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Fri, 2015-05-15

Tax White Paper Task Force
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Note to self: "You have until 1 June 2015 to lodge your formal submission

Below is my submission to the process. I hope it might make some kind of sense from someone on a disability support pension who, using good financial management practices of saving any surplus funds for a raining day, which I was taught as a teenager, is just keeping his head above water. Also, if there is any repetition in what follows, I apologies for this in advance.

Negative Gearing:
As I understand negative gearing, this is where someone borrows money in order to purchase an investment (shares, property, etc) and claims the annual interest paid as a deduction against any investment income, etc, excluding any capital repayment. According to the Negative Gearing page on Wikipedia it notes "the gross income generated by the investment is less than the cost of owning and managing the investment, including depreciation and interest charged on the loan (but excluding capital repayments)". So, as I read it, negative gearing does not include the "normal" deductibles such as Council rates and taxes, maintenance, refurbishment between tenants, etc, which would equate to deductions for professional journals, self-education expenses, mileage when using private car for business, etc, and would therefore be deductible against the rental income and any other income received. Negative gearing just covers the interest and similar payments.

If I understand the maths of the way the taxable depreciation on negative gearing works, the greater your taxable income and hence the higher your marginal tax rate, the larger you potential tax refund in this area. Is this correct and if so, I would be suggesting that the tax payable on negatively geared deductions be the inverse of the income tax rates. That is, the rates on negatively geared deductions should reduce as the tax payers income increases. In other words, someone on the top rate of 47% would get the smallest refund on their negatively geared investment while someone on 0% and 32% would get a larger component of their deductibles back as a refund.

I have also heard regularly, on news reports, that the Social Security sector (ACOSS, et al) are advocating that Negative Gearing be abolished in an attempt to reduce rental rates for students and other low income earners. I have been reminded recently, and can also vaguely recall, that former Prime Minister Hawke and his then Treasurer, Mr Keating, tried that “experiment” with “unintended consequences”. Those being that investors just responded by increasing the rental rates that they charged their tenants in order to recover their lost negatively geared tax deductions. Some have also suggested that the rental rates being charged were dependent on the jurisdiction in which the investment was being purchased. There is little doubt, however, that this “cause and effect” outcome will return, in some if not all jurisdictions, if the “removal of negative gearing” experiment was to be tested again.

So, learn from history and just DO NOT DO IT. Don’t abolish negative gearing. I must point out here that I do not have a conflict of interest here as I don’t own any investment property and my share portfolio has no debt associated with it. Perhaps a “reverse” income tax “progressive” tax system for negative gearing might be considered – that is, a regressive system with the more you earn the less you can claim back.

Pensions (Aged, DSP, etc):
Correct me if I'm wrong, but as I understand it not all pensions are the same with the possible exception of the value of the pension. I've heard that while the Disability Support Pension (DSP) is "tax exempt", the Aged Pension is not and that this may be similar with other pensions. Is this correct and if so, WHY? Shouldn't all pensions be either taxed in the same way or else all tax exempt? This may be academic as I would expect many pensioners to have deductions which might bring them into the tax free zone anyhow if they aren’t already.

This paragraph does not refer, directly, to a tax measure but I feel that it needs to be mentioned somewhere and this section on pensions seems to be the right place. I have heard people suggesting that the family home SHOULD be included in the pension assets test. I totally disagree with this notion. People should not be forced to have to sell up and rearrange their financial circumstances in order to become eligible for an aged (or any other relevant) pension – whether full or part. I am aware that the Government has indicated that they are not considering this option but the way some people in the financial services area, etc, are talking they seem to be strongly advocating that the Government at least investigate it. I have already commented on Negative Gearing above as this IS a potential tax measure that I also disagree with – that is, I disagree with its possible removal.

Superannuation:
As I have my own self-managed superannuation fund (SMSF), and don't know how the other funds (ie industry and commercial) operate from an account holder's perspective on a taxation basis, the following will relate to my understanding of superannuation as applied to SMSF accounts as well as in more general terms.

The purpose of superannuation (in general), as I have always been lead to understand it, is to provide the account holder with an independent source of private retirement income such that at worst they only require a small "top-up" part pension and at best they can be fully self sufficient while still perhaps being eligible for a means tested Commonwealth Healthcare Card with somewhat higher limits than the pension. Well, the way I see it, the system as it currently operates, seems to have good intentions but doesn't seem to be applied in practice due to the way the taxation system is applied to super. So, the following also refers to non-contributory “injections” into a fund as the way these deposits are currently treated, particularly in the case of low income earners who may have some surplus funds in excess of the currently allows ceiling, are prevented from going over this ceiling on pain of stiff punitive penalties. This seems to me to be counter intuitive if the definition of superannuation is to have any real meaning. By all means set “annual” ceilings for non-contributory “top up” injections of funds but set it relative to the income levels of those in different demographic groups with incentives for low income earners to move “excess” savings into their super accounts without penalty but for millionaires, who try to “work” the system to their own advantage, to pay “higher” penalties for exceeding a “high income earners” non-contributory ceiling.

As I understand it, the contribution receiving "partition" of ALL SMSF accounts pay the same rate of income tax, currently levied at a rate of 15%, regardless of how much the fund receives each year in contributions, etc, for any given member. This seems to me to be iniquitous. Why should my fund with an annual income of about $20,000 (mainly in dividends and bank interest) pay the same tax rate as someone whose fund has an annual income in the hundreds of thousands or even millions of dollars per year? Why shouldn't there be a personal income tax styled tiered tax scale system for super fund accounts, albeit perhaps with smaller marginal tax rates (say half of the equivalent personal income tax rate for each bracket) but larger change of bracket dollar values. The current tax rates on personal income, as I currently understand it to be, are 0% ($0 - $18,200), 19% ($18,201 - $37,000), 32.5% ($37,001 - $80,000), 37% ($80,001 - $180,000) and 45% (> $180,000). Perhaps the minimum rate of tax on super funds should be 0% on super accounts with an annual income of less than $1,000,000; 8.5% for $1,000,001 - $5,000,000; 16% for $5,000,001 - $10,000,000; etc. I hope you get my drift. The rates and values shown here are just examples and would require some work but the principle of applying a tiered structure to superannuation funds is the point that I am trying to make here. As either indicated or suggested (explicitly or implicitly) above, why should someone who gets an accrued annual superannuation contribution in the millions pay the same tax rate, of currently only 15%, on their fund as someone who might only be get a few thousand dollars a year in contributions? Who is getting the worse deal?

I also think that when a person retires, the tax they pay on the self funded pension from their superannuation should also be related back, in some way, to their bank balance - that is, their liquid assets at the time of retirement. Perhaps while their fund is in the contribution phase the tax on their superannuation fund “inputs” might also take these “liquid” assets into account in their annual tax return – personal and/or superannuation fund tax return/s.

Basic personal income tax:
I’ve indicated above, not explicitly but implicitly, that we (only) have 5 personal income tax brackets. Why? May I suggest that we ADD an additional bracket for those individuals on incomes greater than, say, $1,000,000 and apply a tax rate of something like 50-53% (before Medicare Levy) to the incomes of these individuals? So, make the 45% bracket $180,001 - $1,000,000 and 50% or 53% for those incomes above $1,000,000. Also, should the increase in the marginal rate be linear or exponential? Can someone indicate to me which of these our current tax rates are – is our current personal income tax rate system linear, half of a parabola, or exponential?

Thank you for the opportunity to have my voice heard on this issue.

Sincerely,

Paul R. Myers.

Paul Myers