Submission To The
Tax White Paper Task Force

Re-think Tax Reform

Submission By: Mr Dino Cesta

Email: dcesta@me.com

*** A non-confidential submission ***

18 April 2015

A.Tax Reform - Two Sides Of The Equation

Thank you for this opportunity in contributing to reforming and modernising our system of taxation.

Our world is in a state of perpetual transformation. Nations must be adaptable to ever-changing economic, social, demographic, workplace, health, environment, and technological conditions, which can make or break a nation's ongoing prosperity and security.

The Australian Government's repair, sound, and responsible management of the fiscal budget is the fundamental lynchpin in confronting these and other challenges of our nation.

Tax reform is integral in strengthening the foundation of Australia's current fiscal budgetary position. Tax reform, if pursued with the right intention, and within a framework of genuine political partisanship, can shape and project our nation and its people toward long-term prosperity, and better deal with domestic and external shocks to the economy.

Australia needs to refresh its tax system, one in which is more simpler, sustainable, easier to administer and understand, fair in how it taxes people and businesses, and quickly adaptable to changing economic and demographic circumstances.

Australia's tax system must more effectively promote domestic and international investment opportunities, encourage research and development, maximise employment opportunities, incentivise work, skills, and knowledge development.

The tax system must also be one which does not stifle economic activity, entrepreneurship and productivity, and which fairly and efficiently distributes the revenue raised to public services and Australians most in need.

The Tax White Paper Task Force will be presented with a number of submissions with positive, creative, and sensible policy ideas for a better Australian tax system. However, while we need to identify more smarter, efficient and sustainable ways in raising tax revenue, what is just as crucial is ensuring that taxpayers' funds are spent wisely.

On the expenditure side of the equation, the Government of the day also has a duty of care in minimising government waste, reducing unnecessary duplication, bureaucracy, and red tape.

It must also ensure projects are undertaken in which benefits outweigh the costs, and control spending by avoiding poorly targeted or unnecessary initiatives, concessions, subsidies and entitlements at both individual and corporate sectors.

Without getting the expenditure side of the equation under control, tax reform on the revenue side of the equation will have been undermined.

B. Taxation Reform Considerations

Governments must become bolder, more courageous when it comes to taxation reform, and engage in a candid conversation with the Australian public.

For Australians to continue to receive first class quality public services in health, education, welfare, and ensure financial security and protection of our nation, we must build an efficient, streamlined, and sustainable taxation system.

The submission focuses on the following tax reform opportunities: 1) Income Tax; 2) Corporate Tax; 3) Goods and Services Tax; 4) Superannuation Tax; 5) Property Taxes; 6) Medicare and NDIS Levies; 7) Negative Gearing; and 8) Other Federal and State Taxes.

Following are some policy considerations for the Task Force to consider as part of the review of Australia's taxation system.

1.Individual Income Tax

The raising of income taxation revenue must be achieved with simplicity, transparency, and fairness, as well as ensure it encourages or incentivises individuals to work and save.

With Australia's population demographic shifting in the coming decades, particularly with the population of retirement age anticipated to grow in relative terms faster than the population of working age, our taxation system must adapt to this trend shift.

With workforce participation rates likely to decline because of the demographic shift, the Australian Government will need a tax and transfer system which promotes work, productivity improvements, and economic growth. This will be crucial to ensure Australians continue to receive quality public services.

The following proposals should be policy considerations for discussion by the Task Force.

- **Tax Threshold & Scales**: A policy consideration which contributes to a simpler and efficient tax system, and provides an incentive to work is to increase the tax-free threshold from, say, $18,200 to $30,000, and have a more flat tax scale system, for example, as follows:

Taxable Income	Tax Rate
$0-$30,000	0
$30,001 - $150,000	25
$150,001 - $350,000	35
$350,001 +	45

  To minimise bracket creep, the income tax scales should also be indexed every five years by an appropriate indexation formula.

For simplicity, these rates and thresholds should apply to both residents and non-residents.

These proposed changes should also increase the number of individuals who will not have to pay income tax, with the added benefit of not requiring completing a tax return. This reduces costs of compliance and administrative burdens on both the taxpayers and tax office.

- **Tax Scales Age Incentive:** A further policy consideration is that for people aged 60 years and above, the tax rates applied should be, for example, 2% less for each of the tax threshold levels of 25%, 35%, and 45%. Any excess tax can be refunded to the taxpayer at the end of each financial year.

  This incentive will provide this age group with a better financial lifestyle in their semi-retirement years, and encourage greater work participation.

- **Tax Offsets:** Raising the tax-free threshold to $30,000 can result in the consideration of abolishing the following tax offsets - Low Income Tax Offset, Senior Australians Tax Offset, Mature Age Worker Tax Offset, Dependent Spouse Tax Offset, Pensioner Tax Offset, Beneficiary Tax Offset, and Zone and Overseas Forces Tax Offset.

  The removal of these tax offsets further simplifies the tax system and offsets some of the revenue loss from changing to the suggested tax scales shown above.

- **Tax Deductions:** For a simpler tax system, tax deductions should be limited to a maximum deduction amount per financial year.

  A maximum deduction amount, of say $750, should apply to actual work related expenses, $350 for say managing tax affairs, and $750, for example, educational expenses. The taxpayer must provide evidence of receipts for audit purposes.

  Additionally, in relation to tax deductibility for gifts, the deductibility threshold should be increased from $2 to $5. This slight increase in the threshold should have a very marginal impact on charitable organisations.

  These suggested policy proposals should help reduce complexity and compliance costs for taxpayers and the tax office.

2. Corporate Tax Rate

A corporate tax rate of 30% is applied on taxable income earned by companies, high by international comparisons in absolute terms.

With the internationalisation and connectedness of national economies, and with increased capital mobility beyond national borders, Australia must ensure it offers attractive tax incentives for foreign businesses to invest here.

Reducing Australia's corporate tax rate will entice further foreign and domestic investment, and should encourage more research and development, innovation entrepreneurship, and greater productive capital stock within Australia.

The flow-on effects will be an increase in national income, technological advancements, productivity improvements, better employment, wages, GDP, and economic growth outcomes. These positive flow-on effects will boost tax revenue, which will assist to offset or alleviate tax revenue falls due to lowering the corporate tax rate.

Policy considerations for the Task Force are:

- **Lower Company Tax Rate**: The corporate tax rate should be reduced to at least 25%. This rate more closely aligns with other nation's corporate tax rate, improves the attractiveness of Australia as a destination for investment, as well as minimise the risk of businesses moving and investing offshore, or foreign multinationals moving profits offshore.

- **Effective Company Tax Rate**: While the current corporate rate is 30%, once companies claim tax deductions and exemptions, the effective rate of tax payable is lower.

  Highlighted in the Sydney Morning Herald, Australian Tax Office data reveals the top 900 companies paid an effective tax rate of 19.3% on pre-tax profits in 2014, claiming tax deductions and exemptions amounting to $25 billion. [1]

  And in its publication "Who Pays for Our Common Wealth? Tax Practices of the ASX 200", the Tax Justice Network found the effective tax rate of ASX200 companies over the last decade to around 23%.[2]

  It also found that almost one third of ASX200 companies had an average effective tax rate of 10% or less; 57% having subsidiaries in secrecy jurisdictions; and 60% reporting debt levels greater than 75%, potentially contributing to the manufactured fall in taxable profits.[3]

---

[1] Sydney Morning Herald, 'Big business took $25 billion in tax relief in 2014, Tax Office figures show', By Heath Ashton, 1 April 2015

[2] Tax Justice Network, 'Who Pays for Our Common Wealth? Tax Practices of the ASX 200', 2014, p. 3

[3] Ibid p. 3

Based on 2011-2012 data, the Tax Justice Network also highlighted that medium to very large companies paid an effective tax rate of 26%, small companies 27%, and micro companies 26%. [4]

By reducing the corporate rate to 25%, the Government should also consider implementing a minimum effective rate of tax payable by companies regardless of whether tax deductions and exemptions claimable by a company results in the effective rate exceeding the minimum effective tax rate.

To minimise the extent of corporate welfare, a minimum effective company tax rate of, for example, 18-20% should be considered, regardless of company size or nature of business.

3. Goods and Services Tax (GST)

A broad-based consumption tax is considered a more efficient method of taxation. In Australia, the GST applies at a rate of 10% on about 47% of goods and service. This compares to New Zealand, where around 96% of goods and services, including public services, is subject to the GST.[5]

Australia's GST rate is low compared to other developed countries and approximately half the average rate relative to OECD countries. In Australia, fresh food, health, education, childcare, water, sewerage, and drainage services are exempt from the GST, making it a less efficient tax. [6]

By not taxing the majority of goods and services in the same manner, it makes the GST a less efficient tax, with greater complexity, compliance, and administrative costs within the tax system.

Policy proposals for consideration include:

- **Raise the Rate**: The Government should be politically courageous and promote the incremental increase of the GST rate from 10% to at least 15%, perhaps over a period of several years.

  Additionally, where administratively practical, as many as the currently exempt items as possible should be taxable for GST purposes. This will result in the GST being more efficient as well as becoming more of a source of tax revenue relative to income and corporate tax revenue.

  Further, by reducing or eliminating the exemptions this will also alleviate the complexity, administrative and compliance costs, particularly for small business, associated with determining exemptions, concessions, and allocating goods or services as either taxable, input taxed, or free of GST, as well as the payment, collection and claiming of credits and remittance of GST on both sales and purchases.

---

[4] Ibid p13

[5] Australian Government, Rethink: Tax Discussion Paper 2015, 'Chapter 8, The Goods and Services Tax and State taxes ', p131-133

[6] Ibid p133

With the suggested increase in the GST, and removal of exemptions, this needs to be balanced with a fair and reasonable compensation package to lower income earners and families, and the most vulnerable in our society.

- **Imported Goods:** Imported goods valued at or below the $1,000 low value threshold, including online Internet purchases from overseas, are currently free of GST.

  Subject to the development of a cost effective, robust, and efficient revenue collection system, consideration should be given to abolish or significantly reduce the threshold. This will enable local businesses to be on a more level playing field, and for the Government to generate additional GST revenue.

4. Taxes on Retirement & Superannuation

Impending changes to Australia's economic, social and demographic environment provides an impetus in creating a comprehensive and more sustainable policy adjustment to Australia's retirement income system.

Concerted efforts have been made by successive Australian governments across political persuasions since the early 1980s to reduce dependence on the Aged Pension system.

Notwithstanding, in light of the changing demographics of an ageing population, unless further policy reforms are initiated and implemented in promoting greater financial self-reliance in retirement, Australia will continue to be confronted by an overburdened and unsustainable taxation system in the coming decades.

An opportunity exists to further simplify the superannuation and retirement income system, to enable it to be more efficient and to have better targeted tax concessions.

Following are some policy reform opportunities to Australia's superannuation and retirement income streams.

- **Abolish the Contribution Tax:** An opportunity in simplifying as well as alleviating the administrative burdens of superannuation is by removing the 15% contributions tax on employer mandated superannuation guarantee contributions.

  An alternative approach is to remove the 15% contribution tax in its current form, and tax the employer superannuation contributions in the hands of the employee at 0% where an individual's salary is less than, for example, $150,000, and at 15% for every dollar above the salary level of $150,000.

  This would result in lower income earners paying little or no tax while higher income earners would pay more tax, but at a maximum rate of 15%.

The removal or lowering of the tax payable, as well as increasing the superannuation guarantee rate to 12% sooner rather than later, will have a positive effect on generating an increase in national and private savings.

It will create greater funds accessibility for investment within the economy, and result in more funds available in the long term for a person's retirement, particularly for those on lower or more modest incomes**.**

- **Tax on Investment Earnings:** The assessable income of a superannuation fund, comprising both contributions received and investment earnings, are taxed at a rate of 15%.

  However, when it comes to taxing investment earnings on pension funds, there is zero tax on investment earnings on funds invested in pension funds.

  A policy consideration for the Task Force is that the tax on investment earnings applied to accumulation plans should also be applied to pension plans.

  While individuals may consider paying zero tax an ultimate goal, we also need to consider the societal as well as personal benefits associated with paying tax.

  These include funding infrastructure spending, expenditure on health, education, and transportation, and ensuring a sound safety net exists for those in financial need.

- **Income streams over Lump Sum payments:** Australians have a choice in whether to take the retirement monies they have accumulated over their working life as either a lump sum or as an income stream.

  While it is important to allow investors the freedom of choice in how to manage their accumulated monies, to ensure that retirees do not excessively waste away their investment and impact their long term standard of living, a legislative requirement should be considered which restricts the amount of accumulated monies withdrawn as a lump sum.

  There is currently little incentive for a person to commence an income stream instead of a lump sum payment. The risk exists where people 'double dip' – where superannuation funds accumulated over a person's working life is effectively drawn down prior to age pension age, and then allow individuals to access the social security system to fund the remainder of their retirement years.

  Greater incentives must be offered to retirees to take out an income stream or alternatively create disincentives for individuals who wish to take out a lump sum. Any Government should not be encouraging individuals to withdraw 100% of their retirement savings as a lump sum and then allow individuals to be rescued via access to the social security and taxation system.

  Retirees should nevertheless be allowed to access a portion of their retirement savings to pay off debt, especially mortgage debt.

The Task Force should consider the proposal that at least 50% of accumulated superannuation savings must be invested in a retirement income stream. This should contribute in alleviating some of the pressure on the Age Pension system in the coming decades.

- **Tax on Lump Sum Withdrawals:** The former Howard Coalition Government's 'Simpler Super' changes effective 1 July 2007 resulted in superannuation benefits paid as a lump sum from a taxed source for those aged 60 or over became tax-free. Below is a summary of the current tax treatment of superannuation benefits for both taxed and un-taxed sources:

Age	**Superannuation lump sum – taxed source***	**Superannuation lump sum – untaxed source***
Aged 60 and above	Tax Free	15% + Medicare Levy on first **$1.355m** per superannuation plan. Top marginal rate in excess of this amount
Preservation age to 59	0% up to **$185,000**, 15% + Medicare Levy on amount in excess of this amount	15% + Medicare Levy on first **$185,000**, 30% on amounts between this figure and **$1.355m** and top marginal rate on amounts above **$1.355m**
Below preservation age	20% + Medicare Levy	30% + Medicare Levy on amounts up to **$1.355m**, top marginal rate thereafter
*Rates for 2014-15 Year		

The 'Simpler Super' change effectively encourages individuals to prefer a lump sum payment to an income stream, especially for those aged 60 years and over.

Existing superannuation lump sum rules should be altered for those under preservation age and those aged 60 and above so more tax is payable on lump sum withdrawals, as follows:

Age	**Superannuation lump sum – taxed source***	**Superannuation lump sum – untaxed source***
Preservation age and above	0% up to **$185,000**, 15% on amount in excess of this amount	15% on first **$185,000**, 35% on amounts between this figure and **$1.355m** and top marginal rate on amounts above **$1.355m**
Below preservation age	35%	35% on amounts up to **$1.355m**, top marginal rate thereafter
*Rates for 2014-15 Year		

In addition to the policy consideration of the requirement that at least 50% of accumulated superannuation savings must be converted into a retirement income stream, a 15% tax should be applied to taxed sourced lump sum withdrawals over a threshold for those at preservation age and above.

A further policy consideration is to raise the tax rate on taxed sourced lump sum withdrawals for those below preservation age from 20% to 25%.

5. Land and Property Taxes

Investors are generally subjected to three forms of taxes on property and land - stamp duties, council rates, and land tax.

Stamp Duties: Stamp duties generally apply on the transfer of land and buildings, on residential and commercial properties, including the family home. As a State based tax, each State applies its own threshold levels, rates, exemptions, and discounts, including on different property types.

As a major revenue source for each of the respective States, stamp duties on properties is prone to volatility of the housing cycle, and based on the number and value of properties transferred.

Stamp duty may be a disincentive for people to move home, therefore result in individuals, couples, or families remaining put, rather than moving to a home which more meets their present needs. This also particularly applies to retirees who may wish to downsize to a smaller and more appropriate housing.

For businesses, stamp duties may be a disincentive as it may discourage a business to move to an area more conducive to the success of their business. And for the consumer, any costs are likely to be passed on increased prices of goods and services.

Local Government Rates: Local council land rates is levied on the value of land, with valuation methodologies varying between councils, basing the tax on the value of the land only, and others basing the rate on both land and buildings.

Local government rates are considered a steady and less volatile revenue source, especially relative to stamp duties on property transfers, and which help fund such activities as roadworks, garbage collections, and other services within the local municipality.

Land tax: Land tax is levied by the States, apart from Northern Territory, and based on either the 'unimproved' or 'site' value of land. Thresholds and tax rates differ between States, and are applied to a limited range of commercial land and investor-owned residential land.

Exemptions including primary production, owner-occupied residential, child care and aged care. The thresholds and exemptions reduce the efficiency and equity of the tax.

To streamline the various property type taxes, and enhancing the efficiency of the tax on land and property, the Task Force should consider the following option:

- **Property Tax**: A national uniform property tax should be applied based on two components - i) the value of the land based on a suitable methodology; and ii) the purchase price of the property less the market value of the land. Both components are to be indexed by an appropriate indexation methodology.

  By having two components, two different sets of tax rates and thresholds, and if required, exemptions, can be applied to one or both of the components.

The property tax should apply to all residential homes (including owner occupied homes), commercial and industrial properties, and agricultural land.

As a consequence, stamp duties on property transfers and local government rates would be abolished in its existing form, with a nationwide uniform property tax structure established.

A potential benefit in implementing a broad based land tax and removing stamp duty is that it should help minimise property price increases, particularly in the major capital cities.

The Government will need to consider practical transitional arrangements to manage any initial revenue decline because of the abolition of stamp duty.

For homeowners, investors, and businesses, rather than receiving separate bills, one consolidated bill statement should be received. This will also help in alleviating compliance and administration related costs.

6. Medicare Levy & National Disability Insurance Scheme (NDIS) Levy

While most Australians (exemptions apply to certain individuals) pay the Medicare and NDIS levies, it does not fully fund Medicare or the NDIS, and is a small percentage of the total government spending on health and disability services.

Both levies are misleading indicators of the cost of health and disability spending.

There are several options, which the Task Force should consider:

- **Remove the Levies:** One policy consideration is to make redundant the concepts of a Medicare levy and NDIS levy and for its incorporation within the income tax scale.

  This should achieve some tax savings for the government in which individuals currently receiving exemptions will no longer receive the exemption.

  In the process, the Medicare Levy surcharge will also be abolished and further simplify the tax system.

- **Remove Exemptions:** An alternative second policy consideration is that no exemptions should apply to the approximate 25% who do not pay the levies, including those on welfare type payments. This should assist in raising additional revenue, but still insufficient to significantly close the health revenue - expenditure gap.

- **Raise the Levies**: Both of the levies should increase to better reflect or partially close the revenue - expenditure gap. For example, raising the Medicare Levy to 2.5% and raising the NDIS Levy to 1.5%, without taxpayer or welfare recipient exemptions.

- **Increase Medicare Levy Surcharge**: Compared to not taking out private health insurance, the Medicare Levy Surcharge may be considered inadequate. If a surcharge is to apply, it should more closely reflect premiums applied if an individual, couple, or family were to take out private health insurance.

- **Private Health Insurance:** On a separate but related matter, private health insurance premiums are absorbing an increasing percentage of an individual, couple, and family's budget.

  With premiums increasing well in excess of the rate of inflation, there will reach a point in which the financial burden of paying private health insurance premiums will place increasing and unsustainable stress on not just the family budget, but also the family unit itself.

  A review of the public and private health systems is critical to identify alternative options to ensure the health and affordability of the system and the people who use it.

  There should be consideration of a risk factor component into the premium calculation for those with an 'unhealthy' lifestyle, and/or premium refunds or discounts for those who have not made a claim, for example, in the preceding 12 month period.

  Alternatively, consideration should be given to a health model to the viability of individuals having a choice in either paying the Medicare Levy for the public health system or take out private health insurance in which all services will be required to be handled within the private health system.

  By pursuing this option, the private health sector will therefore need to cover all services provided by Medicare and public hospitals, including GP visits.

7. Negative Gearing

Negative gearing enables investors of investment rental properties to claim the annual interest payable on their property loan, including other expenses of maintaining the property, against their other income.

Where the interest payments and expenses of the rental property exceed the income from rent received from the investment property, an investor can use that excess to further reduce their taxable income.

The intention of negative gearing was to increase housing supply and dampen rental increases. However, the current state of the housing market seems to suggest that negative gearing has contributed to a speculative and leveraged property market, increased residential prices, and an increasing number of people, in particular first home buyers, unable to gain a foothold in the property market.

Depending on whom you believe, it is suggested that negative gearing contributes to potential foregone government tax revenue of approximately $2 billion to $5 billion annually.

On one hand, investors can reduce their taxable income through negative gearing, and then take further advantage of the capital gains tax discount rules when selling their investment property.

However, proponents of negative gearing are concerned that altering the current tax rules on investment properties may have a detrimental effect on the housing market, with a possible fall in investment in residential housing, resulting in higher rentals and higher housing prices. .

Policy considerations for the Task Force to consider are:

- **Abolish Negative Gearing:** Consideration should be given to phasing out negative gearing for current investors in the property market over a period of years, for example, 10 years.

- **Limit Deductions**: An alternative option which may be more palatable to property investors than abolishing negative gearing in its totality is that to continue to receive some tax benefits, the interest payments and expenses of the rental property can only be claimed against rental income. Any excess loss will not be able to used to reduce other taxable income, and won't be able to be carried forward to the next financial year.

  In addition, consideration should be given to limiting the number of investment properties in which tax deductions can be claimed.

  Investors will still be able to benefit from capital gains tax benefits in both options.

8. Other Federal and State Taxes

The core tax revenue measures should continue to be through the more efficient tax categories of income taxes, corporate taxes, the goods and services tax, and a property tax.

Where a tax offers a social, environmental, or economic benefit, then it should be kept. Where a tax is considered inefficient, then serious consideration should be given to abolish and/or replace with a more efficient and more appropriate tax.

Particularly at the Federal and State levels, there are a number of taxes in which should be removed in totality and replaced with a better or more efficient tax.

At the Federal level, consideration should also be given to:

- Abolishing the Luxury Car Tax. It is an elitist tax, which unreasonably taxes based on the brand, and discriminates based on a person's tastes.

- Capital Gains Tax 50% discount – the 12 months restriction to receive the discount on the sale of assets should be removed.

At the State level, the following should be considered:

- Insurance taxes on health, life, term, and general insurance premiums or policies should be abolished. It causes insurance premiums to increase, contributing to under-insurance or possibly non-insurance, particularly by low-income earners.

- As previously mentioned, stamp duty on all types of property purchases and local municipality land rates should be abolished and replaced with a uniform broad based property tax across the States and Territories.

  A well-constructed property tax could also dampen the need for a Capital Gains Tax on the family home.

  If stamp duty on property purchases is to remain, an exemption from stamp duty should apply to retirees who wish to downside from their existing home and move into more suitable housing in their retirement years.

- Payroll tax should be abolished and consideration given to, for example, incorporating it within the company tax rate. Payroll taxes result in additional financial, administrative and compliance burdens to employers, can reduce business competitiveness, reduce employee wages, and in instances lowers employer incentives to hire more employees.

C. Closing Statement

I end with a quote by William Jennings Bryan - "*Destiny is not a matter of chance. It's a matter of choice.*" We must make the choice to take destiny into our own hands, and craft the future we, as individuals, and together, as a nation, believe is the best for families, community, and ourselves.

Let's hope this opportunity to reform Australia's taxation is not wasted because of the lack of political courage by our political leaders across the political spectrums.

So let us all embrace our nation's future, and make it one of choices, rather than chances.

I wish the Task Force well.

Yours sincerely,

Dino Cesta