**From:** Ben Aveling
**Subject:** Consider CPI when calculating tax payable/deductible on interest payments

**Proposal:** That interest earned should be taxable only to the extent that it exceeds CPI. That interest paid should be tax-deductible only to the extent that it exceeds CPI.

**Rational:** The current tax system rewards borrowers and punishes savers. It distorts investment and it makes it saving harder, especially for those who are not sophisticated investors.

After inflation and tax, many 'savers' are actually going backwards under the current system.

Anticipated outcomes, with reference to stated objectives and scope (in brackets):

The proposed reform would increase the fairness of the system by removing the favouritism provided by the current system to borrowers at the expense of savers (2, 4.2).

It would strengthen Australia economically by increasing the number of savers and reducing the number of borrowers.(3, 4.2)

It seems reasonable to expect that this would lead to lower interest rates.

Intuitively, the amount of interest earned in Australia should be the same as the amount of interest paid. The amount of tax paid on interest earned will be similar to but not exactly the same as the amount of tax deductions claimed on interest paid, because not all interest is tax deductible, and because different tax payers will be paying tax on income at different rates. The difference this proposal makes to overall revenue seem likely to be small, at least when compared to the total volume of tax paid and deductions currently claimed.

If so, the reform would be close enough to revenue neutral; it would not directly help nor hinder the funding of public services (1, 6) in any significant way.

It would remove a distortion in the current system that sees investment skewed towards speculative assets (1, 4.3) Indirectly, that should lead to a more efficient allocation of the nation's resources that would lead to increased revenue. (1, 6).

Where real-estate is concerned, the proposed reform would probably favour owner-occupiers at the expense of investors. If the removal of negative gearing made housing less attractive, it would favour those wishing to become home owners (4.2) at the expense of those already owning property (3). This effect would somewhat balanced by any drop in interest rates.

The proposed reform would unavoidably increase complexity slightly. (2, 3.5, 4.4) Most of the increased complexity could be borne by the tax office rather than individual tax payers, but not all. The increase in complexity would be partially offset by the removal of some savers from the PAYG instalment system.

Tax payers would also have to accept some increased uncertainty, in absolute terms. Note however, that in inflation adjusted terms this proposal would actually reduce uncertainty by counteracting changes in inflation.

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