2015 Tax White Paper

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While there is no such thing as a good tax, there are certainly some taxes that are better than others. In Australia the burden of taxation falls where it is most inefficient, complicated and unfair. Thank you for this opportunity to contribute to the discussion. I truly believe that the following suggestions could make the Australian taxation system fairer, simpler and more efficient.

Recommendations

1. Replace stamp duty with a broad based land value tax
2. Refocus negative gearing exclusively to new construction
3. Rebalance the revenue base evenly between Land, Labour, Capital & Consumption
4. Remove the Capital Gains Discount
5. Increase the GST to 15% and broaden the base
6. Reduce the company tax rate
7. Reduce income tax
8. Remove payroll taxes
9. Simplify the system
10. Cap superannuation to $2 million dollars per person
11. Include place of residence in the asset test for the aged pension
12. Introduce a HECS style pension loan scheme payable upon death

1. Replace stamp duty with a broad based land value tax

Stamp duty is an inefficient means of raising government revenue. Stamp duty is effectively a tax on moving. People need to freely move with as little cost as possible,
in order to; find better employment, upsize when the family grows, downsize when the family shrinks and just be able to transfer wealth between asset classes efficiently.

Also see recommendation 51 of the 2009 Ken Henry Tax Review

Land Value Tax is an efficient means of raising government revenue as land is inelastic in supply. An LVT will help to remove speculators from the property market and ensure land is put to its most efficient use.

Additionally LVT is unavoidable. Unlike income and profits, land is immovable and can't be transferred to tax havens, this makes land the most stable and least distorting base for a tax.

LVT is also an effective way for governments to recapture the value that they add to land, via rezoning and building infrastructure. Currently the public purse funds schools, rail, parks etc and all of the financial benefits are captured by private landlords, who contributed nothing to warrant the increased value. LVT helps fund the very things that give unearned windfalls to land holders.

Also see recommendations 52 - 54 of the 2009 Ken Henry Tax Review

2. Refocus negative gearing exclusively to new construction

It is fair that expenses incurred, in order to earn an income or profit, are tax deductible against the income or profit earned. Negative gearing is not fair however, because it allows losses on property investments to be deducted from wages that are not related to the investment earnings. Investment property expenses do not contribute to the ability to earn a wage, there is no logical link between the two. In fact, commuting and parking expenses are not currently deductible, and they are certainly essential for earning a wage.

It is clear that negative gearing is simply a government subsidy designed to encourage the purchase of property as an investment in order to increase the supply of housing. The theory is flawed however, because buying an existing dwelling does not increase supply, it only bids up prices. Advocates of negative gearing, incorrectly argue that if removed, investors will sell, and rental supply will reduce. Housing supply can only reduce if the building is destroyed, not sold.

Investment in new housing construction does however increase supply, and should remain the sole target for negative gearing.

3. Rebalance the revenue base evenly between Land, Labour, Capital & Consumption

An accountant will tell you that land is capital. But an economist will tell you that there are three inputs to production; land, labour and capital. Land includes all natural resources, labour is human effort and capital is man made wealth used to help create more wealth. The fruit of land is rent, labour; wages and capital; interest. All three are taxable options, but in Australia, the hard earned wages of the labourer and the entrepreneurial vision and innovation of the capitalist bare most of the tax burden, while the lazy rent seeker is not made to pay his fair share.

It would be reasonable to ask that labour and capital are freed completely from taxation as they are the two inputs to production that economies need more of. They should be encouraged and nurtured, not taken for granted and penalised. But all that is asked is that balance is restored.

Government revenue can be evenly levied on land, labour, capital and consumption.

4. Remove the Capital Gains Discount

“Work for a living and we’ll tax you at close to 50 cents in the dollar; speculate and we’ll only take 25 cents.” – Peter Costello

This is a perfect example of how Australia places more of the tax burden on the productive and desirable sectors of the economy, while subsidising less efficient and even damaging economic behaviour.

Capital gains are often unearned income. Surely we should tax this kind of income at least at the same rate as we tax hard work. The truth is, we need more labour and less speculation in the economy, so the state really should be taxing the latter at a higher rate than the former, but equal treatment would be a good start.

5. Increase the GST to 15% and broaden the base

Australia's GST of 10% is one of the lowest consumption taxes in the OECD. In fact it is almost half of the OECD average. (Re:think March 2015). Consumption taxes lead to fewer distortions than other taxes, are relatively easy to collect and are fair, as the more you spend, the more you pay. Equally in a world of scarcity it can't hurt to have a small disincentive on consumption.

The GST should also be broadened to include all goods and services for the sake of simplicity. Having numerous exemptions unnecessarily complicates compliance and collection.

It is often argued however that extending the GST to the essentials and increasing the rate will hurt the poorest the most. Pensions and tax free thresholds can be increased to compensate for this.

6. Reduce the company tax rate

"Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate." – Tom Goodwin

While governments around the world are desperately trying to come up with a plan to combat multinational tax shifting, it is becoming clear to world leaders that the days of high company tax rates are over. Capital is more mobile than ever and countries are competing for productive corporations via low tax rates. Fighting this, will prove very costly, firstly in the form of compliance costs and secondly in the form of lost business.

It is time to find more efficient, unavoidable and less distorting means of raising tax. Australia needs to start the transition to a company tax rate of 0% or risk being left behind. But 25% would be a good start.

And at the end of the day companies do not exist, people exist. Any profits that would have traditionally been subject to company taxation can be picked up though personal taxes once dividends and capital gains are passed through to owners.

7. Reduce income tax

Work needs to be encouraged not penalised. Drop the rates.

"There is evidence that the economic costs of revenue-raising in Australia are higher than they need to be. Australia has a higher reliance on income taxes, including tax raised from company income, than most other comparable countries. State and territory governments rely considerably on taxes that impose high economic costs, like stamp duties. Treasury research estimates that each additional $1 collected by way of company income tax reduces the living standards of Australian households by around 50 cents in the long run because of reduced investment. This impedes Australia's productivity and, in turn, reduces opportunities for better paying jobs." (Re:think March 2015)

Not much I can add to that.

8. Remove payroll taxes

This needs no further explanation or debate. This tax is the height of inefficiency. Remove it now.

9. Simplify the system

"Australians pay at least 125 different taxes each year" (Australia's future tax system December 2009) "but only three of these account for about two-thirds of all tax collected in Australia" (www.taxsuperandyou.gov.au Shaping the system 2014)

This number needs to be closer to 10.

Additionally the cost of tax minimization and compliance is too great. Accountants, financial planners and business managers need to spend less time minimizing tax, and complying with tax law, and more time working on improving productivity, efficiency, risk, return and profitability. Imagine how the economy would transform, when people start basing decisions solely on what has the best outcome, rather than what is most tax effective. The sad reality is however, that Australia's complicated tax system provides a far greater return-on-effort for tax minimization. Until this changes, this is where the focus will remain.

10. Cap superannuation to $2 million dollars per person

Australia's superannuation system provides citizens with a tax effective environment that both incentivises and helps people to save enough to fund their own retirement. The goal of the system is to reduce the country's reliance on the pension.

While $2m (or $4m for a couple) might not be enough to enjoy a wealthy retirement or even be classed as 'rich', it is enough to not require the pension. Once a balance of $2m is reached, the favourable tax treatment of those savings has achieved its goal, and its benefits should be limited to that $2m.

People would be welcome, and in fact encouraged, to continue to save outside of the superannuation system, but regular tax rules will apply. Too much of the superannuation tax concessions go to people that will never need to receive the pension. This proposal would even allow the system to become more generous, in order to bring more people up to a level where they will not need to rely on the pension.

11. Include place of residence in the asset test for the aged pension

THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO SELL THEIR HOUSE!
THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO MOVE AWAY FROM THEIR COMMUNITY!

The pension is not an entitlement, in return for a lifetime of contributing taxes. It is a welfare safety-net, funded by today's taxpayer. It is not an income replacement, so you can have the privilege of leaving what you otherwise would have used to fund your retirement, to your kids. It is designed solely to provide for those in the community that have no other means of supporting themselves. And frankly the aged pension is grossly inadequate and needs to be urgently increased, but the government is unable to increase it, because too many have access to it, who should not.

The current system allows for an unlimited amount of wealth to be transferred to a place of residence in order for the wealthy to continue to earn a government funded aged pension. This is extremely distorting and unfair.

Reverse mortgages allow retirees to unlock the equity in their homes, in order to provide for themselves without ever needing to move out of their home. Currently those that do wish to move, may be penalised if they decide to sell the family home and downsize to something more suited to their needs. Pensioners should have the option to keep, or sell their residence without adverse financial impact.

12. Introduce a HECS style pension loan scheme payable upon death

Suppose someone receives the pension for 20 years totaling $400,000. Suppose that when they die their estate is worth $1million. Would it not be reasonable that the government recoup $400,000 from the estate? If the estate can not cover the debt, it is forgiven.

Would you rather pay tax when you are alive, or when you are dead? It is essentially a victimless tax.

Conclusion

Australian needs to start shifting taxes from the productive parts of the economy. These mainly include income and company taxes. They distort behaviour, discourage investment, retard innovation, penalise hard work and encourage avoidance and minimization.

Australia needs to shift taxes towards inelastic and immovable bases such as land and GST.

"Pay for what you take, not what you make."