Australian Taxation Review

To the Review Panel I would like to raise the following points which I consider to be helpful, relevant and fair in relation to any changes to our current taxation system.

The first section deals broadly with questions 3.3, 5.4, 6.1, 6.2 and 6.7 which are raised in the consultation paper – **Investment Income**.

At present any income which comes from investment sources (usually in the form of rental properties or shares) is added to a persons wages or salary to give their total taxable income. Then from this any costs in regards to the investments are deducted, and any franking credits are taken into account. Rather than tax this income at the same rate as personal taxation levels a new scale should apply which is independent of any income a individual has received from wages / salary. So when their tax return is prepared there will be a section with their wage / salary and the amount of tax due, and then another section with any investment income and then amount of tax due on this based on the Investment Income Tax Scales.

An appropriate tax may be as follows;

Investment Income Tax Scales

Income Level	Tax Rate
$1 to $15,000	0.15
$15,001 to $30,000	0.25
$30,001 to $50,000	0.30
$50,001 to $85,000	0.35
$85,001 to $125,000	0.40
$125,001 and above	0.45

The tax free threshold would not apply to this income as a person already receives it for their wage / salary income. The rational here is that if an individual is already earning a wage / salary and they have planned for their future with saving and investments why should they be penalized by having the income from their investments added onto their wages / salary which may push them up into a higher tax bracket. These are the people who have gone out to work hard and try to set up their future so they do not have to rely on the government for an income stream as they age. They have generally invested in Australian companies via shares or into Australian property, either way they are generating more investment and income in this country and hence more jobs. The government should be rewarding these hard working individuals by lowering the tax burden on them.

If an individual is earning any form of investment income from an overseas source then this income should not be taxed under the new Investment Income Tax Scales as outlined above. Rather this income should be added to their wage / salary as is presently the case. This would be another incentive to invest in Australia rather than overseas in order to help build Australian companies and jobs.

The most important of all is that the present dividend imputation system should remain in place. Any removal of this would return Australia to the days of double taxation, which would defy logic. This would be a national disaster for this country as many people who have been building up their investments in Australian companies to provide for their families into the future would see their years of hard work disappear. Also superannuation returns would be greatly reduced as they would lose access to imputation credits. The government has been promoting the benefits of superannuation for many years why would they want to destroy the system now and be faced with the prospect of many more people relying on the government for their income in old age. Please re-read this paragraph, the dividend imputation system is by far the most important aspect of our taxation system.

Another aspect of investment income which needs to be addressed is the level of deductions which are allowed. Any expenses which are incurred in earning investment income are allowed to be deducted from the level of income, generally this is mostly interest on investment loans. I propose that this is changed to a sliding scale of allowable deductions. To start with almost all the expenses are deductible, however with time the amount of deductions allowed decreases. The level of deductions allowed is outlined in the table below.

Investment Deductions

Years of ownership of asset	Percentage of Deductions
0 to 2 years	90%
2 to 4 years	80%
5 to 6 years	60%
7 to 8 years	50%
9 to 10 years	40%
11 to 12 years	30%
13 to 14 years	20%
15 to 16 years	10%
17 years and beyond	0%

The reasoning is that as time goes by the level of income that a individual receives from their investment will increase along with their wage / salary. Thus the percentage of their total income base that is required to service the investment costs will be less each year and they can afford to pay for more of their costs rather than have the whole amount used as a tax deduction. The deduction system should still remain as reward for people who are prepared to provide for their own financial future while investing into our country.

This reform would have the benefit of increasing the taxation base as costs such as loan interest could be deducted for ever. Safe guards would also need to be in place here to prevent people from refinancing their investment loans every few years in an attempt to gain a higher level of deductions. The above table of deductions would apply to each asset / investment loan that an individual has. So if a person takes out their first investment loan to buy a property and 6 years later they take a margin loan to purchase shares, the original loan would qualify for a 60% deduction in investment costs while the margin loan would qualify for a 90% deduction for its interest costs.

The next section addresses question 6.4 – **Capital Gains Tax.**

Rather than tax 50% any capital gain for assets held over 1 year, I propose that the level of capital gains that are subject to tax are modified as outlined below.

Capital Gains Taxation Levels

Length of time asset is held	Percentage of capital gain that is taxable
0 to 3 years	100%
4 to 6 years	65%
7 to 10 years	40%
11 years and beyond	20%

It can be seen that if an asset is sold within 3 years of it purchase for a profit, all of this profit would be subject to tax at the individuals personal tax rate. The longer the asset is held the less of the capital gain (if any) that is subject to tax. The idea here is that the present capital gains tax system is to simple and unfair in the following aspects. Currently if a person makes a capital gain after holding an asset for 1 year they are only required to make tax on 50% of the profit which is too generous. Whereas if a capital gain is made after holding an asset for say 12 years they are required to pay tax on the same level of capital gain. In my modified table of capital gains tax the person who holds the asset for only 1 year is required to pay tax on all of the capital gain. While the other who owned the asset for 12 years is required to pay tax on 20% of the capital gain. Presently the long term investor is unfairly target.

This measure could also increase the overall level of taxes collected, however this would need to be confirmed by the taxation office who could provide statistics on the amount capital gains tax collected.

This section is concerned with housing and in particular consultation paper question 10.1, 10.2 and 10.3 – **Housing Affordability.**

The present government grants for new home buyers are due to expire on 30th June 2009. To replace these grants I propose that for first home buyers the interest that is payable on their mortgage is treated as a tax deduction. The percentage of the interest that is allowed to be deducted will reduced over a period of time until it reaches zero. These deductions should only be available to first home buyers, as both a replacement of the current system of grants and a helping hand to the first home buyers. The level of deductions is split into two different tables, one for the purchase of new dwellings and the other for the purchase of existing dwellings.

Level of Tax Deductions for the Purchase of New Dwellings

Years of Ownership of Home	Percentage of Interest Deductible
Up to 2 years	80%
2 years to 4 years	70%
5 years to 7 years	50%
8 years to 11 years	25%
12 years to 15 years	10%
16 years and beyond	0%

Level of Tax Deductions for the Purchase of Existing Dwellings

Years of Ownership of Home	Percentage of Interest Deductible
Up to 2 years	70%
2 years to 4 years	60%
5 years to 7 years	35%
8 years to 11 years	15%
12 years and beyond	0%

The reasoning for the greater level of deductions for new home buyers is to stimulate the construction of more new dwellings. The building of new houses / apartments generates jobs and income in the construction industry which in turn has a flow on effect to help support an grow many more businesses. Whereas in the purchase of existing housing all the purchase price goes directly to the vendor. These deductions only apply to the interest competent of the home buyers mortgage and all other council rates and government fees and charges will not be eligible for a tax deduction. If there are cases where a couple buys a first home and <u>one</u> of them has previously purchased a first home, then the after the amount of allowable deduction is calculated it is reduced by 35% to reach the new amount of the tax deduction.

This measure will clearly have the effect of costing the federal government in less tax being collected. This can be balanced out by the other ideas which I have included in this review that will raise more tax. The level of deductions in the tables above can be adjusted to achieve the ideal balance between raising tax and giving tax deductions.

This section addresses questions 11.2 and 11.3 from the consultation paper which deals with the **Taxation of Alcohol and Tobacco.**

This is one area where a lot more taxes can be easily raised. There is no benefit what so ever from the purchase and consumption of tobacco products. It is widely accepted and understood that smoking causes many long term health problems not just for the user but also in the form of second hand smoke. If people want to smoke through out their life (and remember that this is their choice, no one forces them to smoke or continue to so) then it is only reasonable that they should contribute more in taxes to cover the cost of the medical expenses and hospital beds that they will be filling up later in life.

Immediately all tobacco products should have a health and medical tax placed on them of at least $4 per pack, which would be for the smallest sized packet. Larger packs would incur a greater tax. This should then be increased by the rate of inflation plus 10% each year. On top of this all current taxes and duties on tobacco should be increased by flat 5% every year, if they already are not being increased now.

This would result in an outcry from smokers, however the following points need to be remembered. Firstly smoking does not do any good for anyone in the community, the only result of smoking is disease and pollution. There is no need to smoke, it is a voluntary choice. And there is an easy way for all of Australia's citizens to avoid this tax – if people do not buy tobacco products they will not have to pay the taxes. The goal here is to eventually tax smoking out of existence, which would be a winning solution for everyone.

In relation to taxes on alcohol, I also propose to increase the level of taxes applied here, but not to the same extent as with tobacco. The effects of alcohol do produce many problems in our society and as a socially responsible government we need to encourage a low level of consumption. These effects come in many forms such as violence and health issues. However many people can also enjoy a social drink without drinking to excess, so to impose high and heavy taxes immediately would seem somewhat unfair.

All alcohol products should have imposed on them a new <u>Social Responsibility</u> tax, which would be 10% of the purchase price. This tax could be raised each year as the government sees fit.

These new taxes on both tobacco and alcohol would have the effect of raising more revenue to help offset the other measures that I have outlined that would result in a reduction of tax revenue.

The final section of this review relates to the consultation paper questions 12.1, 12.2 and 12.3 – **Fuel taxes and the Pollution from Vehicles.**

In order to reduce the level of private vehicle travel and the pollution that is produced, I suggest that a new fuel tax is introduced called an <u>Environment Levy</u>. This would start at 1cent per litre and increase to 2 cents per litre after 18 months. The benefits would be that it is a user pays system where by the more kilometers that a person drives the more they pay. Also by charging at the pump it does not disadvantage the owners of older classic vehicles which produce more pollution per kilometer than a newer car, as a tax or levy on older cars would do. It is important to note that this new Environment Levy is only on petrol and diesel, LPG and CNG would be exempt as they produce a lot less pollution.

Even though motor vehicle registration is a state responsibility the federal government should encourage an overall of the level of motor vehicle tax that is applied via registration fees. Rather than charge the same amount for each car (as is the case now in NSW at least) the amount of registration should be dependent of the kilometers that are traveled each year. Currently when a vehicle is given a safety check prior to registration the odometer reading is recorded and sent electronically to the RTA along with the other results from the safety check.

So the RTA has all the available data on hand to verify how many kilometers are driven each year by all registered vehicles. When a person goes to pay their registration the RTA could check how many kilometers have been traveled during the previous 12 month period and charge them appropriately. The amount of registration payable would be less if a car has traveled fewer kilometers and more if it has traveled a greater distance.

The level of reduction in registration would be as follows in the table below.

Percentage Increase or Decrease of Motor Vehicle Tax

Kilometers traveled in previous 12 months	Percentage of motor vehicle tax due
Up to 4,000 km	25%
4,001 to 7,000 km	45%
7,001 to 12,000 km	75%
12,001 to 24,000 km	No reduction or increase
24,001 to 40,000 km	115%
40,000 km and above	135%

So if a person drives say 5,000km per year their motor tax would be 45% of the standard amount. And conversely if a person drives say 30,000km per year they would pay 115% of the normal level of motor vehicle tax.

This is another measure to encourage people to drive less and hence reduce pollution levels. The less you drive the less you pay, and if you travel more kilometers than the average you pay more. There is no change in the level of tax in the range from 12,001 to 24,000km as this is the distance that the majority of private vehicles travel. Also this would be a lot fairer to those who do not drive very much, who currently are required to pay the same as people who drive a lot.

Thank you for giving the public an opportunity to express their views.