21 October 2008

Dr Ken Henry
Chair – Australia's Future Tax System Review
c/o AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

By email: AFTSubmissions@treasury.gov.au

Dear Dr Henry

Re: Australia's Future Tax System review

Thank you for the opportunity to provide a submission for your comprehensive review. I am providing this submission on a personal basis and not representing any industry group or employer.

My submission, which is in the body of this letter is focussed mainly on tax applicable to individuals and the ideas that I convey are aimed at reducing complexity and making our tax system fairer for all.

The current key areas of concern for the Australian Tax system are:

1. The current system is overly complex with many layers and types of taxes.
2. The cash economy is thriving which brings unfairness to the tax system.
3. Tax rates on income are seen as high compared to other countries and are seen as a disincentive for people to move from welfare to the workforce or to working in the taxed environment.
4. Even though GST does not form part of the review, GST could be seen as key to simplification as it is a tax paid on the receipt of a good or service.
5. Currently most people are not putting away enough into superannuation, which is required so that the majority of the population could be self funded retirees instead of depending on the social security.

Income tax

The way I see how income tax could work in the future is by reducing the personal tax rate to zero. This would mean that both those in the cash economy and those in standard workforce are equal and there is no valid reason not to enter the workforce.

This would mean retaining skilled labour which is currently leaving Australia to countries with a substantially reduced tax rate. Those on welfare would not use tax as a reason not to enter the workforce.

In fact this would mean that a majority of the workforce would no longer be required to complete personal tax returns.

GST

To make up for the revenue loss caused by the reduction of income tax this would firstly come in the form of an increased GST. This would mean an increase from the current 10% rate to 20-25% which is in line with the maximum rates applicable in the European Union.

This means that tax is on a user pays basis, so that someone who would like to purchase a good would pay the tax. In line with general thinking, the more income you have the more you tend to spend therefore the more tax you will pay.

This would mean that both those in the standard workforce and cash economy would be captured as both are required to pay the same tax on purchases.

Retirement Savings

The secondary means of replacing the lost revenue would come from making salary sacrificing into superannuation compulsory. This means that employees would be required to make at least a 15% of salary (including bonuses and commission) contribution to superannuation in addition to their employers 9% compulsory contribution.

This would mean revenue would be derived from the Contributions tax on the way in at 15% and 15% on earnings. To further increase revenue expenses for super funds such as insurance premiums and fees would no longer be permitted to reduce tax liability.

Introducing compulsory salary sacrifice contributions would go a long way in making sure people are retiring with enough super to live on not just frugally but have a more comfortable retirement especially in light of people risking outliving their current savings.

I know my submission is brief but I hope you find some of the points useful and look forward to hearing from you in the near future. I can be contacted anytime on 0413869651 to discuss or to expand on any points.

Regards

Anthony Zeitoun

14 Wildara Avenue

West Pennant Hills NSW 2125