

“Productivity and Competitiveness” Submission to the Australian White Paper on Taxation.

Introduction:

Tax reform should be targeted at increasing employment and enhancing opportunities for companies and individuals to be more responsible for their future. Abrogation of individual responsibility to the Government will reduce workforce participation.

I forward this submission as a private individual whose first real job was as a “Tar Boy” in a shearing shed at the age of 12. The subsequent 60 years have been good to my cohort with respect to employment as well as infinitely improved living standards compared to that endured by our parents.

My fear is for my Grandchildren's future.

The growing security threats, debt and deficit issues faced by the Nation will adversely affect future economic growth, employment and our standard of living. The Australian Federation is moving in the direction of the EU and failing to note the essential lessons of “Productivity and Competitiveness”.

Low tax rates for companies and individuals will enhance savings and investments which in turn will generate more jobs. Australia needs to develop a tax system that:

- Removes anomalies and inequities,
- Delivers, lower, simpler and fairer taxes,
- Encourages productivity and competitiveness by removing “red and green tape” legislation,
- Gives incentives for increased savings and investment.

Government funding (taxation) for a program should cease if the costs are greater than the immediate or short term benefits derived for the community. A legislative system that promotes transparency, disclosure, accountability and responsibility for all revenue collected and distributed to individuals and programs, (be they Federal, State and Local)_needs to be developed concurrently with taxation reform.

While appreciating the complexity of the current Australian Taxation System I have raised number of issues that are exacerbating a sustainable, fair and equitable tax system.

Summary

1. Issue: Make Individuals and Governments more Transparent, Accountable and Responsible Solution:

- Cost/Benefit and Return per \$ expenditure (CBR) analysis should be used in all Government decisions.
- Governments should adopt the NZ disclosure model where following cabinet decisions all documentations is made available to the public.
- Individuals should be issued an ATO identification card to record all appropriate financial transactions from the cradle to the grave.

2. Issue: High Personal and Company Tax Solution:

- Personal and company tax needs to be equal and progressively reduced to a flat rate below 30%.
- Incentives to increase savings and investments to generate greater productivity, competitiveness and employment should be introduced or enhanced.

3. Issue: Financial Risk Mitigation

Solution:

- Governments are usually the first rather than the last source of funds when adverse personal or company financial impacts occur.
- Protection undertaken through private insurance should be given incentives through the tax system.

4. Issue: Old Age Pension (OAP) Asset and Income Tests

Solution:

- To maintain a sustainable OAP scheme into the future, the pension should be available only to those with insufficient cash-flow for a "livable" retirement.
- On the death of the last surviving spouse the family home and other tangible assets should be subject to a "lien" to recover OAP payments.
- There should be no taxpayer funded beneficiaries of a will.

5. Issue: The Commonwealth Health Benefits Card

Solution:

- Break the nexus between OAP Commonwealth Health Benefits Card qualifications.
- Age qualification and a medical safety net should be the criteria for all retirees.

6. Issue: Negative Gearing on Housing Accommodation

Solution:

- Negative gearing should be restricted to new high rise accommodation that enhances the economies of scale by utilizing existing public infrastructure for community benefits.
- New accommodation generates more employment due to the higher multiplier effect.

7. Issue: Goods and Services Tax (GST) Distribution

Solution:

- A "State GST Tax" with each State determining the categories and percentage rate to best meet the needs of their constituents should be introduced.

Conclusion:

Above are the principal recommendations that need to be discussed to make the taxation system simpler and fairer. To maintain and improve our standard of living, reforms that reduce taxes and give incentives to work, improve productivity and global competitiveness need to be implemented.

Attached as Annex A, are the details, background, information and discussion that support the above opinion.

My cohort and our parents made a substantial contribution to the improvement of living standards in Australia. Whether my grandchildren are able to reflect and experience the same level of improvement when they reach my age is doubtful. The decline has already commenced in security, youth employment, productivity and global competitiveness.

It is hoped that this submission raises issues that will contribute to the tax reform discussion to enhance Australian living standards into the future.



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Making Individuals and Government more Transparent, Accountable and Responsible.

Cost / benefit analysis that also measures the return for every dollar spent (CBR) on Government programs or initiatives adds a rational and comprehensible measurement. This analysis could then be communicated effectively to the community on an easy to understand financial basis.

Most citizens agree that it is necessary to pay taxes for infrastructure and services that are best coordinated by Governments. However, most citizens feel angry if the Government is perceived as wasting community money and there are no tangible benefits flowing to the nation. Consequently, all Government expenditure needs to be rigorously examined by CBR analysis with appropriate disclosure.

Further, following the Cabinet decision the CBR analysis needs to be published for public scrutiny.

In New Zealand the “Official Information Act” allows access to cabinet documents. This ensures the highest levels of transparency, accountability and responsibility are achieved in Government decisions. Without a similar Act in Australia, transparency and accountability related to Government expenditures, regulations, taxes, subsidies and tariffs will not be attained. Communicating and detailing the costs and benefits to the community is essential at all levels of Government to reduce waste and better target expenditure programs.

Similarly all individuals and families need to be accountable and responsible for taxpayer funded payments received. Financial institutions produce millions of monthly statements that clearly identifying income / “Credits”, expenditure / “Debits”, any debt and the rate of debt recovery required or current surplus for individuals. It is recommended that each individual should be clearly identified with an ATO number from the “Cradle to the Grave”. This number should include their Date of Birth, Sex and a photo from the age of 18. This information is no more onerous than that required for a drivers’ license or passport and could be an identity check utilized by all Government agencies to link to their data.

The advantages of this system is that it could record all income (wages, salaries and tax payer funded payments) as well as any capital transactions and taxes paid by the individual. The ATO could then produce annually an individual’s statement detailing the current year summary and also the accumulative totals of “debits and credits” through the life of the individual.

Subsequently, this information could be analysed to test the sustainability of current or proposed taxation and welfare policies. It would also improve compliance and accountability of individuals.

To increase the rate of recover of outstanding individual debt, passports should be cancelled until the debt is paid. Too many Australians are currently holidaying and working abroad without being held accountable and responsible for the costs they have imposed on the community.

Government growth needs to be minimized. The number of Government employees should be reduced by utilizing technology more effectively to increase productivity. Current and proposed employee expenditure should be subjected to CBR Analysis. If an employee, branch or department cost more than the community benefits being generated then they should be made redundant.

Priority and incentives should be given to reduce the “Red and Green” tape that is stifling innovation and income growth by restricting personal initiative to create wealth for the nation

Personal and Company Tax

Australia can boost productivity and global competitiveness by reducing personal and company tax. All levels of Governments should aim to have a “balanced and reducing budgets” in real terms. The premise that inflationary budget adjustments are “OK” needs to be challenged. When surpluses are achieved a reduction in personal and company tax should follow.

The basic requirement to improving employment and productivity is Investment. If it is accepted that the economic equation “**Saving equals Investment**” ($S = I$) is true, (Proof of the identity can be found at www.freeeconhelp.com/2011/11/why-savings-equals-investment-si-and.html) then savings which is deferred consumption, will eventually flow into investment through the financial system.

The Australian Tax system must reduce both personal and company taxes and give incentives for savings and investments. A low cost tax regime will ensure that skilled emigrants and companies are attracted to our shores creating even greater employment and investment opportunities.

With a high taxing regime Australian living standards will stagnate and eventually fall. The “Terms of Trade” always need to be favorable. (The cost of goods and services being imported always needs to be less than the cost of goods and services being exported.) This will ensure living standards in Australia will rise. Therefore, a tax system that leads to innovation and investment to improve Australia’s productivity and competitiveness in our goods and services is essential. Governments can play a key role by investing in R&D programs and productivity targeted infrastructure to reduce supply chain costs and improve our trade balance.

A flat personal tax rate no higher than the company tax rate is needed. Moreover, individual’s savings should be encouraged by incentives for superannuation or home savings accounts. The current taxing of interest on deposits is a deterrent to savings and should be rescinded.

To encourage business to invest, the depreciation of items and R&D that leads to improved health, education and productivity should be accelerated and simplified. The aim of these business incentives should be related to productivity, competitiveness and employment.

Financial Risk Mitigation

Families suffer financial trauma when they are confronted by the death, disability (injury or health issues), unemployment, retirement or natural disasters. There are many companies willing to cover for the loss of income and property when these events occur. Unfortunately, many individuals have become totally dependent on the Government or community goodwill for assistance should a disaster strike. Without transferring the cost to employers, Government needs to educate and provide tax incentives to individuals and families to mitigate their individual financial risks.

Old Age Pension (OAP) Asset and Income Test

The OAP should be tested and made available to all pension aged retirees who do not have the necessary “cash flow” to fund their retirement on a “livable” income.

However, every OAP recipient should be subjected to a “claw back” provision with a lien being placed on their home or other tangible assets. Many city councils allow pensioners to accrue their unpaid rates by ensuring the debt is recovered when the house is sold. Similarly, on the death of the last surviving spouse, all OAP payments should be recovered from the OAP recipients’ tangible assets. This would reduce the cost of the OAP; make it sustainable and ensure retirees are more responsible in planning for their retirement.

The family home is an asset and should be included in any assessment of assets. The value of homes anywhere in Australia can be accurately estimated by currently available real estate software. The current assessment of assets for an OAP is irrational and an iniquitous definition of “personal wealth”.

Further, there is no logical reason why an OAP recipient should leave a taxpayer funded inheritance to his kin (The cost to the community for a couple in receipt of an OAP for 20 years is over \$700,000). In comparison the kin of a self-funded retiree (SFR) who has not concentrated his wealth into the "family home" is disadvantaged. As "a shroud has no pockets" this inequity needs to be addressed.

To encourage pensionable aged workers to remain in the workforce an increase in the "tax free" threshold for these workers should be the value of the OAP. In addition, pensionable aged workers should be reward with a Commonwealth Senior Health Card if they are contributing to a private Health Benefit Fund.

The qualification link between the OAP and a Commonwealth Seniors' Health Card needs to be changed. The sole criteria should be the age of an individual.

The Commonwealth Health Benefits Card

Families are acutely aware of the devastating effect ill health and disability can have on individuals. For seniors the value of Commonwealth Seniors' Health Card is a security matter. Seniors are acutely aware that any illness may devastate them financially and prevent them from enjoying a quality of life when they recover.

For this reason considerable effort is made by retirees to lower their assessable assets and income to qualify for a Commonwealth Seniors' Health Card. This unnecessarily complicates and increases the administrative workload on Centre Link staff.

The nexus of qualification for an OAP and the Commonwealth Seniors' Health Card should be rescinded. The card issue needs to be address by applying a medical cost "Safety Net" and an age qualification criteria.

Further as ill health can affect all member of society regardless of age it is important to reduce the cost of public health care by increasing tax incentives to all Australian citizens including those in receipt of OAP or a SFR to contribute to private Health Benefits organization.

Negative Gearing on Housing Accommodation.

Negative gearing has a place in the taxation system as it encourages investment.

Negative gearing should be restricted to new high rise accommodation that is located to better utilize existing public funded infrastructure. New accommodation also generates more jobs and has a larger "multiplier effect" due to the higher levels of expenditure. Taxation benefits for older homes and apartments should be restricted to DIY superannuation funds that generate future retirement income for Self- Funded Retirees.

If the housing market is being utilized as a "trading commodity" market then the taxation and regulation frame work should be similar to those who trade in the equity market under the ASX. People who rent family and holiday homes should not have access to negative gearing unless they are registered as a business.

Good and Services Tax (GST) Distribution

The recent GST distribution debate highlights the problem of embracing change and seeking a more transparent, fair, justifiable and sustainable system. On the "prima facie" evidence of the dollar amounts distributed to each State there is no incentive for States to implement policies that might improve their economic performance and self-sufficiency.

Taxation reform should call on all levels of Governments, companies and individuals to accept the responsibility for self-sufficiency, productivity and global competitiveness. Moreover, Federal Government support should be given to those States that undertake micro economic reform by reducing current

inefficient state taxes, “red and green” tape to enhance investment and employment. Having lived and experienced the American GST it is considered essential that a similar model be introduced into Australia.

In the USA each State determines the categories and percentage of the GST to be implemented within its boundaries. This is an excellent way of ensuring that each State Government is totally accountable to their communities for the level of good and services it provides to its nonstudents. By creating the opportunity for a variable GST, each State’s constituents are empowered to vote whether a higher or lower GST best meets their needs. The ATO could still be responsible for the collection and distribution of the GST collected in each State using the current system.

The variable State determined GST has several benefits;

- Aligns with the aims of federation.
- The system has been used for a number of years in USA.
- Economic lessons can be learned, and applied to improve the application of GST at State level.
- Minimum change to the current ATO system of collection of GST.
- Assigns greater responsibility and accountability to each State Government to address its own economic growth and constituents needs.