

Australia's future tax system submission

This is an informal submission as it is me having my say rather than providing an analysed and well-constructed essay (I missed the Adelaide consultation session). It is in dot point format, not in any particular order.

Good luck coming up with a system that will be much simpler and politically accepted! I think the economic climate will make it very difficult for you to get some of the best changes for the future.

The key for any real taxation reform has to be simplification (much easier said than done).

- The sheer volume of current legislation indicates how complex and unmanageable it is.
- Simplification will help address tax agent / accountant overwork concerns, as more people will be able to manage their own taxation affairs.
- Consider aligning taxation better with business accounting practices (may require simplified accounting standards to avoid too many possible outcomes).
- Changing attitudes to tax has to be a part of simplification as a large proportion of current taxation legislation is aimed at people/schemes trying to avoid tax – so reduce the desire for people to avoid paying tax and simplification benefits will follow.
- Simplify tax to get money spent on being productive rather than managing complex taxation laws and developing complex tax avoidance/minimisation schemes. If you are going to spend more money avoiding tax than what you would actually pay in tax then avoiding tax will not make economic sense. (I am sure some people just want to avoid tax without considering how much it is costing them in money and opportunity cost to do it.)
- There needs to be an overall look through test for commercial soundness of a transaction (is there any reason for this convoluted arrangement being entered into apart from minimising tax?). If it does not make commercial sense it is tax avoidance and penalties should apply accordingly. (The difficulty will be in judging [coming up with a test for] what is commercially sound.)
- Negative gearing is an arrangement that only really makes sense from a taxation minimisation /lifestyle choice perspective and therefore should go. (Negative gearing is something 'the wealthy/ professional people' often use well and others who cannot really afford it get suckered into without properly understanding the risks.) An expansion of the non-commercial losses regime could be used to address negative gearing.
- There needs to be a capital gains tax regime with some discounting provision of gains to reflect the time value of money. But a straight 50 per cent after 12 months is too simplistic. Although the former indexation system was more complex it was a better reflection of gain as lots of 'gains' weren't increases in wealth after inflation was taken into account.
- Leave the taxation legislation for taxation – don't complicate it with various rebates and concessions reflective of political policies. Some measures are probably reasonable in taxation legislation but there probably needs to be a serious review of what really belongs where and what is the best way of managing political policies. Taxation is part of a whole

government/welfare/economic environment that cannot be considered in isolation.

- Have flatter tax rates to remove some of the incentive of tax avoidance and help the incentive to work if not losing so much in tax and welfare benefits. Interaction between welfare and taxation is a huge issue. (Approximately 15 years ago I worked with an assistant manager of a fast food shop who quit work when his partner had a baby as he worked out financially he would be better off on welfare. I suspect the system hasn't changed that much in the intervening years.)
- Dividend imputation although another complication is a sound concept of 'single taxation' and should remain. We should be encouraging Australian investment in Australia instead of always looking for overseas investment which means profits go offshore instead of benefiting Australia in the longer term.
- Employee versus contractor creates major equity issues that have also created legislation (such as Alienation of personal services income) to avoid problems.
- Payroll tax and Work cover levies create some of the incentive for these problems. I have never understood the philosophy of payroll tax as it is a major disincentive for employing people – the only reason I can see for it is to raise revenue but it does so at a huge cost.
- Work cover levies I think are important and at least businesses have some control over trying to reduce them through ensuring healthy workplaces.
- Public/political pressure can dramatically reduce ideas for simplified legislation. For example, 'Entities Taxation' from the Ralph Review never eventuated while Pay as you go instalments and GST changes meant reduced effectiveness and reverted entities back to poorer record keeping as they can go back to paying a notified quarterly amount and annual shoe box of records to the accountant instead of at least having to do it quarterly. (Paying amounts on actual figures also automatically adjusts for variations in the current economic climate where incomes are going down and avoids the risk of penalties for incorrectly varying amounts.)

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