SUBMISION TO THE BETTER TAX FORUM

I believe the following statement is correct.

2% of individuals pay 26% of income tax collected from individuals.

When there are reductions in tax rates designed to encourage desired behavior the people who are going to benefit most are those who are taxed at the higher rate in the first place. They are already contributing a disproportionate share of the personal income tax collected. There is a lot of talk about the superannuation rules unfairly benefiting the wealthy and indeed it would appear that there are number of very wealthy individuals who have gained a significant benefit from the system as it has developed over the years. Some are receiving tax-free incomes of $1,000,000 or more. This is not what a superannuation system should encourage. **People amassed the $10,000,000 to $20,000,000 balances that are required to support such an income when the contribution rules were much different to what they are today. Among other reasons, poorly thought out rule changes are responsible; but balances of this amount are going to be a thing of the past. The current contribution limits restrict contributions to approximately $1,000,000 over a working life.** The individual bears the investment risk. While averages would suggest that compounding returns could see a balance of over $2,000,000 at retirement, recent experience in the GFC highlights the risk that it could be significantly less.

What is a reasonable income in retirement? 50% of your salary is not excessive and is significantly less than the 70% that is common in defined benefit schemes. $2,000,000 would buy an annuity of approximately $60,000 per year. Is this an adequate income for a retiree who earned, say,

$250,000 per year prior to retirement? 50% of his/her salary would be more than double the $60,000 annuity. The retiree in this instance would receive less than 25% of their salary. So for a significant number of higher earners the contribution limits do not allow them to contribute adequately to superannuation, especially if the likelihood that they will not be in a position to contribute the maximum in their early working life is taken into account.

There should be a limit placed on the amount of superannuation savings that are eligible to be converted to a pension and thus receive preferential tax treatment, with less emphasis on contribution limits. This is especially important as the retiree bears all the risk and there is no guarantee that any amount of contributions equates to a specific balance at retirement. Any income from funds above the limit should be taxed as ordinary income. This would deal with the issue of very high balances and inappropriately large tax-free income streams. **The funds in excess of the limit could remain in a reserve account that could be used to top up members balances in the event of negative returns. The balance in the reserve account could be limited to, say, 40% of the balance in the pension account.**

Alternatively the balance in the account above the limit could be taken as a lump sum on which the total tax paid is equivalent to the top marginal rate. At today's rates of taxation that would be another 15% or 30% on top of the contributions tax that had already been paid to bring the total up to 45%.

$2,500,000 has been proposed by ASFA as the cut of point for balances that receive preferential tax treatment.

The provisions that allow business owners to contribute the proceeds from the sale of a business to superannuation are some of the causes for high account balances. They are inequitable in that only business owners get to make the large contribution and furthermore they receive very favourable treatment of capital gains made on the sale. **These provisions should be removed.**
If business owners wish to make a large contribution to their superannuation after they have sold their business they can still do so by making a non-concessional contribution.

When bringing in changes to the rules around superannuation it is important that people are given time to adjust their planning for retirement and that this is facilitated by the flagging of changes well in advance and the provision of adequate transitional arrangements. After all we are told that the problems with the budget are structural so changes don't need to be implemented immediately.

Superannuation is already taxed at 15% on all contributions and 30% on contributions by people whose superannuation contributions plus salary is in excess of $300,000. It is not taxed in the pension phase for people over 60 years. Some consideration should be given to making contributions tax-free and taxing the resultant pension as ordinary income. Any limits on retirement balances would need to be higher to allow for larger balances to pay income streams with after tax values comparable to those currently paid. This would be an enormous change and would require a long transition period so that retirees don't find themselves taxed on contributions and again on pension withdrawals.

Multinational corporations should pay tax in the jurisdiction that income is earned.

There should be no discounting of GST on imported goods. As it stands local retailers are badly disadvantaged and tax receipts are suffering. I understand that collecting that GST is problematic.

GST should apply to more transactions, as in New Zealand. Broaden the base before increasing the rate. This should be accompanied by a reduction in income tax rates.

The ability to reduce tax by the cost of generating the income is a basic principle of taxation, as I understand it. For this reason I support negative gearing as a strategy for buying property or any other commercial venture.

The pension assets test should be tougher. People can own a home of unlimited value and have another $1,000,000 in assets and still qualify for the aged pension.
Having a limit of say $1,500,000 on the combined value of home and assets would be one way of addressing this.

Many of the criticisms of the tax regime are based on the fact that wealthy people benefit most from concessions. What is never pointed out is that they benefit most because they pay the most tax. They pay more tax not only because their incomes are higher, but also because they pay larger proportion of that income in tax. **If you are going to have a progressive tax system where wealthier individuals pay a higher percentage of their income in tax you have to accept that they are going to benefit more from any concessions. It's the flip side of the same coin.** Otherwise the result would be targeting the so called wealthy in a manner akin to confiscation. The majority of people in the highest tax bracket are not wealthy by virtue of birth and have worked hard as productive members of society. In fact individuals on $181,000 could hardly be called wealthy yet they find themselves in the highest tax bracket.

We are a socialist country where there is significant redistribution of wealth in the provision of social welfare and services, access to which is usually means tested. I have read that 40% of tax payers are net beneficiaries of the transfer system, that's not to mention aged pensioners, disability pensioners, single parents, people on new start allowance, universal free education, free health care and subsidized housing and third level education. There should be a safety net and it is right that the state looks after it's citizens, especially those in most need but we should not loose sight of how this is achieved. It is achieved by having a progressive taxation system. And one of the features of a progressive taxation system is that when there are tax concessions those paying the highest rate of tax receive most benefit. Don't forget that for the most part in such a system the opposite is true; those paying the highest rate of tax receive the least benefit. So those that criticize the tax system as being unfair to the less well off should think again.

One of the few budget measures that have been passed by the Senate is the 2% levy on those in the top tax bracket. **Between the budget levy and the 293 tax provisions higher income earners are already paying more tax. Would it not be fair if those benefiting from the transfer system played their part in addressing the problems the system is facing? Higher income earners are already contributing more.**

There is something wrong when ordinary people on $180,000 +/year are lumped into the same wealth category as those on $1,000,000/year. This is not fair. Every time the government is looking for more revenue there is a tendency to turn to those in the top tax bracket and take just a little more. Surely, because we have a progressive taxation system, those earning $181,000 should be on a lower marginal tax rate than those earning in excess of, say, $400,000. **The tax brackets at the higher income end need to be reviewed.** I would suggest a reduction in the current top rate to, say, 40% and the introduction of a new top rate above, say, $400,000 of, say, 48%.

To deal with bracket creep and in recognition the greater contribution to revenue from the GST all tax brackets could then be increased and the various levies could be abolished.

Greater GST revenues should mean increased monies flowing to the states, which should then abolish stamp duty and payroll tax, which are brakes on the economy. There may well be a need for increased revenues especially in view of the sluggish economy and decreased revenues as a result. Increasing the GST is the best way to address this.

People in their 30's and 40's are already very suspicious of superannuation and many are not making voluntary contributions. It is imperative that any changes made to superannuation don't disadvantage those that, with the encouragement of the government, have embraced it as a means for saving for their retirement and that there are no changes for those with reasonable balances.