Submission concerning the Tax System

From
John M Clark
[removed for privacy reasons]

The essence of the taxation system is for the Government to obtain a share of GDP, such that it can then use those resources in order to undertake activities desired by the whole community (defence, health, pensions, infrastructure, education etc) Federal, State and Municipal taxes need to be a coherent system

Taxes should thus be oriented towards a proportion of GDP- the GST is a good example of this. I believe that there is general acceptance that those who have access to consume a larger than average share of GDP should pay more tax, and those with a lower share, less. In general, the income and GST taxes achieve this.

Income tax, which ultimately is a good proxy for GDP, needs to be treated as an integrated whole for both individuals and companies.

Personal income tax, payroll tax and company tax should be viewed as an integrated whole.
State Payroll tax is really an income tax, with exemptions if the taxpayer works for a small business.
It is inequitable that a business employing 9 people on $50,000pa pays no payroll tax, but one employing 11 people does (assuming a threshold of $500,000) Similarly, a highly remunerated professional earning>$500,000/yr pays no payroll tax, depending on how his affairs are structured.
Similarly, it is ridiculous that someone working on a personal contract does not pay payroll tax in some States, but does in others, and would pay it if working for wages!

Payroll tax exemptions need to be abolished and incorporated into income tax- no doubt if it was spread across all taxpayers the equivalent income tax rate would be 2 or 3% The employer does not care if money is paid as take home wages, PAYE, FBT or payroll tax- it's all cost of employment. The rorts in FBT need to be fixed.

Company tax and personal income tax need to be harmonised and the top income tax rate set the same as the company tax rate.
All companies are ultimately owned by individual Australians, either directly or through mutual funds of some sort, or foreigners.

It is suggested that the income and tax paid by companies be fully imputed to the shareholders.
Thus if an individual had an income of $100,000pa , and shares in a company which entitled him to $20,000 of pretax company income, his reported income would be $120,000 with tax paid by the company at the top marginal rate. Obviously, income from shares would be lagged 1 year.
In essence, this is similar to the Queensland Coal Trust set up by BHP in 1983.
Ignore the bleating this would cause from companies. If they need capital - ask the shareholders to subscribe it - don't extract it from

the shareholders by paying low dividends, or the community as awhole by paying low taxes..

In order not to give too big a shock to the system, the Medicare levy can be increased to provide a "top up" from persons above the top marginal/ company rate. After all, medicine is about 10% of GDP, with governments providing 60% to 75% of this expenditure, so a Medicare levy of up to 10% would be feasible. Call it a Medical and Education levy. If necessary, the Medicare levy can be progressive.
A side benefit of such a system is that people would be much more aware of the profitability of companies they invest in. People below the top marginal rate would get a refund, analogous to the imputation credits currently in existence. Clearly tax rates need to be set to deliver the same proportion of GDP collected in taxes as currently collected. This would also stop the heinous practice of share buybacks financed from undistributed imputation credits.

The above reforms are suggested to make the tax on a transaction the same, no matter what entity undertakes the transaction (individual, company or trust) If a company is owned by foreigners, then they pay the same tax as Australians, and offset it via a double tax agreement with specific countries.

The Petroleum Excise is really a carbon tax, and should be harmonised to tax CO_2 emissions from the fuel. This would reduce the tax on petrol a little, and increase it on diesel. I believe that the futility of the carbon (dioxide) emissions trading scheme will ultimately be recognised, and a universal carbon tax introduced, possibly in conjunction with a reduction in GST. Treating the petroleum excise in this way would be a useful first step.

Capital gains taxes should be levied when a person "cashes in" his capital and uses it for final consumption.
If a person sells one business and buys another for the same price, that person is merely the custodian of the capital until he finally cashes in and spends the money on final consumption. By all means tax the final consumption.

Similarly, if a person uses some of their income to buy a capital asset, then that income should either not be taxed, or taxed at a reduced rate, as happens at present with superannuation contributions. Remember that one person's deduction is another person's income, except when assets are being traded, when there is no contribution to GDP.

The essence of the above is:
Tax is the same, no matter what the entity that undertakes a transaction the key taxes are effectively levied on final personal consumption.
Final consumption is taxed via the GST
Final consumption is progressively taxed via the income tax system, with deductions from income for capital investment.

There are then a raft of special taxes, ranging from "sin" taxes on alcohol and tobacco, via mining royalties to Rural Lands Board fees which are specifically levied on groups of taxpayers who benefit from those activities. Governments decide which activities are specifically

taxed on the recipients of a service, and which taxes are levied generally.
(Maybe alcohol taxes should be levied on alcohol itself, not what is mixed with, ranging from water (vodka) to hops to grape juice to Coca Cola!)

Obviously, as a private citizen, I don't have the ability to do economic modelling on the above, but it should not drastically change what people pay in tax, but will make the system alot more rigorous.

State Land Tax has more holes than a colander, but it is not unreasonable for a tax to be collected for the ongoing right to use freehold land.

State property transfer taxes are a silly tax as they penalise people who move house, and not those who stay put (we have on house in the family which hasn't changed hands in 40 years). It is a disincentive to labour mobility. Again, there is no contribution to GDP when a house changes hands (except for the real estate agent's fee)

Notwithstanding the political furore in NSW some years ago, maybe consideration should be given to an upper limit on concessions (capital gains, land tax) for owner occupied housing.

Please don't hesitate to contact me
John M Clark