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27/2/09

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This submission contains elements that affect retirement income policy. It has also been forwarded to the general tax area but I am also sending it to the retirement one because of this.

Special comments on retirement funding.

1. If the system accepts that the pension will be enhanced by the SG moneys it leaves those without SG at a big disadvantage. This is especially important for pensioners who have worked before the SG was introduced. One possible way ameliorating this problem is to raise all social services by 9%, and for those who are below pension age this is put into superannuation. Pensioners, then would get their 9% now, and in time as SG amounts grow they would also get an SG pension.

2. Although, below, I have proposed a system which does not maintain the tax deductibility of superannuation, I note that the Government has said that it will continue. I have problems with the distinction between active and non active assets for persons over 65. Why should the ability to put the money from a non active asset into superannuation cease at 65? A person with a farm may well want to lease it at the end of his working life. However he has to maintain it as an active asset if he is to sell it and put the proceeds into superannuation at a later date. This can make a big difference to the end outcome as farms held for a long term have a high capital gain which can only be ameliorated by putting the proceeds into superannuation.

3. The indexed method of calculating capital gain should be available. Where people have held an asset like a farm for a long time, the capital gain is substantial, but only at a rate approximating inflation. At retirement, when people sell the asset to fund their retirement, their funding is substantially reduced by the discount method of capital gain, while taxation would be much less with the discount method. The discount method seems more just for long term capital gains where large advantages accrue to the makers of short term capital gains from the discount method. There may be other ways of approaching this problem as the index method may also be inequitable the other way (i.e. too little tax). The problem is more that these assets are often large and the accumulated capital gains all become taxable in the one year so pushing the retiree into a much higher tax bracket than would have been applied if the gains had been taxed as they occurred.

<u>The proposal for the Australian Monetary System</u>.

Abstract

It is proposed to replace means tested pensions and other government allowances with a non means tested living wage. This is largely financed by a method of accelerated taxation on the living wage, by savings made by simplification of administration, by reduction of compliance policing and by revamping the superannuation sector. The change is expected to significantly release the stress suffered by welfare recipients in complying with welfare conditions, to help establishment and maintenance of small family businesses, and to simplify retirement savings methods while removing the need for the government to subsidise superannuation. Although needing some adjustment to taxation this proposal does not envisage any increase or decrease in Government finance. Nor does it envisage extra cost to employers, in fact the further proposal envisages a reduced cost of employment.

Introduction

The present Australian Monetary System has been patched up so much that it is getting very hard to navigate. The number of rules are increasing and it is very hard for individuals to get it right all the time.

Perhaps the most difficult area is that of entitlement to social services. The people who receive these are short of money and the need to keep up with changed circumstances often means big headaches and stress. There is also the temptation not to advise of changed circumstances, in the hope of getting a bit more Government money.

The result is a need for a large compliance unit and many families faced with the need to return payments to which they were not entitled. All this creates hardship and stress.

The acceptance of social services, is in itself, a degrading thing. It can lead to the development of a social service mentality, a lack of belief in ones worth and abilities. This in turn leads to people accepting living in sub standard conditions, but not making effort to change this situation. In these conditions, hope and the drive to better ones situation are casualties.

The combination of taxation and social benefits conditions often makes the marginal take on increased income much higher than for higher paid individuals. This often results in higher paid persons in the lower middle income bracket being very little better off than to lower paid ones. This results in low incentive to people to work or improve their income. At present incentive to work is controlled by regulations. We need a system which includes incentive but does not impose it.

Aged Australians are entitled to a pension. This entitlement is governed by means. However, the observation that those who have reduced or eliminated their pension entitlement by diligent savings, are at a disadvantage to pensioners has led to a raft of superannuation savings which, for richer people, seem to be beyond the savings made in pensions. It also forces people to become involved in complex superannuation schemes for taxation purposes. Without these schemes many people could manage their affairs much more simply and without the need for accountants and financial advisers.

People , especially small business proprietors, find themselves in exceptional circumstances (eg drought, flood, fire). Some of them can get help, others cannot. For those that can, applications have to be made and this adds stress, which is already high. Families starting small businesses often are very short of money during the establishment stage.

What is needed in Australia is a system of population support which is not seen as a social service, has a graduated reduction with wealth, and which takes a minimum to adhere to. I propose the following, which although radical, can meet these requirements.

Non custodial parents are badly restricted by large payments for support of the custodial parent and children. They are also notoriously bad at paying for their responsibilities. The custodial parent needs basic support for themselves and the children, and the non custodial parent needs relief from some of their responsibilities.

The proposal

The basis of this proposal is the provision of a living wage for every Australian. This wage would be determined in much the same way as the maximum dole or aged pension is calculated today. However, it would not be regarded as a social service, but an entitlement of every living Australian. It would be taxed with other income. (see later).

Further proposal

As with any blanket proposal, there are some areas that it could be said to be inequitable. In particular, the application of the living wage to children would seem excessive, and it could be said to reduce incentive to work (this is somewhat arguable). The following proposal would address these concerns. However, the advantages of this further proposal need to be weighed against the advantages of maintaining a simpler system. It may be that only some of these proposals are adopted.

This living wage could be divided into two sections (I suggest about half each). One section would always be paid directly to the individual. The other section would be paid in different ways depending on the individuals circumstances. These circumstances would be

Age 1- 4 Direct to parents or childcare
Age 5-15 To school of choice
Age 15 –55 To school of choice
Direct to Tertiary Students
To employer (Employer must pay wages of at least twice the amount received)

To Approved NGO or govt organisation(wages can equal amount received)
Direct to a parent of dependent children under age of 18
Direct to invalids and carers, and sick people without jobs.
Direct to people who find difficulty in finding work or cannot work for reasons not defined above.
Direct to people who have lost their job (period of 6 weeks or more, depending on economic conditions.)
To owners of loss making businesses.

Age 55 on All those avenues above for ages 15 – 55 plus
Direct to recipient.

<u>Reasons.</u>

Age 1-4. Childcare costs parents whether it is done at home or in a childcare centre. Which is best is a matter of conjecture. It also costs the government. This proposal does not discriminate between the methods and should become the only Commonwealth contribution to childcare.

Ages 5-15. Compulsory Schooling Age. This proposal is that the Commonwealth Schooling Subsidy be paid on a per head basis from section 2 of the living wage, and that the Commonwealth cease any other funding of schooling. (Schooling is a State responsibility)

Ages 15-55 Here there is a range of alternatives aimed at encouraging people to work and providing work.

- The School subsidy should continue until the end of schooling.
- Tertiary students are working. They need this funding to pay for their living. It is not expected that the living wage would pay for education expenses.
- Employed people – Part 2 of the living wage would be payed to employers as a subsidy for employment. The effect of this would be to give person labour a better competitive position against both mechanisation and imports. The outcome of this is more employment. The employer would have to put at least as much into the pay as the government does. Eg say the living wage is $10,400 per year ie $200-00 per week. $100-00 is paid directly to him and $100-00 to his employer. To receive this the employer must pay the employee at least $200-00 per week (eg 20 hours @$10.00 per hour.
- People who are finding difficulty getting work may get a job with Government or registered NGOs whereby they work for part 2 , living wage, at minimum award rates. That is, these institutions in the above case would only have to pay out $100-00 per week to the employee (eg 10 hours a week at $10-00 per hour). This is to enable people who have difficulties getting jobs for what ever reason to still have the dignity of earning their money, rather than taking a handout. The institution would still have to meet employment costs.
- Where 1 parent of school children works supporting the children (i.e. at home) and therefore are entitled to part 2 to be paid directly.
- Some invalids cannot be expected to work and so should get part 2 directly. Their carers work hard, even if not paid and should also get part 2 directly.

- Depending on times and employability, there will be some people who will find it difficult to get a job. These people need to be supported. Some sort of work test may be applicable or it may be paid in food vouchers.
- People who have lost their job should be able to get direct payment for up to six weeks to give them time to find another job.(longer in difficult times)
- There is a huge failure (80%) of new business in Australia. Business failure also results from unforseen circumstances. Spouses and children are supported independently in this proposal, and, the owner can be renumerated from the business. He should, however, also be able to receive payment directly so the business does not have to pay employment costs for him.

Financing the proposal

For payments other than direct to the individual, there would be no taxation. However that payment would be indirectly taxed in that this money is treated as normal income.

Money paid directly to the individual would have the status of a tax refund in that the amount of money that would incur taxation of this amount, at the maximum taxation rate, would be added to the before tax income assessment of the individual. Thus, where the maximum income tax is $.45 in the Dollar the amount received directly divided by .45 would be added to the assessable income.

Example: if an individual receives direct payment of $10000.00 then the amount added to the assessable income would be 10000/.45= $22,000.

The tax rates would have to be reset so that the tax threshold would be a small amount (eg $1000.00) above the maximum income that could be incurred if both sections of the living wage were paid directly. This system would be even more equitable if a graduated tax system were adopted in place of the present stepwise one.

This system makes the scheme much less expensive to implement, in fact, people paying the maximum tax rate would pay the whole living wage back in tax. The magnitude of the living wage would be much more similar to present social security requirements than if the amount received were simply added to the taxable income.

The following payments would cease.

Unemployment benefits.
Aged pension.
Some Veterans pension.
Some disability pension.
Student living allowances.
Commonwealth subsidy of pre tertiary education.
Commonwealth subsidy of childcare.
Subsidy of superannuation through tax cuts.
Income support in exceptional circumstances.
Baby Bonus.

Family support benefits.

Discussion

Unemployment benefits, aged pension, income support in exceptional circumstances and student living allowances would be directly replaced by the living wage. Veterans and disability pensioners may need a further allowance because their conditions require greater expenditure on the part of the recipient. School education is properly the responsibility of the State Governments. This proposal is that it should be left entirely to them. All schooling would be paid for by State Governments , parents fees and half the living wage from the child attending the school. The case is similar for childcare, except that the half living wage may be paid to the child care centre or retained by parents who care for their own children.(as an aside, I believe all tertiary education should be the responsibility of the Commonwealth).

Childcare is done by either childcare arrangements (childcare centres etc) or parents in the home. Either way it costs. This proposal is a subsidy for childcare but is applied equally, whichever way is chosen by parents.

As well as these, there would be considerable reduction in the funds required to regulate social services and in maintaining compliance. There certainly is less opportunity to cheat the system.

The present superannuation tax cuts give tax deductibility to quite large income sums. The reason for these tax cuts is to encourage people to save and so not take the aged pension. However, because of the way that it has been implemented the tax cuts are bigger for those with bigger incomes. With the replacement of the means tested pension with the non means tested living wage, the justification for tax deductibility of superannuation proceeds no longer exists. Investors would have less tax implications to consider when choosing their investments and there would be a lesser requirement for the services of accountants and financial planners.

These provisions replace and expand exceptional circumstances – family income support provisions for farmers, and extends to the whole business community. It reduces the pressure of family support on the business's struggle to stay afloat.

This proposal will ensure that custodial parents have basic funds for their own and their children's support. It should also be taken into account when considering the amount paid by non custodial parents, so that they are better able to meet their responsibilities.

The above may be sufficient funding. If there is a shortfall its magnitude would be small enough to be accommodated by reorganisation of taxation.

The system also allows the government more flexibility with other taxation policy. For instance there could be a need to use taxation to discourage consumption. Eg greenhouse energy, without increasing the overall tax take. The funds gained could be returned via the living wage. Similarly an increase in the GST would increase the competitiveness of labour with imports and automation, and again, the funds could be returned via the living wage.

Introduction of the living wage is not aimed at increasing the overall income of the population, just a more equitable simpler distribution. Industrial wage determinations should be required to consider any overall increase in population real income .

Additional tax actions suggested

IEDs

Income equalisation deposits (IED) are a method whereby primary producers may even out their income between good and bad years, and be taxed accordingly. This is because farmers can go from feast to famine and be taxed at the top rate in the feast years and have no tax in the famine ones. Simply, money put into IEDs is not taxed when earned, but is taxed in the year that it is withdrawn at the rate appropriate for that year.

With the increasing casulisation of the work force, contract labour and volatility of employment, many of the workforce suffer the same irregularities in income as farmers. Therefore IEDs should be made available to all Australians. They can also be used for making provisions for income after retirement and saving for business investment. IED investments types should be expanded to all those currently covered by superannuation funds.

Procedures for change of superannuation tax entitlements

At present funds can be provided to superannuation in 3 forms - fully taxed, 15% taxed and untaxed. Funds withdrawn from the full taxed superannuation are not taxed further. Funds with drawn from the 15% pool are only taxed if they are inherited by a non dependant – this being at the rate of 15 %. This can be avoided by gifting prior to death. Earnings after Superannuation moves into the pension phase are not taxed. Untaxed superannuation – mostly in government unfunded schemes are fully taxed with a rebate. These are usually annuity schemes where all remaining funds are forfeited after death. The use of IEDs for superannuation adds another class of untaxed superannuation. The present superannuation arrangements require people to put money into superannuation to receive the tax benefits on their income in retirement. Once the living wage is paid to every one, there is no reason to subsidise superannuation, excepting that the tax rate applied should be that applicable at the time of withdrawal. Funds accumulated after tax should have no further tax applied. Funds accumulated pre tax should be added to the assessable income at the time of withdrawal. This includes IEDs. Funds accumulated after 15% tax or sourced from capital gain should have half of their withdrawal amount added to the taxable income.

Also, funds accumulated from employer contributions should not be available for withdrawal until age 60.

On death of the owner, funds passed to the spouse should be able to be rolled over into their similar accounts. Funds passed to others should be taxed as follows. a);Fully pre taxed – should have no further taxation, (b) Half of untaxed funds should be taxed in the estate at the estate rate of taxation, and (c)this amount should be halved again where 15% tax has been paid.

Taxation for housing loans

The present taxation system applies to housing loans in that the purpose of the loan determines if it is tax deductible. Thus a loan taken on a personal dwelling to finance a business is tax deductible . A loan taken on a business to finance a personal dwelling is not.
I think the reason for this is so that a tax deductible loan for personal reasons cannot be taken through the business so giving business owners access to tax deductibility on their that salary earners don't have. Although admirable in its aims, this application has serious consequences in other areas and forces people to make decisions for taxation reasons, rather than for good economic reasons. As our society becomes more mobile the magnitude of this problem has increased.

The bad effects of this come where a person or family is changing house. One option they should have is to keep the house they are leaving as an investment, and take a loan to buy the new one. Problem – the loan interest is not tax deductible. If they stayed in the old house and bought an investment property, the loan interest would be tax deductible. The income received may be similar, but one way the interest is not deductible which often makes retaining your present home as an investment uneconomic. This is specially a problem where people are moved for employment purposes and wish to retain their previous home in case they return. In these cases the system is clearly inequitable.

The answer would seem simple – make the retention of a previous home as an investment a business reason for taking a loan.

Taxation Take

There is good reason for re-examining the distribution of income and GST tax. This argument belongs in a discussion of State Commonwealth responsibilities which is a separate discussion. However as noted above, a reorganisation of tax and living wage is an opportunity to do away with the exemptions from GST and so simplify it.

However, we do have a problem as to how to recoup the costs of practices which cost the governments proportionally more than normal activities. Two such activities are driving and fishing. Driving incurs costs of roads, hospitals and pollution and at present this cost is offset by a special petrol excise. However, the special petrol excise is taken by the Commonwealth and the costs are incurred by the States. Fishing incurs the costs of regulation, conservation and research. Two states recoup this money by fishing licences, which are quite inequitable. These, and some other government activities would be more equitably financed by imposing a GST surcharge on the products associated with the activity.

Summary

The introduction of a non means tested living wage has great social and efficiency advantages, while not substantially affecting net government funding. The effect on the equitable redistribution of funds by the taxation system is small.

Submitted by J Stafford
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