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#### SUBMISSION TO THE AUSTRALIA'S FUTURE TAX SYSTEM REVIEW PANEL

An ideal taxation system should be:

- used only for the collection of revenue;
- non-discriminatory and distortion-free;
- simple and transparent.

A taxation system should not be used for any purpose other than the collection of revenue for the government. The use of the tax system for welfare and social engineering makes compliance more difficult than it needs to be and disguises the intentions of government. The tax system should not be used for welfare; nor should it be used to promote health measures. We have other means to achieve objectives in these areas. For welfare, we have a system administered by Centrelink.

To control alcohol consumption and tobacco use, we have the ability to create controlled-substance laws like we have done for other drugs.

Taxes should be broadly based so as not to discriminate against particular sections of society. Taxes should be structured so as not to distort people's choices. The tax implications of a financial decision should be the least concern in a well-designed tax system.

Transparency and simplicity are critical as they allow the population to know how the system works and why rules are as they are. The tax and welfare systems currently have a complicated interaction that hinders understanding and equity.

In practice, some compromises might need to be made, but they ought to be few and minor. Because the tax system is currently used for various purposes other than revenue collection, tax reform cannot be achieved without changes elsewhere.

It is important to note that special fees to recover specific costs are not taxation and ought not to be governed by the ATO nor any other tax-collecting agency. Such things as

- Departure taxes
- Passport fees
- Stamp duties

are simply (in concept) fees for a service rendered, to be paid directly by those who are responsible for the cost rather than the broader community.

For the rest of this submission I expound on some specific aspects of taxation and welfare, keeping in mind the principles I have outlined above.

#### WELFARE ASPECTS OF TAXATION

For individuals, all concessions and payments made through the tax system ought to be abolished and replaced with welfare payments made via Centrelink. This aids simplicity and transparency.

Such things include the Low-income Tax Offset, the Senior Australian Tax Offset and Family Tax Benefits.

#### PERSONAL INCOME TAX

The current tiered system with its various rates and thresholds should be abolished and replaced with a single, flat rate of tax that matches the company tax rate (currently 30%). The current punitive tax rates applying to minors should be abolished and replaced with the same rate as adults.

This of course would necessitate adjustment of Centrelink payments and thresholds to avoid penalising low-income earners.

This change has a number of benefits:

- Interaction between the taxation and welfare systems becomes much simpler, avoiding much of the problems of high 'effective marginal tax rates' (EMTRs) as income increases.
- It avoids a distortion by reducing the benefits of bringing forward expenses or delaying income for tax purposes.
- Calculation of usable foreign tax credits becomes much simpler.
- It removes a distortion in the choice of business or organisational structure. A business should be able to choose between incorporation, sole trading or operating through a trust or partnership based on the legal and liability matters, not tax rates.
- It removes a disincentive for work by keeping after-tax income the same, dollar-for-dollar, no matter a person's total income.
- It provides equity of taxation for all income earners using negative gearing.
- It reduces the need to pay much higher salaries for certain workers to offset higher income tax rates.
- It allows minors to earn investment or savings income without punitive tax rates and without encouraging high-income earners to dump assets on their children for tax-avoidance reasons.
- It simplifies the non-resident taxation, since they will be taxed on income the same way as residents (nobody would have a tax-free threshold anymore).
- It removes the complications currently existing for 'part-year residents' and people leaving full-time education.

Fringe benefits tax would also be simplified as fringe benefits would be taxed at the same rate as cash income.

#### MEDICARE LEVY AND MEDICARE LEVY SURCHARGE

These ought to be abolished and the health system funded through general revenue. We don't have special levies taken from income for any other specific purpose (e.g., Defence, Police, Education, etc.) so we should not have one for health.

The surcharge distorts healthcare choices made by people subject to the surcharge as it encourages them to buy a product from a private organisation simply to avoid a higher tax rate, regardless of whether they like or want private health insurance. It should be abolished.

#### TOBACCO EXCISE

Currently there is a special excise on tobacco, ostensibly to discourage the purchase of cigarettes. Rather than burden the tax system in this way, controlled-substances laws should be used instead. Ban them or restrict them, but don't apply special taxes. A special licence or permit could be introduced for the purchase of tobacco products with a limit on the amount purchased each week. (The permit could also be suspended or revoked for violations of smoking restrictions.)

#### ALCOHOL TAXES AND EXCISES

A multitude of different excises and taxes on alcoholic beverages. Currently the high excises punish responsible drinkers for the actions of the irresponsible. These excises could be replaced with similar controlled-substance laws as tobacco products. Use of a purchase-permit system would allow measures such as revocation for drunken violence and drink-driving, and suspension for public drunkenness.

#### FUEL EXCISES

Ideally, all fuel excises would be abolished and any environmentally-motivated restrictions achieved through other means.

Given the difficulty of finding other means, fuel excises could be considered as a user-pays system for the roads but only to the extent that all fuels are equally taxed (proportionally) and all revenue generated therefrom actually pays for road construction and maintenance, transport safety & efficiency improvements, etc.

#### LUXURY CAR TAX

This ought to be abolished. It is nothing more than discrimination against people who choose to buy an expensive car ('wealth envy').

#### PAYROLL TAX

This ought to be abolished. It is a burden on employment and a disincentive for small businesses to expand.

#### STAMP DUTIES

Stamp duties unfairly target some assets over others.

Stamp duties vary for owner-occupied and investment properties in some states. This is based solely on the intention at the time of property transfer, and subject to subversion by living on the property for a time before making it available for lease, or simply changing one's mind.

Stamp duty on the primary place of residence acts as a barrier to free movement.

Stamp duties should be replaced with a simple, small, cost-recovering fee-for-service. That is, the state government should be charging a small fee to cover the costs of the transaction (title transfer, registration of insurance policy, etc.).

Stamp duties should not be used to generate general revenue.

#### CAPITAL GAINS TAX

Capital gains tax (CGT) works well enough as it is, but I provide here a defence of an existing exemption.

Currently, the primary place of residence is exempted from CGT. There is little point in changing this. Subjecting the primary place of residence to CGT would become a barrier to free movement (which stamp duties already create). There is also a revenue reason not to include the primary place of residence: a large number of people would be left with a capital loss after adjusting the cost base for the interest paid on the mortgage. This would effectively be similar to a CGT exemption on the home, but it would also deprive the Commonwealth of CGT revenue for any subsequent investment gains until the loss has been made up. Also, it would leave the Commonwealth with no valid reason to exempt other private assets (e.g., cars) from CGT and reduce the validity of denying deductions for expenses, such as transport to and from work, deemed private but which are necessary expenses for generating employment income.

#### LAND TAX

Land tax is levied twice: once by the state in the form of Land Tax (with some exemptions), and once by local government in the form of Rates (with no exemptions). There should be only one of these. Given my personal preference for the abolition of local government, I would choose the state land tax (with fewer exemptions and probably a higher rate), but if local government is to remain then the state tax should be scrapped instead.

#### TAX DEDUCTIONS AND EXEMPTIONS FOR SPECIFIC INDUSTRIES

The government should remove all industry-specific and organisation-specific tax deductions and tax exemptions. Businesses should succeed or fail on their own terms without government incentives to invest. This means no subsidies for car manufacturers, no tax breaks for tree farming, no special deductions for film investment, etc.

These various existing special treatments are discriminatory and distort investment choices.

#### CHARITABLE ORGANISATIONS

The advancement of religion should not be considered a charitable activity in a secular nation such as Australia. Thus, religious organisations should be granted tax concessions only to the extent that they perform non-religious charitable works. This existing special treatment discriminates against both religious but unaffiliated and non-religious members of society.

#### DEEMING

Deeming should be abolished. Income assessed for welfare purposes should be actual income. As the past 18 months have demonstrated, deeming an income on an asset value can overestimate the actual income as, for example, dividends fall in hard economic times. Testing actual income means that Centrelink does not need to be so fussy about asset values, only the actual income received from week to week. It ensures that those who earn more than the deeming rate are not advantaged over those who earn less.

#### PRIVATE HEALTH INSURANCE SUBSIDY

The 30% private health insurance subsidy should be removed. The money is better used to fund the public health system. The government should allow private health insurance but neither encourage nor discourage its use. The current rebate discriminates against those without private health insurance in favour of those who do.

**CENTRELINK DISCRIMINATION AGAINST MARRIAGE** Currently, the aged pension and Newstart (dole) payments (and possibly others I don't know about) discriminate against married couples (de facto or de jure).

Two people residing together who are married to each other will each receive a lower payment per fortnight than two people residing together who are friends, siblings or strangers.

The couples rate should be abolished and that each person be paid at the individual rate. Note that I am not suggesting (nor necessarily rejecting) a change to the treatment of couples for the asset or income tests.

#### MIDDLE-CLASS WELFARE AND DISCRIMINATION AGAINST SAVERS

The welfare system should primarily be designed to help those who are unable or have had no opportunity to help themselves. Payments that fall into this category include aged pensions for those who have inadequate access to superannuation, and some disability pensions.

Some people, however, just need a hand through tough times without having to destitute themselves first.

Currently the system favours those who squander money and opportunity over those who save and work hard. People are required to run down savings (which might be, for example, for their children's education, a wedding or a house deposit) before they can get adequate assistance.

Perhaps a loan scheme similar to HECS could be introduced to replace the so-called middle-class welfare. Like HECS, the loan would be indexed to inflation, and payments would be made based on income (the ability to pay) rather than the size of the debt, and taken out with tax, so that the money is not missed. Like HECS, the debt would die with the borrower, having no recourse to the estate. The amount could be added to a combined government-loan-programmed bucket so that only one repayment rate and threshold applies to people with a HECS debt. The HECS system is a fair and equitable system and the principles should be retained.

This could be available on reasonably generous terms, as it would have to be paid back when possible.

Eventually, incoming repayments would help offset new payments being made. For those who are never able to repay the debt, this system is no different to the current 'give-away' system, and no burden is placed on them, their dependants or the beneficiaries of their wills.

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