NATIONAL TERTIARY EDUCATION UNION

Initial Submission to the Tax –Transfer Review

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Initial Submission to the Review of Australia's Future Tax System

The National Tertiary Education Union represents staff employed by Australia's universities, a range of private providers of tertiary education, and Technical and Further Education and Adult Education institutions in Victoria. The union represents both academic and general staff and has members who are high, middle and low income earners.

The NTEU welcomes the Review, despite the restrictions imposed by the Commonwealth Government on its terms of reference.

The NTEU's broad approach to the taxation and transfer system is that the system should be designed to generate sufficient revenue for governments to:

- adequately fund high quality public services,
- provide adequate income support to welfare recipients,
- provide education, research, training, labour market, and other services and programs that promote workforce participation, social inclusion, informed debate, and a vibrant intellectual, artistic and cultural life.
- promote responsible and productive economic activity;

The system should also be consistent with the objectives of horizontal and vertical equity, collect revenue and transfer payments efficiently, and minimise regional distortions in the functioning of a national economy.

International Comparisons

The first paper issued as part of the Review, Architecture of Australia's tax and transfer system, notes that Australia's tax to GDP ratio is the eighth lowest in the OECD, that the gap in the ratio compared to the OECD average has been relatively constant since 1965, and that government spending is the third lowest of the OECD countries. In the NTEU's view this indicates that there is scope to increase the tax to GDP ratio and government spending to better meet the objectives outlined above.

Our tax to GDP ratio is, as noted by the paper, higher than most ASEAN countries. This is often and appropriately explained by Australia's long-standing status as an advanced economy. However it should also be put in the context of Australia's trade and investment flows.

According to Trade at a Glance 2008, a publication of the Department of Foreign Affairs and Trade (DFAT), six of Australia's top ten two-way trading partners in 2007 were OECD countries. The ten were, in order, China, Japan, the US, the UK, Singapore, Korea, New Zealand, Thailand, Germany, and India. The OECD share of Australia's total two way trade on a balance of payments basis was 52.4%, compared to 15.6% for ASEAN.

The same countries except Germany feature in the top ten of our export markets, the ranking being Japan, China, the US, Korea, NZ, the UK, India, Singapore, Taiwan and

Thailand. Moreover 51.7% of Australia's total exports were to OECD countries, compared to 11.6% to ASEAN.

The OECD was the source of $241,623m of the $315,397m of direct foreign investment (stocks) in Australia in 2006, compared to $11,069m from ASEAN. For the level of total foreign investment, the OECD was the source of $968,285m of the $1,439,974 total, compared to $47,234m from ASEAN.

In short Australia should continue to be compared with other OECD countries because they are the most comparable in terms of the role of government and the level of industrial development and remain the most important group for trade and investment.

The Tax Mix

The paper acknowledges that the tax mix in Australia is broadly comparable with most OECD countries. It notes the absence of tax revenue from social security contributions, the relatively higher contribution of corporate income tax, the relatively lower contribution from consumption taxes, the fact that our top personal income tax rate is average for the OECD, and that Australia is one of four OECD countries that do not levy estate, inheritance, or gift taxes.

Not only is the top personal marginal tax rate average for the OECD but the threshold for that rate is comparable with the OECD average of 2.5 times the average wage. These findings indicate that proposals and aspirational goals for further reductions in the rate, or for an increase in the threshold at which the top rate is payable, are misplaced.

The absence of social security contributions is due to historical reliance on general revenue for social security. As well, more recently successive governments have elected to introduce, increase and maintain a levy on employers, in the form of the Superannuation Guarantee Charge, which is not classified as a tax despite arguments from some employer groups that it should be. Arguably this measure, which is intended in part to reduce and delay reliance upon government pensions, is in lieu of social security contributions in the tax mix.

The paper points out that the relatively high contribution of corporate tax revenue is largely due to composition of the incorporated sector, the boom in corporate profits over recent years, and the imputation system. Further, it notes that the better measure of competitiveness, the average effective rate of tax on corporate income, has not increased markedly.

Tax Reform Priorities

In the NTEU's view, the difference between Australia's tax mix and that of other OECD countries that warrants close attention on the part of the Review Panel is the absence of taxes on wealth, estates, inheritance and gifts.

It is acknowledged that only 13 of the 30 OECD countries have such taxes. Nonetheless, that is still a significant share of the grouping. The issue of wealth taxes should be considered by the Review Panel in the context of their contribution to wealth redistribution as well as their potential to generate revenue. In the case of an inheritance tax, consideration should be given to a trade off between the reintroduction of this tax and the abolition of the various user-pays charges, such as nursing home fees and accommodation bonds, which are now used to help cover the costs of aged care facilities.

A national approach is required for the reintroduction of an inheritance tax given the abolition of death duties by other States in the wake of the decision by the Bjelke-Petersen Government to scrap them in Queensland. Gift taxes are a logical corollary to preserve the effectiveness of an inheritance tax.

Tax reform recommendations to the Rudd government should also reflect the general principle enunciated by Bernie Fraser in a speech to the Australian Fabians in Melbourne in July 2001, namely that “We should start from the position that, for tax purposes, a dollar of income is a dollar of income regardless of whether it was obtained from personal exertion, dividends on shares or gains realised on the sale of assets.” An egregious departure from this approach is the concessional tax treatment of capital gains relative to other forms of income, including other forms of investment income. The concession is compounded by the ability to offset losses against income from sources unrelated to the asset.

Attention also needs to be given to how income may also be assessed in different ways where holding structures, such as family trusts and private companies, are used by high income earners. Further reductions in the corporate tax rate that widen the difference with the top marginal personal tax rate run the risk of greater use of mechanisms to defer and minimise tax.

Eliminating or at least significantly reducing effective marginal tax rates that deter workforce participation is also a priority. In recent times particular attention has been paid to EMTRs on potential and actual second earners in a family unit because they discourage female re-entry to, and affect the level of female participation in, the workforce. While some progress has been made in this area by shifting the EMTR problem to higher levels of family income, it continues to be of concern in the context of the aggregation of income tests where a range of benefits is paid to the same family. In addition, despite the political preoccupation with families, there needs to be a reduction in the EMTR on single people receiving benefits, such as the Newstart allowance, who also work part time.

States and Equivalent Taxes

The paper outlines the range of State taxes, and points out that equivalent taxes levied by State and Territory governments vary in terms of rates, thresholds, and exemptions. From the standpoint of promoting the operation of the Australian economy on an integrated national basis, it would be desirable for greater uniformity in this area.

Differences of this kind have historical origins and the revenue increments generated to those States that levy higher rates for equivalent taxes may be factored into longer term revenue projections. Nonetheless it is desirable that the Review Panel recommend a joint program of work by the Commonwealth and the States to review the differences in rates, thresholds and exemptions, with a view to achieving a greater level of harmonisation.

There is also a strong argument, given the regularity of calls by State Premiers for additional funding from the Commonwealth, that this Review should encompass the revenue foregone by the States as a result of their exemptions from payroll and land tax for particular categories of business, as well as the option for the States to shift from a reliance on stamp duties to a broadly based land tax

Superannuation, Salary Sacrifice, and FBT

With the exception of the exclusion of tax free superannuation at age 60 in the terms of reference, the Review Committee is able to undertake a comprehensive examination of the tax treatment of superannuation, including the equity implications. The examination should also include the revenue foregone because of salary sacrifice arrangements in respect of superannuation.

The use of these arrangements to reduce personal income tax has expanded well beyond charities seeking to improve the competitiveness of their remuneration packages, and is not confined to superannuation. The Review Panel should also focus on the equity implications of both salary sacrifice arrangements and the exemptions from Fringe Benefits Tax. With respect to the latter, the current concessions for employer provided cars should be removed.

The policy of successive governments to reduce or delay the call upon government pensions by retirees by using the Superannuation Guarantee Charge, co-payments, and tax concessions to encourage both the spread of occupational and private superannuation and greater accumulation of funds in individual accounts, has a number of practical problems. The funds established to receive contributions are accumulation funds, and therefore the employee bears the risk. Consequently there will be greater or earlier reliance on government pensions by retirees whose accounts are depleted by significant market downturns in the lead-up to retirement. While some in the workforce may be able to defer retirement and continue working until the downturn ends and positive returns compensate for the depletion of superannuation accounts, others who have reached the eligibility age thresholds for accessing superannuation on a taxed or tax free basis realistically have no such option.

Almost all defined benefit funds in existence before the introduction of the SGC are now closed to new members. Moreover Australia’s multi-employer funds have not established new pooled risk plans that use a formula to calculate and pay benefits, albeit without an employer guarantee. Further, the tax concessions for occupational and private superannuation at the point of retirement are not linked to the take-up of pension-type or income stream products. The concessions are also excessively skewed in favour of the accumulation of superannuation savings by middle and higher paid workers, who already have a greater propensity to save.

The NTEU is not recommending a reduction in the value of the tax concessions for superannuation. Our proposal is rather that the concessions should be better targeted. In the absence of changes to current arrangements, there is a higher risk, having regard to longevity trends that a future Australian government raise the age for access to a government pension, if not also to superannuation benefits. A number of governments of OECD countries have already moved in this direction.