Ref: Australia's Future Tax System – Consultation Paper Summary December 2008

This response from Mal January, [removed for privacy reasons] 26 January 2009

Summary

This submission of 20 pages comprises an individual response to each of the consulation questions contained in the report.

Q1 What major challenges facing Australia need to be addressed through the tax-transfer system?

The major challenge facing Australia is to change the mindset of the regulators to be less dependent on "growth" and the global economy, to make Australia self-reliant and sustainable. All this whilst simplifying the tax system, encouraging innovation, looking after our inventors and those who are "successful" whilst stopping and catching those who don't play the game.

Q2 What features should the system have in order to respond to these challenges?

The essential features of the system must be the protection of the environment and sustainability together with open fairness and simplicity.

Q3 What are the problems with the current system?

The major problems with the current system include -

• Dependence by Australia on the global economy. When USA or China sneeze Australia catches a cold.

• The tax system is far too complex. Individuals are unable to complete their own tax return except in most simple of situations.

• There is far too much tax litigation. Some companies, even individuals, exploit the tax system or don't understand it and the tax office is constantly issuing rulings to "clarify" grey areas. These are then challenged in court, costing and wasting everyone time and money.

• The Federal - State – Local Government system is not working. NSW is bankrupt because the income tax and the GST that it's residents pay goes to subsidise other states, who then use that money to "compete" with NSW.

• The current system is based on "growth". Economists are brainwashed into believing that growth is essential (to beat the competition), whereas any clear thinking person will tell you that constant "growth" is an anathema to a finite world.

Q4 What reforms do we need to address these problems?

See other answers.

**Q1.1 In considering the community's aspirations for the type of society that Australia should become over the next two decades and beyond, which key features

should inform or drive the future design of the Australian tax-transfer system?

This is addressed in earlier answers. However a useful exercise to undertake would be to research the World's Best Practice Taxation systems, perhaps using a CRC funded by Government. Whilst Australia seems to model itself on the USA or UK in terms of law and finance few would regard USA or UK as having best practice.

Some countries have some interesting and apparently successful ideas that would be worth investigating, viz countries like Bhutan, Cuba, Denmark, Sweden, Switzerland.

In the discussion on page 10 "Australia's Future Tax System" mention is made of the “merit of specific state taxes”. Some state taxes can fall dramatically during a recession, dramatically reducing the ability of the state to raise revenue, and all this at a time when the state both needs to pump more money into the economy to keep it going and to help out those that have been worst affected by it.

Q1.2 Assuming that the absolute size of government will not fall, should (and can) Australia nonetheless aim to reduce the burden of taxation over time by promoting faster economic growth than public spending growth? Can it be demonstrated that alternative tax policies could help deliver that outcome?

This question is itself an example of the problem (see last dot point Q3 above) and has no real answer. The purpose of government is to govern the country and to do this it needs funds that it raises from taxation. The level of taxation needs to be whatever is necessary to do this adaquately. “Growth” itself is a result of events, and like “decline” it can possibly be managed in small amounts, but it is not an end in itself.

If the government / public sector cannot provide the facilities that the populace needs and expects then it may need to raise taxes. If it raises more money than it needs them it reduces taxes. The size of Government should grow or decrease in accord with these requirements.

It should be noted that “growth” can and is measured in a number of ways. Public sector growth, economic growth and similar uses of the term generally refer to overall growth, where everything is getting bigger! However one can measure growth on a per capita basis where growth can occur despite an overall decline if the decline in the head count is greater than the total decline.

For example one could argue there was a shortage of schools and that the number of schools therefore needed to grow or for schools to get bigger. This statement would probably come from comparing the number of pupils with the number of schools places and deciding it was inadequate. What is never said or probably even contemplated because of this fixation with growth is that if pupil numbers decreased there might indeed already be enough schools and if they decreased enough there may even be an abundance of schools.

Q3.1 What problems, if any, are generated by the overall mix of taxes in Australia on business and labour income, consumption, transactions and assets, and what changes, if any should be made?

The main problem is fairness. Why is it fair to selectively tax some income but not other income? Why tax some consumables but not others or tax at different rates? Why tax some transactions and some assets but not others?

Should we pay tax on everything we receive, whether earned or not? Should we pay tax on everything we buy, whether a consumable or a non-consumable (capital goods!)? Should we pay tax on everything that we sell? Are "transactions" any different to buying and/or selling? Why aren't assets the same as non-consumable purchases?

These are fairly fundamental questions there is no ready answer for. This will be addressed later.

Q3.2 Does Australia's tax system penalise (or favour) the returns to savings relative to other activities and should this lead to changes in the structure of taxes and means tests?

We can earn money, on which we pay tax, and we can then spend that money or keep it. If we spend it we are likely to pay some sort of consumption tax (GST, Sales tax, Stamp duty).

If the earnings are kept and put under the bed, in the current scenario it is tax free, unless one is a pensioner and then that money, if the government knows it exists, can be "deemed" to be producing interest and will be taxed.

Put it under the bed or in a non-interest bearing bank account and it will not keep pace with inflation and fall in value. It has to be placed somewhere so that it appreciates.

The question is does the government want individuals to spend or save? Unfortunately in the short term the answer is likely to be sometimes yes and sometimes no. Yes or no will determines from time to time whether the government uses the taxation system to encourage or discourage spending / saving. It obviously makes financial planning difficult when the taxation rules keep changing.

In discussing the tax system it is perhaps not appropriate to argue whether savings should be encouraged or discouraged. It is important however to establish long term rules that cannot be changed at the whim of this or successive governments.

Means tests are a separate matter. There are the asset rich with little or no income, typically the little old lady living on her own in the family home worth $2 million. Should the government force her out? I don't think so. Should the government persuade her to move? I don't think so. Treat her just as if she lived in a home worth $100,000. She won't live forever.

The means test implies a government handout or pension. In this respect there should be an independent tribunal that sets annually the amount that say a couple needs to live on and a number of factors that are then used to adjust this amount depending on whether they live alone, the number of dependents, carers, disabilities, etc. These amounts are then used for the unemployed, the aged, etc. and everything should be automatically adjusted annually. NO BONUSES. Let's call this the Basic Minimum Income Level (BMIL) which when the factors are applied might be called the Factored MIL (FMIL).

If an income does not reach the FMIL then the difference is made up by the government. Income does not include assets, however an asset may earn income.

Income tax should only be paid on the excess over the FMIL.

It also follows that couples or families should be treated as a taxable unit.

There are questions on how to deal with families or even groups of people, some who may be related and others that are not, who live together, some working and some not. One needs to outline a set of taxable unit (family living) scenarios and fairly decide the appropriate method of determing income.

It will be essential to identify all of the family unit members and new laws/regulations will be needed to determine who receives the FMIL and is liable for completing the family unit's tax return. Superannuation will continue to be based on individuals but there may be a need for regulations to prevent one high income earning family member from salary sacrificing to the diadvantage of the remaining family members.

Q3.3 Does Australia's tax transfer system appropriately deal with property and wealth, or should new approaches be introduced? What, if any, implications would any changes have on the taxation (or means testing) of capital income flowing from property and wealth?

This hase been touched on in Q3.2. Differentiation needs to be made between Real assets and Financial assets (not the best terminology but they swerve to illustrate the point). Real Assets are goods that are purchased but which do not produce income whereas Financial Assets produce income. A house can be a Real Asset or it can be a Financial Asset. Most things in the home including the family car will be Real Assets. Money in the bank getting no interest is a Real Asset, but if it gets interest then it is a Financial Asset.

If this distinction is clear it can now be stated that Real Assets may be purchased as an "investment", not to produce income, but to be sold later at a profit. Company shares could fall into either category as some make a regular return (dividends) but others don't (eg exploration companies).

The current tax system is exceedingly complex when it comes to calculating capital gains. Real Assets can be sold for a handsome profit, a small profit that barely covers inflation, sold at a loss, or they may be worthless. There may even have been a time during their life when they were Financial assets producing an income. This leaves the situation open for questionable tax minimisation schemes like purchasing tax losses.

To simplify the tax treatment of assets and to avoid these questionable tax minimisation schemes the purchase and sale of all Assets should be subject to GST and the Capital Gains Tax should be deleted.

It needs to be noted here that someone who owns a high value asset is presumed to have earned the money used to pay for that asset and has therefore paid income tax on those earnings, they may well have saved over a long period and should not be penalised for such course of action. In the situation where they did not earn the money used to pay for the asset one has to add then perhaps they should have. Why should gifts and windfalls not be taxed as income? Perhaps they could be averaged over 10 years?

The other scenario is where money is borrowed to purchase an Asset. Provided the Asset is a Financial Asset producing an income then cost of the loan (interest etc) should be tax deductible, as it is now.

Q3.4 Assuming no increase in the rate or base of the GST, what principles should guide the future development of other consumption taxes in Australia, and is there a need to change the role and structure of such taxes?

In principle there should be only one consumption tax but I guess that's never going to happen when one considers the proposed carbon tax and the fuel tax regimen. And if the GST base cannot be broadened wouldn't a broad-based financial transaction tax just be a play on words, especially if it were 10%?

Q3.5 Could greater application of use charges, rather than general taxes, in the funding of government services or infrastructure bring social, environmental or economic benefits?

This is a broad area and one needs to be careful in talking about a particular situation. However in general the government provides services to those mostly least able to pay for them. One could argue that if everyone wanting a service was able to pay for it then there would be no need for government in the first place. So in general the government should not be looking at user pays.

In monetary terms, at the top end of the range would be housing infrastructure costs. There are several reasons why this should be borne by the community as a whole. Firstly it is the government (except perhaps in a mining community) that decides to increase the population in a particular area, often for no apparent reason. The particular area probably already has a high unemployment rate so extra people is only going to exacerbate the problem.

Housing shortages are caused by government policy. It follows that government should pay to fix them.

Q4.1 How might the personal tax system be changed to better achieve the goals of greater simplicity, transparency, equity and efficiency?

If the answers to all the other questions were considered and taken up, at least in part, it would go along way to achieving these ends.

Q4.2 What is the appropriate distribution of income tax across income levels and how should it differ from the current distribution? Should governments seek to maintain a similar distribution over time, or should they fix the value of current tax thresholds through indexation?

Without getting too complicated -

- See Q3.2 above in reference to the BMIL - which it is suggested should be indexed by an independent “tribunal” – somewhat like the Reserve Bank setting interest rates or the Industrial Courts setting wage rates.

- The BMIL or FMIL should be the starting point for paying tax and the rate should go up to a maximum of the company tax rate on a graduated scale.

- With computer access so readily available it shouldn't be difficult to come up with a graduated system where someone on FMIL pays no tax but someone on the maximum pays the same as company tax.

The big question is at what income should attract the maximum tax rate? This should probably depend on some economic modelling to determine how much revenue was required and at what level it should be fixed to achieve the desired result. It should be given as a factor to the “tribunal” and become adjusted automatically on an annual basis. If the BMIL were $30,000 I would expect a factor of 3 to be reasonable.

Q4.3 Is the personal income tax base appropriately defined? Should reforms such as changes to the scope of deductions or other measures be considered?

No and yes. See Q3.2 re BMIL and other questions regarding assets and capitals gains.

In regard to deductions they should be kept to a minimum in order to reduce scams.

No deductions for business related expenses – encourage the business to pay the expense and get the deduction.

No deductions for gifts to charitable institutions - what the institutions lose out on can be made up by the government.

No deduction for excess medical expenses – assuming the government can fix the health system and health insurance system.

Any "legitimate" deductions, such as child care, should be factored into the FMIL.

The Medicare levy should obviously be included in the base tax. I have never understood why it wasn't.

Q4.4 Should the tax treatment of transfer payments be reconsidered? Should transfer payments be taxed at the same rate or a lower rate than earned income?

I'm not sure what “transfer payments” refers to but in general any goods and services should be subject to GST and at the same rate.

Q4.5 Should people in different circumstances be taxed differently (for example by age, occupation, location) and what might be the implications of such arrangements? Are tax offsets the best way to achieve deferential taxation?

Differential taxation should be taken care of by the FMIL system (see Q3.2).

People in different circumstances should not be taxed differently. Keep it simple. That is not to say that the HECS scheme or similar schemes yet to be devised are not a good idea. Occupations are not chosen based on income alone. And as regards location employers seeking employees in remote situations will generally be happy to pay whatever it takes.

Q4.6 How can FBT be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of the employees rather than employers?

FBT should certainly be overhauled. If the business gives an employee a car (in the employees name) then it should be regarded as income, although it's business use would become a business expense, perhaps on a $/km basis (with regular rate reviews and a mandatory log book for all instances). If a business gives an employee a laptop, a mobile phone or similar and the item becomes the property of the employee then it should be regarded as income. If it remains the property of the employer then it is not income provided the employee returns it (might need new rules here).

Q4.7 Are the current categorical distinctions for income support, including rates of payment and income tests, still relevant? If not, would other categories be better? What goals or principles should guide categorical distinctions and

associated payment claims?

This question has been addressed in Q3.2.

Q4.8 What priority should be given to the different objectives associated with family assistance, such as poverty alleviation, recognising the social value of child rearing, facilitating workforce participation of parents, and early childhood education? Would it be better to provide less family assistance to higher income earners?

Again this question has been largely addressed by Q3.2. Each situation should be allocated a category and the “tribunal” determine an appropriate factor. Higher income families (i.e. those that exceed the appropriate FMIL) should get no assistance.

For simplicity every family unit, rich and poor, should receive their FMIL. Then any income earned could be taxed at "a rate". In effect doing away with the zero tax threshold.

Q4.9 What are the key factors that should affect the rates of transfer payments? What should be the relative importance of duration on income support, costs of work and job search, cost of children, value of home production and the level of the federal minimum wage?

Again see Q3.2. The allocation of risk is an important element in the law of contract. In principle the legal system generally suggests that the cost of a risk should be paid by the party best able to control that risk. In considering this question it means that there is a good argument for allowing “travelling to work costs” as a business expense, i.e. paid by the business, not as an income tax deduction. This could be based on the cost of public transport from the employees place of residence to the place of employment and not for taxi fares or private transport, unless of course the employer wants to provide a bus (not an unknown situation).

Some employees in some industries (construction industry) already get a travel allowance and this would be replaced by any new scheme.

A by-product of this policy would be to encourage businesses to decentralise.

Q4.10 Should transfer payments have a common benchmark? If so, should it be a proportion of a wage measure, and if so, which one? Or is there a better benchmark? Should there be a common indexation arrangement?

See Q3.2.

Q4.11 Should payments for retired people remain linked to payments for people of working age?

There should be no difference.

Q4.12 In a targeted system there is a trade-off between the level of income support and workforce incentives. Given this, what priority should be given to reducing the disincentives to work?

The FMIL (see Q3.2) should be set at a level that keeps the recipients above the poverty line. It should be a subsistence level, no more. One would expect full time earnings to be well in excess of this amount, which should, with a few provisos mentioned below, encourage everyone into the work force.

The problem is part time employment where part time earnings are less than the FMIL. The government should pay the FMIL irrespective of income and that tax rates calculated so that the this value is repaid via income tax at a certain income level.

For example – Family unit A receives their FMIL of $30,000 and has no other income so pay no tax. Family unit B receive their FMIL of $30,000 but have an income of $30,000 and pay tax of $10,000. Family unit C receive their FMIL of $30,000, earn income of $90,000 and pay tax of $30,000, becoming cost neutral to the government. Any family unit earning in excess of $90,000 will have a net contribution to government. NB These figures used for illustration purposes only.

Anyone undertaking part time work under this system would be better off, provided the system takes into account travel to work costs or the cost of child care in the case of a working parents.

Q4.13 What structure of income tests and taxes would best support the increasing diversity of work and the need to increase workforce participation, and where should improved incentives be targeted?

This has already been addressed.

Q4.14 Does the tax-transfer system create disincentives for individuals seeking to acquire new skills or upgrading existing skills? If so, what sort of tax or transfer changes would provide better incentives?

The best scenario is where a business pays the reskilling costs of it's employees. This does occasionally happen now and any changes in the tax system should be such that this situation is not discouraged.

It can be expensive acquiring new skills with no guarantee of employment using those skills. Few people are prepared to pay the expense of their own reskilling and they are usually those with reasonable resources.

Another problem is exploitation by supposed training organisations making unfounded promises of future work.

The way around this is to broaden the HECS scheme to cover adult training, ensuring that such training is only by authorised training bodies and for relevant courses.

On first consideration it may be difficult to determine whether a particular course is relevant or not to future employment. For example undertaking a course in creative writing, or astrology. One could argue that qualifications in these areas enhances future work prospects. Bearing in mind that the individual will be repaying the cost of such courses the recognition of eligible courses could be quite liberal.

To prevent individulas from becoming life time students the best way would be to either put a cap on the number of courses or a cap in the amount covered by HECS.

Q4.15 Given the competing demands of targeting assistance to people when they need it and minimising unnecessary transactions, what changes could be made to existing tax and transfer policies?

I think this is addressed elsewhere.

Q4.16 Should the different bases of assessment for tax and transfers be reconsidered (including the unit of assessment, income distribution, period of assessment and assets treatment)?

The unit of assessment should be the “family” unit and not the individual. Two couples each earning $100,000 between them should pay the same amount in tax. It should make no difference if one partner earns 100% and the other nothing or whether they earn it equally.

Most of the other points are addressed elsewhere.

Q5.1 … which objectives are relevant in setting retirement income policy? Does the current system of the Age Pension and compulsory and voluntary savings meet these objectives? If not, how should the system be changed to meet these objectives?

The only changes I would make to the current system are covered in Q3.2 regarding the FMIL and perhaps increase the Employers Superannuation Guarantee to that statistically appropriate, based on current life expectancy, etc.

Q5.2 As the SG system matures, it will become a greater part of an employee's retirement income. What are the implications for individuals partially or fully excluded from the mature SG system (the self-employed, individuals with broken work patterns such as carers, women and migrants), and how can the retirement income system best accommodate these groups?

I have never understood why self-employed individuals don't pay the SG. This should be easy to remedy.

For those with nil income and living on the FMIL alone, the goernment should pay the SG .

In regard to carers it is the government's role to take care of the sick, the disabled, the homeless, etc - anyone unable to care for themselves. To this end the government provides hospitals, develops health programmes, etc.. Past governments used to be much more hands on in caring for those that needed care, often placing them in institutions that today are largely frowned on. The point is that the government used to take full responsibility for these needy.

Now that home care is promoted as being better for the “cared for” the government seems to use this as an excuse to reduce its funding for this sector. Carers, whether they are wives, mothers or paid professionals, are doing the job for the government and should be paid a “salary” by the government. The government, as employer, would then pay the SG for that employee.

Q5.3 Noting that the adequacy of the Age Pension is being considered by the Pension Review, what is an appropriate concept of adequacy for the retirement income system? Should it be to ensure there is a minimum level of income in retirement, to replace a proportion of income earned prior to retirement, or some other alternative?

The age pension should be set as an FMIL (see Q3.2). It should not be dependant on earned income prior to retirement. However the SG is clearly linked to income levels and on maturity, if not before, should enable most people to live independently without relying on the age pension.

Wealthy retirees who receive their FMIL plus investment returns will pay tax on those returns. However money they receive from the SG or their own superfund will be taxed within the superfund but tax free in their hands.

High income earners should continue to be able to make personal or salary sacrificed superannuation contributions. However on retirement only that proportion should be able to be taken as a lump sum. The SG proportion should never be available as a lump sum.

Q5.4 What should the role of the government be in assisting individuals to meet their retirement income expectations in relation to the support provided by the Age Pension, the level of compulsory savings and incentives to make additional savings? Should the role of government change as an individuals income increases over their working life?

The role of government should not change as an individuals income increases over their working life.

The rest of the question is addressed elsewhere.

Q5.5 Do the settings of the retirement income system, such as the level of SG and access to concessions, adequately consider the needs and preferences of individuals both before and after retirement?

See earlier for discussion on the level of SG. SG should be available by annual draw down on nominal retirement age if requested. If an individual keeps working beyond nominal retirement age they should continue to accumulate SG and be able to make extra contributions at their discretion. Some over 70's have nothing in life except their work and I believe there are some tweaks necessary to the current system to avoid penalising them from working.

The government should ensure that appropriate services are made available to the populace as a whole. I'm not sure why the elderly should get special concessions other than the rationale that they have higher medical bills. One can get sick at any time of life, even be permanently sick and the governments role is to look after these people. It shouldn't make any difference whether they are retired or not. The elderly may cost the government more in health costs, but then the young cost the government more in education!

Q5.6 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted and, if not, how should they be reformed?

The current level appears appropriate but I can't say whether it is sustainable and I am not in favour of concessions if other aspects of the system are working properly.

Q5.7 At what age should an individual be able to access their superannuation and at what age should they become eligible for the Age Pension?

The SG component should not be available until nominal retirement age OR earlier if established as permanently medically unfit to work. In either case the amount available should be annualised over the expected life span and not be available as a lump sum.

Similarly with the remaining super (personally contributed) except that lump sum payment should be allowed.

The eligibility age for the Age Pension becomes irrelevant under my proposals. Irrespective of age every family unit receives the FMIL.

It is assumed that the Age Pension and the SG are unrelated.

Q5.8 What is the role of individuals in dealing with investment and longevity risk in accumulating and drawing down their retirement income? Do financial markets provide the means to deal with these risks? If not, is there a role for government to address these shortcomings?

The current system of allowing a minimum and a maximum draw down per annum based on the amount in the fund is reasonable. This is presumably set by a team of statisticians. As for handling and managing risk now that we've had the global financial crisis do you seriously believe there are people who are capable?

There is an argument for greater regulation and in the aftermath of the global financial crisis it will be interesting to see what the new President of the USA does. In respect of Australia APRA should introduce tighter regulation, set the rules, administer those rules and prosecute anyone that breaks them. For example “selling short” should not be allowed – ever, and one should not be allowed to borrow more than 80% of the "cost" of the asset being purchased.

Q5.9 In what ways does the retirement income system impose undue complexity and cost on retirees and workers? How could this complexity be reduced?

It is almost impossible for anyone to complete a tax return without consulting and paying for a so called expert. So called because I have in the past 12 months become aware of two instances where the paid expert in one case filled out the forms incorrectly and in the other gave conflicting advice to another expert in the same situation a year earlier.

It the experts can't get it right or can't agree then what chance has the ordinary person?

The issue of complexity is the mainstream of this submission. Lets make it a goal to reduce the annual tax pack including supplement to as few a pages as possible. How about 12 pages?

One of the more complex issues concerns share investments. My wife, who has yet to reach retirement age, has not worked for over 10 years, but she was persuaded some time ago to make a small investment in a portfolio of shares (6 companies total value less than $5000 – hardly a major investment) after a stock exchange / stock broker promotional campaign. She was further persuaded to sign up for the dividend reinvestment schemes if available. So now, instead of receiving an amount of cash annually, every few years she receives another single share.

Unfortunately the 6 companies included two that operate overseas and one that distributes “capital”. This has the consequences of invoking several sections of the tax return. As if solving the dividends section was not hard enough (e.g. franked v. unfranked amounts and tax credits), complicate this with foreign tax credits and capital gains and one wonders why we bother for just a few dollars.

I would love for her to get rid of the damned shares but we keep putting it off because when she does sell we are going to have to work out the capital gains on practically each share because of the multiple purchase dates.

Q5.10 The Age Pension serves two roles, as a safety net for individuals who are unable to sufficiently save for their retirement and as an income supplement for many individuals who do save. What should be the role of the Age Pension and means testing in a future retirement income system and what impact does this have on its sustainability into the future?

See previous answers.

Q5.11 In what ways does retirement income policy affect workforce participation decisions and what, if any, changes might reduce disincentives to work? Does the sustainability and cost of the retirement income system affect workforce decisions of younger generations of workers?

I know or have known many people who still work to well beyond the age of 70. Almost always not because they have to but because they want to. We even had a mature age American presidential candidate.

People are living longer and the government sometimes views this as an aging crisis to be solved by growing the work force in order to “pay” for the increased number of elderly. Instead they should realise that if people are living longer they are able to work longer and many are quite willing to, particular if they can work reduced hours or part time, and provided there is no financial disincentive. A working population is an active and healthier population.

The prospect of 6 months work and 6 months off is also attractive for some and again this is good for Australia and should not be discouraged.

In my younger days it was popular to espouse the idea of retiring early. Indeed I knew or heard of several whose ambition was to retire at 40. Some of the armed forces even have a compulsory early retirement age – or they used to. But in reality I know of few people who gave up work completely. Most just find another job to do, or start a new career, not for the money but because they probably got bored.

Young people have probably never known a situation where 9% of their gross salary was not put into superannuation and when they eventually reach retirement age the SG system should have well and truly matured to the point where they are able to retire comfortably.

Q5.12 What impact could financial intermediation have on the effectiveness of retirement income policy?

Excuse me!

Q5.13 The cost of providing health and aged care to older Australians is currently met by government through the health sector. Should retirement income policy take into account projected increases in health costs for older Australians? If so, what would be the most effective mechanism and how might the transition to such a system be achieved?

The cost of providing health care and aged care is a recurrent cost paid for by collected taxes. Future costs may well increase (more than inflation) but at the same time tax revenue may also increase by the same or a greater amount. On the other hand there may be some sectors where the cost will decrease in real terms (education and defence?).

The government of the day must make on going decisions whether to increase taxes, reduce taxes or simply reallocate resources from another sector. This is what government does on an annual basis.

Q6.1 Can the tax system be structured to better attract investment to Australia in a way that increases national income, and if so how? For any given revenue outcome, what are the relative merits of broader base/lower rate (comprehensive income tax) or narrower base/higher rate (a narrow income tax or an expenditure tax) approaches?

Why does Australia want to attract investment?

Money that is invested in Australia has to be repaid. Anyone investing in Australia, from overseas, is doing so for one and only one reason, to make money for themselves. It is very unlikely they will leave that money in Australia. Secondly, money invested here is obviously not being invested in the country of origin, so that country is missing out and we may not be being fair to that country.

Q6.2 What changes, if any, to the tax system would improve the ability of Australian companies to operate internationally orientated businesses? How should the tax treatment of companies and shareholders be integrated into an open economy?

The ability of companies to trade overseas is determined by those countries, not by Australia. Australia only determines the ability of overseas companies to trade here. An open economy can only be arranged when two or more countries agree to work together on a level playing field. The current system of free trade agreements is a joke and yet the Australian government persists in negotiating these so called free trade agreements with all and sundry.

Most free trade agreements only cover areas where the other country thinks it can do well. Hence in most free trade agreements, if not all, there are exceptions like the farm sector, live sheep, sugar, dairy. And then there are the prohibited substances by the Australian government – bananas, motor vehicles, uranium.......

Then there is the anomaly and injustice of having free trade with countries where workers doing the same work get paid a fraction of what an Australian would get paid, or where the work is done by children for even less. They work in disgusting conditions for unbelievable hours, etc. and we want free trade with these countries!!!!

The basic argument runs along the lines that if another country can do or make something cheaper than Australia then we are better off buying it from that country and concentrating on the things that we do better. The problem with this is that if the other country is paying less in wages and provides no social services then we cannot possibly compete with them to make anything at all. Instead what we do is sell stuff they can't get from elsewhere like coal, iron ore, timber. When we run out of these things what happens? The government doesn’t seem to care. Perhaps Australia will become a big tourist resort and we can show the tourists the big holes where everything came from!

We are constantly told that competition is good. The greater the choice for consumers the more prices are forced down and the less we have to pay. However that all changes when competitors want to merge or take over each other – then we are told that combining the two businesses will result in savings and hence lower the prices for the customer. Both od these arguments cannot be right.

And I still cannot understand why having a choice of electricity, gas, telephone or water supplier has to be good for us. We are told six companies in competition with each other will give us competitive rates but when I think about 6 electricity mains, 6 gas mains, 6 telephone poles and 6 water mains outside my house it just doesn't make sense.

Q6.3 Can the tax system be restructured to improve resource allocation within the economy and minimise operating costs, and if so, how? What changes would reduce distortions to risk taking and encourage entrepreneurial activity?

Too difficult.

Q6.4 What principal goals should inform the taxation of capital gains in Australia and what if any changes should be made to capital gains tax as a result?

Do away with capital gains tax and replace it with the GST.

Q6.5 Should the tax system provide a more neutral treatment of different financing arrangements (dept, equity and retained earnings) and, if so, how? What principles should inform approaches to entity taxation?

Not attempted.

Q6.6 Should the tax system be structured to cater for the specific circumstances of small business and, if so, how?

The simplified tax system is certainly a good start and it is good to have cash accounting. I don't find the quarterly activity statement onerous, though it could be simpler. I don't know what else can be done.

Q6.7 Should the tax system be restructured to deliver a more neutral treatment for the different forms of return to household savings and investments, and, if so, how?

I think this has been addressed.

Q7.1 What is the appropriate tax treatment for NFP organisations, including compliance obligations?

Donations should be non-deductible. Wealthy individuals are going to donate whatever to “appease” their conscience..

NFP's should be so classified because they are undertaking a role that the government should be doing but has failed. In that context the government cannot tax them. Compliance obligations should include financial auditing to ensure the money is appropriately spent.

Q7.2 Given the impact of the tax concessions for the NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

Eh? Given that they are granted their NFP status on the grounds that they are undertaking work that the government should be doing in the first place then perhaps this question is misplaced. If the government wants to lend a hand by all means allocate these NFP organisations some extra government funds.

Q8.1 Which taxes or transfers are the most complex and impose the greatest costs? How should these costs be reduced (by abolishing the taxes or transfers or by making the rules applying to them simpler)?

From my own point of view the most complex are the returns on share investments (see earlier). Returns from companies (mostly dividends but including capital gains and foreign tax credits ????) should be assessed as net income by the recipient and left to the companies to work out what the tax component is – payable by them – if any. NB These companies have teams of accountants and should be quite capable of handling the situation whereas the recipients could be ordinary mums and dads or retirees totally incapable of sorting out the mess.

On the other hand if the tax system is rearranged so that everyone paid the same rate of tax then the financial institutions should be able to readily withhold the appropriate tax much like an employer. And the recipient would need to do nothing.

Q8.2 In what ways might the administration of Australia's tax-transfer system be changed to better meet the needs of individuals and business? How might the process of personal income tax returns be simplified, including by removing the requirements for some tax payers to lodge returns? Should the administration of the system be more integrated (across taxes and transfers and between jurisdictions)? How might advances in technology assist?

Simplification is covered elsewhere in this submission. In regard to removing the requirements for lodging a return, there should be no difficulty is lodging a simple return under a new simpler system. I guess the question is what happens when one is mentally incapable of completing a return? Although not familiar with the current system one suspects that the elderly and the incapable have made some sort of arrangement with their carers.

Q8.3 To what extent might policy objectives be traded off to achieve a simpler system? In what areas should efficiency, equity or choice be traded off for simplicity?

The complicated nature of the current taxation regime is not a result of policy objectives, but more a result of bureaucracy attempting to come up with rules to suit individual situations in isolation and on the run. Simplification may result in some inequity but perhaps the question is would simplification be exploited to any great degree?

Q8.4 How could the governance of the tax-transfer system be reformed to reduce complexity, uncertainty and cost, and to improve transparency, understanding and support for the system?

This has been covered earlier but essentially it boils down to a simple definition of what is “income” on which tax should be paid? Basically “income” should be the amount of cash or the cash equivalent of goods received plus any tax withheld.

I'm not sure there should be any allowable deductions beyond those mentioned (travelling to work, child minding costs) and these should be catered for by other means. For instance in regard to travelling costs the employer could pay and claim against the business. In regard to child minding this should be incorporated as a factor into the FMIL.

Q9.1 Noting the overall structure of Australia's federal financial arrangements, what changes, if any, should be made to the assignment of revenue raising powers and intergovernmental transfers in Australia?

Except for local government council rates all other taxes should be administered nationally – no state taxes. I would even suggest doing away with the state governments, but that is perhaps a different topic.

Q9.2 Given the widely held view in submissions that the current state tax arrangements need to be reformed, what changes should be made to state and local government own source revenue instruments? What scope is there for greater use of user charging to bring social, environmental or economic benefits?

See previous question +

State government and local government should be combined to form “regional” governments. A region should be based on an employment centre and cover the area from which the majority of its workers live. For instance Sydney region would extend to Penrith in the west, Waterfall in the south and Hawkesbury River in the north. It's responsibilities should include local matters only. Many current state matters could easily become national or federal government responsibilities.

Regions should be designated so that the vast majority of people can live and work within the same area. At present very few are able to travel from home to work without travelling through 2 or more local government areas.

The concept of user pays is fine provided the service being provided is basically optional. Unfortunately, in the case of most government services they are not optional and are often required when one is least able to pay. Apart from that whether the user pays principle brings social, environmental or economic benefits is very much open to question. It probably means a less costly service because those that can't afford it don't use it – a false economy.

Q9.3 What is the appropriate allocation of the roles of the Australian and state governments in income distribution?

Assuming the state system is retained the distribution of revenue back to the states should be based on per head of population. If in one year 500,000 people move from Victoria to Western Australia, the federal government should reallocate funding of 500,000 units. Whether these 500,000 people are retirees or going to work in the mines shouldn't make any difference.

Similarly it should make no difference if some states have a thriving mining or agricultural industry and others have high unemployment.

Q9.4 What opportunities could be pursued to deliver more seamless administrative arrangements of the tax-transfer system across the federation?

I think this is answered above.

Q10.1 What should be the objective of the tax-transfer system in respect of

housing? Should there be assistance for housing over other assets or services? Should assistance be based on housing tenures? Should assistance be focused on people on low incomes? Should assistance differ between public and private tenants?

The government's role includes ensuring that people have a roof over their heads. Most people are able to take care of themselves in this regard, either buying or renting, but there will always be those who are incapable of looking after themselves whether they be the sick, the elderly, or the unemployed. So the government needs to provide a range of housing to suit the needs of each group. It follows that such accommodation should principally be rental accommodation.

Q10.2 What role, if any, should the tax-transfer system play in respect of housing affordability? Should the tax-transfer system be used to influence housing supply and/or demand to improve housing affordability? What changes, if any, should be made to housing-related transfers that assist disadvantaged households to find housing?

The government has the greatest control over population numbers. It decides how many immigrants and refugees Australia takes in and it can employ all manner of incentives to either encourage or discourage population growth through child birth. If it decides that in 20 years the population should have increased by 10 million, then it must decide how and where those extra people are going to be accommodated. To do anything else is irresponsible.

If this means purchasing land, providing the infrastructure, building or rebuilding, then so be it.

Q10.3 Recognising the influence that some taxes and transfers have on the use of housing and residential land, what changes, if any, should be made to ensure the housing stock and residential land are used efficiently?

Housing rates (council charges) should be based on the area of the land.

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

It is appropriate to use taxes on specific goods in any way the government deems fit.

The structure and design of specific taxes cannot be generalised. In a perfect world all goods and services would be taxed equally so there has to be a very good reason why one commodity is singled out for special treatment and that reason may dictate the structure and design of the tax.

Q11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance, be resolved? What does this mean for the decision to tax alcohol more than other commodities?

This is very much a political issue and not a financial one. Alcohol and tobacco are singled out for special taxes because they are harmful. Why not add a tax on goods containing sugar or fat or computer games?

Any politician wanting to introduce a tax on these goods or to remove one of the current taxes would be a brave person indeed. As one can see it is not a tax issue.

However the way alcohol is taxed is quite ridiculous. The tax should be on the alcohol content irrespective of whether it were beer, wine, spirits or alcopops.

Q11.3 What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

If the goal was to stop all people smoking then tobacco should be banned. So I guess the specific goal is to discourage people from taking up smoking in the first place and hope that in time the number of smokers will dwindle to zero. At which time of course the revenue raised from tobacco sales will also have reduced to zero.

This seems to be happening although bans on smoking in public places, etc has undoubtedly helped.

It is understood that raising tobacco tax in the past has made little difference to smoking habits.

Q11.4 If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

I don't understand why there should be duty free concessions on any goods.

Q11.5 Are taxes on specific 'luxury' goods an effective way of making the tax system more progressive? If so, what principles should apply to the design and coverage of these taxes?

Why does the tax system on the purchasing of goods need to be progressive other than the case that 10% on $100 is a 10 times greater than 10% on $10?

Q11.6 Should the tax system have a role in influencing the relative prices of different types of cars, including luxury cars and higher polluting cars, and if so, on what basis? What does this mean for taxes on the purchase price of motor vehicles?

The purchase of luxury cars should not be penalised. They don't necessarily take up more room on the road, or use more fuel! However, we are about to get a carbon tax and that should see some sort of tax on vehicles that will favour more eco friendly cars over those that are eco unfriendly. It may well be that the most eco friendly car will fall into the 'luxury' category and that would be a real disaster.

Q12.1 How can motor vehicle related taxes and road funding arrangements be designed to improve the efficiency of transport of people and goods in Australia?

There is no correlation between the costs of roads (design, construct, operate and maintain) and road related revenue – compare urban roads and country roads – which can be regarded as consolidated revenue.

Efficiency of transport is dependent on having good roads or railways, the provision of which is the responsibility of the government and the cost of which should come out of consolidated revenue and not be dependent on road or rail related revenue.

Q12.2 What should be the role if any, of fuel taxes? What does this mean for how fuels and their uses are taxed and the rates of tax applied?

It is assumed that current fuel tax was imposed to ensure parity between locally sourced and imported fuels, thus ensuring that one was not favoured to the detriment of the other. But one has to ask why this was not done with all goods, particularly other resources and primary produce?

Fuel tax (excise) is now a considerable revenue raiser and it has been suggested that doing away with it would substantially undermine the economy. Nevertheless as a matter of principle, and all other things being equal, it is an inequitable tax and we'd be better off without it. Unfortunately all things are not equal because we are now introducing a carbon tax, with the honourable justification of protecting the planet. It would be great if the carbon tax on fuel could replace the current fuel excise.

Q12.3 Do the existing tax arrangements lead people to make economically inefficient transport choices, and if so, how might they be improved?

There are probably some people who have made economically inefficient transport choices and some who haven't, so it's hard to determine what this question is getting at. Just over 12 months ago I traded my petrol vehicle in on a diesel, on the basis that diesel was greener and cheaper. The price of diesel then went up more than petrol, so it seems I may have made an economically inefficient transport choice. The jury is still out on whether the government is to blame.

Q13.1 Bearing in mind that tax is one of several possible instruments that can address environmental externalities, what opportunities exist to use specific governmental taxes to address Australia's environmental challenges?

Isn't Ross Gaunaut addressing this one?

Q13.2 Noting that many submissions raise concerns over unintended environmental consequences of taxes and transfers, such as the fringe benefits tax concession for cars, are there features of the tax-transfer system which encourage poor environmental outcomes and how might such outcomes be addressed?

Without going into too much detail Australia needs to rethink a number of issues.

Water is not exactly taxed, but it is certainly not paid for properly either. Payment for water usage and its taxation should be reviewed.

Ecofriendly fuels need better tax treatment.

There should be a cost (tax?) on waste disposal to encourage the purchase of recyclable goods as opposed to non-recyclable ones, to encourage household recycling and to encourage manufacturers towards recyclable packaging.

The cash economy and tax avoidance is still a problem and will continue to be until the government manages to catch some transgressors and make an example of them.

Q13.3 Given the environmental challenges confronting Australian society, are there opportunities to shape tax-transfer policies which do not currently affect the environment in ways which could deliver better environmental outcomes?

Can't think of any.

Q14.1 When considering the appropriate return to the Australian community for the use of its non-renewable resources, what relative weight should be given to the determinants of that return?

Unsure.

Q14.2 What is the appropriate method of charging for Australia's non-renewable resources, given they are immobile but that Australia needs to compete globally for mining investments?

Why does Australia need to compete? Do we compete? Are not many of our mines, and therefore our resources, owned by foreign companies anyway?

Q14.3 What is the role of the tax system in ensuring that renewable resources are used both sustainably and efficiently?

Not sure there is a role for taxation here.