter, it punishes businesses that become more efficient and hire more staff and grow their businesses. So the more that they grow the more they get punished. An example of the failure of the system is the existence of the project Wickenby report. Tax cheats are a symptom not a cause. The cause is the abject failure of our tax system. If we have a system that does not punish people who save, who invest in productive enterprise, there would never be a need for a project

such as project Wickenby. I strongly support the view that the review of the taxation system must have a conceptual strategic long term view. This means that we have to have strong conceptual values as to the redefinition of the taxation system. It's my belief that the three core areas of focus are that taxation should be simpler, less expensive and it should encourage environmentally sustainable productive enterprise. I believe the best vehicle to do this is through the primary or exclusive taxation of physical consumption. This would provide incentive to businesses and individuals to become more efficient in the use of natural resources, to reduce consumption of natural resources, reduce pollution, improve business process and productivity and encourage investment innovation. This, I believe, will lead to greater wealth creation, more competitive Australian businesses in the international markets, a tax system that is less expensive to comply with and enforce, harder to defraud, more easily understood by the average Australian and foreign investors alike and encourage all Australians to live within our means without destroying the environment. It may also have the residual benefit as a tax aid for foreign companies for some industries which may in turn lead to an increase in domestic employment and foreign investment.

- In regards to question 1 I think secondary earners is my interest in the reform of the tax system. Secondary earners, and I'll probably say women here because 87% according to your report are women. There's no incentive or not much incentive for women to come back into the workforce and we need to look at this because if we look at the overseas countries if we are cutting migration and the GFC and I'll clarify that (not Geelong football club) we need to bring women back into the system because really it's a great resource for us to have, easily available. So we need to make it so that women will come back into the system. Our transfers are not doing that. Women are very sensitive to transfers and they will look at those and not rejoin the workforce. So we need to be doing something that effects superannuation across the board. That's what I'd like to see, reform, and perhaps what the UK is doing, some tax incentives to bring women back.
- Rural Small Business operator and member of the Australian Taxation Reform Group - We would say none working efficiently some disastrously we have a system that can replace that and make it fair for everybody, attract overseas businesses which create employment and all that sort of thing.
- The individual tax admin based on tax pack and e-taxis not working well. The e-taxis good way of getting people in and I also have respect for the tax pack which explains it well. When I did my first tax return in 1997 I was given a six page document as a tax guide. I have not only done my own tax return for the last so many years, I have also done, as a part timer working for a tax agent for the last 5 years, hundreds of tax returns for individuals every year. I speak on behalf of people who have dealt with this pain every year. I suggest that 80% of the individual income tax payers/wage earners there should be no need to file a tax return. Not well administrated by the tax man or tax agent. There should be a mechanism to allow standard deduction. Why should people have to go through such rigmarole. Take out the noise and concentrate on the other 20% who should do a tax return.

Are there taxes or transfers you see as fair or unfair?

- Deakin University – I'd like to come to the defence of the imputation system. One of the things that concerns me about the suggestion of abolishing the imputation system comes down to not only the fact of fairness but really the absence of the imputation system leads to double taxation but also if we remember back to when we did have the so called classical system, the distortion of the market was unbelievable. Taxes are supposed to be neutral but with the double taxation of dollars going through companies we found that there was high investment in non corporate vehicles such as trusts, there was also greater investment in corporate vehicles that had a low distribution policy which again then led to further taxation with the consequence of the undistributed profits tax. So one of my concerns is that before we actually start turning the clock back, let's remember how we had to react in the past to that. Also in that regard is that with an aging Australian economy, one of the things I think is a key part of self funding retirees are, in fact, imputation credits and again, while we may be looking at it from a corporate perspective, we've also got to look at the shareholder perspective and those imputation credits are very important for retirees and my point really, is that looking at fundamentals of fairness and neutrally, imputation credits is something that is working well and sees an appropriate transfer of taxes through corporate vehicles.
- Australian Foundation Investment Company – I wish to echo what the person from Deakin University said. The fully refundable dividend imputation system works well. The argument that no other country uses it is a bit like my mother saying just because every other country was to jump off a cliff, would you? Well it works well and we need to keep it. Charities can reclaim dividend imputation credit, pensioners and people on pensions can reclaim it and the fact that we have a very strong retail shareholding base in this country is largely down to our dividend imputation system. To be able to say that getting rid of it and lowering corporate tax rates would encourage foreign investment is unproven and to say that you would increase people's share prices, well why should pensioners have to sell shares to derive an income from it? It should come from dividends.
- I run a small SMSF (self managed super fund) and my peers would kill me for what I'm about to say to you. I think it's totally and morally wrong for all people who draw down pensions from superannuation to have it tax free. You are discriminating against self funded retirees like my mother who has never had an opportunity to contribute to superannuation. You are also discriminating against the current tax payer who is funding the services associated with those. You are discriminating against the people on lower incomes who have not had a chance to build up a very high superannuation amount. You are discriminating against women who have, in general, and often doing the same job being on a lower salary and therefore unable to build up a high superannuation amount. But, I do think that possibly the first \$30k or \$40k should be tax free and this would be in line with people who are relying on imputation dividends and self funding their own retirement.
- Every year there seems to be a review of super. Last year there seemed to be a major commitment to decide what's going to happen with super. I acted on it like

many people acted on it and 12 months later we are looking at some other review. I think people who save and are over 65, quite frankly, deserve to get a few years off the tax. I also can't understand why there are so many compliance costs like compulsory audit which requires an extra \$3k or something. Totally unnecessary. Basically, I've got no objection if the tax commissioner comes out and gives me a tax audit, but why should I have to have it audited. Basically assessments are now self assessed and I think superannuation should be the same. If there's any suspicion send out your tax auditors.

- Older Women's Network - we are concerned about the tax concessions for super, health care, health insurance and education and we'd like the government to stop that because most of the money goes to the high income earners and does nothing for pensioners. We would like the resultant savings directed to those most in need through an adequate age pension, vastly improved public healthcare and public education. There are a number of people that we've quoted before who have advocated just that, that the current system of giving money and tax concessions is welfare for the rich. It doesn't show in the expenditure because it's money foregone, not spent, so they don't show all that welfare going to the wealthy. About 80% of the money for super concessions goes to the top 10% of the earners. That's our main concern. We think that the system is just wholly wrong.
- Not for profit organisation - deductible gift tax extremely unfair seems to be endorsed very arbitrarily. In regard to public benevolent institutions, only engaging in direct welfare and yet its widely researched and acknowledged now that preventative means testing is far better than the alternative and yet in this time and age when more than ever we need a strong community developing, community strengthening, preventative approach to our issues that we're about to face on an even global scale. It needs to be supported through the tax system. If you cannot get access to deductions not for profits cannot access philanthropy or corporate sponsorship. They are locked into relying on the ongoing nature of government funding which is ridiculous. So, until we can look at revamping the PBI so that preventative means are recognised as a legitimate means of addressing disadvantage we are going to continually disadvantage in our tax system, the not for profit sector.

What priorities do you see for improving things that are not working well?

- I think that the tax system should be used to reengineer the entire structure so that Australia becomes more internationally competitive in terms of intellectual property and commercialisation resulting from it. As such, I would like to see more engagement with the Universities and more incentives to invest in university research. At the moment there is a deficit in the amount of funding going into research. We see an enormous amount on education but they cut it off before it actually reaps the rewards. I know that the amount of money that we spend is then not really utilised at the top end we get a lot of benefit from medicine and via technology but there is capacity in the system to achieve an enormous amount which we are not at all stimulating with the taxation system and I think that we are not competitive internationally so we are going to rely more and more on things that are not capital or value added and I think that this is a big picture item and I think it's

immensely important for us to direct our attention to it and to really start looking at the opportunities provided through the intellectual property stimulated through research.

- I made a submission covering the ordinary citizens' perspective, i.e. wage earners with some super, some shares, not in business and having no international considerations. There are systemic issues the current government with one exception most of the legislation that falls under this umbrella is going in the wrong direction. The exception is the removal of separate net income as a concept. Why it couldn't have been done when the tax offset was reformed in the year 2000 I don't know. As to what is unfair, the priorities I see for improving things are that I think Australia has far too many means tests both in tax and Centrelink systems. They stack one on top of the other and I think some of those things need to disappear and be replaced with things like measures built on age for example, thinking of the debate on FBT which applies until a kid leaves school. Anyone who has had teenagers, we know by that time they're driving cars and they're pretty independent so why they have a stay at home allowance is pretty hard to understand. There's been some talk about high effective marginal tax rates on and off. If I exclude the welfare to work category, then I think it's perhaps time to have some benchmarking with caveats in terms of the spread of income or level of income or the demographic because those rates seem to be very large for people on modest incomes and as people have referred to with the tax free super, very low for some others. But there are no benchmarks. There's no economic guidance as to whether they should be high or low for specific groups from an economic point of view and in amongst all of that, I think superannuation in particular is a fairly substantial issue given the changes that have been made. I'd like to come back later in the evening and just make a comment about some of the requests I made where I saw gaps in data that did not allow me to make an adequate comment and I think that's something that's important.
- Cycling Information Fund – We're interested in how the tax system influences transport choice and looking at fringe benefit tax in particular and how it encourages increased motor vehicle travel and actually doesn't provide many incentives for sustainable forms of transport. So given this was legislation that went through in the mid 80's before climate change and congestion were serious issues, now we need to start looking at how we can change the tax system to foster sustainable transport choices rather than encouraging polluting forms of transport.
- I'm also about the barriers of dividend imputation. We built a company from nothing to about 25 billion and it was instrumental in us having great ability to furnish our capital knowing that we didn't have to draw much and in the future we could take it out and I think that it is uniquely Australian and I think it keeps a lot of CEOs honest because there's no point investing in a firm if in the long run the CEO can't deliver some sort of dividend stream. As against going to America where it's all against capital rises in share prices and you see the fiasco with Enron and the like over the years. I just get the feeling that dividend imputation which is great for small to medium sized business is going to be sacrificing the big business, big unions and big

financiers and what's wrong with 30% tax? I mean, we live in the best country in the world and everyone wants to come here. Well, you've got to pay your dues.

- There is one feature of the taxation system that doesn't get very much mention and that is the word inflation. We've lasted on the assumption that a dollar is a dollar is a dollar. We recognise that we need to convert foreign currencies into Australian dollars but we don't recognise that we need to convert old dollars into new dollars. Now that affects quite a number of things. I think the prime example is the \$2 donation for gifts which hasn't been indexed since it was a pound before decimal currency but the principle applies to every dollar figure mentioned anywhere in the legislation whether it's payable to the tax payer or payable to the government. One aspect is people being taxed as though the dollar kept its purchasing power. CGT is another example. We did for a while tax real profits. It wasn't very effective because the rules for losses did not reflect the same philosophy as for gains which was a weakness but that did not last very long and we abolished it in the most recent so called reforms. Depreciation is another aspect of this. We always allow as a tax deduction what it cost originally to purchase an item, not what it costs to replace it, which would be much more equitable. Interest is another example both for borrowers and lenders. Interest under the present system invariably contains some guess as to what the purchasing power of the capital is depreciated by to inflation but it would be much more sensible to allow proper deduction for loss of purchasing power. I'd also like to mention the question of stock value adjustment, again, in the days of the Fraser government, we did for a specific period have a half hearted provision to allow inflation calculation to the stock revenues being held. It was pretty perfect but it only gave benefit for 50% of what it should have been but it was better than nothing. Then it moved very quickly after several years and quite a long argument and namely the companies are taking advantage of it in their bookkeeping. Well of course they should. That's what should've happened. The fact that it produced less revenue is subject to review by changing the rate of tax in the dollar, not by changing the basis of what is being taxed.
- Carers Victoria, a body that represents families and friends who having caring responsibilities for people with disabilities, aging and health problems - More and more of us are going to be in the role of carers as Australia's population ages and that's going to have massive implications as well for the tax base that we need to provide health and support services. The point that I'd like to make first is that the current system doesn't support transitions in and out of work adequately. The current tax and transfer system makes transitions between caring, for example, and paid employment risky. So if you have caring responsibilities and you're unable to work full time or even part time because you're looking after someone else, you may have a choice between going on Newstart which is paid at a lower rate than carer payments and if you go on carer payment, you're actually limited by the number of hours that you can work and then even if you do part time, your wages are taxed at a very high effective marginal tax rate. So you end up making a decision between caring or work and it's very difficult to go between the two and part time work is difficult and that's based on an outmoded understanding of how society works and not on a gender specific note. We really need to think about system design for this

issue. We need to consider single income replacement schemes that eliminate perverse incentives of this sort that trap people in the caring role and they become deskilled and unable to actually participate in the workforce.

- Given the government have said the retirement income is provided by 3 main pillars, the age pension, superannuation being compulsory savings and voluntary savings by other means of superannuation, well super is a very large asset base in Australia. Prior to the global financial crisis it was worth about \$A1 trillion, that makes it the fourth largest in the world. The fact is, there are so many taxes within super. For every dollar your employer puts in that's compulsory there is a 15% tax. Every time an employee puts a salary sacrifice arrangement in place there's a 15% tax on that. Every dollar you earn in your super fund is also taxed at 15% and also in some cases, if you make a lump sum withdrawal out of super. Also, there's Capital Gains Tax within your super fund, so if you hold an asset less than 12 months you pay 15%, if you hold an asset more than 12 months you get a one third Capital Gains Tax discount which means you're paying 10%. I just can't understand the fact that when you retire, for the next 20 or 30+ years you've got to fund your own retirement. I don't see any incentive for any low income groups or poor income earners to actually want to put money in this super fund. We need to have a real sweetener. We need to have an incentive here and I don't see that and that's what I'd like to see. The fact is if you have term deposits you are taxed on that as well at the marginal tax rate so we punish savers. We punish people who put money into the superannuation system and that's what I'd like this review to look at very seriously.
- I'd like to see a more simplified tax system generally. Also, suggest a flat tax possibly 20-25% for individuals and every company and there would be no claims whatsoever. Possibly that would relieve these hundreds of tax employees that are involved in compliance issues.
- I'd like to see, in this review, a greater recognition for financial donations to religious and charitable bodies. I'm talking specifically of those that deal with youth programs. The crime rate in this country is skyrocketing and showing no signs of coming down. There's some very effect programs run by religious bodies and charities and there needs to be tax incentives for people to donate and keep these running. The government doesn't have enough money to provide what needs to be provided so we need some serious incentives for people to donate.
- I believe the taxation system is wrong all the time and based upon a culture current at that time. Considering the current financial global crisis, I believe that a systemic change is required that looks at issues such as economic, social and environmental problems. I propose a taxation system that is based upon activities which many companies are already reporting. Make people volunteer for instance, they could right off their taxes or trade off against our environmental issues. You would create a whole new system that works well.
- Bicycle Victoria with over 40,000 members - getting more people to ride their bikes to work has the potential to save Australians a very large sum of money from State and Federal transport, health, cuts congestion. The fact that our national rate of riding to

work is comparatively low is partly as a result of distortions in the tax system which favours a certain mode of transport above others. For the nation to gain the economic benefits of increased bike commuting we propose two basic changes. Firstly, a tax concession scheme nailed to existing schemes which offers individuals a salary sacrificing arrangement for bike, equipment and related services. The employee would be committed to salary sacrifice and non reportable FBT concession of up to \$2k for bike, equipment and related services over a 2 year period. In addition, employers could add to this benefit as well. To be eligible for the tax concession would take 12 weeks per year of reporting in the log book of your car. The second change is incorporating bike parking, showers and lockers. Historically this has been a huge burden. This could be structured as extra depreciation to 200% of cost of facilities. This could be a great driver for building owners to get on board this option and this could have the benefit of an immediate write off for capital works related expenses. These proposals are cheap, simple and tactful to society. They also encourage efficient allocation of national and economic resources.

- Independent tax critique – Imputation credits must stay otherwise the government will increase tax revenue at the expense of companies and shareholders to redistribute however they like. There are better ways to keep accountants and ATO workers employed.
- One thing concerns me, if you look at the mandate of this review you realise that it's going to fall down like all countries around the world have in attempting to panel beat an existing and antiquated tax system into some sort of shape. When the government gives a mandate and says you must do a review but not include GST, that is tantamount to giving a medical scientist the mandate to produce an athlete without legs. This is not a 21st century tax review. To look at global experience, I am not aware of a single country that has had any success in this. The ones who start with a clean State have success. If people understood that GST is a domestic consumption tax, you would solve half the problems here because the rich will spend money and pay GST the poor won't spend money and pay no GST.
- I want to support the comment about inflation. In the last 40 years, dollars in circulation per capita have gone up 25 times. Now, in relation to Capital Gains Tax where is this going to leave us? Because this is a varying rate of taxation. It's not case where somebody sat down and said this is an appropriate tax. The tax you pay on capital gains can vary enormously in relation to the amount of money that's being printed. If you live in Zimbabwe and you walk out the door suddenly you've got 100% capital gains. How are people who work on the principle of buying an investment property going to deal with capital gains depending on the rate at which money is printed. Central bankers around the world have hit panic mode. In five year, we'll have 100% capital gains. It's going to vary depending on how fast the central banker brings money. I am complaining about mutant variable playing field due to the rate of inflation.
- E-tax is working well. I came from UK 10 years ago presented with needing to do income tax return. Tax agent said she owed, E-tax said Tax Office owed her. The

system here is just so complicated that anyone has to go to a tax agent if they are an employee. What's unfair is that if you do a salary sacrifice, your employer is able to hang onto that money until 1 month past the end of the financial year. They do not have to hand you salary sacrifice money over and if your employer goes to the wall, your salary sacrifice money will then be counted towards the superannuation guarantee that your employer also hasn't been paying, so someone who salary sacrificed their whole salary, then the employee could be out of pocket which is a ridiculous situation. Another unfair tax is, if you come from the UK, and you've been paying into the pension fund in the UK, you come to Australia and you find you are liable for foreign investment fund tax. For example, a couple who each have a UK pension fund, this great weight of legislation which I presume is actually intended for BHP Billiton and not for me, falls on your head and you see that every time your pension fund goes up, you have to pay tax on the growth as if you had that money in your hands when you can't touch it until your 65. If you transfer it over and make a loss you can't claim it. But if you transfer and make gain, Tax Office wants a cut.

- I am a single sole parent and also a carer of a 26 year old autistic son which makes your family severely handicapped financially and socially as well. If we used our minds a bit, if we redesign the taxation system on a different basis, we could, just by what we do, substantially improve a lot by example and also the effect on others and world economic and financial situation and we could do something to alleviate global warming. Community collect calendar is a record of rainfall from 1991 to 2007 drawn to my attention by my former chief of CSIRO who did a statistical analysis of that. The random variation is 60%, the line of best fit is 40% which constitutes roughly a 25% decline in rainfall during the time that we're exporting coal and natural gas as if they are worth nothing as if they are not part of our natural eState belonging to all Australians. The natural gas that is sold to Asia for a few cents a litre, the critical temp of methane is -160 so its got to go through a number of stages of refrigeration to get cold enough to liquefy to send to Japan in thermos flasks. It is not only an irreplaceable primary component for chemistry and plastic manufacture and other things, it is also the best and cleanest motor car fuel and we are giving it away for nothing. We have problems because we've disemployed such a large proportion of our manufacturing. We have to read history. We have reinvented economics had exactly the same affect as the disemployment of traditional British craftsman in the early part of the 19th century. We need to design a tax system to cover this but in a fair way.
- Member of Australian Tax Reform Group - Tax system needs to be scrapped and new system put in. We propose a Debit type tax system pay a tax when you withdraw from a financial institution. No tax returns. Government would collect twice as much. We consider anything else than a new system is tinkering around the edges.
- Retired farmer, Member of Australian Tax Reform Group I believe the people running the show are looking for a complete new system. I've studied it for the last 15 years and it is a tax system would revolutionise Australia and if the Australian government had the wisdom would lead the world in new revenue raising. Its overseas and no adverse comments.

Greg Smith

What you've heard tonight is the result of you create a tax system which is complex very demanding incredibly diff to reconcile with competing objectives. We have to find a way of balancing a system worldwide which is doing a lot more work than the last century. We are going to take note of everything that said. Those who are creative, take risks and I agree with all of that and I think that we are going to try and pay as much attention to that as we can. I do want to stress that nobody to my knowledge is suggesting that we are going back to the classical approach. It is true that Australia is one of only two countries left it is a system that has been adjusted and changed in the rest of the world. It is not a case of going back. A lot of our incentives that exist when you have life this is what happens when you have a very generous welfare system that costs a lot of money and then start address the fact that you target better system. The targeting has considerable costs. Try to get a precise tax system only to get it wrong when inflation is taken into consideration.

Personal income tax

- Australian Drug Foundation Alcohol Policy Coalition - My comments are about alcohol tax. It's a dog's breakfast. The issue got hijacked. Strong evidence that good tax system can promote public health especially in relation to alcohol. See tax system to tally reviewed. Research is available. Purpose of improving public health. It is effective. Need simplified tax system incorporating if manufacturers decide to reduce pricing
- Have an issue with 3 levels of government taxing people in this country I'll be 65 soon and well ready for retirement but I see that the grab for taxes in the guise of council rates and Australian land tax by State government is now starting to affect me which my retirement in the foreseeable future. In the last 2 years flawed system of property evaluations having objected to some in the recent ground if I didn't object I would have just been a bit of a sucker. I would like to see some effort made into bringing the 3 tax systems into some better. I would have been paying out more.
- Adviser of Financial Services observe many enquiries regarding commissions the one concern is 3 things common sense, bipartisanship and the common good and they fall off the back of the truck. They have to address that and regulate.
- Tax agent representing clients tax admin is not working and performers of the admin diabolical is compliment. Passed the buck to tax agents. Tax portal put in a schedule for cg tax. To make that work you would have to have an ABN and watch them be cancelled held mainly by unemployed. Work related deductions should be reimbursed by employer. The employers do not want to mess around with the paperwork. Make the person keep a log book. Don't worry about FBT. All it does is encourage private use to get over 40,000km. What's not working is CGT. We will see shortly people will sell shares but if you put in the CPI and there shouldn't be tax because it hasn't grown with CPI. Had properties for longer than 15 years should be able to have rollover relief. They could be committed with that money and then have to go and borrow for income tax. Kiwis have done away with tax returns. Four major tax disasters Coles Myer take over should never be allowed again. Government announcement PAYG, \$900 bonus is too much work, average tax agent is now 60 because young go into IT instead of accounting.

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- Social Artist working actively in the community. Over arching guidelines for tax like ka human rights charter or environ rights charter so it eliminates changes that tax government make suddenly and avoids implications on individuals and the environment.
 - Victorian Farmers Association: Municipal rates like to see back on agenda tax on tax stamp duty on top of GST.
 - Women's electoral lobby must look at tax system how women are treated. 51% of pop of Australians do not receive the same equitable amounts of money. We are taxed as individuals which works well. Very important for women. A paid maternity leave should be paid to all women when they are working women and will need to have time off for at least 18 weeks the next generation of Australians. We do not want women not to have children just because they can't afford it. Small bus in particular will not be able to afford to employ women if have to pay it. Women are more disadvantaged in retirement. Retirement incomes low income receivers are very disadvantaged a lot of superannuates getting reasonable payments but on low pension are very much at risk there should be a lower amount paid. As tax payers if we are subsidising the companies to remain in business it is an appalling situation that directors and CEOs can receive over \$1m / year and bonuses. Obama is proposing that there should be a 90% tax on all payments and bonuses over \$1M and that should be in Australia too. Directors and CEOs should not receive more than twice the income of the prime minister.
 - Super I chose to be an employee for 45 years and chose to put as much money as I could in super. I work long hours and now self funded retiree. My health suffered so early retirement. Continue imputation credits and pensions from complying funds for persons over 60. It's my choice to keep off the public purse.
 - Starting to annoy me people do not realise they are billion times off than someone in a low income job. Retail industry working part time on same wage pay 30% of their income in tax. No concessions. They have Medicare card and they pay for Medicare and they cannot get it. Try and get a doctor to use Medicare and you can't. What nonsense.
 - Legislation risk of the tax system and the super system make situation very difficult to forward plan anything and those 2 factors have a very big effect on net income imputation is not under threat company dividends are accounted as gross dividends if that was cut out would drop my income by 30% a major effect on my life now as a retiree. The pension phase a lot of us sold a lot of assets to get money into super and we triggered quite high CGT that was on the given that we wouldn't be taxed on that income. To enable forward planning for individuals and business finance I'd like to see this review that actually has target date for things to be achieved. IF we knew targets dates at least we could plan for them.
 - There are a number of self funded retirees through ill health. I'm not over 60 and I had the situation last year that my tax went up on my low income. There were some of us last year who suddenly paying tax where not before. I had hoped to go back

into the workforce. My siblings earn more and had tax cuts. I was embarrassed. I am here because I am able to speak now.

- I like Australia's income tax system. I think the tax has to be transitioned away from taxes on savings. And onto pollution facton and resources which could support the government.
- Former tax system looking at a time when we are in recession a difficult prospect. Looking to get more tax and before this there has to be a total review of what we are paying for and what value as tax payers are we getting back for it. The whole premise is starting. Greatest thing you have is the roof over our heads we have unaffordable housing we force people to save to pay stamp duty up front. A farcical situation.
- Research Group complexity and compliance section 82 says costs charges and shall form the first charge thereon. The key word being collection in view of those words show can it be constituted to collect GST owed by fires? Those are issues to be addressed if fed rev not to crash and burn in high court.
- An accountant self funded retiree. Difficulty I have in earning income whether pension or shares. The reporting. We are not allowed to have reports what the funds are doing and not know how much funds they have. Industry fund. They are trying to encourage 99.9% of people to never read them.
- Take GST off public transport fares. They should never been have put on in the first place.
- Thank you for having this forum long overdue for public discussion and great initiative. Involved in insurance industry since 1995, one effect on clients is all the taxations, stamp duty, fire services levy and more recently GST. One of the problems with disasters like bushfires, a lot of people are uninsured because they can't afford the premiums. As premiums go up so do taxes. Need new tax system to eliminate unfair taxes causing people to go underinsured or uninsured. J the best system is the debits tax system or electronics tax.
- No-one has mentioned the incredible complexity of legislation. Recently in court tax department were asked to give evidence and contradicted each other on definition of what was asked about. If they can't agree what chance have we got? If we are going to slash the amount of legislation. You have got to slash the complexity of the system. The two things won't work without one another. You need a system with plain language. Not to have to pay fortunes for definitions or rulings. Large amount of social has got to be foregone. They have got to come back to a system which allows government to get maximum revenue and then make decisions about political engineering. Prof in US has examined this system in US and found that the system charging on transactions only and electronic only can raise more money and allow the sort of money that the government needs.
- Research group have quantified real estate handover our info to treasury a lot to do with a participant was saying because that's been capitalised the State land taxes are

I'd like to see something like flat rate land tax played across Australia something that can allow us to stop these problems happening. We can get every bit back through property increases. Where does that leave renters? They can't. Stop encouraging unearned incomes.

- That can be done to improve tax and tax administration? We suffer from having 3 year political terms. Over last 3 years with exec on short term bonuses leads to short term fixes. People being tied to short term performance bonuses.

Business tax

- Review of whether taxes are fair or unfair. People can withdraw super over 60 is fair. The possible taxing of independent contractors should be taxed the same way as employees. Make sure they declare all their income. Individuals can have travel to and from work as tax deduction others cant. People made redundant cannot access a tax free component.
- The tax bill which removes the disclaimer that the tax agent is no longer responsible for your figures. They are from now on. The bookkeeper that touches BAS, etc is also accountable. None of this whole gamut of people have the right tools to do their job probably. The proper software, etc. Need to consider the end user that needs to make sense of it.
- Small and bus manager the definition of capital for various things is different or just plain ordinary income tax should all have same definition. Complexity undermines everything.
- Disadvantages pushes production out of Australia. Our increasing overseas debt. Complicated. Penalises individuals. Creates tax avoidance and cheating. No incentives. Electronic transfer tax is the only fair system. Debiting 1% on all amounts each and every time an individual transacts. It captures the billions not collected at present. It replaces all other Federal taxes, duties, fees. It ends tax returns, BAS, GST. No personal bus will be destroyed by tax it will be for some other reason if they fail. Removes the need for litigation. No other taxes are required.
- Encouraged to hear about R&D incentives. All donations to religious bodies and charities are considered. Points about family but encouraging donations to make sure families are still supported. Encourage our churches to teach fundamental values.
- Clinical Social Worker support notion of government providing tax incentives to non profit. I've worked in mental health and provide invaluable service to government agencies. Work for nothing to support. Invaluable part these organisations play in maintaining the well being of community and families.
- Just on the subject of complexity, I work in the tax industry transaction tax multiply in one sequence you start multiplying what tax you pay. The commission has information not available to tax payers. The gamut of anti avoidance rules are heavily biased toward commission taxation. Rules that you do for tax purposes make

it difficult to give advice on. The discussion on various different types of tax has to take into account that we have multiple systems and we need just one.

Greg Smith

Thank you for coming, for your contributions, we have taken careful note of all. Municipal rates are in our terms of reference. Commonwealth, State and Federal taxes, we are looking at all of those. Public transport, GST the terms of reference do not allow us to look at GST but we are at liberty to reduce the GST. We are not wanting to defend the current tax system we are looking at reviewing it. Looking forward to the future, we are very keen to take in a broad approach to take in all views. We are taking submissions until the 1 May. We will after that still be talking to groups and having a conference in June. We have made no decisions yet. So don't take newspapers or what I have said as final. We have asked to provide advice on retirement incomes. We are advising the government so they can take our advice on reviewing the pension. That's the state of play. It's been an exciting night.

5.1.8 Hobart

AFTS Public Consultation Forum

Hobart 25th March 2009

Hobart Function and Conference Centre

6pm-8pm

Comments on the broader tax and transfer system

Audience – Tasmania Small Business Council

Thank you John Piggott. Either we know each other or we don't, we wouldn't be here unless we didn't have a serious interest. I'm with the Tasmania Small Business Council. 96% of small businesses interest in the State – the engine room of Australian economy. I would like to put forward for the panel's consideration that the current Australian tax system is wasteful, ineffective, failing to take into consideration, not a proposal to reduce tax though that could be a productive outcome; the process of collecting taxes through the business tax system results in less than 1%. Taxes by definition, input costs into the business. By the time those costs have been put into goods or services and get to the consumer they have in effect multiplied by a figure of 3.7 times, meaning that one dollar ultimately costs the consumer around 4 dollars on top of which there is a GST. The rationale we would like to put forward is that this year the Tasmanian government will collect x in payroll tax, but by the time it reaches consumers it would have grown to more than one thousand million dollars because it has multiplied on the way through. Our contention is that an approach to tax on import tax is that the money should ultimately be collected at common level. On the basis that every dollar multiplies to four dollars there should be a paradigm shift in the way this country collects tax and small or large businesses make it.

Audience – Acting President of the Association of Retirees (Tasmanian division)

I'm the acting president of the association of retirees Tasmanian division. I'm concerned about item 2. The taxable income has not been expanded but one's income from 2008 budget has been required to include elements that taxes have already been paid on allocated pensions, but the 20,000 retired Australians will lose Commonwealth Health Card that is important to purchase medications. We see this as unjust and inflicted on a group who are already suffering tremendously. I believe it's in the government's best interests to look after this group. The cost of health card is 1% - a minor expenditure, but significant to retirees.

Peter Harris: What's working now or not?

Audience – Solicitor

Hobart community legal welfare rights solicitor, have forwarded some submissions to the panel. Some of our major considerations concern the overall spread of pensions and payments in welfare that place 58% below the poverty line. Youth Allowance is one of the areas that we have towed as being particularly unfair by placing many at that low level of support but there are many. Not only are they disadvantaged but they have no way of coming out of that. The process of Centrelink is also an issue.

Audience

I'm a tax payer and a very angry one. We have a system that's become so cumbersome it has brought our country in to a recession or depression, as so too have other countries taxed themselves into oblivion. Efficiency, *convenience*, *certainty and equity*, - our current system does not come up to scratch, it inhibits production. Taxes should be easy and cheap to collect but people have to pay for the cost of a tax agent which means the more the rich can pay to avoid their share. It's not fair - it doesn't differentiate at all between paid or unpaid income.

Audience – Tax Agent

I'm a tax agent and regarding the questions I believe tax and family assistance transfer is not effective - some people are paying over half their effective income at fairly low income levels in tax. This is a ridiculous situation going to work if you are going to lose money in a year – tell your clients that you're paying more transfer benefits are not adding to the other things, costing so much. When they come in you have to tell them that they lost so much which encourages them to give up their job entirely. Capital Gains Tax seemed fair when it came out but now it's a 50/50 hit. I built a shack 20 years ago, no benefit that I paid money when money was worth something. This changed in 1999. People don't keep records after 7 years, people are over taxed because they didn't keep records, they haven't made as much money as the money they're paying the tax department.

Audience – Not-For-Profit Organisation

I have an interest in the Not-For-Profit organisation. It may be able to work better. It's positive that those who contribute \$2 or more get a tax deduction, but further allowances for organisations to receive tax concessions for donations/may be able to receive some deduction as well would lead to greater money being received for not for profits.

Audience – Chair of a Reference Group of State taxes and regulation

I'm Chair a reference group of State taxes and regulation. Interface between Commonwealth and State tax – land taxes falls on a narrow section of the population, there are inefficient State taxes, taxes raised by Commonwealth but spent by the State. When it was first raised the economy was in a different State than it is now. Milton Freedman said "Never waste a recession." Efficiency and equity is required now we don't have any choice – the global financial crisis will make us face these issues. We should raise the general level of GST and wipe out inefficient State taxes. What is the substitute if we're going to have another tax and collect on State income tax because Commonwealth levies the tax. Brings us into competitive federalism, single stroke of peanut farmer from Queensland wiped out death duties and that gave Queensland a short term benefit but then all of the States did the same and Australia loses. What's going to be done about the rag-bag of inefficient State taxes? How do we have a better relationship between State and Federal Governments? Harmonisation is not necessarily the best outcome.

Audience – Solicitor in Private Practice

I'm a solicitor in private practice, and the issues I'd like to raise surround the transfer system and the complexities of income tax. My concern is that the difficulties in the transfer system

could be resolved by making income tax divided equally between spouses. This will remove the need for a host of government benefits, they could be removed by spreading income. I'm concerned with the simplicity of the system – the wealthy being able to spread their income through companies and trusts. It would remove the need for many of those by spreading tax. The major impacts are complexity and the transfer system.

Audience – Tax Payer

Add onto the first speaker, 35 or 40 years ago I tried to get a GST to get rid of income tax because of the inflationary effect of it; if I wanted to buy a car or a washing machine and go back to the mine and all the processes, 15 each time tax is paid by employed people and by the business which is totally inflationary. 50 or 60 years ago we would be equal with China, like south pacific. Wage earners have been blamed for it but they're just trying to keep up. Any tax involved with the business - GST of a variable rate is the way to go. How the GST is collected and passed on through business is totally inefficient; it's a pain in the you know what. It's got to stop. It may create difficulties for the retailer but they should be compensated. The drawback which was pointed out to me is that the poor will pay more because the GST is set in everything. That's the only anomaly. Tax should come at the end of the system, nowhere in between.

Audience - Solicitor

I'm a solicitor in private practice, and a member of State tax institute of Australia but I won't wear that hat tonight because I'm sure they'll make their own submissions. I want to make preliminary comments. The inequity in the transfer system needs to be addressed, particularly to students as opposed to other sectors. We must encourage students to study and contribute to this country. The other area is the not-for-profit sector - I've advised a number of clients regarding deductible gift status. I have a disabled child and I would like to see an expansion of the availability of deductible gift recipient status for community organisations and to some extent religious organisations.

Peter Harris: If we were looking to redesign the tax system what do we need to do? What areas do we most need to consider?

Audience – Member of Chamber of Commerce and Industry

I'm a member of the chamber of commerce and industry. Can we backup about payroll tax; A very efficient tax like other State taxes, including duties. What we see is a more efficient tax through a levy on income tax through the ATO to remove State taxes altogether, or an increase in GST.

Audience – Member of Council of Small Business

I'm on the council of small business - one of the highlights is that tax collectors don't make it easy. The system needs to be easy to manage and comply with, and the small business sector tend not to comply, mostly because of the complexity of the system. Any system changed should make it easier for small business to comply.

Peter Harris: Any more comments about a better tax system for the 21st Century?

I'm a tax agent and when I first started the tax guide was 174 pages on very thick paper – this is last year's version of the same thing. It's 1400 pages, and the pages are hard to read for someone having trouble to read. As a professional tax agent I have trouble to keep up with it. Unless you simplify things to make it easier for people it's going to fall over. Four and a half thousand tax returns per annum. Treasurers need to take responsibility for financial planners, I don't really want to take on that role as well. I don't see how anyone could do their own tax return unless – capital gains is a trap – and get it right. So many have shares, many have inherited them Coles Myer and Alinta, now they've been taken over there are

capital gains that they don't understand. There are too many things in the tax system like education rebate. What's it got to do with tax? I have to learn it; teach it to my clients. I'm supposed to know who the primary care giver is. I haven't had any instructions from the Tax Office, like childcare rebates. The tax system has been used for social engineering so many times, like with the film system we used to have that they got rid of it. It made life a lot fairer and easier. You don't have any control of the price. If you had it through a rebate system there would be much more control. I'm restricted with time, and more and more people are coming for second visit because they didn't know what they needed to bring the first time. Simplify.

Audience – Semi-retired Tax Agent

I'm a semi-retired tax agent. The fundamental problem is with interlinking collection and social security. It's almost impossible to disentangle them. The ATO is not working well. I used to get good competent advice from them but now they're happy to tell us we got it wrong, but refuse to produce worksheets to facilitate getting it right. It took me 7 hours to do figure out the protocol to get it right (the Coles takeover by Wesfarmers) – there are still tax agents across Australia trying to get it right. The tax office has failed the system when it became revenue oriented rather than service oriented.

Audience - Retiree

In designing a system for the future, I see no value whatsoever in taxing labour; it makes us uncompetitive against other trading partners. We can't tax capital, that's bad, we'll stop production. We could tax land and natural resources - we all take benefit of our natural environment. That will take us in countries that are moving in that direction like Hong Kong, Singapore and Taiwan. Otherwise we'll slide backwards like some African countries have.

Audience - Retiree

Of self-funded retirees, 80% of our membership would be in tax incomes, 30 cents in the dollar rate. Capital gains tax should be looked at. It was Keating's response to the probate disappearing. Our members suffer when many own property and have a rental income; they are involved in perusing the tenants, collecting the rent - but according to tax people that's considered as a passive investment. It's not passive. If one in old age decides they cannot continue with this demanding activity they have to pay Capital Gains Tax if they sell it. It's been reduced by 50%, but it's still there.

Audience – Tax Agent

I'd like to make an illustration of the complexity, unless you have a single job, one group certificate. [Accumulated capital gains foreign income] The Tax Offices' own guide with ten or twelve hours to read it – the chances of getting it right by themselves is close to zero. [Said it was so complex it was almost opaque] to defraud the Commonwealth after years of not paying sufficient taxes - an outcome of complexity. QCs navigate their way through being able to gain the tax system instead of it being fair. There are people starting from scratch and they have Buckley's chance of getting it right.

Audience – Member of Small Business Council

I'm on the Small Business Council and I have a personal comment and an organisational one. Complexity, unfairness, and inability to understand the system; Deliberations and outcomes should take into account that 53% of 15 to 19 year old people are functionally illiterate. 57% are functionally innumerate. If that's not bad enough we need to recognise that 47% of all Australians from all backgrounds are functionally illiterate. The kids coming out of school today are coming out in worse circumstances. If it's not understood by all of us it's not a good and fair system for all Australians.

Audience – Member of Tasmania Small Business Council

I'm on the Tasmanian Small Business Council. The home base business sector is increasing in number, there are nearly a million of those. There's significant complexity on the family home where you are running a small business from that. Few understand their obligations. It needs to be significantly simplified so those embarking on it know what they're getting themselves into.

Peter Harris: More specifically now, what are your views particularly on personal income tax or thresholds as they currently stand?

Audience – Tax payer and Financial Planner

Tax payer and a financial planner – with the marginal tax rates that have been alluded to, higher tax rates are as high as eighty percent for some. This gives nobody the incentive to go out to work.

Audience – Financial planner

Where a person transfers, over age pension age and they earn one extra dollar it can cost 80% extra – although I'm happy to run a seminar on small business gains.

Audience – Member of Not-For-Profit Organisation

There's the issue of spreading of incomes between couples. I see a lot of women who are pressured and find it hard. They spend an awful lot of money on childcare; many women are keen to stay at home if there was some advantage in that. The spreading of income between partners is a long term issue to take care of our children.

Audience - Solicitor

Income tax should be abolished altogether. The government keeps lowering the threshold of the amount where the taxes change. It's 6000 dollars now, if it was raised each time it would be a much fairer way by helping the poor the most.

Audience -

This question may seem simplistic. What would happen if everybody was taxed at the same rate? It would be an incentive for those who make money to make more money, and for those not earning the bite wouldn't be so big.

The quick answer is 11 million tax returns in a population of 24 million - we would laugh all the way to the bank, it would double the amount of tax returns in Australia.

Audience -

Logically a few years ago [with GST which we're not allowed to talk about] now it's in place it is possible to have a flat tax system if everybody below that has a flat tax rate. We could spread the whole thing out as a flat tax on every dollar. We could probably make that work. Probably. We would have a progressive rate of tax as long as they spend it in Australia, it doesn't matter where you put your thresholds. I'm paying a lot more tax if I spend a dollar more.

If an income tax was an okay tax to start with having a threshold and flat tax would be okay. It still intrusive; they have personal information about us. We don't need income taxes to run our country. We have people with our information which is going into freedom and liberty that were huge issues decades ago but we seemed to have accepted them now.

Audience -

Going back a few speakers ago, the figures about literacy and numeracy - he used the word "functional" which means being able to function in our society, but I think his figures were way above 40 or fifty percent which is utter nonsense. Many children come to school unable to learn, I think it's about 8%.

Peter Harris: Any thoughts on how taxation of savings from investments could be improved?

Audience - Retiree

Cut out tax on savings or at least adjust inflation for income tax or income on shares. We're favouring debt and not encouraging savings, and who would? Savings is so discouraged and debt is so encouraged.

Peter Harris: Are there specifics about business taxes that you'd like to discuss? How could the way business taxes are handled be improved?

Audience -

Get rid of it.

Audience – Member of Tasmania Small Business Council

I'd like to say that the complexity of the GST system has to be sorted out. It's far too complex for small business particularly if it's mixed where some is taxable and some isn't. Legislation is far too complex. The other thing with small business is that it keeps getting lumbered with more work. Super contributions mean all small businesses need to report more information. It's just been introduced by treasury and it's supposed to come in this year but we haven't been warned about what we're going to be saddled with. It's extra work imposed by the government. Treasury don't understand the extra work they're creating.

Audience – Tax Agent

Tax dept supplied the forms to fill in to do a tax return. I get little advice from them Canberra. There is no noticeable effect at the grass roots level. Logically when GST came in – Michael Caton was advertising, we were misled into believing we could do it ourselves. Every time something is introduced it is a burden on people. There should be some measurement of community cost.

Audience -

Here here.

Peter Harris: Any others specifically on reform?

Audience -

The people who collect the tax should be appropriately recognised and rewarded for fulfilling an obligation to government.

Audience -

We could go back to the biblical system where Matthew as a tax collector was on 10% of what he could raise.

Peter Harris: Any further thoughts on critical areas? Complex areas?

Audience -

There are 2000 pages here, where would you like to start?

Audience -

There's a lack of documentation on how we do the changes. For five years now the Tax Office will still not answer.

Audience – Financial Adviser

I was asked to raise dividend imputation system. Many members are concerned that there is an unfairness there with the bonuses or hand-outs of money that will occur during the

month of April. The committee could well inquire into the imputation system and how it affects individual and shareholders and the tax they have paid in frank dividend.

Audience – Retired Individual

I'm a retired individual and when I first filled out my first tax return it was four pages, foolscap pages; Now some years later it came with a booklet of explanation. I pride myself that without an accountancy degree I still do my own taxes; It's now over 60 pages and the complexity it's been through in that time is almost mind-boggling. I bought 400 shares in Coles hoping to get the discount. The complexities of Capital Gains Tax or in AMP's case, loss, was difficult for an agent and is multiplied by the other complexities. The system is too complex, whereas the Tax Office used to employ thousands just to check returns. I do mine on e-tax and it saves them thousands, as do many others, yet the bureaucracy on that end seems to grow and they can't answer the questions that you ask. For families it's almost economically impossible for a husband and wife to exist on one income. It's a disincentive to have children and raise them so they pass their literacy test. I'm retired, I'm still paying tax, but I'm on the receiving end of a transfer for an age pension. Two government agencies in control of my finances concerns me. Not-for-profit organisations that there are thousands of provide for the community – compared to what the government provides. They do it cheaper, better, and fairer. Finally, the difficulties of multiple taxation on top of taxation - everything multiplies and that's an impost on the individual.

Peter Harris: How about the relationship between State and local taxes – are there other issues regarding multiple tax?

Audience – Representing self

I think we were sold the introduction of the GST, on the basis that a lot of these State taxes would disappear. Tasmania has one of the highest land taxes which discourages investment. I'm bewildered personally that I haven't seen much disappear though the GST is well imbedded but we still have all those taxes hanging around. We should simplify it and encourage investment.

Audience - Retiree

Duties on purchasing of property: I've lived in the same house for over 40 years but others with families and renovations have probably paid 100 thousand dollars of stamp duties. The State government's seeming to be doing something about the system seems to narrow the pace. People are perfectly prepared to pay hundreds of dollars but when they get their land tax bill it seems so disassociated. Economists seem very efficient because you cannot remove the land. The impact of land tax on capital is that people in retirement when they get their land tax bill won't be able to afford their holiday homes. There's a disconnection between tax and council rates.

Audience - Retiree

The efficiency of land tax as recognised by economists: It's purely a political decision not to go there. People do see a link between the services they receive and tax. The benefit would be to young home buyers who wouldn't have to pay exorbitant prices. Those who are doing quite nicely are doing that at the expense of the next generation coming through. The current economic doom of the world could have been avoided by the land tax.

Audience - Retiree

Stamp duty on land transfers is distorting the market at the moment. I have friends who would happily move from a four or five bedroom house but for the stamp duty for the privilege of moving house for a couple is too much. Land tax is only levied on income-producing property; ultimately it's paid by the final consumer. The good socialist line of we

will have a land tax on its capitalist ideology falls down because ultimately it's paid by the final consumer.

Audience – Member of Not-for-profit Organisation

I have no vested interest in taxes on gambling but the State's reliance on gambling taxes I wonder what the government's going to do. People who own the pokie machines know who plays them - the poorest members of the community. The State government is so dependent on the gaming taxes, but we need to look after those who use pokies. Anywhere you can get alcohol, ATM and pokie machines is irresponsible; anywhere you can get those three things. I'm a student of fraud over the years and amazed at pokie machines and gambling: the price that a narrow section of the community are paying, with the exception of WA on gaming machines.

John Piggott –

Thank you, it's been interesting listening to what you've had to say – I think your messages will be taken back to the panel directly by me and through Peter's reports. Written submissions close on 1st of May so there's still an opportunity to present something formal if you wish. If there was a single theme that I picked up on tonight it was around complexity. In Sydney where I attended someone handed me two pages with a title page of an ATO guide for fringe benefit tax and there were 97 pages for non profit organisations. The notion of complexity is one the panel is very aware of as a result of these meetings and consultations. It makes it much more real as clients of the tax system.

Capital gains tax figured and its indexation and the arbitrary way that takeovers for example, which I picked up on tonight, will require some attention. There was less attention tonight on transfers, less about the complexity except in the areas where they meet between taxes and transfers. We're conscious for the impact on retired or moving-into-retired where income tax and transfers are both received. Tonight I find it difficult to sum up, it didn't group together except insofar as complexity. Particularly gambling taxes and the other point that was raised was around the pyramiding of the tax – the way they are imposed later in the system. I'd like to thank you all for coming and sharing your views.

Jason McDonald-

Thanks for coming, it's been illuminating. There were diverse sets of feedback – the complexity angle keeps coming up and GST is outside terms of reference. It's so complex to comply with because of other objectives, not just revenue raising but the poor being able to get access to education

Audience -

I'm happy with complexities in GST system

Jason McDonald -

The idea is to have a tax you can make simple and it's a social choice about how complex you make it. You need to ask "are you actually achieving those objectives?" You are able to employ tax agents if you're more wealthy. We will be addressing this in our final report.

Peter Harris: Before we go are there any further comments?

Audience -

The difference between unearned and earned incomes – this graph you won't be able to see here shows the problem in Australia - the blue area is return in labour and capital reduced by more than 40%, infrastructure projects that are now cash cows, and 28% is now going into private hands; all taxation could return to that when Australia was a rich country.

Peter Harris: Any final comments?

Audience -

It needs to be recognised that tax agents help the system to run efficiently; anything to make that better will help. We are an agent of the tax department to the client instead of the other way around. If it becomes worse, we are paid by our client, we explain it – we make them pay the correct tax. If it becomes more complex it could fall over.

Audience -

May I say the GST worked because of tax agents and not because of Michael Carmody who got in the way.

Audience - Retiree

This is more of a philosophical question: Malcolm (Frazer) said life shouldn't be easy. This country is trying to make life easy and is giving away money to those who don't deserve it. I question baby bonuses, first home owner grants; We should encourage society to be frugal and save money.

Audience -

May I go against everyone in the room and say in favour of GST that prior to its introduction there were spoiled enterprises that had no idea of the financial State of their enterprise. The tax agent told them they lost a few grand or made some money. Now all enterprises, every quarter, report to summarise income and expenditure and get some idea if there was something left over in between - so it hasn't been so bad in spite of the complexity.

Audience -

I think there could be improvement in the not-for-profit sector and tax deductibility for the religious sector if they're not involved in the public sector would lead to a lot of good if they were tax deductible.

5.1.9 Canberra

AFTS Public Consultation Forum

Canberra 19th March 2009

Southern Cross Club - Woden

6pm-8pm

Comments on the broader tax and transfer system

A) What parts of the tax and transfer system are not working well?

Complexity

- People felt that they had to employ a tax agent to navigate the taxation system in order to take full advantage of the exemptions and entitlements. The "*heavy handed, grossly over regulated and complex*" taxation system was thought to be too complicated for the average citizen to comprehend and take full advantage of and claim what is owed to them.
- It was felt that the system is out-dated. While it may have been good when it was first introduced, it has been added to piecemeal over the decades it is no longer appropriate.
"*The system is 100 years old and is full of holes*".
- Many feel the system is laden with inaccessible legal jargon.

- People experience inconsistency in advice on the same issue, have tax accountants who get it wrong, and have dealt with Tax Office staff who admit that they do not know the right answer in specific situations.
"People in the tax department don't even understand the tax system [given its complexity]."
"I am a retiree and I do my own tax return. I see it as an intellectual exercise and a way of avoiding senile dementia."

Administration

- Poor service had been experienced by some participants who had to speak with up to 30 different people in the ATO across the country, some of whom had poor English, an aggressive attitude or appeared to be "non-feeling".
- Some attendees expressed concern that the Tax Office was charged with both running the tax administration process, and also being responsible for dispute resolution. There was a call for some form of 'taxation ombudsman' (or more use made of the Commonwealth Ombudsman) as an impartial person in dispute resolution to be charged with ongoing review of the system to ensure it is flexible and responsive.
- Having to keep all paper work forever due to Capital Gains Tax is felt to be unreasonable for the average person.
- Tax packs are becoming more and more complicated, and some suggested the Tax Office's free 'E-tax' software does not work on older computers.
- The seniors pack, felt to be much simpler and appropriate for retired people, is not available at newsagents, forcing people to use the standard Tax Pack.
- People suggested taxing interest on bank accounts causes unnecessary administration, and could be resolved through either not taxing savings at all, or not taxing people with less than a nominated amount of money in their bank account
"rather than trying to keep tabs on everyone's bank accounts".
"There's so much admin to keep track of for bank accounts, just get rid of it"
- Attendees felt accountants spend too much time trying to beat the system and give advice to investors on where to place their money in order to get the best tax breaks or to minimise their tax, rather than putting their money where it could work best for them and help the economy. Some of 'Australia's best brains' are felt to be tied up in trying to 'work the system', leading to wasted resources in terms of time and Australian skills that could be used in other areas.
- Policies are felt to be made in a cocoon by Treasury without due regard to the administration and workings of these policies for the Tax Office and the average tax payer. It was suggested that the Tax Office were encouraged to just 'find a way around' these policies rather than getting together to review them and come up with a workable solution. This is seen to be further exacerbated by a lot of movement of people within the Tax Office, creating a lack of experts in some areas.

State and local taxes

- States are felt to just 'dream up' and impose new taxes (despite the understanding that GST would replace State taxes – which hasn't happened) with little or no justification. The example given was of a new utility tax implemented in the ACT, taxing access to existing utilities. The ability of States to impose tax and access tax payer dollars is seen to be 'wildly out of the control of the Tax Office'.
- Land tax is believed to be too high and this acts to discourage people from buying investment properties. This is believed to be particularly relevant in the ACT where there is a rental property shortage (and owners are expected to pay the same land tax per quarter if they only rent it out for one day in a quarter or the entire quarter).

- Stamp duty is felt to be unnecessary with the introduction of GST.
- GST is felt not to have achieved its goal of stopping the cash economy.
- There is thought to be a lot of double taxation happening between State and Federal taxes (ie one might pay their State tax on houses as well as GST on top of that).
"It's a tax on top of a tax. It's really making life very complex."
- Payroll taxes are also seen to be too high, inconsistent and discouraging employment after the "Commonwealth flick pass" of this tax into the States responsibility.

Personal Income Tax

- It was suggested that tax should apply to 'income' not 'expenditure' as the latter would be more economically inefficient.
- It was strongly suggested that the 'simpler' the tax system the better, and that attempts to reduce or avoid tax were wrongly influencing both individuals and business decisions. It was suggested that it may be more 'simple' to separate out the tax and transfer system *"for every concession given, it becomes an exercise to get everyone into the excluded class to receive the concession"*.
- Late lodgement penalties and general interest charges which compound over time were felt to have not been designed for long-term situations but they are being applied in this way (which is unfair to small business owners).

Superannuation

- Constant changes in nomenclature are a concern for some, for example re-defining income to include superannuation if it's taken out. – *"I can't believe that at all. It means people can't plan ahead for their retirement with any certainty – goal posts are changing all the time and usable income is declining"*.
- There is a perception of Inequitable treatment depending on what form investment takes.
"I can't get a health care card – because I have properties, even though I get no income from one piece of land, it's too complicated, have to get an evaluation – why am I penalised because instead of super, I bought that property – too much hassle to get help."

Tax evasion and avoidance

- Perception that too many people are evading tax. Examples given included overseas investors not paying taxes owed to Australia, people who are 'ripping off' the social system, people who continuously live in an investment properties for 13 months, renovate it and make lots of money but pay no capital gains tax because they can call it their primary residence.
- Charities and churches have exemption in the tax system yet they are running their affairs like businesses and avoiding taxes.

Environmental impacts of tax system

- The tax system should take into account the environmental impacts of managed investment schemes, looking at the big picture of how much money will come in from taxes versus the cost to the tax payer of repairing the environmental damage these schemes create (ie The Murray Darling Basin is now being fixed, but some believed it is funded irrigation schemes which have made it necessary to fix).
- Rental housing is negatively geared at the same level whether or not the property is energy efficient or eco-friendly – the tax system should encourage sustainable housing through appropriate incentives or penalties for investors.

- Tax exemptions for people to have livestock on rural properties exist yet there are environmental implications (with a suggestion that if not properly managing livestock for those who have them just to attain the tax exemption. It was suggested that the tax exemptions should be available to people who regenerate the land and people would do it just as willingly as they currently buy livestock to get the tax advantage.
- The tax system is seen to be biased to making the Australian economy fuel dependent by facilitating cheap petrol (ie fringe benefits allow for car parking spaces so people in Sydney drive their cars and then State Government has to spend on toll roads to manage traffic).

B) What components are working well?

- The HECS/HELP system was seen to be a fair and equitable system because those who get the benefit, pay for the benefit.
- Income tax – works well for most people
- Super co-contribution scheme is beneficial in providing the opportunity for women who haven't had chance to earn as much as men, to contribute super. It was felt that this shouldn't be changed as there are a lot of disincentives to superannuation and this would encourage people to contribute.
- Superannuation taxation was seen to work well and should not be changed.
- Dividend imputation works well as a company is owned by its shareholders and the shareholders are taxed already when the company pays tax. Changes to this could potentially diminish confidence in share markets, causing a great deal of money to go offshore and the incentive to invest money in Australia would be greatly diminished.
- Imputation should be extended to cover income earned overseas by Australian companies.
- Superannuation should not be nationalised. The system works well as it is.
- GST was widely believed to be a good tax because of its simplicity.
"The simplistic administration of the GST through paying it in the shop and it's over and done with, and you don't have to pay your receipts could be spread to income tax to make it simple and a pay at the point of income system. Take advantages of the simplicity of the GST and spread to other areas."

2) What taxes or transfers you see as fair or unfair?

- The comment was made that there is an underlying bias in discussing 'fairness' in the tax system review as opposed to focusing on economic efficiency. Fairness increases the complexity and unworkability of the tax system and that fairness in itself is not beneficial for the poor and has less advantages to the poor than the advantages gained in increasing the growth rate through an efficient tax system.
- Capital Gains. For investors facing write offs, losses can only be written off and claimed against capital gains and can only be carried over for 7 years. This was seen as unfair in the current economic climate where capital gains are sparse and there are going to be more losses and fewer gains to claim against.
- Lack of tax benefits, health cards or stimulus package eligibility for self funded retirees who are perceived to have worked to ensure funds for their future.
"It's unfair because you save money, you go to the effort and you get taxed for it."
"It's an unfair burden on some people where some people who can afford to pay taxes end up paying nothing."
- The aged pension was originally supposed to be a safety net payment for people who couldn't save for retiring and is now paid to some people who have considerable savings. This is not fair for young people who are never likely to be able to own their own home whose income is being taxed to support retired people with those assets.

- The salary paid to people trying to transfer from the dole to a job needs to be enough for that person to make being employed and doing the work worthwhile in comparison to receiving benefits. This teamed with the highest tax ever (losing up to 60% of what you earn to Centrelink) is a disincentive for those on benefits to seek work.
- The HECS/HELP system was felt to be an unnecessary burden on young Australians and 'great impost to the intellectuals of this country'.
- It was suggested that there should be only one taxing authority and that everything should be called a tax and be transparent.
"Don't call them all these other things, levy, duty. Just call it a tax."
- Each dollar is thought to be taxed too often.
"Nobody gets it and how many taxes are there?"
- Different things are taxed at different rates (ie interest tax is different to super) and these differences are not explained.
- Tax is defining interests and choices in investment through unfair concessions. Should be no concessions.
"I put money here because it's not the best place for your money, or the best outcome for the economy but it's where it produces the best outcome for them in terms of tax"
- Rules make an unfair playing field in taxed and untaxed systems and they're cutting into the income of untaxed systems
- The way in which a dispute is dealt with angers people (litigation). It is believed that the Commissioner is a hard ball litigator and the judiciary act should be installed and the burden of the onus of proof on the Tax Office rather than the tax payer. Taxes are meant to be voluntary contributions.

3) What are the priorities for change/what would the ideal future tax/transfer system for Australia look like

- Seniors should be exempt from having to lodge a tax return – due to complexity, seniors face the 'unnecessary' cost of hiring a tax agent to complete their returns.
- Ensure simplicity which will lead to efficiency and effectiveness.
- Remove limitations on contributions to super *"If you looked at super as an income averaged over the lifetime, you should be able to put as much as you like in"*.
- Place a tax on corporate profits to lock them into accounting principals so they can't manipulate it. This could be achieved through a threshold or tax free exemption of up to 50K.
- Focus on evasion and ensure that those who are dodging tax pay a fair and equitable amount. This would increase tax and make it fairer.
- Consider that it's not economically efficient to fix environmental damage that has been created by tax concessions.
- Adopt a Federal rate and share it to improve income structure – that failing, abolish tax and adopt the Hong Kong system.
- To radically improve business tax system, implement 100% depreciation for capital expenditure and cancel all interest tax deductions.
- Legalise drugs so these could be taxed instead of leaving all the profit for drug lords.
- Give better training to people who work in the Australian Taxation Office to create well written and comprehensive manuals.
- Given the aging population – minimise the number of people who have to submit returns.
- Have incentives for savings and acknowledge the effort expended in earning this money rather than "sitting on the government's books".

-
- Promote taxes as a positive thing and communicate all the reasons for the taxes to remind the public why they take tax off us and what it's being used for. *"The tax man is always seen as the bad man because he's taking money off us, but we've got good things for it."*
 - A common tax system across the entire country.
 - New Zealand and Australia to have a joint economy.
 - Create measures to promote national savings and decrease foreign debt.
 - Abolish stamp duties and replace with a flat rate land tax system.
 - Replace all deductions (capital) with a 100% depreciation of capital expenditure .
 - Remove deductions for interest payments to vastly improve effectiveness and efficiency of tax system.
 - Employ environmental consultants in Tax Office.

5.1.10 Sydney

AFTS Public Consultation Forum

Sydney 18th March 2009

Mecure Hotel

6pm-8pm

JOHN SHANAHAN

Welcome, ladies and gentlemen, to tonight's public discussion on the future of the Australian tax system. On 13 May last year, the Government indicated that it was going to undertake this review and tonight as a part of that process, we are conducting forums around Australia and inviting interested parties to come and make their submissions. This is only part of the process. You will notice that you have on your seat some material on the issue and also some questionnaires. I invite you throughout the course of the evening to make comment on those questionnaires and to leave them behind at the end of the session. There will be other vehicles by which you will be able to make your submissions through the respective websites at the Treasury which we will talk about later. But first I just want to introduce you to a couple of people who are on my right.

The first is Jason McDonald. He is a senior member of secretariat representing the Government and the second person is Professor John Piggott. He is a member of the review panel. Professor Piggott is Economics and Associate Dean of Research at the Australian Business School at the University of New South Wales. He has a long-standing interest and has published extensively in the area of economics, taxation and the economic and financial aspects of retirement and pensions. I'm going to ask John to just introduce this evening and in particular the back ground of this tax review system. John.

JOHN PIGGOTT

Thank you very much indeed. I'd like to add my welcome to you all here. It is very encouraging that so many people have turned up for this public hearing. The review panel is trying to look at tax and transfer system from the point of view of citizens. So it is extremely important that meetings of this kind take place, and we are really here tonight to listen to your views about what parts of the tax and transfer system are working well, what you would like to see changed, where you see opportunities for improvement. The review panel will report at the end of year, so I am not in a position to answer questions on any specific issues, but I am here to listen and I very much appreciate the opportunity to be able to hear at first hand the views of so many of you. So I look forward to hearing your thoughts and I will hand back to John to get the discussion going. Thank you.

JOHN SHANAHAN

Thank you very much, John. So let's try and keep tonight informal. So certainly feel free to say what ever you want to say. We are going to be here for two hours. Just a few administrative issues: we are recording this session, and that is for our own purposes, because we will put everything together in one report to go back to Government. So nobody specifically will be identified. So does anyone have any issues with the fact that we are recording? Fine. Let's get on with it. One question that I would also ask is would you mind turning off your mobile phones if you have them. Right, so on the screen, you see the three main questions that we want to address tonight. Number one; what part of the tax and transfer systems are not working well and what components are working well. Number two: Are there taxes or transfers you see as fair or unfair? And number three: what priorities do you see for improving things that are not working well?

Can I ask you when you want to speak would you put up your hand and say your name. if you are representing an organisation, would you say who that is. Other than that, put your submission forward as you would expect. We will start off the conversation by just talking generally, but in the latter stages of the session, we will focus on specific areas of the tax system, namely personal tax, transfers, business tax, the issue of complexity and administration and the last area will be State and Local taxes. We may have a break in the middle in which we summarise how we are going, and then at the end we will try and tie the whole session together. So thank you very much for your contribution. So who wants to kick off? Good, right in the front, excellent.

SPEAKER

I'm from the Women's Electoral Lobby. I mean, I have got a problem with the fact that you, in a sense you've got – thanks – you've got a question up there which says what parts of the tax transfer system are not working well and what components are working well. You're setting us down a lot lower than your original question in the paper. In the paper, you have actually asked, you now, what sort of society do we want. And, in other words, how does the tax system fit into that, and I would like to start on that, because I think that is the really the key question. Otherwise we get into the whole sort of system about assuming that we have got a basic structure that works and we are just going to tamper with it and tinker with it in varying ways.

But I want to make comments more generally about what we have got. Why do we have a tax system - tax transfer system. Because I think that that actually has to underpin your work on this because otherwise it's you know, it's tinkering again and that's not what your brief is. I was really impressed about the fact that it starts off with, you know, what society do we want. I mean, if you want a fair society, if you want an ethical society, if you want a society which in a sense is going to be able to sustain itself in some fairly difficult times ahead, the tax and transfer system, in a way, are the Government's indication to the populace about what they value, what they don't value, what they see as important, and what they don't see as important.

And I mean, I have got some problems in varying sorts of things; in not taking it from that viewpoint. And I have started trying to, you know, putting down some thoughts and I won't go through them all now because – but I think one of the things is – I mean, one of the things that worries me is in your summary, you talk about the burden of taxation. Why use a loaded word like "burden". Why assume that tax is something bad. You know, why assume – why go along with the idea that is theft and welfare is - you now supports the incompetent and incontinent so therefore what we have to do is sort of actually, you know, start from the assumption that we should cut taxes. Why should we cut taxes?

We are one of the lowest taxed countries in the OECD. If we want to have a civilised life we may actually have to raise taxes because there is lots of things that should be collectively

gained, rather than individually gained, and we have got to actually think about those things. We've got an ageing population, we have a lot of environmental issues. We've got a lot of social issues. Cutting back on the tax system is not something that I would actually support, and I am doing this from point of view of Women's Electoral Lobby, because I think women are much more aware of the fact that there is strong need for having some collective support for people in a way that is not actually dealt with within the current tax system.

I also want to comment on the fact that we have got, in a sense, irrational bifurcation between the tax system and the transfer system. Tax; good – you know, tax concessions are terrific, transfers are nasty. There's absolutely no difference. And the example I wanted to give, for instance is if somebody gets a \$5,000 deduction from their excessive superannuation contributions, they feel they are entitled to it, *"It's mine. Tax deductions are mine."* If somebody gets paid a baby bonus of \$5,000 there is an immediate sort of carry on about middle class welfare, how dare they do that? So really rich people can get tax bonuses out of the tax expenditure area, but as soon as you get into the tax – into the transfer system, we start policing it in a way, about whether these people really need, and don't need it.

An part of that is also, which I would like to sort of put out there as a point of discussion is how far the tax system is designed to look at horizontal equity versus vertical equity. Horizontal equity is treating people in similar positions similarly. Vertical equity is hopefully a downward distribution. Occasionally under the superannuation system you have got vertical equity distributing upwards, but that's another issue. Rich people get more out of the super system than poor people do. I don't know how many people in the room know this, but the amount we spend on superannuation taxations for the rich; it would be cheaper to give a universal aged pension and cancel the superannuation tax superannuation tax concessions.

We spend something like \$20 billion on tax concessions that that mainly go to rich men because it is men that earn most money in most cases; I'm not being sexist, it's just actual. I just think we need to sort of consider why we give away a lot of money under one system and we are sort of really mean about it in the other. In fact \$5,000 income foregone or \$5,000 paid out rationally is the exactly the same in terms of accounting, but emotionally it is very different. So I mean you can ask yourself why there is an emotional attachment to reductions in tax and an equally emotional negative attachment to the idea of paying out welfare payments when, you know, we are supposed – finance people are supposed to be rational.

Maybe the Professor of Economics can explain what the rationality of that particular set of social attitudes. So I mean, I won't – I've got lots more I will probably contribute on some of those sorts of issues. But I think what I would like to say is I want to see a fair tax system. I want to see a tax system that actually that looks at inequalities between people and the transfer system should do the same. I want to see the transfer and tax system being much more meshed. I want to get rid of the idea that we have got all of these hidden expenditures and tax expenditures, which are rising substantially and they are actually much less scrutinised than payments, and get away from the idea that paying money to people is sort of the – it's not only just redistributing from people that have more than enough to people that don't have enough.

It's also about saying that for instance if you have got kids, if you've got a disability, if you've got additional costs and that is where the horizontal equity issue comes in, you should be being paid. If these are things that we consider as public goods, like caring for kids or trying to get yourself – you know, if you have got a disability, to try and take part in the workforce, that these things should be paid for and collectively gained. I think if we assume that this is all about the difference between what stuff we have to bear individually as costs, and what risks we manage individual, and what ones we manage collectively, if we can say – if we can

move outside a lot of the emotional laden language that we actually have about tax versus welfare payments, we might actually be able to come up with a fair system. Thank you.

JOHN SHANAHAN

Thanks very much. Great contribution. Who else would like to – probably the best way is to put your hand up and then someone can bring the microphone to you. Just one point. There is about 100 of us here tonight, I think. So we have got 120 minutes. That gives us about 1.1 minute each, I think. So try and say what you want to say quickly.

SPEAKER

Yes. I will be much shorter. I'm a leading peak oil researcher and I'm from ASPO, the Association for the Study of Peak Oil and Gas, although I do not speak officially from ASPO, because we are a voluntary organisation. We do not have a formal procedure where someone presents and reads out an official manifesto. So if you like, although I'm from ASPO, I'm voicing my private opinion. I have got four points. For those who have not understood the financial crisis, it's peak oil. The global peaking of crude oil production which triggered the financial crisis. It triggered, not entirely caused; we have the confluence of an accumulated debt problem and the limits to growth in oil supplies.

But we have also a limits to growth in energy supplies in general, global warming stops us now from going for more coal fire power plants, so we have actually limits to growth as already advised in 1972... I have four points, what the tax system must do. It must abolish all tax concessions for the use of motor cars, because Australian oil production will fall dramatically. Western Australian oil production will be almost nothing in about six years. Number two; tax on public transport must be abolished. All direct and indirect tax, that means on buses, trains, ferries, etcetera.

We need an oil tax because apart from high oil prices which damage the economy, we have a now rollercoaster oil price development. And think of an airline, think of any company being oil dependent; how can you do calculations now with your business? So what the Government needs to do, it needs – if you want to have a revenue neutral system, the Government would impose an oil tax during low oil price periods just like now, and they would use that money to subsidise oil in the short periods of spikes. Plenty of discussion there; how to do it technically. And I have designed a ten point program which I have handed over...Penny Wong, even the Prime Minister, Albanese, Finance Minister Tanner and the tax system should support all this ten point program. Those who are interested they can come to me at the end of the presentation and collect that ten point program. Thank you very much.

JOHN SHANAHAN

Thank you very much.

SPEAKER

Thank you. On question of what is good about tax system, I'd like to cite that dividend imputation I think is an extremely good aspect. It's a logical avoidance of double taxation. Next point is I've heard of Dr Henry's comments on cost of capital and how it might be beneficial in raising wages. I don't know if an explanation can be given of the – or a reference can be given of what the logic is of that, because it sounds a bit like the Laffa curve to me. I haven't quite come to grips with it. But I just I suggest that in relation to tax on capital. Capital is ultimately owned by individuals and there is a concept of the real rate of return. And individuals get to a point where the cost of living is considerably below their return on capital.

So unless some generation stuffs it up in terms of investments, there just is going to be an inevitable mal-distribution of wealth that I don't think is particularly conducive to social

stability. So that's just a general comment on taxes on capital. Next point; Medicare levy. Why does it exist? As I understand it, last financial year anyway, there was a point where I think there it around about \$17,000 income when the Medicare levy added 10 percentage points to the marginal tax rate. What is the point of it? Is it just there so that politicians can make it look like the marginal tax rates are one and a half percent lower than they actually are, that's not the fully story on marginal tax rates.

A general point: I think there is a lot of externalities that are not taxed, like air pollution for example. FBT on cars, I know it is not easy to fix, but as a previous speaker said, there is a statutory method – I mean, it's an obvious no brainer to do something about. Payroll tax: again, I guess the only justification for that is competition between the States. But surely we can do better on that. The CGT discount; I can't see the justification for the 50 per cent versus the previous CPI indexation method. Again, it's a – I guess a lot of my points are relating to the inconsistencies of the progressivity of the income tax system. And a lot of these inconsistencies result in higher personal income tax rates than should otherwise be the case.

In that regard, the SATO, the Senior Australians Tax Offset, I think is ridiculous. The LITO, Low Income Tax Offset, I realise that is an extremely expensive one to fix, but how many people in Australia know what their tax effective marginal tax rate is? Do most people on 30 per cent marginal tax rate know that their marginal tax rate is often really 34 per cent? So there is an additional 4 percentage points. Not even the Tax Department - I rang the Tax Department to ask this financial year what the ranges are for the – and what the amount is of the LITO and I got the answer at \$1200 dollars for the LITO, but I couldn't get an answer on what the range is between where it phases out.

The small business tax concessions; I would ask you to ask anybody in this room if they understand how they work. Now, if people don't understand how they work, how can they really be of any benefit or function sensibly? And again, I mean, they – like, superannuation has been mentioned already, but they are a massive tax fraud, basically, allowing up to five – as I understand about \$5 million or \$6 million to be legally avoided in tax.

But the last and big one of course is superannuation. And I think there has been – I won't run through all the silly things that are with the superannuation system, but just pose a couple of questions. Firstly, why are there tax subsidies for saving? There is no evidence, as I understand it, that these tax subsidies actually increase saving. Secondly, the current system doesn't require people to actually use superannuation to fund their retirement. I can retire at 60, pull all my money out of saving, paying superannuation, pay no tax and go over to Las Vegas and put it on red, and then come back and go on the pension. So the taxpayer would have given me tax subsidies throughout my working life and then they will fund my retirement.

So it's obviously an absurd system, where you know it's been mentioned already; the more you've got, the more you get out of it in terms of tax subsidy up to a certain point. So how to fix it? So the final question I would pose is most of the problems with it stem from tax-free superannuation for over the 60s which I understand are the two things outside the terms of reference for the inquiry. Is it possible for inquiry group to point out to Treasurer that this is probably the fundamental problem with superannuation system. It's what leads to there being a 15 per cent – maximum 15 per cent flat tax in superannuation, and if it is going to be fixed - you have to tax somewhere.

You've got to have - for administrative reasons you've got to have a flat tax within superannuation, if you don't have taxes at the end. Any flat tax is going to be – unless it's got some imputation system at the end, it is going to have huge problems because people on very marginal tax rates, including zero in many cases in retirement – so my proposal is stop all tax deductions for contributions to superannuation, abolish all taxes within

superannuation; contributions and earnings tax, and have a taxable component in there which is added to a person's taxable income in retirement. And also have a nationally defined contribution scheme to fund the pension which is phased in and fully funded.

JOHN SHANAHAN

All right. Thank you very much.

SPEAKER

Thank you very much. I'm on a working party run by National Foundation For Australian Women to look at tax system as affects women, and it's logical to follow on from the previous gentleman, I think. We have put submission to the Retirements Income Review. We'll put a submission into the Tax Review proper. Our starting point, I think, is from perspective of low income earners, which in fact are usually women. So that is how you get the link. But the current tax system is really structurally completely flawed as regards giving benefits up and down the scale. I call it the Tsunami of the marginal tax rate, myself. Because the current proposals from the Government to reduce the tax rate at upper end basically are pushing them down and increasing marginal tax rate toward the middle.

That really is acting as huge disincentive for women who wish to, to go to work, or low income people who wish to, to go to work, and it is really corrupting capacity of Australian economy to be efficient. So that is the basic premise, and when we have got our submission written we will have the facts and the figures for your very good edification. Just one other quick thing I wanted to mention, about prescribed private benefit – prescribed private funds. I am a director of a body that does a worthy historical project on a not for profit basis. And we run around trying to get, you know, charities or foundations to give us money.

And the point is that the Australian tax payer gives concessions to charities, in the very general sort of definition of a charity, and also had agreed some years ago to set up these prescribed private funds which are not accountable in any shape or form. No-one has any idea what they do with their money. So someone who is a worthy charity looking for funds to support it has got really no effective way of finding out where one might go to get these funds. So it's not a very accountable system at all, and it is benefiting from tax payer largess in as much as you get deductions when you set these things up. The United States has solved this problem years ago, and are far more accountable. So that's just a quick secondary point.

JOHN SHANAHAN

Thank you very much.

SPEAKER

Hi. I'm a single mother of four children. I'm trapped in a very strange welfare trap. It's an upper welfare trap. If I go to work full time, I actually am worse off than if I remain on welfare and working part time. I don't feel that that is very fair, that if I contribute more, my household actually receives less. I'd also like to make some comments following previous statements about good welfare and bad welfare. I receive child support from children's father, and the money that he pays together with my earnings, if you put that money together, and converted to a gross income, the amount of welfare dollars that I receive is far less than the welfare that would be extended to a coupled household with a single primary earner.

But my welfare is bad welfare. My welfare is income support. So I'm being subject to welfare to work rules. So I receive less money and yet I have to go to Centrelink every fortnight and put in a form. I have to sit on a telephone quite often and speak to participation officers because I haven't worked 30 hours a fortnight this week, even though I earn more than a minimum wage at full time – like, I earn more than a full time minimum

wage earner every single year, I am still subjected to these quite humiliating procedures, very time consuming procedures, when I am receiving less welfare than other households that have the same net income as me.

I don't think that that is very fair at all. I am also very concerned. Single mothers have two tier welfare system. Some of us are on parenting payment single. Some of us are on Newstart. If I was shifted to Newstart, I would actually receive no income support. This would mean I would be receiving significantly less than the family tax benefits that are extended to a primary income earner household with the comparable income to mine; significantly less. There seems to be a misunderstanding in the community that all single mothers are receiving vast amounts of welfare payments, and we are not.

We are actually funding the welfare payments of other households. And we're trapped quite often by a system that sees our work being valueless, our child support is valueless, every dollar of child support that you receive above a very small annual income, 50 cents of your FTB payments is taken away and they will eat into your rent assistance too. I'd really like to encourage the Government to consider – I know there is a lot of fuss at the moment about the level of payment for pensions, but the level of payments for allowances are just despicable.

You cannot raise a family if you are shifted to Newstart. The shift to Newstart is actually forcing women into full time work, and we were given part time obligations, in recognition of the fact that we do have care obligations. So I would really like to encourage Government; I think that people in same circumstances should be eligible for the same amount of income support. It doesn't make sense that I, earning \$27,000 per year can have \$5,000 of parent payment single, whereas if I was shifted to Newstart, I would get no income support at all. That's just nonsensical.

That's just a timing thing, because I was happened to be in receipt of parent payment on a certain date. I'd also like to encourage the Government to think about whether it is fair that when single parents have a partner, that the incomes of partners also affect the payments that come to a household. When you're a partner it doesn't necessarily mean that that partner is going to be capable of picking up the slack for somebody else's children – like, to pay for somebody else's children. So there's just a lot of inequities around that. I'd hope to make a submission along those lines, but I just thought I'd come along to day to say I'd really a system where – that was truly progressive as has already been mentioned, and I'd really like a system where people in similar circumstances were treated equitably.

JOHN SHANAHAN

Thank you. Well, we've got lots of hands. Now, I'm going to sort of just take one or two submissions in this general stage and then we are going to go on to the specific areas. So the gentleman on my - - -

SPEAKER

Coming here as an individual. 12 questions in the consultation paper on retirement incomes. Now, aspects of six of these questions would be answered by a single change of principal in the superannuation tax system; that is, scrap all taxes and tax concessions relating superannuation contributions. This would immediately address the need for an equitable system which is fair regardless of personal income, and would allow the remaining tax concessions to operate in appropriately targeted manner. The 9 per cent SG contribution is generally considered insufficient to provide adequate retirement benefits. But elimination of the contributions tax would result in a higher benefit outcomes, without increasing the contribution rate. And the benefits would be even high if the tax on superannuation investment income was also eliminated.

We also have – sorry. Another aspect is the complexity of current system. Elimination of the taxes and tax concessions suggested would make it significantly simpler. Section 6 of the consultation paper raises issue of sustainability. Aged pensions currently cost \$25 billion per year. This is expected to rise dramatically with ageing of population. But this is essentially welfare for the less well off. Superannuation concessions also cost \$25 billion dollars, but these are largely targeted to the better-off. The scrapping of the taxes and tax concessions suggested would reduce this cost significantly and make the whole structure more sustainable. Finally, the attractiveness of diverting superannuation benefits to repay loans would be significantly reduced. Just by – all those things would all happen, simply by the change of scrapping taxes and tax concessions relating to superannuation contributions and investment income.

JOHN SHANAHAN

Thank you.

SPEAKER

I'm here in a private capacity. Thank you very much for the opportunity of allowing us all as individual citizens to be here and make some contribution. I think it's a worthy ideal. It's going to be very difficult to get to the end of it, but I have enjoyed some of the complex arguments that have already come up. Just going to the guiding question; what parts of the tax and transfer system are not working well. I think it is fairly obvious that none of it is really working well. What components are perhaps working well – well, maybe the system in the end is what we all desire, but the contortions we go through to get there unbelievable.

I would like to just make the general comment. It is dealt with in great detail in my submission that has gone in; that we're not getting anywhere in this tax debate until such time as we have look at the progression in income tax structure in Australia. Now, there has been already some people who obviously support the very steep progression we have in our income tax structure. I argue vehemently against this, because I think it is the root cause of all the debate that goes on. We have system at the moment where we have \$6000 tax free and then we have this LITO, which is a time bomb and I don't know if many of you have realised what a time bomb it is.

Embedded in the consultation paper was the amazing statement that when LITO was \$600, that five million tax payers took advantage of it. Well, it's now \$1200 and based on arithmetic considerations, you can see that probably 10 million of 11 and a half million taxpayers are now classified in some form of being a low income tax offset person, worthy of some redemption. Now, when we have got a tax system that is ridiculous as that, then I think we have got to have to look at the progression. The progression has in my opinion but Australia at the top of the league when it comes to high marginal tax rates at relatively low levels of income.

And as I've said, I don't think we are going to get very far until we have a very good look at the whole system of the threshold, which in my opinion and this has been backed up in my submission, is being exploited by the rich. There is massive income splitting going on, which in some respects calls for a higher progression. The accountants and tricky dick lawyers around town would be salivating at the prospect of this new threshold and LITO. They will be splitting income like you wouldn't believe, the burden of which is going to fall on the average PAYE taxpayer.

So I will just leave you with the thought that we are not going to get anywhere in this tax debate until such time as we have look at the very steep progression in Australia's income tax problem and until that is overcome and people understand, then we're going to have this endless debate, which sees some very good points raised by a participant, which sees some very good points raised by a single income mother over there with four kids, both the

positive marginal tax rates are too high in Australia and the negative marginal tax rates are also too high. I see no reason why can't we have a system where the combined effective marginal tax rate system is no more than 30 cents in the dollar, as opposed to 80 cents plus that certain welfare payments attract at the moment. Thank you.

JOHN SHANAHAN

Thanks. At this time, I would like to just take the conversation towards one of the major topics, and this one is going to be the topic of personal income tax. So the kind of things that we will be talking about there are the current thresholds, the point that was just brought up. Are they appropriate? Is there anything unfair about the current personal tax structure or tax systems and tax levels. There has been some discussion about flat tax rates versus sliding scale tax rates based on income, and the whole issue of whether different tax thresholds encourage or discourage participation in the workforce. Who would like to kick off the conversation about personal tax rates. This is your chance to have your say, so put your hands up.

SPEAKER

Yes, I mean, just very briefly, and the problem is it is not necessarily the supposed personal tax rates that is an issue at the present, but the fact of things like FTB and there is other associated little horrors that have withdrawal rates on them, and so in fact push up the actual effective marginal tax rate, which is the, you know, the next – the tax on the next dollar you pay when you're down the bottom end of the scale and you are desperate to try and either go to work or better yourself, and there is huge disincentives from that facility and that is what I tried to say before.

JOHN SHANAHAN

Yes.

SPEAKER

And in no way are we going to put in a submission that suggests we should have a 30 cent flat tax rate.

SPEAKER

Yes, just part of the problem with my work being valueless is single mothers have an effective tax free area of approximately \$23,000 a year. So that is what you can earn plus your pension, all pensioners do. So I can earn about \$14,000 and not pay a squib of tax, and be taking \$10,000 worth of pension. So I've got my \$24,000 tax free. Now, once I step over that point, then I start losing what is called the pension tax offset, and that is quite steep. Every dollar you earn reduces – the pension tax offset reduces by 12.5 cents. So I start losing that, then I hit – once I hit \$30,000, I start losing the LITO money and my effective marginal tax rate then leaps to about 68 cents. Also, every dollar that I earn decreases the child support of children's father.

So I get to this ridiculous point where I am sort of working for 28 cents in the dollar I get to actually keep out of my earnings. When I actually figured this out, and as somebody mentioned, you try and call the Tax Office; they don't know. You say – it took me a long time to figure out how this works, and when I realised what was happening to me, there really was no point and I thought – that's when I thought I'll just go full time and just see if I can earn enough to bring some help into house to take care of a bit of cleaning and things for me. That was when I actually calculated that I would be worse off because then you Medicare levy, and that then applies to your whole income.

I would also lose my daughter's youth allowance because I only get the youth allowance for my daughter because I'm in receipt of a pension card. So the – as I said, what your effective marginal tax rate – if you ask most single mothers how much of the next dollar

they earn, they would get to keep, none of them would get it right. And you need to have quite advanced understanding of the *Social Security Act*, of the Tax System. It's just impossible, and a lot of them overestimate the reclaim on their dollars, because they go through a process where they say - well, Newstart, where you've got a 60 cent reclaim, they say, "*Well 60 cents will go back to Government if they are in public housing. 25 cents is going to go into the public housing. Gee, I'm going to keep 15 cents.*" That is what they actually think is happening. They think they are only getting 15 cents in the dollar. So it works against them. It's not really their fault, because DEWR don't even understand it. The figures on the Figures DEWR website of the difference between Newstart and Parenting Payment are out by \$40 a fortnight. So it's interesting that DEWR are charged with responsibility of administering a test, which we can be sent to do a job if it will provide \$25.00 more per week and yet DEWR can't even calculate it.

JOHN SHANAHAN

Right, got it. Okay, anyone else? The gentleman here.

SPEAKER

Thank you. Look, I'm going to refer to a very good book by N.E. Renton "Australia Needs Tax Reform" and I do note in actual fact to put in a submission. But I think of what Mr Tanner was referring to, I will refer to even more equally. The 30 cents in the dollar tax rate comes in at \$30,000. Now, if you're a pensioner you're also hit at that level – only because you have already paid your 10 cents Medicare, but you are then – sorry, you lose 40 cents in the dollar from your pension, to start with. You then lose your low income tax offset of 4 cents. You lose your senior Australians offset of 12.5 cents, which in actual facts takes your payments, or loss of income, or loss of revenue being the pension, up to 96.5 cents in every dollar, leaving you the great sum of 3.5 cents for putting in an hour's work or per dollar for each hour.

Secondly, if you look even a bit more closely at the social security. If you don't claim pension at when you turn 65 and decide to continue for five years, the Government will at end of that five years give you a lump sum as a single pensioner of \$33,409 which is equivalent of \$128.50 a week. So the person who claims a part or full pension, if he tries to work as well can lose up to 96.5 cents of that plus the \$128.00 dollars. I mean, there is no incentive. I again will refer once more to Renton's book. It is well worth reading by everyone. I do not he has simplified everything, and we don't need complexities which we have in this system now, and which I agree with the previous speakers, no-one in the Tax Office understands. No-one in social security understands. In fact – nor does the public service. No-one in public service or politicians understands. We have a system which has broken down and especially for what I will call the low income earners, whether they are a single mother, a pensioner or from any other section of the community, and it's just not right.

JOHN SHANAHAN

Thanks. Here you are.

SPEAKER

Just on the – I think what all of this illustrates is that really having a separate payment and a tax system, you know, sort of the transfer system and the tax system need in some way to be amalgamated, which raises some sort of quite interesting issues. But one I would like to sort of raise just following up on some of the other things there, which is, you know, I agree it is almost impossible to understand exactly how that works, and people just blank off when you talk to them, and I've done that. But if you look at second income earners, it's a really quite interesting sort of process, because again, there are certain parts of tax – of the transfer system that depend on their own income. For instance, family tax benefit A is done

on joint incomes. Family tax benefit B based is done on their own income, unless their husband suddenly earns \$150,000 a year. So that confuses it.

There is evidence, if you go back to Patricia Apps' work on looking at sort of workforce participation. She has written this stuff up quite extensively, over the years. There is evidence that women are much more sensitive to effective marginal tax rates than men are, because - particularly if they have got caring responsibilities. So whereas men very often, you can cut their taxes back and I'm quite sure we actually sort of, you know, even increase their taxes at the top level, and they are highly unlikely to stop work. As soon as you add something to the things - like, I mean, you know the way that people carry on about raising the top income level, no I don't want to cut, I probably want it raised and I want it dropped to a lower level, prepared to sort of do that. Because there is no evidence that high tax rates at that particular level actually cause a disincentive in work. There is evidence that that an effective marginal tax rate at the lower levels does discourage a second income earner.

The other issue I would like to raise and it sort goes almost to the second question, but it's part of this thing, too. One of the reasons it's difficult to blend the transfer system with the tax system is one is done on the basis of the individual, almost entirely, which is the tax system. The other one is done almost entirely on the basis of the relationship you have either with your partner or in some cases your obligation, for instance, to support children that are actually over the age - you know, are actually mature adults in other sort of terms, but you know, they still lose payments k their parents' income on things like Youth Allowance and so on.

I think that raises a lot of issues. I mean, one of the issues it raises is the capacity for Centrelink to marry people who don't consider themselves partners, which is what the sort of - you know, briefly, things like that. You know, I remember I think an article for *The Age* years ago called, "*Married by the Fridge*," where somebody at Centrelink informed me that if two people actually shared the payments for a fridge they obviously were in a marriage-like relationship. I thought they'd never lived in a shared house. But you know there is certainly absurdities, and now that same sex couples have now also got the thing of being considered as couples, you have an outdated construction of a *de facto* which was based on a very old idea that there was a an income earner and domestic provider, which is still being applied to make assumptions about shared income between partners.

So I mean, one of the things that we will be putting in in our submission, and my friend here is going to be doing some work on that too, is to sort of challenge that whole idea of how you actually join people who have no actual formal contract between them. I mean, marriage is some form of contract. But same sex couples and *de facto* couples have no contract between them, yet the Government can decide that one has to support the other. It makes it almost impossible to blend the tax systems because they both were, you know - and the transfer system, because that is a very major difference. So we want to put that on the agenda.

JOHN SHANAHAN

Thank you. Any other comments on the personal tax debate?

SPEAKER

I'm a self-funded retiree. My concern is about plight of couples in a relationship. Now, the partners are quite independent. They have - the relationship is based on equality and also on the ability to manage their own affairs. Now, what happens after a couple of years is that the relationship is under stress because of change in circumstances. One partner has higher income and the other partner has a very low income. And this causes a lot stress on the family and with regard to retirement, both partners are on retirement age. One partner has,

in order to meet her aspirations and dreams, has incurred a lot of debt, and in order to pay the debt she has to work overtime. When the person works overtime, then she incurs a tax debt. Now she has to pay to manage to service her original debt as well as the tax debt, leaving the person exhausted and without any savings. The other partner at is on a very low income, almost at poverty level, is not able to access the pension because of the joint income situation. And the joint income is taken into account. The person on poverty level is not able to access the pension, and the person who is working overtime on a high income is not able to access the pension either, because she has to service the debt, both from the income tax and from original debt. So that is the position. And the other point I would like to raise is that in this instance, divorce or separation is not an option because of religious, moral and ethical issues. That's it. Thank you very much.

JOHN SHANAHAN

Thank you.

SPEAKER

I'm with the Welfare Rights Centre in Sydney. A number of the speakers, obviously I would agree with them, particularly the impact of the new welfare work changes. When you are talking about massive changes which leave people worse off through working, when those changes were brought in, sole parents were \$29.00 a week worse off than had they still had the same rules, because of favourable indexation arrangements that apply to pensions and things like that, now they are \$38.00 a week worse off than the basic payment. That is just going to grow. One thing that puzzles me is why – and I understand the political reasons for it, for having a pension review, because of the pressure from aged pensions, particularly single aged pensioners renting.

But why have a massive important review like that, which is going to cost billions of dollars in revenue foregone, when we are trying – you are still consulting over changes to retirement income system more generally in the tax reform system. And also allowances somehow have been hived off in this whole process, which is quite difficult when you look at the difference between pensions and allowances. People think that it is a bit tough living on an allowance of such a low rate, with such high withdrawal rates. Spare a thought for people on special benefit, where there is no free area. You loose a dollar for dollar – for every dollar you earn on a payment called special benefit, which is a payment of last resort. There is a whole range of – I wouldn't say they are mean and tricky rules, but they are quite difficult rules in the social security system which catch people – waiting periods, compensation preclusion periods, where there is dollar for dollar treatments of compensation.

People often get really poor advice from their legal advisers and accountants and make all sorts of wrong decisions. They've never had as much money in the world, they blow the money and then they go to Centrelink for help. It's all too late at that point in time. there is a whole range of issues in terms of people's understanding of both the tax and social security system. Why a whole lot of people find the system so complex, they have to go and pay someone – or they'd do anything to avoid the system, is beyond me. Also, it's been – I'll be one half a second. It's been talked about, the differences between the tax system and the social security system.

It's like a bit of a badge of honour if you avoid paying tax, but woe behold you if you are caught with Centrelink / social security overpayment, often which you get through no fault of people's own. It's the complexities of the system that works against that. If people get an overpayment of \$5,000 they are generally done up for social security fraud. But the Tax Office, it's often that is sort of optional, and the treatment is so different if you get a tax debt, for example to how you are treated in social security. If you're talking about aligning

systems and making them – treating us like citizens instead of criminals, then that is a few issue to throw in the mix for your taxation review. Thanks.

JOHN SHANAHAN

Thanks very much. I now want to pick upon the part of the conversation which is the whole issue of transfers. So has anybody got additional comment they want to make into income support and matters relating to transfers?.

SPEAKER

I will make a disclosure up front. I am one of those spiffy accountants. Why anyone should be paying me anything to prepare an income tax return for an individual, or to help them complete a social security form is beyond me. That suggests to me that there is something wrong with the system. There is too many people who require assistance. So it's overly complex, in that sense. It's the interaction between the two which I think has caused – and I want to pick up on a theme that a few people have mentioned, and that is why we have, effectively, two systems. They certainly should be integrated into one. It also strikes me that there are some basic amounts that are required for an individual, amounts to support themselves, to support their family and once that's taken out, or put to one side, then it seems to me that you're looking at comparables. So in other words, there is a basic amount people need to live on. If you take that away from the income that they have, and not everyone will have the amount necessary, and I think you are then starting to deal with the level playing field, in terms of taxing people. If they don't have the amount to take away, this basic amount that you determine is necessary to live, then it seems to me that that is where the system should be providing the transfer, if you like, or the credit and an integrated system like that would certainly help achieve it.

JOHN SHANAHAN

Thanks. Any other thoughts?

SPEAKER

Family tax benefit B is a totally irrational payment. If you earn in a family – if you earn, say \$60,000, \$30,000 per partner, you cannot claim FTB B, but if somebody earns \$50,000 and the other earns \$10,000, the person on \$10,000 gets family tax benefit B. It is actually is discrimination against two income families that have a reasonably equitable income. It was done by the last Government purely and simply as an ideological push for single income families to reinforce the idea that the Government thought of single income families as a good idea, and I just think it is time that it is actually removed and you know, if you are going to look at family incomes, you look at family incomes. If you're going to look at individual incomes, you look at individual incomes.

JOHN SHANAHAN

Thanks. Let's move on, now. I want to move the conversation on to business taxes.

SPEAKER

Hello. I'm here in my personal capacity, but I'm also am a lawyer. In my job, I have helped a number of companies try and comply with their payroll tax obligations and I've got to say it's not easy. Apart from the ideological issues I have with payroll tax, because I think it is a little bit untoward

JOHN SHANAHAN

In what way?

SPEAKER

In what way; it really discourages companies that are labour intensive, that have people on the books, from keeping those people on the books. It has this really bizarre definition of wages and how you have the common law definition of employment inside of the legislative instrument which means that just an ordinary reader of the Act would think, *"Oh, how does that all work together?"* Because it's an employee as such; it's not an approachable legislation at all. But it's not just us that thinks that. It's the Office of State Revenue. And the different clients that I have assisted, the Act has been applied in so many different ways that there is no consistency whatsoever. So I've got clients have had assessments ruled down, where they have been completely taken to the cleaners with massive amounts of backpay for payroll tax levied upon them, where for another client in exactly the same situation, they get through. So if anything happens out of this, I would like more education for the people who actually enforce the taxation laws so there is consistency, we know where the goalposts are, and it's not all fuzzy.

JOHN SHANAHAN

Thanks. Gentleman down the back.

SPEAKER

Thank you. I'd just pick upon that last point in relation to State taxes which is, I think, quite bizarre. I just note that with the State taxes, there is no uniformity across any of the States. So what we have is a situation where in each state we have replicated and built systems, quite complex systems, and resourced those systems in each individual State. Now, it's very entertaining that many, many years ago we worked out that having a rail system from Sydney to Perth and changing then gauges we went across each State was rather silly. So I just make that observation. I think it would be also – I think what we could do, and it might put me out of step with a lot of people. I'm actually a bit of a fan of the GST. I think what we could do here is to abolish all State taxes and the revenue that is lost in that area be captured by the GST. If we were to do that, and it's a pretty radical thing, and I accept that, but if we did do that, what happens is we then have a uniform system across the country.

So we don't make decisions about where is the best place to build, where is the best place to have employees, where is the best place to do this; it all becomes uniform, which I think is a good step. I also notice with State taxes, they are discriminatory. So we have a system where land, for example, is canded every year, whereas trading in listed securities is not. The lady who spoke before also pointed out, and I applaud that, in relation to employees. I find it quite bizarre that we actually tax, or there is a disincentive in relation to employing somebody. That just seems to be quite bizarre.

So I also think there is a distortion, too, that creates into the system in relation to investments. So at given times, you would be more favoured to go with particular investment outside of land, for example, where I think that investment probably has greater benefit for the community in providing housing and the like. So I also like the idea if you go into – if we use the GST to capture the amount of revenue which we would lose without the State taxes. It's a broad based system. So the more we consume, the more we pay. So there is a degree of equity in all of that. So I guess they are my thoughts.

JOHN SHANAHAN

Thank you very much. The person beside is you is keen to have her say.

SPEAKER

Thank you. I am a person who specialised in State taxes for past 25, almost 30 years. I didn't intend that. I graduated in law and was with a law firm practising in an area, but around the early 1980s, the rate of stamp duty was, in NSW, more than doubled. The

maximum rate on transfers of property. And in addition, a few years subsequent to that, some land-rich duty provisions were introduced and in consequence of that, and in consequence of other States and Territories imitating these changes, I was the person who as asked to read it and I became a specialist in the area. I have had many, many years, and some other gentlemen down the back here, I've been a consultant to.

And I want to echo comments made by the speaker at the front concerning payroll tax, the speaker down here who I know, from the Real Estate Institute, and just to say that if – I appreciate the GST is not part of the Australian Tax Review Panel's reference, however – but we do ask if that possibly could be the case in the context of State taxes, and to say one other point; that if that possibility is not likely to eventuate, of actual abolition all the of the State taxes, and something Australia-wide as a Federal Tax that is fair and equitable and certain, that at the very least to reverse what we've done over the last 25-28-30 years, and that is to reduce the rates of taxes, and if I could just say that I noticed that in a paper that you'd given, Dr Henry, you said that you are often asked the question of what does the global financial crisis mean for the Tax Review. I'd like to ask the question; what does the Tax Review mean for the global economic crisis? I'd actually like to put it, that not as the first gentleman up the front said, that oil was one of the contributors or the causes of the current crisis, I'd like to put it - - -

SPEAKER

Trigger, he said.

SPEAKER

Trigger, trigger, trigger. That one of the factors contributing is State taxes, and the Australian economy in any event; that the cascading of stamp duty on stamp duty on stamp duty on stamp duty over past 20 years at those rates have become now at a point where property transactions are almost at a standstill, revenue to the State is plummeting downwards, and an answer might be simply to cut all the rates.

JOHN SHANAHAN

Right, thank you very much.

SPEAKER

Would it be all right if I made just one last point in relation to – sorry, I missed something when I spoke and I do apologise. I'd also just like to point out in relation to our legislation in the States, that not only is it replicated across all the States, it's extremely complex. Our Court systems, the ADT, spend many, many judicial hours giving interpretation to these things, in New South Wales and doing it right across all the other States and Territories. Now, that, to me is just ludicrous. You know we really can go a far, far more transparent, more equitable system and frankly a lot simpler. So I think the IPAR report said we need to have equity, transparency and simplicity. And I don't think the State system is ticking any of those boxes. Thank you.

JOHN SHANAHAN

Great, thank you. Gentleman over here with the red tie.

SPEAKER

Thank you. I'm speaking in the capacity as an individual. There were two things that really stood out in my mind. One is how lucky we are to have this sort of forum to put across our point of view. In some countries, the Tax Office officials show up with masks and sub-machine guns. We laugh at that, and in other countries that is a reality. People are amazed to think that we actually get refunds from our Government, that they send out taxation refunds. So what I try to do, is I looked at where we would be in 20 or 30 years time. In

doing that, I tended to go back and look at our country and how it is geographically isolated and where tax can be really used appropriately is where it contributes to all of us and that was evidenced by the comment on railways, by the Government establishing the telegraph network.

Those are the sort of things that change our society for future generations. So the telegraph, the telephone and what we do with that is an integral part of our society as Australians. Where will we be in 20 or 30 years time? And I think one of the things that we have that gives us great advantage is our education system, our health system and our ability to deploy technology. What I would be suggesting to Government is that we've started with a rollout of broadband and those sort of things, but what Government should be considering is implementing a 100% tax deductibility for computer equipment and software. I know that sounds radical but not everybody will take it up in first year. Not everybody will take it up in the second year, but what that does is start to build into our infrastructure, technology and it does it rapidly. And the time to do that is in the time of financial crisis, because that will be similar to what happened with the telegraph and the telephone system and the railways.

JOHN SHANAHAN

Thank you very much. Any other points on that? That was largely a comment with respect to how we should be utilising our tax revenue. Before I sort of tie up the discussion on business taxes, anyone else want to say anything in that space?

SPEAKER

Just a very brief point for all the people who would like to see the Commonwealth collect all the State taxes. We would have to do something about used to be called the Brown's Commission way of allocating of money otherwise New South Wales in particular will be screwed because we don't get per capita funding from the Commonwealth, and I think that that needs to be put on the agenda if there is any intention to move that in, because the fact that you know, New South Wales gets less per capita, and Victoria because they were seen as the developed State versus Queensland, etcetera. I mean, I think it certainly is something that needs to be looked at in terms of the distribution of money back to the States, because otherwise we'd be very badly off.

JOHN SHANAHAN

Yes. There has already been quite a conversation about State taxes, and it was one of the sort of sub-topic areas that I wanted to go into. So has anyone else got further to say on that matter? Sorry, there's a gentleman in the back.

SPEAKER

I'm here as an individual. One thing about the idea of making a flat tax is for the Commonwealth to administer That would be all right if, but I don't know how the States would like it. They'd just increase their charges and their fines. So they'll still get it from us. The other thing I would like to raise those, one just – one special – is the imputation tax. I think that's a fantastic thing, and I think a terrible lot of the retirees in particular look forward to that, and probably would stop investing in shares if they didn't have it. And I think if you do away with it, you are going to find a lot of people are going to get out of it and you know, get back into putting money in their cash advance stock, which isn't going to help them when the inflation comes in. But I think that the imputation is a very important thing.

JOHN SHANAHAN

Okay, thanks a lot. Lady here.

SPEAKER

Thank you. I was just going to make a short comment. I was just going to make a short comment as why don't we save Australia lot of money and get rid of the States. Please!

JOHN SHANAHAN

Show of hands?

SPEAKER

And I think a lot of people would agree. So if you could work on that, it would be really great.

SPEAKER

I don't think it's in your actual terms of reference.

JOHN SHANAHAN

Sounds like for another day! Thank you - a great contribution. Any further comments about State taxes?

SPEAKER

I'm just here purely out of self-interest. I just recently paid my 2009 land tax bill, which is an effective rate of 100 per cent, which leaves me no income left over for any maintenance, you know, or insurance or anything. It's an effective 100 per cent tax rate, which from the Office Of State Revenue, I just get the Nuremburg Defence. You know, and only time to pay – well, it's not much good having time pay, because the chances of my having enough rental income to pay my 2010 is becoming I think impossible, because there just won't be enough rental income. I have to squeeze all my tenants, who I know personally, and I approached one last week. He said it's impossible. He has to move out. So we are getting the donutting effect of Sydney as well, where you get the anomaly of two identical units; one is investor-owned and one is owner occupied. The investor-owned one may pay at the 2 per cent land tax rate, possibly \$10,000 land tax, plus CGT on sale, where the adjacent one, identical property, is totally tax-free. I find this totally inequitable for the tenants because at the end of the day, the flow-through effect, the land tax is paid by the residential tenants, with absolutely nothing paid the owner occupier.

JOHN SHANAHAN

So, in saying it is 100 per cent, are you saying that your land tax levy was equal to 100 per cent of the income on the property.

SPEAKER

It certainly is, yes.

JOHN SHANAHAN

How is that?

SPEAKER

It's because of the odd number – the high value property that I've got with low value rentals.

JOHN SHANAHAN

Right.

SPEAKER

You know I'm, for example, renting out my late mother's cottage for \$650 per week. Well, unfortunately, the land tax is \$700 per week. It's a very old cottage with a 40-year kitchen.

SPEAKER

That is right, where land tax – nobody ever bothered about it, because it was the equivalent of a month's rent. And since the Olympics, it's been creeping up, just slowly, slowly creeping up, you know, and I just find it totally unfair, because it's the tenants that pay it. It isn't the landlord. This constant push on rents is purely caused by the rise in land tax. You know, it isn't me trying to squeeze more. I would love to receive a 2 per cent return. But to do that, I'd have to double all my rents, which is just not on.

JOHN SHANAHAN

This obviously has touched a hot topic. The woman behind you.

SPEAKER

If I could just give you a bit of advice that if that property were to be within a five kilometre radius of the GPO of Sydney - - -

SPEAKER

Yes, I was just going to - - -

SPEAKER

You know about it.

SPEAKER

Yes, I do. 500 metres out.

SPEAKER

That's extraordinary. A submission has been made by the Law Society that that radius be lifted, and that's in the context that there is a exemption for low cost accommodation within a five kilometre radius of Sydney and that was something introduced to assist. But it's a maximum of, I think, \$315 a week rent. You'd have to reduce the rent, but you'd get exemption from land tax, and at least you'd get a bit of money.

JOHN SHANAHAN

Sorry, just one more comment here.

SPEAKER

Yes, this land tax, this is actually a very valid point. The European countries where land tax is unconstitutional, because it is seen as a hidden form of expropriation. So imagine you have a 2 per cent land tax. You do nothing with the land. In 50 years, it is gone. So it's unconstitutional in some countries. It's a very good point. It should be abolished, actually.

JOHN SHANAHAN

Okay, thank you, thank you.

SPEAKER

Hello. I am one of many tenants and I guess to hear it from a tenant's point of view, of what land tax does, you would think, okay, from a business point of view when I hear properties have to be sold and the tenants moved out, you go well that is how life is. But what I would like to see in regards land tax is ideally the abolishment, but I think that is not being very realistic with our world economy and what is happening, but basically to see some level of exemption or consideration. And in reflection of that, socially, talks about society and time to change tax. In looking at, say, land tax and what it does to our society between the wealthy areas of Sydney and the poor. A personal example would be for us, where I live

there are six to eight tenants, that we have been there, some of us like myself, 12 to 14 years.

We – because it is an anomaly, again, not only in the distance, but it is one house within, say, the Eastern Suburbs very wealthy area. One house block their houses over that time, six to eight to ten people, depending on the couples. Therefore, with land tax and no positive income coming from that, that would mean then that eight people go out into society, push people further away, or go and find cheaper rent somewhere else, or something reasonable. That means it's a change in society where within an area there are no longer the people that may be lower income and servicing people of that area that have money. It means that then there is another four houses or four units or four whatever people can find taken up somewhere else and crowding more of Sydney on the outskirts that goes out.

It means that the diversity that sometimes you can get with different economies being able to live and rent, as opposed to just a full enclave of residential family setups, so basically I guess, looking more also – not only from a very personal side, but the social side that comes in on the tax, and it's there that it's being pushed and this change in the housing situation of all of Sydney. Because not only does the wealthy area means there is no flats or houses there for others, it means that that wave gets pushed out. So I'd better finish there.

JOHN SHANAHAN

Yes, thank you very much. I just now want to take a step to the last topic, which has already been touched on by many speakers in one way or another and that's this whole issue if the administration of tax, the complexity of tax. Who would like to lead off on that point? Yes.

SPEAKER

Just the complexity question, it just reinforces, I think, what I said in my first batch of comments and that is the progression in the income tax structure has become so tyrannical that we pay accountants and lawyers a lot of money to get that dollar past the tax man. If, however, we can reduce the progression in personal income tax structure, which I have said is one of steepest in the world, at least in the developed world, and probably more importantly in comparison to undeveloped world, because with comparative purchasing power considerations, their wage structure is probably more important than the developed and industrial world. But if we can get the progression down, then I think the complexity will fall into place. It won't be so complex. There will be no need to try and get that dollar and the deduction out of the marginal tax rate of 46.6 per cent past that tax man. It simply will not be worth your while to do that. People will pay their taxes. What we are seeing is a reaction to the ever-increasing progression in our income tax structure, and until that is dealt with, I see no hope that we will get to some of these fundamental questions.

JOHN SHANAHAN

Okay. Gentleman over here.

SPEAKER

Thank you. I am a taxpayer. And I'm here in the capacity of talking about tax collection, and liability. I don't know much about the transfer system, but I'm contributing to the funds that provide payments for transfer tax. I want to give you an analogy, very quickly. The ATO airlines are based here Sydney and shifting people from Sydney to Perth. Scores of officers, hundreds of planes, and thousands of employees and one major problem; they are flying East. Now, if somebody comes along and says, *"Look, you guys. We can save a lot of money here if we just fly directly to Perth,"* you've got a major problem because you have got to assist them in a structure and place that has to be dismantled, and I think that that is

one of the big challenges that the Tax Review Panel faces in this great opportunity that exists in fixing our tax system.

There are solutions for a better tax system, but we have to have the courage to dismantle the mess that we have at the moment. So just what's wrong with our tax system? In one word, complexity. A recent survey by the ACCA found that Australia got the gold medal as far as complexity goes in taxation systems in the Western world, and we were the second lowest as far as fairness goes. With complexity, comes confusion, uncertainty and costs. We put \$1.00 into our tax system, we're lucky to get 70 to 73 cents out. That is a huge cost in collecting tax. The problems; in business we're unsure if we have pay tax or not. We're unsure about liability so we go and get private and binding rulings. Thousands of these rulings are prepared each year by the Tax Office.

The legal people representing the Tax Office told me that the Tax Office is not accountable for any advice that they might give, not responsible. They can give you a private ruling one week it away the next. These are the sort of uncertainties that exist with our tax system that need to be eliminated. The other problem with complexity is evasion. I'm told a study is being done by University of Sydney's- Dr Chris Prejada. It's estimating that 15 per cent of our GDP is lost in tax evasion. Now, there is a solution to all this, as I said. It's a bit radical, but what we need to do is eliminate – is it 125 or 128 taxes that we have now? What ever the number, replace them all with a single broad based flat tax, based on every transaction, and a target rate of 5 per cent. Introduce it over five years, at one per cent a year, and delete the various taxes as we replace them with our transactional tax. Everybody pays the same rate, nobody is exempt.

The rate can be reviewed each month by the Treasury, If we need more tax to run our country, then our rate goes up. If we need less, the rate comes down. But everybody is treated the same. It's a fair and simple system. One exemption is there is no tax on your private residence. So what are the benefits of a broad based low rate transactional tax? Number one; simplicity, clarity of liability. This is the big problem we have as taxpayers, we don't know, we are unsure, whether we have to pay tax or not. We have to employ tax experts, tax accountants, tax specialists, tax agents. Under this system, a simple, broad based tax, we don't need any of that. There is absolute clarity and liability. Ease of administration and collection. We all know how much tax we pay; it's 5 per cent of our income. If we earn \$1000, we pay \$50.00 tax. We turn over \$1 million, we pay \$50,000.

If we turn over \$1 billion, we pay 5 per cent. Productivity incentives for workers, for wage earners, salary earners. If they want to, take a second job, if they want to earn more money they are taxed on a flat rate. Everybody is treated the same. This is the ultimate test for fairness. The final thing is political honesty. For once, we are going to know how much it's costing to run our country. If we have an election and the Liberals go to the election and say they are going to lock in the tax rate at 5.3 per cent and provide X amount of service, then we know where we stand. If Labor says no, we want more Government in society. We want the Government to do more work and we need an 8 per cent tax rate, and this is what we can do, then it's out in the open. We know how much it is going to cost to run our country. We need a simple system. Complexity and certainty are not companions, and that is the big message that I would like to give to the Tax Review Panel. We need one solution. We need one system. We need one tax and one rate. Thank you.

JOHN SHANAHAN

Thanks. Well, there is certainly clarity in that message. Anyone else? Gentleman down in the back.

SPEAKER

I'm from the Association of Consulting Engineers Australia. Our submission details about in excess of 20 recommendations. So I'm not going to cover all of those tonight, but I just wanted to hone in on two in particular, on the subject of complexity and cost of compliance, I think the payroll tax - there should uniformity across the country in terms of payroll tax, for many reasons, but primarily to avoid the complexities and the compliance costs that are handed down to business at present. Organisations – firms operating across State borders, it's really just a bit of a nightmare at the moment and things would be a lot more simpler if there was uniformity across the country. Secondly, and this probably relates more to an earlier – it relates to the earlier discussion of business taxes, but one recommendation we would make is as it stands at the moment there is a Fringe Benefits Tax exemption for employer sponsored child care facilities.

However, if the childcare facility that the employees attend is not part of – is not employer sponsored, there is no Fringe Benefits Tax exemption. We would argue that this is unfair on small to medium enterprise. Deloitte carried out study in 2005 that basically investigated how many of these employer-sponsored facilities were in existing within Australia and it was something pretty striking, something ridiculous like only 25, I think, employer-sponsored facilities around the country, and our submission will give you the exact numbers on that. It's unfair on small to medium enterprise. The construction and maintenance of a child care facility is, I think, in excess of \$2 million. And there's some studies to back that up that we've mentioned. So we would like to see a complete FBT exemption on all child care facilities across the country, and it would also be an incentive for workforce participation, particularly seeing an increase in the number of women – the female workforce participation as well. So I'd like to submit those two points, thanks.

JOHN SHANAHAN

Thank you.

SPEAKER

Looking at the inputs into the participants of our taxation system, we need a very high level of qualification to draft them. We need a very high level of qualification to advise on them, but what qualifications do the people have or need to have that enforce them. So on the front line, when you've got a review officer, I don't mean to pick on the Office of State Revenue, but they really get my goat. The compliance officer, to them, you know - I don't want to look into their motivations, actually. But it's just a case, and they look through the facts and they try and figure it out and then they go, *"Mm. Yes. Payroll tax liability over here. Not so much over there. Next."* And it costs clients of mine, certainly, hundreds of thousands of dollars to push it up through the different levels in the OSR, eventually take it to the ADT or the Supreme Court. I just don't think it's fair that we don't have enough of a basis in the beginning to make the decision right the first time. I'm happy for tax, very important. Happy for welfare, very important. But just tell me what to pay.

JOHN SHANAHAN

Good point

SPEAKER

I mean, I think we haven't sort of talked about some of the more general – I mean, mentioned tax expenditures first. I think if we want to get away from all of these things, we need to abolish most of tax expenditures. Make them either a payment or abolish them, because there is a hell of a lot that goes – that is in that sort of tax expenditure area, which just adds to general confusion, is often inequitable, and things like that. I would suggest that work-related deductions also go. That, you know, the tax rate be adjusted, but I mean,

you know, because you spend forever trying to work out your deductions and fiddling around with it. I gather a lot of countries have lower levels of tax but they don't have the deductions and things, and that would seem to be much more sensible.

Fringe benefit tax I should think you know, just should go, including for child care. I'm not in favour of it because it sort of distorts the market for child care. I think we just need to sort of actually sort of say, "*Okay, there's a sort of income tax and there's a wealth tax.*" And I think that is one of the interesting questions. I mean, all the discussion we had earlier about you know about land tax, I mean, we've got this sort of creeping bits and pieces of wealth taxes that often end up as being totally inequitable. Maybe we should be looking at something since we don't seem to have got away from the idea of any form of death duties which struck me as the least avoidable form of tax, because you do die, but I mean maybe we just do need some sort of net worth type tax, rather than successions of little bits of tax on particular types of wealth which then distort the market and those sorts of things.

I just think if we actually simplified it down so you've got income tax which I think should be progressive, flat rate tax, I hate to tell the person that sort of raised it, particularly if it is on consumption, is actually regressive and not fair. And I think we just need to just sort of look at a graded income tax, progressive income tax system, you know, the company tax I'm not going to sort of enter into because I don't understand some of the arguments about that, but it's reasonable to tax profits and companies, and I think we need to sort of simplify the whole thing and get rid of a lot of these extraneous bits and pieces that give us how many pages in the *Tax Act*?

SPEAKER

That's what a flat tax will do!

SPEAKER

No, a flat doesn't do that. A flat tax is regressive.

SPEAKER

It's certainly very simple.

SPEAKER

It might be simple, but simplicity is not necessarily fair.

SPEAKER

Good evening, ladies and gentleman. I represent the Australian Taxation Reform Group, a group founded in Melbourne some 15 years ago just to look at these sort of problems. We have been champing at the bit to get to review something like this. We were involved in one in 1996 and were effectively wiped out of the equation. Our proposal for tax reform relates to what the message is on the board up here. It says *Australia's future tax system*. Unfortunately, what I've been hearing tonight here, it's been very informative and whatever, but is what I see as micromanaging a system that doesn't even work.

Up on the board up in front of me, what parts of the tax and transfer system are not working well? Well, I don't know what a tax transfer system is. But I do know what a tax is. None of the systems are working well. What components are working well? None. Are the taxes or transfers you see fair or unfair? Definitely unfair. Most Australians see the tax system in Australia as a gigantic, monolith that just overrides everybody. You've got no fairness in the system whatsoever. What priorities do you see for improving things that are not working well? Well, I'm a technician by trade and what I do with things that don't work well, I get rid of them. I assess the thing, I see if it's fit to fix. If it's not, I make a determination and get rid of it. That's what I see we need to do with this tax system we have in Australia.

We've talked about this with the Australian Taxation Reform Group over a lot of years, tried to get a voice with taxation people, and review panels such as this. We have been unsuccessful because we are not of that level to have a big voice. I commend the fellow over here on the right relating to a standard system of taxation that everybody can understand, because definitely we can't understand the one we have got now. The only addition that I'd like to make with my learned friend over here's submission is that it is still based on an income tax basis, and basically not everybody pays income tax, not everybody is a worker. What we are proposing, we have submitted to the learned review panel is a system based on actual money transfers, as in money transfers between financial institutions. Everybody has a banking system of some sort. Everybody pays into ADIs or deposit institutions, and I know there is a lot of people here that believe that this sort of thing will not work. Can I just sit down for a minute?

JOHN SHANAHAN

Of course.

SPEAKER

I'm not used to doing this sort of thing, but anyway. What I think we really need to get over to the tax review panel, and I know that the – what we are proposing is not included in the brief of this panel, but we really need to look at the position of where we are in Australia in taxation terms. In taxation terms, we are not making any headway in providing for income for this country. I've read the speech of Dr Ken Henry in Canberra in November of last year, and he raised some valid points which I'd like to bring to the people's attention if everyone's read it, well I won't. But I'd like to if I could, spend a minute just to do that. Is that all right with everybody?

SPEAKERS [Generally]

Yes.

SPEAKER

Well, Dr Ken Henry is the boss of these guys. He is the chair. So he is the guy that should know about all this sort of stuff. He is the secretary to Treasury and he's been that since 2001, and he's been involved at the top level of taxation policy since 1984. So he knows what's gone on with the system. He's been the major architect of the whole system. During the Press Club speech, Dr Henry talked about complexity, risk and governance. He was very aware of the complexity of the tax and transfer system, and he actually admitted responsibility for some of that complexity. I think that's a very brave move on Dr Henry's part, because it shows that he's actually listening to what's going on out there in the community. I commend him for that. He's aware that there is at least 125 taxes at a Federal level. I am aware that there is much more, through my study over the last 15 years.

There's over 5700 pages of the *Income Tax Assessment Acts*, and they are growing daily. So how do normal Australians cope with this stuff? I know I can't. You know, I'm not an academic or a person of this sort of ability. 75 per cent - our accountant friends up the back they mentioned – and Dr Henry says 75 per cent of taxpayers in Australia cannot complete their own tax return without an accountant. That's abysmal. That is absolutely abysmal. He admits the system is complex and therefore generates uncertainty of outcomes. My learned friend over on the right, he just pointed that out. So I don't know what is so hard about this. What I think the tax review panel must do is be open to new ideas. If they are just going to go over the same old ideas, we are going to get the same result. So all I can say is please, Tax Review Panel, don't look at fixing this system that we know is broken. Go to a new system. Get some new ideas, and be confident about the fact that Australians can and will fix the problem. Thank you.

JOHN SHANAHAN

Thanks, great. Gentleman down the back.

SPEAKER

Hi. I'm concerned about complexity. The system needs to be simplified. However, if simple, then it is possible to evade tax, people will. So, I mean, there is a lot of empirical evidence and probably a lot of our own personal experiences suggest, quite frankly, if people can evade tax, they will. So I don't think there has been enough focus to date by the review in ensuring that the better mouse trap, which you need to create, will catch the mice. There is different ways of doing this. I won't go through all them now, but there is just no enough focus on ensuring the system will in fact collect money. I pay a lot of PAYG tax. I'm happy with that. I'm not fussed with my high marginal tax rate. But there is too much tax not being collected in the system; huge amounts.

JOHN SHANAHAN

We are at the stage, I think, that I can sense that people are getting a little bit restless. So we probably want to just summarise where we are at. Maybe if I could just ask the panel to make a few comments as to some of the things that they have heard tonight so the attendees get a sense of some of the key messages that have come out of the discussion.

JOHN PIGGOTT

I'd like to begin by thanking everyone for a very illuminating couple of hours. From the first statements all the way through, I think I have gained a new appreciation of how people generally view the tax and transfer system. I think the only – up here with the first question is what parts of the tax and transfer system are not working well and what components are working well, the only component I heard about that was working well in this two hours is the dividend imputation tax. Nothing else that worked well that I picked up. So that means that there is a challenge for the panel in improving what we have, or changing what we have or reforming what we have, and I do think what we have before us is what someone has called a root and branch review. And if you look at the terms of reference, they are very comprehensive and I believe the panel will take advantage of that wide spectrum of possibilities for tax reform.

If I were take a single message out of what I've heard tonight, it's the complexity of system, and that complexity arises – I have a new appreciation of the different dimensions of how that complexity is generated. Some of the complexity – some of the trade offs we know about. We know about trade offs between efficiency and equity, and they are well documented. But the system is so complex that it would be surprising if we couldn't do better on both by eliminating some of the complexity which has been evidenced in so many of the anecdotes that we've heard tonight, and so many of the analyses that people have presented.

It seems to me that complexity comes from a number of different sources, sometimes within a single tax, complexity arises. So before this evening began, I was handed by one of you a document – the first and last pages of a document which is the ATO guide – not the legislation, but the ATO to fringe benefits tax for non-profit organisations. First page is page 1, and the last page is page 97. So even within a single tax, complexity is present. But the sort of capricious complexity that was evidenced by a participant's story, over here on my right, I mean, that comes because you have multiple entities and sometimes multiple jurisdictions interacting in the way the they treat income streams, payments and circumstances. I think that's a huge challenge for the panel to cut through that and try and find a much less complex way of delivering what the tax system and the transfer system is supposed to deliver.

So we actually have a term of reference. It says:

"The review should take into account the relationships of the tax system with the transfer payment system and other social support payments, rules and concessions with a view to improving incentives to work, reducing complexity and maintaining cohesion."

It seems to me from what I have heard tonight, that is a very fundamental term of reference that we will need to address.

On business taxes, I was struck how business taxes were confined in the comment from the floor to State taxes. So I didn't hear anything about the company income tax, except that dividend imputation was good. That surprised me, because it strikes me that the company tax is also an extremely complex tax and requires urgent attention. So they were my major takes from what I heard. My colleague here from the secretariat has some remarks to make as well. So I'll turn the microphone over to him, but I would very much like to express my appreciation for your participation tonight, for your good humour and for the illumination that it has provided me. Thank you.

JASON McDONALD

Thanks very much. I might just perhaps give you some insights from where I sit in the secretariat, who services the panel, and some of the comments that I have heard tonight. One of the first ones was whether the tax transfer system is actually a representation of the social aspirations of the community, and I can quite candidly tell you that panel definitely thinks this that is an institution that actually does represent the goals that the community has, and they are quite cognizant of that when they do prepare their final report.

Another one was the word "burden" is in the consultation paper. When we are talking about tax burden, we are not actually, I think, talking about the amount of income you lose because of a tax, or because of a transfer withdrawal requirements says that you lose some of your benefit. I think that when the consultation paper talks about burden, it's talking about the destruction of opportunities or the loss of wealth, the efficiency costs of how the tax and transfer system actually operates. So a burden could be if someone loses their benefit too severely that they chose not to work. That is a burden of the transfer system. It's a burden that imposes on the general community and it's a burden that imposes upon them in terms of their lack of opportunities that they face, and I think that's the scope and that is the way the secretariat and the panel are thinking about it as well.

JOHN SHANAHAN

Right, thank you both for those contributions. I'm going to wrap up now. I think that we've all had a great meeting, and I think – I get a sense that everyone has had the opportunity to say what they wanted to say. Anyone feel that they have not? Okay, well let's give you a chance. So before we do, just make sure that everyone is - - -

SPEAKER

I'm just here individually. And I want to end on a happy note. I want to really encourage all our wonderful public servants to be bold, as *Wikipedia* says to its editors, be bold and come up with the changes that even if you are not so sure that the public will understand or be favourable, let's try it anyway and see how you go. I'm coming here mainly tonight because I saw the speech from Dr Ken Henry at the Press Club and I was quite inspired by it. So I'm really looking forward to seeing what comes out of this, and I know everybody else who has spoken before me tonight, I've been quite overwhelmed by what people know and have gone through, and it puts me right in my box. On that point, just before we think about abolishing the States, constitutionally I think it is easier to shrink them. Just putting that out there. Thank you.

JOHN SHANAHAN

Thank you. Just a couple of guys down the back there.

SPEAKER

I just have an observation, really, as a tax payer, and that is that if this is most extensive tax review that this country has undertaken in 50 years and is supposed to last us for the next 20 years, then why isn't this room packed to the seams? The only reason, I think that the panel should ponder that is that this has to last us for 20 years and I think we need to consider whether this room tonight is an adequate cross-section of the community.

JOHN SHANAHAN

Thank you. Anybody else who has not said anything but is dying to say something?

SPEAKER

Sorry. Just – can I just – only say nice things. It would be possible to try and do away with the Ernest Hemingways that they have at the Taxation Office and modify the tax pack and get it down to somewhere where we can read it. Go through a tax pack and a supplementary – it's about three days work for me to read that. All you need is a very quick, brief examples of what you've got to do. Tax now is a - solicitors and accountants are having a whale of a time, but surely it could be simplified.

JOHN SHANAHAN

Thank you, thank you. Anyone last comment?

SPEAKER

I want to make a positive comment.

JOHN SHANAHAN

Right.

SPEAKER

I just want to make a positive comment. If you go through the redistribution systems, we actually redistribute fairly effectively, somehow or rather, despite the problems in the tax system and despite the problems in the social security system, if you look at the ABS data, you know, actual amounts paid by the amounts paid by upper deciles is higher than those that are paid – you know, the lower deciles. There is a considerable redistribution. So that is working. It's just too complicated to get there. But I do think that we need to remember that it does work, and we do have an actual redistributive system, because sometimes we forget that.

JOHN SHANAHAN

Right, thank you. Yes.

SPEAKER

My concern – mine is a procedural question. The review panel has done a lot of work to date, and they is identified areas that need further research – commissioned research papers, and they are obviously addressing very important subjects, otherwise you wouldn't commission them. My question is you are asking for submissions to come in on this review; when are those research papers made public and how do you expect the public to incorporate those into submissions going forward?

JASON McDONALD

Those papers, I'm not actually when those papers are going to be released. Obviously – in fact, I think some of them may not actually be written until sort of late July and maybe some later than that, if we don't get the contracts written well enough. So I think the submissions are probably going to have to come in in May, so they are probably not going to be able to be used, the actual more in depth papers. Sorry about that.

SPEAKER

Jason, can I just confirm that the submissions are due in on 1 May?

JASON McDONALD

Yes, that's right.

JOHN SHANAHAN

So there's a hand waving around.

SPEAKER

Yes, thank you. I just wanted to say that I understand that a lot of colleagues that I was expecting to be here tonight are in all likelihood not here because they are not – it is not that they are at home or enjoying themselves, they're up in their offices and flat out trying to work through the complex tax system on the FIRB brief structure, and that is in all seriousness, and to say that when I began, I couldn't wait – I saw it as a privilege to pay tax. It might sound odd in today's world, and I agree that today it is not such a privilege because you just don't feel like it's a privilege. I'll just say that originally, when I was graduating and coming into the workforce and there was this general ethos, I think the late Kerry Packer has a lot to answer for by having said what he said at that Commission about avoiding tax, and that if there is a fair tax system, it goes without saying that people can be – have incentives to want to contribute.

JOHN SHANAHAN

Yes. Great comment. Just to wrap it up, I would just like to echo John's comments. The contribution tonight has been excellent. Everyone has put forward a lot of thought into your verbal contributions. And many of you have already mentioned that you were providing written contributions, as well. There is a website, is there not, that people can go to? Would you just like to mention what that is?

SPEAKER

Yes, it's www.taxreview.treasury.gov.au and you can register on that as well to get regular updates and that is when research papers are released, they will be on that website.

JOHN SHANAHAN

Other than that, you've got the questionnaires which some of you may filled in in the course of the evening. If you have, just leave them behind on your seat, and we'll gather them up. So thank you very much. There is a cup of tea outside. So do feel free to stay, have a cup of tea and chat amongst each other or to the panel members. Thank you very much.

6 APPENDIX D: ANALYSIS OF SELF-COMPLETE FEEDBACK FORM

At each of the ten public consultation meetings, attendees were given the opportunity to add further feedback via way of a self-complete feedback form. These forms were collected at the end of each session, and Colmar Brunton conducted a thematic analysis of the subject matter in each from. The outcome of this analysis is presented below, both at an overall level and also by each consultation location.

The self completion form was worded as follows:

Please record your questions or comments about the current tax and transfer system, and how the system could be changed or improved to better meet the needs of all Australians.

Some of the things you might like to comment on include:

- *Personal Income Tax*
- *Transfers e.g. income support, family payments*
- *Business tax*
- *Complexity/administration of the system*
- *State and local government taxes*
- *Any other issues you wish to raise*

* Note: All figures shown in the table below are percentages (%).

Overall findings

At an overall level, the most common suggestion was that 'tax laws need to be updated, made easier to understand or more consistent, or that forms should be easier to understand' (24.5%). Following this, the most common suggestions were to 'retain current dividend imputation credits scheme' (11.7%), or 'monitor super funds or provide advice for retirees on how to manage superannuation, manage fees and/or abolish taxes on super' (10.2%).

Location specific findings

With the exception of Geelong, the most common suggestion within each location was the same as that an overall level - 'tax laws need to be updated, made easier to understand or more consistent, or that forms should be easier to understand'. In Geelong, the most common comment was that 'self funded retirees are being negatively impacted or were very disadvantaged, or losing money due to having to pay tax on pension savings' (27.8%).

	OVERALL	Brisbane	Perth	Sydney	Wagga Wagga	Canberra	Melbourne	Geelong	Hobart	Adelaide
Number of completed feedback forms (n)	196	14	23	27	3	18	60	18	12	21
Tax laws need to be updated/easier to understand/more consistent/forms should be easier to understand	24.5	0.0	30.4	18.5	33.3	50.0	28.3	5.6	25.0	23.8
Retain current dividend imputation credits scheme	11.7	0.0	13.0	7.4	33.3	0.0	16.7	22.2	16.7	4.8
Monitor super funds/advice for retirees on how to manage superannuation/manage fees/abolish taxes on super	10.2	0.0	21.7	14.8	0.0	11.1	6.7	5.6	0.0	19.0
Self funded retirees negatively impacted/losing money/paying tax on pension savings/very disadvantaged	8.7	7.1	4.3	3.7	0.0	16.7	5.0	27.8	0.0	14.3
Land taxes inconsistent/easily abused by Government/should be abolished	7.7	21.4	0.0	18.5	0.0	11.1	6.7	0.0	8.3	0.0
Policies should be consistent within same age/social/business demographic	7.1	28.6	0.0	3.7	0.0	16.7	5.0	0.0	16.7	4.8
Increasingly difficult to afford property/land taxes	6.1	14.3	0.0	14.8	0.0	16.7	1.7	5.6	0.0	4.8
Capital gains and losses need to be taxed/claimed separately/less complex/reviewed	6.1	0.0	8.7	7.4	0.0	5.6	6.7	5.6	16.7	0.0
Introduce a 1% Australian debit tax which contributes towards the Government	6.1	0.0	4.3	0.0	0.0	0.0	16.7	5.6	0.0	0.0
Payroll tax is inconsistent/dislike/abolish payroll tax	5.1	14.3	4.3	7.4	0.0	0.0	6.7	0.0	8.3	0.0
Reduce/abolish personal income tax	5.1	0.0	0.0	11.1	0.0	11.1	8.3	0.0	0.0	0.0
More benefits for those who contribute towards the community	4.6	7.1	0.0	0.0	0.0	5.6	5.0	11.1	8.3	4.8
Should not be taxed individually if part of a family unit	4.6	14.3	8.7	3.7	0.0	0.0	3.3	11.1	0.0	0.0
Monitor/stop people using their private residence/small business as a tax free haven/hiding monetary assets to receive benefits/extra payouts	4.6	0.0	0.0	7.4	0.0	16.7	5.0	0.0	0.0	4.8
No multiple taxes	4.6	0.0	8.7	3.7	0.0	5.6	6.7	5.6	0.0	0.0

	OVERALL	Brisbane	Perth	Sydney	Wagga Wagga	Canberra	Melbourne	Geelong	Hobart	Adelaide
Business/people under financial stress should have access to payment plan options	4.1	14.3	0.0	0.0	0.0	5.6	3.3	0.0	25.0	0.0
Stamp duty inefficient/should be abolished	4.1	7.1	4.3	3.7	0.0	0.0	8.3	0.0	0.0	0.0
Volunteers could earn tax credits/form of tax relief/deduction/incentive	4.1	7.1	8.7	3.7	0.0	0.0	3.3	5.6	0.0	4.8
Pension and superannuation policies/benefits/requirements are inconsistent	4.1	0.0	4.3	11.1	0.0	0.0	3.3	0.0	0.0	9.5
Preserve income exempt status of genuine not for profit/charities and tax deductibility of donations	4.1	0.0	8.7	0.0	0.0	0.0	1.7	11.1	16.7	4.8
Eligibility and policy changes to Commonwealth Senior Health card	3.6	0.0	4.3	0.0	0.0	5.6	5.0	0.0	0.0	9.5
Tax rates/systems need to be consistent throughout each state/abolish state taxes	3.6	0.0	0.0	7.4	0.0	16.7	3.3	0.0	0.0	0.0
Tax payer money used more efficiently/effectively	3.1	7.1	4.3	0.0	0.0	0.0	0.0	5.6	16.7	4.8
Need to define what constitutes as a volunteer/review application of non-profit/charitable sector	3.1	7.1	4.3	3.7	0.0	0.0	1.7	0.0	0.0	9.5
Eliminate/closely monitor fraudulent investment operations/ponzi schemes	3.1	7.1	0.0	0.0	0.0	0.0	1.7	0.0	8.3	14.3
ATO staff should be more helpful/compassionate/not able to change laws/inconsistent with rulings	3.1	0.0	0.0	0.0	0.0	11.1	3.3	0.0	0.0	9.5
Increase tax free threshold	3.1	0.0	4.3	11.1	0.0	0.0	1.7	5.6	0.0	0.0
Abolish tax powers of local and state Government and draw funding from Commonwealth Government	3.1	0.0	4.3	0.0	0.0	0.0	6.7	0.0	0.0	4.8
Administration processes should be made simpler/less steps/cut costs on administration fees	2.6	0.0	0.0	3.7	0.0	5.6	3.3	5.6	0.0	0.0
Abolish tax on pension	2.6	0.0	0.0	3.7	0.0	5.6	1.7	5.6	0.0	4.8

	OVERALL	Brisbane	Perth	Sydney	Wagga Wagga	Canberra	Melbourne	Geelong	Hobart	Adelaide
Reduce level of allowable personal tax deductions	2.0	0.0	0.0	0.0	0.0	5.6	1.7	0.0	0.0	9.5
Abolish GST	2.0	0.0	0.0	0.0	0.0	5.6	3.3	0.0	8.3	0.0
Introduce high level policies in relation to strategic aim eg. carbon pollution reduction and oil dependency	2.0	0.0	0.0	0.0	33.3	5.6	3.3	0.0	0.0	0.0
Increase base for land tax	2.0	0.0	8.7	3.7	0.0	0.0	1.7	0.0	0.0	0.0
Remove GST from public transport fares	2.0	0.0	0.0	0.0	0.0	0.0	6.7	0.0	0.0	0.0
Structure of one-off payments changed/should not be taken from or replaced by tax payers money	1.5	14.3	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Corporate income tax reduced to an EU comparable rate	1.5	0.0	0.0	0.0	0.0	5.6	1.7	0.0	8.3	0.0
More money should be invested into research/incentives	1.5	7.1	0.0	0.0	0.0	0.0	1.7	0.0	0.0	4.8
A broad low rate transaction tax should be introduced	1.5	0.0	0.0	3.7	0.0	0.0	1.7	5.6	0.0	0.0
Increase GST rate	1.5	0.0	4.3	7.4	0.0	0.0	0.0	0.0	0.0	0.0
Abolish taxes on savings	1.5	0.0	4.3	0.0	0.0	0.0	1.7	5.6	0.0	0.0
Support/agree with consumption tax	1.0	0.0	0.0	0.0	0.0	11.1	0.0	0.0	0.0	0.0
HECS debt policies changed/should not need to start paying off until first house bought	1.0	0.0	0.0	0.0	0.0	5.6	0.0	5.6	0.0	0.0
Etax system effective/simplifies a very complex process	1.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0
Commissioned research papers need to be made easily accessible to the public	1.0	0.0	4.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0
All retirees should receive the pension	1.0	0.0	0.0	3.7	0.0	0.0	1.7	0.0	0.0	0.0
R and D tax concession should be expanded	1.0	0.0	0.0	3.7	0.0	0.0	1.7	0.0	0.0	0.0
Complete exemption of FBT on childcare	1.0	0.0	0.0	3.7	0.0	0.0	1.7	0.0	0.0	0.0
Land tax policy/amounts should be inclusive of people in household and area house is in	1.0	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	4.8

	OVERALL	Brisbane	Perth	Sydney	Wagga Wagga	Canberra	Melbourne	Geelong	Hobart	Adelaide
Have CGT phase out on assets held by individuals for more than 10 years	1.0	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	4.8
More support for people who move in and out of tax jurisdictions/support economic expansion	1.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0
More funding/insurance for disabled/elderly	1.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	8.3	0.0
Transfer system old and outdated/couples should be taxed/assessed as individuals	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.5
Abolish expenditure tax	0.5	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0
Time management of presentations/too lengthy	0.5	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	0.0
Government should be encouraging younger demographic to these and similar meetings	0.5	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
War compensation should not be viewed as a welfare payment	0.5	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Agree with personal income tax	0.5	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All alcohol products should be taxed equally	0.5	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fairer super policies/agreements for casual workers	0.5	0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0
Abolish fire services levy	0.5	0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0
Merge tax and welfare systems	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8

This document takes into account the particular instructions and requirements of our Client. It is not intended for and should not be relied upon by any third party and no responsibility is undertaken to any third party.

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