

Submission to the Henry Tax Review from Russell Partington

Summary

By no means comprehensive, initially starting with an edited ice-breaker quote from a New York Times columnist, I examine / recommend as follows:

- (1) Review committee bona fides
- (2) Equity issues
- (3) The extent of Australia's "tax crisis"
- (4) A major solution plus some minor solutions
- (5) Some major reforms of the Australian Tax Office
- (6) Tax thresholds and scales proposals
- (7) Capital Gains, Inheritance and Estate Tax proposals

When an Economic Cure Fights Itself

By BEN STEIN

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[“President Obama’s](#) taxing and spending plans are far too lavish.” The United States will be burdened with immense debts, the protesters say. Taxes will be far too high for comfort, and we will decline as a nation.

First, I don’t quite get the taxation uproar. As far as I know, no new taxes of any size have been enacted. The only new tax I can spot immediately in front of us is the “cap and trade” levy on carbon emissions, which would be a tax on energy consumers. And even that, based on a questionable idea, doesn’t seem imminent.

When the recession ends, though, we will be facing very large budget deficits, even under the best projections. Unless the Federal Reserve is just going to print money — usually a dangerous road to inflation — how will we pay for government, except through taxes? And who has the money to pay, except the rich? So unless I am missing something, don’t we have to tax the rich, defined in some sensible way?

That’s just arithmetic. I wish that lowering spending were an option, but it’s not. Politicians talk about cutting spending and going through the budget, line by line, looking for waste. It never happens — except that sometimes, the military budget is cut, which is the last thing we should cut in a world as dangerous as ours. And right now, over all, the military budget isn’t being cut, although some programs are being reduced

while others are expanding.

Think of it this way: The stimulus program is like borrowing from our grandchildren, without their permission, so we can buy now.

Somehow, this restraint has to be eased. We have a master orator in the Oval Office. We can add this to his speech topics.

I'D like to bring up one more little bijou about the economic crisis. I read that [Lawrence H. Summers](#) — wonderful guy, fine economist, former [Harvard](#) president, high-ranking economic adviser to Mr. Obama — was paid about \$5 million last year by a large hedge fund, D. E. Shaw. Some other high-ranking Obama advisers were also fantastically well paid by the finance sector.

Of course, this phenomenon didn't begin with this administration. The last [Treasury](#) secretary, [Henry M. Paulson Jr.](#), was the head honcho of [Goldman Sachs](#) and was paid hundreds of millions by it. (Yes, that's one of the banks that we as taxpayers supported with many billions, via the [A.I.G.](#) conduit.)

I know people and I know money, at least the basics. If anyone thinks that a man who has had a taste of honey from Wall Street on that scale will ever really crack the whip on Wall Street, he's dreaming. Wall Street knows how to get its hooks into government. This is how the world works. Money talks.

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Ben Stein is of some note if his website (benstein.com) is to be countenanced.

Ben Stein firstly (above) hints at possible misgivings with pundits Paulson and Summers in guiding/advising/implementing in current USA economics settings. We need genuine objectivity and counters to compromising backgrounds in any proper review of the taxation system. The Australian Taxation Office (ATO) has variously engaged “Big Five” accountancy firms as consultants, experts yes, but undeniably not intent on harming vested interests, which (possibly) via subtlety and covert ways can imply compromise and undermining of objective purpose.

The above Ben Stein quote is a poignant lead in to my submission where I suggest that Western Society is at a crisis point in terms of equity. If an ordinary (or even extra-ordinary) hard-working salary and wage earner travels through the many, many obviously opulent vistas of Australia, he/she might just think ... I’m strongly contributing to Australia’s economy, but am overburdened with HECS, a hefty mortgage on a basic house in a very ordinary location and with family responsibilities and while non-indulgent barely making it and unless to dramatically change, this will be my lot into the future. The hard-working salary and wage earner might then ask ... so who are these (quite vast numbers of) people, and how do “they” attain such visible signs of excess wealth, which may only be the tip of the iceberg! Ah, I hear, the man is to engage the “politics of envy”; no, rather the POLITICS OF EQUITY, not only to be ENACTED, but no less importantly ENFORCED by “properly democratically constituted authorities” in Australia. The above 3 E’s are languishing! Illegal/ill-gotten wealth very well could have tax considerations and vastly contributes to net worth of individuals and corporations such as in drugs, firearms, insider trading, money-laundering etc., due to under-resourcing of other bodies, police, ASIC, etc., outside what I term “my brief” also answer the “hard-working salary and wage earner”.

The “hard-working salary and wage earner” poor are pilloried! Citizens must be more rewarded for what they contribute, than what they are born into or can artificially connive! Non-adherence to this is evident via provisioning problems in some large, very affluent Australian enclaves. Just as with Climate Change and “The Global Economic Crisis”, there’s an AUSTRALIAN TAXATION CRISIS, not only in terms of complexity (and that is a big problem that needs addressing), but also in whom it targets, and this is the area I more wish to address.

Tax researchers variously – very difficultly and depending on what is included/excluded – estimate that tax avoidance/evasion in Australia is a massive \$30 BILLION – \$150 BILLION+ per year! ... so we can pay off the national deficit in – not lifetimes but – 2-5 years! ... the rider being, if it is / can (*it can!*) be collected. We are not highly-taxed in Australia. People will still want to live here irrespective, as it IS the greatest place on Earth and they’ll still pay due taxes. Just as with the other crises, there needs to be - and it will happen - international coordination to assist Australian authorities to curb extortionate “internationally competitive” high-paid executive emoluments, and reduce multi-national manipulation and fraud. Already with a stop to corrupt protection for crooks by crooked - with a veneer of respectability - Swiss Banks: let’s see more!

THIS IS AN INDICTMENT ON OUR SOCIETY/GOVERNMENTS IN THAT WHAT SHOULD BE GETTABLE, IS NOT! AGAIN, THIS IS NOT ONLY INEQUITABLE, BUT

NOTHING BUT CROOKS RIDING ON THE BACKS OF ETHICAL TAXPAYERS, DISTORTING THE WHOLE FINANCIAL FABRIC OF SOCIETY, WHO'VE TOLERATED THE NONSENSE FOR FAR TOO LONG ...TIME FOR ACTION ... Complexity (which needs be addressed) aside, to achieve what is required there must be ADEQUATE RESOURCING plus ROOT AND BRANCH REORGANISATION OF ATO! ATO has been and is now covered by tax cheats and their abettors and virtually manacled financially in the face of overwhelming odds!

If from the above, a nominal \$60 BILLION is taken. An average ATO auditor/inspector can be reckoned on to haul in say \$600,000 of (otherwise) uncollected tax. This might sound almost preposterous, but it is a serious, though apparently radical submission that 100,000 ATO auditor/inspectors could be gainfully employed ... even more if the \$60B is found to be low! Where would all these skilled tax officers come from? Simple, sort of. I postulate that there are huge numbers of would-be honest people, that given reasonable incentive, would be very happy to contribute real value to their country and COME OUT OF THE TAX AVOIDANCE/EVASION INDUSTRY! Instead of aiding and abetting dodging and weaving from paying tax – they know the perks and lurks – with now the opportunity to do the real right thing, do the reverse!

The cost of easy collection now – with the very meagre investigating done – is about 1/3 of the haul-ins, but obviously the closer to thresholds when it gets harder, collection is costlier, but even if 2/3, that's still a good return on investment, and worthwhile, notwithstanding inevitable societal disruptions, as is always when wrongs are righted and there is INVESTMENT IN FAIRNESS AND EQUITY. "The tax-man is out to get crooks, not you: thereby, you will benefit."

There are well known (and maybe not as yet unearthed but always coming) illegal tax schemes and havens. These must be better policed, but aren't due to current gross under-resourcing of taxing authorities (ATO for one). Plus, well known means to currently legally avoid tax responsibility that the average "hard-working salary and wage earner" usually naively/ineptly doesn't avail of such as

- salary-packaging (eg where high paid executives' remuneration can largely be via short term capital gains of shares taxed lower, instead of the marginal rate, or many rorts associated with employees of non-profits, etc.)
- widespread use of trusts

These examples of plain legal rorts, plus many more, well known - whereby some can unfairly aggrandise relative to others – should be dispensed with.

SOME POSSIBLE INTERNAL REFORMS OF ATO

1. Vastly increased staffing as indicated above
2. A Key Performance Indicator (KPI) within ATO has been debt reduction. When over-riding as a stand-alone "good" with pecuniary incentives flowing to management with its attainment, debt can and has been reduced improperly. An example is "generous" interpretations of Remission of Penalty. Late Payment Penalty is another name for VERY PROPER INTEREST ON AN UNSCHEDULED/UNAUTHORISED "LOAN" (ie late or unpaid tax). In

ATO Principal Tax DEBT has had sacrosanct recognition over Late Payment Penalty tax – why? Banks who handle legitimate loans treat interest no less than principal. There is even more reason for ATO to do so. Filibustering, badgering and overcoming of ATO staff in this matter is a major business / income maker for the tax avoidance/evasion industry (who have strong political clout). There may have been corrupt political inducement for this, to favour certain political donors(?), but more likely I think it has just been internal ATO bureaucratic manoeuvring as I've earlier detailed, meaning considerable loss of very proper income to ATO, I submit even more proper income than Principal Tax, coming about through some taxpayers not provisioning as others do in either paying as due, or borrowing to pay, as others do. To be let off paying penalty (= interest) "if you pay by ..." or "if you stick to a payment schedule over X months" is unacceptable and unfair to others (maybe even to make them less competitive in business), and it is ATO management perpetuating a rort.

3. It is short-sighted and inequitable that top ATO hierarchy only make their submissions to government. Much real innovative potential input is missed, especially with lack of whistle-blower protection, where ordinary staff are forbidden to convey possible reforms / improprieties to legislative arms (such as in 2. Above. I propose much greater openness to rank and file staff by properly constituted/regulated people (maybe such as politicians who are members of Standing Parliamentary Committees on tax). Why not have them be able to just enter ATO unannounced and move among staff to garner whatever and LEARN HEAPS of real stuff ...WHY NOT?

A second point I get from Ben Stein is that he – no doubt, quite well off – says that, copy and paste: "When the recession ends, though, we will be facing very large budget deficits, even under the best projections. Unless the Federal Reserve is just going to print money — usually a dangerous road to inflation — how will we pay for government, except through taxes? And who has the money to pay, except the rich? So unless I am missing something, don't we have to tax the rich, defined in some sensible way? That's just arithmetic. I wish that lowering spending were an option, but it's not. Politicians talk about cutting spending and going through the budget, line by line, looking for waste. It never happens ..."

Firstly, thresholds. What can and should be instigated is to raise the tax-free threshold to something like \$20,000 and then have a continuously reducing threshold to some high income point (in reality an appeasement if deemed appropriate) where \$6,000 becomes the base tax-free threshold, or to no threshold. This means there is relatively proper benefit given by the threshold.

Secondly, individual tax scales. Lower earners make bread and butter money, whereas above the amounts lower earner make, higher earners just add cream at the very high end, way in excess of any real need. These people have the capacity and obligation to the good order and running of society – which benefits them too - to pay more tax long before taking away incentive and entrepreneurship is a genuine concern. Just take for example a hard working person earning \$208,000 per year or \$4000 per week or (assuming a 40 hour week) \$100 per

hour. With earlier hours netting more, only the very highest taxed hours worked still NETS \$50 straight in the pocket. Many, many lower paid hard-working salary and wage earners would dearly love to GROSS 40, 30, or even 20 dollars (before tax)! Contrasting median and mean incomes over years show that in the 1970s and early 1980s both were very close; in some years the median was even slightly in excess of mean, whereas increasingly till now, they have diverged, mean incomes greatly in excess of medians. This indicates that increasingly since the 1980s, the earners above the mid-point have greatly increased their incomes (or lower earners have relatively reduced), compared to earners below the mid-point. Further, this indicates a more proper capacity of higher earners to pay higher rates of income tax relative to lower earners now than in 1970s and 80s. The top marginal tax rate until 1974/5 was 66.7% dropping to 65% in 1975/6, and until the early 1980s was still 60%+. There's precedent for Ben Stein's injunction.

I propose a continuously progressive scale. This combined with a progressively declining tax-free threshold (as above) could be worked out by actuaries to be tax neutral, or otherwise (compared to current scales).

As for company tax, this should be as closely aligned with individual tax as is possible, so that malfeasant fiddling is not done by individual taxpayers, often with the aiding and abetting of the tax avoidance/evasion industry.

CAPITAL GAINS AND INHERITANCE/ESTATE TAXES

Capital gains taxes need to be increased as a proportion of the total tax take and be at rates approaching the higher levels of income tax. Another explanation of capital gains could be calculated windfalls "earned" by non-physical labour input or via inheritance. Capital gains can involve unproductive manipulation or channeling to enable tax avoidance/evasion, again, often with the aiding and abetting of the tax avoidance/evasion industry and a higher rate of tax thereon helps to stem this undesirable tendency. Perhaps there could be different rates for different types of capital gain, say a lower rate for business appreciation and for that which should apply to owner-occupied homes, compared to a higher rate for purely speculative property gains.

Of considerable interest now is the unsustainable real estate boom. No doubt some of this due to supply factors, but especially at the upper end, there is the asset rich – income poor spectacle. Here we see people "entitled" to all manner of benefits, because "they have no money": this is high farce, another rort. GET REAL: either realise in part (e.g. reverse mortgage) or fully realise property to properly fund yourself via assets, just like other people fund their lean times running down their other (possibly) more liquid assets. In addition, adding insult to injury, such people invariably would not countenance any idea of their home appreciating to be valid for capital gains tax (CGT): WRONG. Such an investment, is no less an object of CGT than any other! Having treated such homes without attracting ANY CGT has created rampant escalation in values as investors have flocked them as tax-free havens, another rort which the ordinary

“hard-working wage and salary earner” is unlikely to be able to venture into.

I propose that

1. Owner-occupiers of houses of 2X median value of their local government district or above have CGT apply (in accord with principles outlined above) when they sell to buy another. Their next dwelling will be proportionately devalued (same reason). This will also have the effect gradually lowering inflated house values, right down the spectrum: a very good solution!
2. All homes realized in deceased estates to have CGT applied, possibly with varying progressive rates applicable as part of varying estate duties.
3. Only owner-occupiers who are either citizens or permanent residents be permitted to buy residential real estate or identifiable hobby farms. This is to stop undesirable speculative booms via foreigners from different tax regimes.
4. Iniquitous negative gearing be abolished

Russell Partington
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