SUBMISSION TO REVIEW OF AUSTRALIA'S FUTURE TAX SYSTEM

I have read with interest the matters published so far concerning Australia's future tax system and would like to make some comments about a number of matters. These are set out below.

Expenditure Performance

Why must taxpayers continue to pay tax to support government inefficiency? If greater efficiencies were driven through the governmental resource allocation process, Australian taxpayers should be confronted with lower taxes and/or better services, or both. In this respect, I suggest that bodies like the Commonwealth Grants Commission should have stronger performance criteria attached to their grants so that state governments have to perform more efficiently to qualify for future grants.

New South Wales serves as a good example of a state government where the government is inefficient, ineffectual and incapable. Research has long shown that local government is an area where size economies abound. Some years ago, the Victorian Government amalgamated its local government areas and realised considerable savings and generated some worthwhile efficiencies from the consolidation process. The New South Wales Government has had at least two reports (one by the Property Council of Australia) presented to it showing that it could achieve similar levels of savings but instead chose to follow a voluntary approach to amalgamation that has yielded very little by way of number of amalgamations and the generation of efficiencies. Why should both governments be rewarded similarly when one has taken necessary action to achieve efficiencies and the other not?

Another aspect of the expenditure performance matter is the coordination of laws and policies across the states and territories. COAG's major focus is upon policy coordination and obtaining federal agreement on initiatives concerning the nation as a whole. However, little is achieved through this process that ensures that the funding that inevitably underpins the COAG process, generates service delivery at the lowest possible cost. Once again, some form of performance criteria for driving expenditure efficiency in relation to the implementation of new policy is needed that results in providing minimum levels of taxation for Australian taxpayers.

The split between those arms of government that are largely raising funding by way of taxation (the Australian Government) and those expending the funds (state and territory governments), therefore, is an area that can generate considerable inefficiencies. Any review of the taxation system should focus strongly on this matter with a view to recommending the adoption of processes that generate least costs, thereby minimising the levels of taxation to which the community is subjected.

Taxation and Economic Policy

A matter of some economic concern is the reluctance of Australian governments of all persuasion to use the taxation system as an effective economic weapon. Instead, they have relied very heavily on variations in the rate of interest. Admittedly, there are those who feel that the taxation system should be as stable as possible and changed only at long intervals. However, this approach means that much of the burden of economic management falls upon interest rate variations, which are relatively blunt economic tools and cannot be targeted like particular taxes can. A consequence is that very little "economic fine tuning" takes place. As an example, if the Australian Government's aim is to have motor car users switch to more fuel efficient vehicles that use fuels other than petrol (such as diesel), why not have different levels of excise for both fuels? These targeting approaches may introduce greater complexity but they can increase the effectiveness of the tax system in attaining the goals of government policy. And it is simply not a matter of paying less tax. If government wants to achieve goals such as encouraging more philanthropy, or getting people to contribute more resources towards their retirement, or getting firms to devote more funds to research and development, targeted changes to the tax laws can considerably help to achieve these aims.

A consideration in any review of the system, then, should address the mechanisms of how the taxation system (and not just the rate of interest) might be used in a more holistic economic approach to formulating and delivering the goals for which the government was elected.

Philosophical Outlook

Most people realise that they have to pay tax in one form or another. However, the attitude of the Australian Taxation Office leaves much to be desired. Rather than an attitude to its clients (Australian taxpayers) that embraces assistance, courtesy and a reduction in red tape and complexity, it seems to thrive on treating taxpayers with scorn; adopting an attitude that seemingly treats you as a "tax dodger" or worse; and showing taxpayers the minimum of courtesy. New "determinations" by the Commissioner are brought in that the average taxpayer does not have the resources to challenge and more and more red tape abounds.

Why, for example, should tax agents who prepare tax statements for self-managed superannuation funds (SMSFs) be now called upon to comment on the personal characteristics of funds' trustees? What training have tax agents had that qualifies them to do this? And why have we suddenly seen so much more ATO activity in this area, which has simply pushed up costs and added to complexity? Many people have embraced SMSFs because they are not satisfied with the performance and fees of commercial superannuation funds, yet what the ATO is doing is simply making it harder to change over. One cannot avoid suspecting that the ATO is in league with the large superannuation funds so that they retain their client base.

A further matter that smacks of inequity in the approach used by the ATO is the relatively small amount of tax paid by some large income earners and the deals that are made, such as the recent deal between the ATO and the Lowy family that resulted in roughly only half the amount of the estimated tax bill being paid. Equity there might be amongst the "Mr Averages" but it is certainly not there for all taxpayers. And the great bulk of taxpayers resent this.

Overall, then, the ATO should be doing some client feedback sessions and taking note of what they hear. As well, we need an effective and well-publicised taxation ombudsman who is adequately resourced and who can effectively challenge ATO advices, determinations and rulings on behalf of those who use the ombudsman's services; a more navigable ATO website that uses language we understand; a clearer perception that the Tax Commissioner will vigorously pursue those who may have "missed out" on paying their fair share of tax; and a clear change in attitude to how taxpayers in general are treated.

Superannuation

The following submission has been sent separately to the review that is considering superannuation and retirement aspects of taxation but has been included here as it also deals with some wider taxation matters.

The Timing of Changes. The current superannuation system has been in operation for barely 30 months and was agreed on a bi-partisan political basis in the national parliament. A review so soon after its introduction is sending negative messages about the stability of the current arrangements, especially when many people have made significant modifications to their asset portfolios to fit in with the new superannuation requirements. Further changes in superannuation are bound to increase stress levels and lead to further confusion among older people. Surely there is some way of at least letting the new system settle down before further changes are made?

Listen to Not Only the Big End of Town. Secondly, there is a concern that the review will predominantly reflect the views of "the big end of town". There are some 370,000+ self-managed superannuation funds (covering over 700,000 people) operating in Australia (and the number is growing at a very healthy rate). If people are satisfied with existing arrangements offered by commercial and industry funds, why are they so keen to establish their own self-managed funds? Surely the very popularity of self-managed funds is an attestation to the fact that the commercial and industry funds are not providing suitable “products” and appropriate levels of flexibility and fees to a large number of potential clients?

Too Much Focus on Shares. Thirdly, the current system is skewed strongly towards investments in the share market, making it easier to own shares and the like and not other asset classes like property, art, jewellery, bullion, motor vehicles, collections of all sorts, etc. Not everyone is a stock broker and with billions of dollars being wiped off people’s superannuation wealth as a result of the share market collapse, who wants to place their hard-earned resources in industry and commercial superannuation funds where, because of their share market bias, the potential currently seems only to be for further losses? The excessive focus of the existing superannuation system on the share market has highlighted the need for a more flexible and wider spread approach to what should constitute superannuation assets.

More Flexibility Needed. Fourthly, rather than more red-tape and penalties, which seems to be the direction favoured by the Tax Commissioner, why can’t consideration be given to providing more flexibility in the system so as to encourage people to make adequate provision for their retirements? Considerations such as:

- elimination of the "work-test", which comes into force after you turn 65 years of age (why should you be penalized if you are suffering an illness or disability that prevents you from satisfying the work-test, yet have resources available to invest in superannuation?);
- allowing people to contribute to superannuation before they commence work and after they exceed 75 years, when people demonstrably have assets available at an earlier age than their forebears and aged people are now living longer;
- freer movement of assets into and out of superannuation, like dispensing with the unrealistic restriction on transferring investment properties bought at arm’s length outside the superannuation system into a self-managed fund's assets, when shares and artworks can be readily transferred; and
- allowing people who take lump sum payouts for accumulated long-service leave to contribute these to superannuation at a low or zero tax rate, rather than encumbering them with the large penalty that the Tax Commissioner imposes under existing arrangements (adding them to your existing income in the year they were received and charging the marginal rate of tax)?

Discrimination. Fifthly, the current system is quite discriminatory. Statistics demonstrate clearly that indigenous Australians have shorter lives than non-indigenous Australians. Why, therefore, should they be required to contribute and gain access to their superannuation in the same pattern as other Australians? Similarly, the 75 year old age restriction on contributions makes no allowance for contributions from people in families that are statistically long-lived. Why should people who live until their mid 90s and more in a family which has a history of long life expectancy, not have access to superannuation contributions beyond 75? Indeed, in long-lived families, intergenerational transfers of assets, which should be addable to existing superannuation assets, often occur well beyond the 75 year contribution cut-off that is currently in force. People in this situation are denied the opportunity to take advantage of superannuation just because of their family genetics and the system's inflexibility in recognizing this. Surely the current system is not going to collapse if it moves away from the existing in-built rigidities that discriminate against indigenous and long-lived people?

Superannuation Belongs to the People. Finally, superannuation assets belong to individuals, not government or industry. The Federal Government should be encouraging people to make adequate provision for their retirement, rather than seeking to put a brake upon it. A wider process of consultation and the adoption of more flexible and facilitative approaches to encourage people into the superannuation system (commercial, industry-driven and self-managed funds) would make it easier for them to operate and to take more responsibility for their own financial futures.

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