Australia's Future Tax System

Submission by:

P. S. Holland
[removed for privacy reasons]

This submission represents my opinions as a wholly self-funded retiree and trustee for my own self-managed super fund. I have no other interests or affiliations. The comments below come from my experiences rather than in depth research and as such may be incorrect and can only inform you of my perceptions and understanding of the rules as I read them.

General Comments

While the purpose of all taxation is to raise revenue there are always ancillary benefits sought by governments. The purpose of each part of the taxation act should be made clear to the taxpayer. Is it for political largesse, to stimulate or stabilise the economy, or to change individual or business behaviour for social benefit? This should be accompanied by some indication of how the success or failure of the claimed purpose will be measured. Such measurements should be actually and regularly made at appropriate intervals and the results made public. For example if a tax rule is designed to reduce homelessness we should be able to find out after say one year whether it did indeed do that. It is also necessary to know whether complex rules to stop very wealthy taxpayers taking advantage of concessional treatment are actually saving money or are they catching only an insignificant number of freeloaders. I accept the Government's right to make all these decisions but I claim the right to know the facts on which their decisions are based.

Tax Transfers

Disadvantaged or unlucky people of all categories should be assisted to enable them to survive and improve their ability to better their position. I applaud the 'work for the dole' concept provided it does actually result in a person becoming better equipped to find and hold down long term employment. For disabled people I feel our taxes should provide a tiered approach from a disability pension and transport facilitation all the way to complete care for the extremely disabled. In particular the mentally disabled in our community need much more, placing these burdens entirely on the family is not appropriate. My perception is that over my lifetime [removed for privacy reasons] the Public Service as a provider of actual services has shrunk considerably. It would be interesting to compare levels of services and levels of taxation over the years to see what mix of private and public delivery appeared to be most cost effective.

Superannuation

As a typical woman with punctuated employment and less incentives I have a much smaller super fund than my husband. Together we have enough to manage our own portfolio of assets fairly efficiently and have the skills to be able to minimise accounting costs. For those of our friends, however, who were in blue collar jobs all their lives and have not managed to put together a super fund of more than a couple of hundred thousand these efficiencies are not there. They are at the mercy of various super fund 'products' and those who sell them. They don't understand the risk structure, the nature of the fees or even the language used. For this quite large sector the ATO needs to provide access to more assistance and more non-profit opportunities to manage their super. It would probably be ideal for those with no interest in investment for the Government take over their super funds and deliver them a guaranteed income – an annuity if you like – to augment any pension payments they are eligible for. While insurance companies already offer such things they are in the profit making business with shareholders of their own to pay and they may even fail. I can see a problem with this suggestion – the insurance companies will not want to be undercut by the Government. To overcome this partially the scheme could be limited to small super funds – those presumably less tempting to the private sector. It is possible that there are many free or cheap products already out there but I do not know of them and nor do many people I have talked to about this problem. I suggest more proactive attempts to help the less financially sophisticated retirees manage their affairs – perhaps small group seminars delivered by Centrelink would be effective especially if candidates were identified from existing databases and sent invitations.

At the other end of the scale I assume that the complex rules regarding contributions to super and whether taxed before or after are to ensure that very wealthy people do not take advantage of the tax concessions super provides. While these rules have been hugely simplified over the last couple of years there are still age, work-test and transitional arrangements to remember and get right. Would it not achieve the same purpose to simply limit or cap the total assets of an individual's superannuation fund. [Note that limits based on a couple's joint assets will not be workable for this since the lifetime of a super fund can see many changes in partnerships.] The limit can be set to some fairly large amount based on a multiplier of the basic wage or similar. For example something that generates a cap of 2 or 3 million should be plenty for keeping someone comfortable after retiring at 65. The limit could always be linked to a person's last salary level – check out how the US do it with their social security which is essentially one big Government super fund. The assets of the fund should be assessed each year (as they already are) and if they fall under the limit you can still contribute and if they have gone over you can't – simple. You could combine this with a complete cut off of contributions after the fund is in pension phase and presumably decreasing.

One other word on superannuation. A year or two ago my husband and I understood that it was possible to visit an ATO expert in the capital city of one's state and ask questions relating to one's individual tax situation. We inquired and an appointment was made to discuss the complications of superannuation. A few days before the appointment the ATO called and cancelled saying that they had no one in Adelaide qualified to talk to us. This is nothing short of pathetic. Phone advice is often hard to get on this subject also – it seems like only a few gurus understand this part of the tax act. How do they expect taxpayers to follow it? Worse still advice over the phone is only of the form "give me some numbers, I'll plug them into the computer here and tell you what comes out". No-one is willing or able to give out formulas or algorithms to enable tax planning by the individual who does their own tax return. For investors who cannot afford expensive accountants it can be hard to estimate one's future tax liability, and even harder to decide which form of investing would be more effective given the tax implications. I would like to see free tax seminars held in every major city so that interested people who want to do their own tax returns and tax planning can be given accurate information and assisted in interpreting the tax law jargon.

Franking Credits

The removal of franking credits from dividend payments will be very unpopular. It will be difficult to explain why a tax on the earnings of that part of a company that a shareholder 'owns' should not be credited to the shareholder. From the company side the government may have to allow all dividends to be claimed as a tax deduction by the company. This would allow companies to augment their dividend payouts by the amount of tax they have saved. Shareholders of course would have no guarantee that these savings would be passed on to them. Self funded retirees in particular would be very hard hit – sometimes to the level of having to apply for part pension or at least the health card. This is counter productive after all the superannuation reforms to encourage people that it is possible to save for one's own retirement funding. Longer term the investment landscape would change in unpredictable ways and many more super fund dollars might be tempted into overseas investments. In countries such as the US which I believe has only recently introduced a limited franking credit system like ours the share market is much more speculative and investors rely more on capital gains for income since fewer companies pay significant dividends. I'm not sure why this is. Changes to this area could be risky unless the government has researched the long term ramifications.

Capital Gains Tax

The current concessions for CGT are somewhat problematical in that they encourage artificial investing behaviour. For self-funded retirees or those still working and trying to manage invested savings for later retirement the gains are usually made inadvertently when selling a non-performing asset in order to replace it with a better performer. For those in the 'wealth creation' phase of their lives there could be quite a bit of 'trading' to take profit as a marketable asset rises and falls. Also a used car salesman say should definitely pay tax on his profits buying and selling cars as they directly contribute to his 'earnings'. Retiree investors however are considered not to be working (for the work test) but any effort they make to adjust their portfolios to maintain only low risk and high yielding assets must also incur CGT if they sell at a profit. The current 50% discount rule is quite clever in that it still applies a higher tax rate for higher income earners. However it does not take into account the disincentive to sell an asset owned for many years and purchased with dollars that have inflated many times since. There used to be another way of calculating gain for very long held assets that took into account inflation over the years – I think this may have been phased out – maybe it needs another look. From a socially responsible perspective perhaps it is better that investors are discouraged from selling long held shares since that might have made the market crash even more extreme.

Income Averaging

To overcome some of the problems of inadvertent capital gain which can artificially raise an individual's income for just one year, the ATO could allow the individual to average their income over say the next 5 years. The US has a system that allows this. This facility would benefit many individuals who have lumpy and unpredictable income. This facility might be augmented by allowing married couples to file a joint tax return with adjusted rates. Since they are assessed as a couple for nearly all benefits and it is known that families often maximise earning and super opportunities for one partner over the other then this would recognise the fact that their combined incomes are contributing to the wealth of the family as a whole. Consider an example in my case. My husband has more US retirement funds than I do (we lived and worked in the US for 10 years in the 1980's). When we try and move this money to Australia the US tax it at a flat rate of 30% for 'aliens'. This amount is of course available as a foreign tax credit to avoid double taxation. But when added to his investment income (dividends on jointly held shares) it moves this amount into the 40 or 45% bracket which seems unfair since the employer contributions to this fund were extracted from his salary on the understanding that the tax rate on these savings at retirement would be lower. If we could be assessed for taxation as a couple we could reduce the amount which is taxed at a higher rate than the US (and hence not covered by our foreign tax credit). It would also be useful if we had been able to divert all of our US retirement assets into super when we returned to Australia but this was not possible in 1989 when we came back. It is desirable that allowing people who have savings in other countries under other rules are encouraged to bring this money back into Australia without penalty.

Living Arrangements

It should not be necessary for Governments to inquire into intimate living arrangements when awarding pensions. I suggest that the first step to increasing pensions to account for increased living costs would be to abolish the lower rate for couples. It then becomes an individual choice as to how they might reduce living costs by sharing with others. For those already on single pensions this first step will not help them but a determined effort by government to provide more affordable housing would be of more use. Some of this housing could be designed for possible multiple occupancy with legal safeguards for those who decide to share in this way. Of course some questions must be asked of individuals who are co-habiting with someone who is earning a good income and doesn't qualify for assistance.

Individual vs Business Taxation

There are some inequities in taxation between salary earner families and those with micro businesses or family trusts. I have no easy solution to this problem just a few examples.

1. A family business, originally just the married couple, working out of their home has grown by good management over the years to employ one or two people, lease a commercial premises,

provide a reliable service to the building trade and represent a saleable asset far greater than the original investment while maintaining the family in a comfortable lifestyle. This is a good example of people and the system working well.

2. Another couple created a shell company to start and abandon several business ventures involving selling their labour to clients in an ad hoc way. They had no real business plan, deducted a large part of their ordinary living costs as business expenses, bought vehicles and computers and other gadgets with doubtful relevance to the business. This couple made a living of sorts but only by increasing their debt level. When they finally separated it became clear that the business had no value other than some written down assets and their own labour. This couple probably should not have been allowed to utilise the business tax treatment rules for their personal services income.
3. Yet another young couple separate. He is a truck driver with his own vehicle and a business created to utilise this asset and his driving skills. This business allows him to generate an income and pay off his truck. His wife has a part time job as a receptionist. They have shared custody of a young child. Although his business is doing well she is ordered to pay him maintenance because he can hide most of his income in his trucking business. This does seem a little out of whack to me although it appears to be a legitimate use of company tax provisions and family law. This is largely a family law issue but shows how the taxation rules and assessments interact with other aspects of society.

State and Federal

Some obvious anomalies in the competition between State and Federal for the tax dollar and its transfer are health care and transport. Education probably has similar problems but I have no close family members in the school system at the moment so cannot say.

Health care – health insurance premiums vary from state to state even though they supposedly cover you wherever in the country you happen to be. For retirees who may wander in their caravans at will for several months to years it seems crazy to have these differences and I am not sure whether it is the insurers' choice or some variation in state charges or tax funded support.

Transport – why are seniors card holders (a State based concession) given free or subsidised use of public transport yet those supported by Federal funded pensions do not get this concession? I would like to see public transport across Australia, especially interstate travel, be made extremely affordable to anyone in any of the concessional categories. Disabled people should be able to use any of the transport modes for next to nothing – they may have few other transport choices, low income and the need to keep specialist medical appointments far from home. Unemployed people on job search could do with help getting to interviews or looking for jobs farther afield. Retirees have time and could benefit from getting out and keeping themselves mentally active even after they have become too old to drive. There are many good things already happening here but it is piecemeal and made difficult for recipients to find out about and apply for. Students I believe are already given concessions. There is unfortunately a perception problem with public transport in this country. It is associated with low status since it is used by mostly low income travellers and involves a lot of waiting around and scruffy seats and even reduced levels of safety. Although making public transport cheaper for those already eligible for concessions of some sort will make this worse in the short term I believe greater use of public transport will in the long run encourage improvements in the system and hence more widespread acceptability. We need to move this way anyway to reduce CO_2 emissions and minimise fossil fuel use and road congestion.