

AFTS Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Secretariat,

Thank you for the opportunity to comment on Australia's future tax system. Firstly I would like to commend the Committee on its consultation paper which I found to be very good and wide ranging. Following are my thoughts for Australia's future tax system. Some of these ideas are taken from the CPA Australia's first submission to the Henry Review on 17 October 2008.

### Complexity

To me the most pressing concern with the current tax system is the complexity. This is because it is preventing people to understand their own taxes and creates confusion even with tax professionals (like myself). From my work viewpoint, there are several things that could be done to simplify the current Tax system. These are;

1. Do away with some more specialised tax systems and replace them with a more general tax system: An example of this is to replace Fringe Benefits tax (FBT - where people receive non cash benefits) with a more complete income tax system. Another suggestion of a tax system to do away with would be the Medicare Levy and replace this with a higher rate of income tax, removing the specialised rules surrounding the Medicare levy.
2. Create consistency with tax rules: Currently many tax systems operate independently of each other with separate rules. An example of this is the income tax and Capital Gains tax (CGT) systems. For example, in the case of a deceased estate; if a home is given to a beneficiary then the beneficiary needs to sell the home within two years or calculate CGT. While for income tax purposes an estate of a deceased person has two years plus a partial year from date of death to 30<sup>th</sup> June before tax is charged at a penalised rate through a Deceased Estate Trust. An example of a recent positive recent change to the tax system was the consistency created with the rules regarding small business, with the simplification of all issues regarding CGT, income tax etc. In summary, I am suggesting that more common bases should be used for the different tax systems currently in operation.
3. Create Consistent depreciation rules – currently there are several different systems operating for different entities with several cut-offs. i.e. I suggest the use of one depreciation system for all. Current depreciation includes "Pooling" with low value, general and long life pools for Business, there are depreciation rules for Rental properties, the uniform Capital allowance rules. There are minimums of \$300 for some systems and for others it is \$1,000.
4. Remove the Bonus Share Plan option for Company dividends – Bonus Shares are an unnecessary complexity for Dividends and in my opinion, are unnecessary.
5. Remove "Tax deferred" from Trust (managed fund) financial statements. "Tax deferred" creates complexity and unnecessary work for Capital Gains tax purposes. In my opinion the Depreciation should be just a normal expense, rather than a "tax deferred" item.

### Economy

How changes to the tax system could assist the economy;

1. More benefits for Research and development through the tax system.
2. Extend compulsory superannuation to the self employed – this should mean less people will be reliant on Government assistance at retirement. More savings will be held within the economy making it financially stronger.
3. Savings in Australia needs to be encouraged. Currently Capital Gains Tax (CGT) is used to tax gains with capital returns. Many people are able to access the current 50% discount that exists if investments are held longer than twelve months, which can make CGT a lower taxing system. From my experience, many people in the community are unaware of the lower rates of tax paid on discounted investment gains. By using the media to inform the public of the benefits of the "discounting" this may; increase savings in the community, promote greater wealth and in the long term provide more taxation revenue.

### Tax avoidance

I think the current use of the tax structures in use today create uncertainty, ambiguity and complexity in the tax system. I think the use of the current structures should be refined so that more appropriate use is made

of structures, rather than their use being driven by tax implications, as I often see happen. Following are some ways in which I can suggest this could be done;

1. I suggest that Micro businesses (such as Mum and Dad businesses without employees), should not be able to use the company structure. This would remove the use of the company tax structure, to reduce individual tax to the maximum of the company tax rate i.e. arbitrage. It may also prevent people trading as "contractors", when they are really employees, to minimise tax. Another suggestion would be to tax companies at the top individual tax rate. This would stop companies being used to minimise tax, which is what some taxpayers use a Tax Agent for. A further improvement that could result from change here would be to reduce complexity by removing the Personal Services Income which I think is subjective.
2. In my view, there is currently an overuse of the Trust structure, which again allows people to trade as contractors when they are employees. I think "Trusts" should be used only as the name literally implies: to hold assets for people who cannot look after them, i.e. incapacitated people or to hold assets in "trust" for some other individual or individuals, rather than a tax minimising tool. I think trusts are currently used to minimise tax by income splitting which I do not think is fair to all Australian people.
3. Create consistent income splitting rules. The ATO currently accepts that a husband and wife can split income in a business partnership 50/50. However a husband and wife through a business may not be able to split income through a Trust or Company structure in the same way. Why not? I think there should be consistency with the tax treatment of the different structures available.

#### Environment

1. Currently, Fringe Benefits Tax (FBT) benefits are greater, the further an employee drives each year. This is harming the environment and promotes a greater number of people to drive on already congested roads. I think this rule currently operates in the opposite way to how it should. i.e. I think the further one drives, the more tax which should be payable. I think this would encourage savings of a scarce resource due to cost pressure.
2. Another current environmental issue is "Carbon emissions". I think discussion around this topic has been complicated and unfortunately I have not understood much of it. Nevertheless, it would be great if this political talk could be simplified. I think the tax system could play a role in the environment by rewarding people / businesses who are lower users of scarce resources.

#### Government

1. The Federal Government is the body responsible for deciding on how taxation works in Australia. It may be worth considering whether this should / could be altered so that taxation is managed by an independent body?
2. Sometimes taxation rules are created that are very minor and affect isolated items i.e. the new "Education tax Refund". Each new item has its own set of rules and does not have conformity with any other part of the tax return. It would be simpler if the tax system could be more consistent and general in nature, as this would reduce the complexity and detail of tax returns.

#### Franking Credits

I have heard that one possibility for the Review of the Tax system is to remove the refund of franking credits. If true, this concerns me as there are several clients of my practice that would greatly miss the money received. I hope that full consideration is given to retaining the current system of Refunding of Franking Credits.

As a final thought, it is interesting that taxation, as the income collection vehicle of government, is considered separately from the expense side of Government. I think a more integrated approach, considering Australia's government income and expenditure together would be beneficial for Australia's finances.

Kind Regards Andrew Browne