SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION

SCOA
Superannuated Commonwealth Officers' Association Inc.

Supplementary

Submission to

AUSTRALIA'S FUTURE TAX SYSTEM

7 May 2009

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"the proportion of the population aged 65 and over will nearly double to 25% by 2047"[1]

[1] Institute of Actuaries Retirement Incomes Taskforce

ABOUT THE SUBMISSION

SCOA appreciates the opportunity to submit this supplementary submission to the Australia's Future Taxation System (AFTS) review.

SCOA's original submission to the AFTS review was made on 17 October 2008. Since that time SCOA has been keeping abreast of speeches by Dr Henry, government and opposition comment, press comment on the review and has engaged in further consultion with our members. In addition, SCOA members have attended a number of the March public meetings.

SCOA strongly supports the need for change in the areas outlined in Dr Henry's speech to the National Press Club on 12 November 2008, in the areas of **complexity, risk and uncertainty and governance**.

SCOA commends Dr Henry for identifying the following difficulties with the current tax system and agrees that they need to be addressed during the review:

- Australia's tax system has no fewer than 125 taxes;
- There are approximately 5700 pages of income tax legislation;
- Almost 75% of individual Australian taxpayers who lodged tax returns in 2005-06 (11.5 million) submitted their return through a tax agent;
- The cost of managing tax affairs of Australians is significant and growing;
- We should be reducing that cost as a matter of urgency;
- Our tax transfer system, designed for humans, now vastly exceeds human scale;
- Difficult for taxpayers and transfer payment recipients to make optimal decisions; and
- Undue complexity serves to alienate Australians from the tax and transfer system, undermining the trust the system needs to operate successfully.

SCOA has noted that Dr Henry made reference to the above matters in later speeches to:

- The Australian Business Tax Reform in Retrospect and Prospect colloquium – in Sydney on 23 February 2009;
- The Taxation Institute of Australia conference – in Sydney on 13 March 2009; and
- The Australian Council of Social Service National Conference – in Sydney on 3 April 2009.

SCOA supports the following statements made by Dr Henry:

- That our tax-transfer system, designed for humans, now vastly exceeds human scale;
- The cost of managing tax affairs is significant and growing and that that cost should be reduced as a matter of urgency;
- The system should be such that the majority of taxpayers should not need to use a tax agent.

Disappointingly, SCOA has not observed any improvements in the highlighted areas, since announcement of the review. This means therefore, that taxpayers will have to bear these unnecessary costs and frustrations for an indefinite period.

SCOA is also disappointed that the 'safe harbour' for taxpayers using tax agents will not be operative in the near future. SCOA's understanding is that the the Tax Agent Services Bill 2009 has now received Royal Assent but the consequential legislation flowing from the passage of the Bill, which covers the 'safe harbour' provisions', has yet to be considered by Parliament. SCOA would like to see priority given to passage of this legislation.

In relation to **equity**, SCOA read with interest the practical perspectives from review submissions and from public meetings that were included in the speech to the ACOSS National Conference. They are outlined below:

- People in the same circumstances should be treated the same.
- If you have more, you should pay more (and receive less).
- You shouldn't be able to avoid paying your fair share, or get more welfare, by cleverly arranging your finances.
- It's unfair that the system is so complicated that you need to pay someone to help you get what you're entitled to.
- We should look after the most disadvantaged in our communities, but welfare shouldn't discourage people who can work from getting a job or improving their skills.
- It's not always about money. Some people need other help to improve their health, skills and chances in life.

SCOA identifies with the above and continues to have concerns about the inequitable treatment of indexation in relation to government payments, including Commonwealth superannuation pensions. SCOA believes that those pensions and benefits should be indexed in line with the percentage movements in the Age Pension. It is noteworthy that the average Commonwealth superannuation pension is only $24,000 per annum, and estimated to be less than $19,000 per annum for women.

SCOA has similar concerns about taxation of Commonwealth superannuation pensions. It believes the following would be more equitable:

- Commonwealth superannuation pensions paid from an untaxed source be tax free for recipients on reaching age 60;
- That superannuation pensions paid from an untaxed source be paid as after tax non-assessable income so that they are not added to non-superannuation income to determine the marginal tax rate to be applied to that non-superannuation income; and
- Superannuation payments to Commonwealth superannuants who are married or partnered and who meet the definition as specified in their superannuation scheme's legislation be able to split their superannuation pension with their wife/husband/partner.

SCOA noted the following inclusion in the speech to the ACOSS National Conference, "*Being computer literate was not necessary to participate in society 30 years ago, now it is.*" This is an area of particular concern to SCOA and a significant percentage of its members. SCOA does not question the validity of the statement but does have real concerns about its application, including in relation to the tax and other transfer matters. Given that less than 50 per cent of SCOA members have a computer and even less have email, they are being severely discriminated against because of the increasing tendency within Departments and agencies to minimise availability of paper advices of changes and requirements and the rapid increase in references to websites. This is not unique to SCOA, and so there needs to be more recognition of the difficulty being experienced by seniors who are not computer literate or who do not have access to computers. This is also a compelling reason as to why serious consideration needs to be given to designing a new tax system which minimises the number of tax returns that have to be completed each year.

SCOA is also concerned that arrangements are proceeding for introduction of the 'adjusted taxable income test' from 1 July 2009 (subject to passage of the legislation through Federal Parliament) during the period of this review, particularly given that this change will affect eligibility for the Commonwealth Seniors Health Card, a number of tax offsets, and the Medicare levy surcharge. SCOA feels it would be more appropriate to defer this legislation until the Government has considered and made decisions on changes flowing from the AFTS review.

SCOA members have brought to our attention a number of additional issues for consideration during the review. These are outlined in the Section headed '**Recommendations for Simplifying the Tax System**' below.

This submission has been authorised by SCOA's Federal President, Dr Annette Barbetti. Inquiries in relation to the submission may be directed to Federal Secretary, Ms Marita Linkson, ph. (02) 6286 7977, email: fedsec@scoa.asn.au.

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RECOMMENDATIONS FOR SIMPLIFYING THE TAX SYSTEM

1. Declare all Commonwealth and Defence Pension Funds to be Taxed Funds.

Advantage:
Would rectify unfair and discriminatory treatment of Commonwealth and Defence Pensions and any additional income received by pensioners in those schemes.
Disadvantage:
Would involve some additional cost to revenue. An accurate estimate of the additional annual cost cannot be made because there are no data available for additional earnings and investment income of Commonwealth and Defence pensioners.

2. Exempt people over 80 from having to submit tax returns and give them the Age Pension regardless of their income or assets.

Most people over 80 have physical or mental infirmities that make it difficult for them to cope with the demands of filling in a tax form or coping with the quarterly CentreLink updates. Often these things have to be done for them. The additional cost of this measure could be offset by requiring those persons aged 80 or more who want an exemption from filling in an income tax return to declare the value of their assets, then deeming that amount (adjusted for inflation) to be the maximum amount that their heirs would receive when they died, any additional increase in their assets being forfeited to the Government on their death. In effect, this measure would defer the tax till they died. It would also save on administrative costs.

Advantages:
There would be less stress on older people and their carers.
There would be more money to care for older people while they are still alive.
The Government would probably come out ahead in the long run.
Disadvantage:
There would be some loss of tax revenue in the first ten years or so.

3. Introduce Tax Free Interest on Bank Savings Accounts for people over 60 Years of age.

Advantages:
1. It would treat interest on savings accounts in the same way as income from superannuation. Many elderly people did not get a chance to contribute to superannuation because of past discriminatory policies based on type of work, age, sex, etc and have had little choice but to keep their savings in a bank account.
2. Many elderly people on the Age Pension and/or a pension from a taxed super fund have no other income other than interest on their bank accounts, so they would no longer have to submit a tax form.
3. The few older people who still had to fill in a tax form could use a simpler older persons' tax form.
4. Reduced administrative costs to banks and the ATO.

Disadvantages:
There would be a cost to revenue. In the present economic climate, with interest on cheque accounts near enough to zero and interest on deeming accounts only 1% on the first $1999, and then 2% below $50,000, it would however probably cost less than the amount saved in administrative costs.

4. Refrain from altering the current Dividend Imputation arrangements.

Dividend imputation is an excellent idea that should be retained in any future tax system, because it upholds the principle that a given source of income should be taxed only once. In addition, if dividend imputation were abolished, individuals and pension funds would be less inclined to invest in Australian companies and would be more likely to invest in real estate. Since Australian real estate is already overpriced by world standards, that would be very undesirable.

SCOA members with share holdings find the current arrangements administratively convenient. For some, the current arrangement means that they can get obtain the franking credits by using the special tax form for this purpose rather than having to prepare and submit a tax return.

5. Introduce a Spouse/Partner Tax Return.

Nearly two pages of the standard eight-page individual income tax return ask various questions about the taxpayer’s partner, which to a large extent duplicate information that the partner has had to provide on his/her tax form. There would be some administrative savings in giving couples the option of filling in a joint form so that all the required information for both people can be supplied on the one form. Less data entry would be required, and there would be no need to match two forms to cross check information supplied. A joint form would help to encourage couples to share information about their finances, which would help the surviving partner should one of them die. Note, however, that the joint form should not be made compulsory (as it is in some other countries), due to privacy concerns.

6. Ensure there are arrangements in place to compensate persons aged 65 and older and families with young children when Carbon Trading and/or a Carbon Tax is introduced.

When such measures are introduced, electricity prices will rise and there will need to be some compensation for persons aged 65 and above, who tend to use more electricity than younger people because they are less active and spend more time in their homes, and for families with young children. It should be noted that elderly people would be unlikely to be able to afford to put solar panels on their roofs or improve their insulation, unlike younger people still in the workforce.

7. Register Non-profit Organisations Nationally.

At present, such organisations have to try to register in every State and Territory in which they operate, as well as nationally. This can lead to anomalies, such as an organization being recognised as a non-profit in NSW but not in the ACT. Both Governments and non-profits would benefit from a one-stop registration process.

8. Introduce Compulsory Reporting of Non-taxable Income details on Income Tax form.

This would save people from having to fill in an additional form for CentreLink if they have to claim a benefit. It would save work for all except the Australian Taxation Office, and would make it much easier to obtain annual statistics about the total income of all Australian tax payers without going through costly and error-prone matching processes. At present the only source of similar information is the five-yearly Population Census. It would also increase the total income tax revenue, because some of the “non-taxable” income reported might turn out to be taxable after all.

9. Introduce Uniform Land Tax Legislation.

There is a need for uniform land tax legislation throughout Australia. Provisions regarding land tax vary greatly from State to State, with widely differing thresholds and rates. In the ACT, land tax is levied on all rental properties, but in NSW land tax is levied only on rental properties with an unimproved value of $1 million or more.

10. Increase the Allowable Income for Full and Partial Super Co-contributions to $50,000 and $80,000 respectively.

For 2008-09, persons with an income of $30,342 may be eligible for a Government contribution of $1,500 if the person meets other conditions and contributes $1,000. The scheme phases out at $60,342.

If the Government seriously wants people to be as self sufficient as possible in retirement, SCOA believes the above limits should be raised to $50,000 and $80,000 respectively. A lot of people, including a lot of women, have limited superannuation account balances. The Co-contribution scheme is an ideal way to increase the account balance, and an increase in the limits would enable contributors to do it more quickly.

ATTACHMENT A: ABOUT SCOA

The Superannuated Commonwealth Officers' Association (SCOA) is a not-for-profit member organisation which represents more than 400,000[2] people nationwide.

For more than 85 years, SCOA has been representing the interests of:

- Retired Australian and Territory Government employees and Government business enterprise employees;
- People in the public service who will receive a Commonwealth superannuation benefit or lump sum on retirement;
- Former employees who have deferred (preserved) their pension entitlement; and
- The dependants of all of the above.

SCOA aims to enhance the welfare of former Australian government employees and their dependants by pursuing favourable outcomes for members in areas such as indexation of pensions, taxation issues and legislative reform, and by enhancing relationships with relevant organisations such as ComSuper, the CPSU, and other public sector and retiree organisations.

SCOA has branches in each Australian State and the Australian Capital Territory and is managed nationally by a Federal Council with representation from each branch. Secretariat and operational support is provided by a Federal Office in Canberra, ACT.

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[2] Includes Commonwealth CSS, PSS and 1922 scheme members who are contributors, have preserved benefits or are receiving a Commonwealth superannuation pension as at 30/06/07.