

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

1 September 2009

Dear Review Panel,

RE: Submission to Australia's Future Tax System Review Panel

Please find below our submission to *Australia's Future Tax System Review*. Our primary recommendations are presented first.

RECOMMENDATIONS

We recommend to the Panel the following:

1. A basic Personal Budget should form part of the individual tax return
2. The Australian Government should provide a rebate for the preparation of a Personal Budget by an Accountant
3. The ATO should encourage Australians to have an Accountant

SUMMARY

The compulsory individual tax return is a critical part of a social system that connects citizens with Accountants. Accountants are trained professionals who provide valuable tax **and personal budgeting** advice. In our society, Financial Care is now just as critical as Health Care. Good money management leads to better Health, Education and Quality of Life. Every Australian citizen should have a doctor and a dentist. They should also have an Accountant. A personal budget prepared by an Accountant is part of the solution to our widespread Debt and Savings problems.

Compulsory individual tax returns bring citizens into contact with a conservative, trained financial professional at least once a year. Removing or automating individual returns will mean that many Australians will no longer have regular contact with sound, conservative financial advice.

CONTRIBUTING FACTORS

1 Quality of Life is directly linked to money management¹

- 1.1 Good money management leads to better education, health and opportunities
- 1.2 Poor money management leads to cycles of debt, poverty and crime
- 1.3 Poor money management at an individual level affects many macro-economic factors like Unemployment, Savings, Debt and Productivity

2 Poor money management leads to larger social problems

- 2.1 Most Australians struggle with sustainable money management²
 - 2.1.1 Poor money management has led to increased levels of consumer debt³ and low savings
 - 2.1.2 Lack of financial literacy has led to increased mortgage defaults⁴ and unsustainable financial decisions (risky investments)
 - 2.1.3 Financial distress causes poor workplace productivity and health issues⁵
- 2.2 Poor financial literacy has led to an increased burden on government and society
 - 2.2.1 Poor financial literacy can lead to welfare dependence⁶. In particular, for long-term unemployed and many indigenous communities
 - 2.2.2 Incorrect tax returns divert funds away from politically-agreed, equitable taxation
 - a. Some taxpayers pay too much tax
 - b. Some taxpayers pay too little
 - c. All taxpayers pay for the cost of auditing non-compliant taxpayers
- 2.3 Poor money management and lack of proper, conservative financial advice has played a part in the global financial crisis. Please refer to **Section 5.3.1** for more details on this.

3 A self-preparation system is not equitable

- 3.1 Doing a tax return for 'free' via the ATO software is not really free
 - 3.1.1 Taxpayers miss out on deductions they are entitled to
 - 3.1.2 Taxpayers claim extra tax they are not entitled to
 - 3.1.3 The ATO must build and maintain complex software

¹ <http://www.understandingmoney.gov.au/documents/Australiansunderstandingmoneyweb.pdf> (Page 50)

² <http://www.understandingmoney.gov.au/documents/Australiansunderstandingmoneyweb.pdf>

³ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features60March%202009>

⁴ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features60March%202009>

⁵ http://www.goodmoneyhabits.com/login/press_room/Financial_Distress_Affects_Productivity_5-20-09.pdf

⁶ http://www.commbank.com.au/about-us/download-printed-forms/FinancialLiteracy_Report2004.pdf

- 3.2 Taxpayers who can afford an Accountant are better off than taxpayers who cannot
 - 3.2.1 The objective of equitable taxation should also include equitable **access** to Accountants

4 Most Australians do not have the technical skills required to manage their own money or complete a tax return correctly

- 4.1 Education is not the solution. We cannot educate all Australians to be their own doctor. Similarly, we cannot educate everyone to be their own accountant
 - 4.1.1 Citizens do not have the core skills required (Mathematics, English)
 - 4.1.2 Citizens do not have the interest to learn⁷
 - 4.1.3 Tax education is not a productive use of time
- 4.2 Financial Care is a social right just like Health Care and Education. Money management often affects Health and Education. If we get money management right, we may also improve Health and Education.

5 Accountants are the best choice for compulsory advice on money management because they are trained and conservative

- 5.1 Accountants are university qualified and industry trained
- 5.2 The Accounting business model is focussed on advice, not sales
 - 5.2.1 Accountants are not sales people (like Mortgage Brokers, Financial Planners and Bankers)
 - 5.2.2 Accountants charge fixed prices or hourly rates (not commissions⁸)
 - 5.2.3 Advice from commission-based professionals are six times more likely to result in bad financial advice⁹
- 5.3 A conservative voice is critical to sustainable money management
 - 5.3.1 Lack of a conservative voice partially led to the global financial crisis
 - a. Citizens with Accountants do not take on high margin lending
 - b. Citizens with Accountants invest for the long term
 - c. Citizens with Accountants have better savings records

⁷ <http://www.understandingmoney.gov.au/documents/Australiansunderstandingmoneyweb.pdf> (Page 42)

⁸ <http://www.asic.gov.au/asic/asic.nsf/ASIC+FSR+FAQ+DisplayW?ReadForm&unid=1567F3AC0FAB85C4CA256F65001B317A>

⁹ <http://www.smh.com.au/news/home/business/money/investment/commissions-in-the-spotlight/2009/03/09/1236447130074.html>

- 6 The compulsory individual tax return is the best method to get more citizens to enter a dialogue with an accountant**
- 6.1 Citizens typically do not make good Short-Term vs Long-Term financial decisions
- 6.1.1 This is why we have compulsory superannuation
- 6.1.2 We also need compulsory personal budgets
- 6.2 The individual tax return is already a known process
- 6.3 The easiest way to implement is to require a basic Personal Budget to be completed along with the Tax Return
- 6.3.1 Any personal budgeting fees should be tax deductible
- 6.3.2 The government could provide \$100 per citizen to have an Accountant prepare a personal budget
- 6.3.3 The best personal budgeting process is monthly or weekly. Citizens could receive a government-funded Personal Budget Checkup every month or quarter by their Accountant

CONCLUSIONS

- Quality of Life is directly linked to good money management
- Poor money management is affecting our society
- A self-preparation system is not equitable
- Most Australians do not have the technical skills required to prepare a personal budget or complete a tax return correctly
- Accountants are the best choice for advice on personal budgeting because they are trained and conservative
- The compulsory individual tax return is the best way to improve personal budgeting on a national scale

If you require any further clarification on our submission, please do not hesitate to contact me.

Sincerely,

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