Tax Submission for a Better Tax System

Firstly, a couple of notes:

Unless you nurture your taxation base, it will fade away. Given that almost 50% of the country received net transfer payments, there is a risk in too few citizens sharing the burden; and there are just not enough "rich" citizens to accept the full burden.

There are two types of taxes:

- Those that are used to run the Country
  - These should be simple, few and clear, and
- Those that are used to change people's behaviour
  - Such as a heavy tax on cigarettes and a subsidy to get people into gyms.

Never mix the two!

1) Taxes are raised and concessions given for the purposes of:
   a) Ensuring the Security of our Country,
   b) Ensuring that there is an appropriate safety net for those of our citizens unable to fund themselves and
   c) Creating a better environment for Economic Health and Growth.
2) It is only through Economic Health and Growth that we can satisfactorily ensure the Security of our Country and ensure that there is an appropriate safety net for those of our Citizens unable to fund themselves.
3) Economic Health and Growth provides the taxation base to fund our requirements. Thus I turn first to improving the taxation system to enable healthier Economic Growth. *The principles are "do no harm" and "create incentives for Economic Growth"*
   a) Rid the Country of all taxes and regulations which impede the hiring of Citizens.
      i) This will include State Payroll Taxes which must be dumped. In return States should receive funds for each person working say more than 30 hours per week; with these funds being sourced from the Federal Government.
   b) Reduce Company Tax to 15% to encourage employment and the creation of businesses in Australia
   c) Provide immediate Depreciation on all items which are used for generating income; thereby encouraging the development and creating of business in Australia.
   d) Dump taxes and stamp duties on the transfer of assets such as Land, Automobile and Insurance.
   e) Introduce a tax on the distributions and all disbursements to Foreign Shareholders to 15%; thereby encouraging Foreign Companies to retain and reinvest their earnings in Australia and Australian Businesses.
      i) Tighten up on thin Capitalisation Rules
      ii) Ensure that transfers to Foreign Companies from any related company (or Trust etc) are at arms' length on proper commercial terms.
   f) With the lower Australian Company Taxation rate, it makes no sense to retain Dividend Imputation; thus dump that tax benefit too.

Intended &Unintended Consequences

Action	Intended Consequences	Unintended Consequences
Reduced Company Taxation Rate	Growth in the Business Sector	Attract Foreign Investment
Immediate Depreciation	Growth in the Business Sector	Influx of Capital Goods from Overseas
Dump Stamp Duties	Easier transferability of assets for Business and Individuals	States must be recompensed
Tax Repatriation of distributions to Foreign Companies	Maintain the tax base for foreign companies. Retention of profits in Australia	
Dump Dividend Imputation	With a 15% taxation rate and lower personal income taxes, the effect is minimal	

Adopting the measures in this paper would result in the following:

Soures of Australian Taxation Revenues			
	Currrent		Desirable
	Compisition of the tax take		
Personal Income Tax	39%		32%
Company	19%		12%
GST	12%		22%
Superannuation	0%		3%
Capital Gains on Private Housing	0%		3%
Fuel	4%		4%
Payroll	5%		0%
Land taxes	5%		9%
Stamp duties	5%		0%
Taxation of Pensions	nil		4%
Other	10%		11%
	99%		100%

4) Collect the taxes which should be Collected
    a) The Illegal or Black Economy in Australia is now at epidemic proportions. People involved in this economy do not lodge taxation returns. Thus the only way of collecting Taxation Revenues from these groups is to have a higher GST
    b) There are other reasons to have a higher GST
    c) The Family Home is so much protected in Australia from Taxes, that we have a dangerous distortion in the allocation of our savings and Bank Credit.
    d) Thus the Family Home should not be exempt from:
        i) Land tax (the rate of which would be much reduced by the inclusion of the Family Home),
            (1) But Land taxes would be deductible from income tax and any capital gain on the sale of the Family Home, and
        ii) Capital Gains taxation
            (1) But the offset would be the deductibility of interest payments (interest only) of borrowings to fund the Family Home

Intended &Unintended Consequences – The Family Home

Action	Intended Consequences	Unintended Consequences
Subject to Land Tax	More income to the States Fewer assets in the non productive parts of the economy.	House prices may fall; and may hurt the Banks
Subject to Capital Gains Tax		Grandfathering will slow down sales; thus generous Valuations need to be made and no Grandfathering
Deduction of Interest Payments	This will help new home buyers	This deduction will be very useful

Adopt the Following Personal Income Tax Scales

$0	$50,000	0.00%
$50,001	$100,000	15.00%
$100,001	$180,000	27.50%
$180,001	$1,000,000	35.00%
$1,000,001	above	40.00%

Increase the GST

5) Increase the GST and reduce the number of Exemptions so that about 55% of expenditure is subject to GST
    a) Retain Exemptions on items which are beneficial to our Standard of Living and Economic Growth such as:
        i) All expenditure on Medical Matters and
        ii) All expenditure on Education
    b) The rationale for increasing GST (besides bringing more expenditure from the Black Economy into the Tax System) is to reduce the taxation burden on those in the workforce generating our Wealth.
    c) Thus increase GST over 5 years by 1% per annum the GST from 10% to 15%; or even a little higher. (This will have the added side benefit of some Consumers bringing forward expenditure from future years; thereby giving a much needed boost to our economy.)
    d) If the GST in its existing form cannot be changed then add another tax identical to it to achieve the same objective.

Intended & Unintended Consequences – Increasing the GST

Action	Intended Consequences	Unintended Consequences
Higher rate	Brings more of the Black Economy into the Tax Economy	More offshore purchases though the internet
Slow implementation	More Palatable for Consumers	May Bring Expenditure forward
Compensating minimum incomes	More Palatable	

Superannuation

6) Superannuation and Other Pensions Paid pursuant to employment:
   a) Continue to increase the rate of Contributions to 15% of Salary
   b) Contribution tax of 15% to remain
   c) Prior to Pension Phase, the taxation rate on the Fund is 15% per annum
   d) Income accrues tax free in the fund once it is in Pension mode
   e) The actual payments received by beneficiaries (including all Government Employees) to be taxed at the marginal rate; subject to a tax free level of $50,000 per person with the balance being included in the normal Personal Taxation Regime. Thus the thresh-hold would be $100,000 for individuals. For Pensioners with Partners, there would be a 36% increase in these numbers.
   f) Recipients of Superannuation and other Pensions paid pursuant to Employment would be subject for the same taxation regime as other taxpayers (subject to the tax free level of $50,000)
   g) Pensions/ Distributions paid from Superannuation Funds to non-Residents will be taxed 40%
   h) If a person becomes a non-Resident prior to Pension Phase, the income on the fund will be taxable at 15%; after Pension Phase, the individual will be taxed at 40% on all Distributions.
   i) Any undistributed amounts in a Pension Fund at the Time of Death would be taxed at 15% prior to be distributed to beneficiaries with no further taxation consequences.

Intended & Unintended Consequences – Superannuation and Other Pensions Paid (i.e. excl Old Age, Disability and Service Pensions)

Action	Intended Consequences	Unintended Consequences
Increase the contribution rate to salary	This will give rise to a larger pool and reduce the need for Government to top up pensions	
Taxing Pensions	This is fair given the lower taxation rates and the extra tax free thresh-hold	

Pensions

7) Pensions paid by Government would be subject to a means test with the Pensioner receiving a full Pension provided his assets (comprising all real estate, all investments either directly or in his Superfund or Trust or Company) remained less than $1,000,000. There would be a tapering in the Pension until his net assets rose to $1,500,000 when the pension would cease.
   a) All Pensions paid to non-Residents will be taxed at 40%
   b) War widows and Service Pensions shall attract no taxation and not be included in any taxation calculations or means test.

Selling the Concepts

- If you are going to take; you must also give
- Although there will be Land Tax on the Family home and its Sale will generate a Taxable Capital Gain, there is Full deduction of interest on Borrowings for the Family Home and Land Tax; and yet there is a 50% discount of the gain on its sale (and deductions for capital improvements)
- Lower taxation rates are healthy for the Economy
- Minimum Incomes of $50,000 for individuals and $68,000 for people with partners offset by the addition of User Pays principles for:
  - All Medical Expenditure to have Consumer Contributions
  - All Educational Expenditure to have Consumer Contributions
- The dumping of Dividend Imputation is offset by Lower Personal Taxation Rates and the fact that Company Tax is only 15%
- The higher GST might hurt some; but we will have minimum incomes of 65% of Average Weekly Earnings.
- Someone on average weekly earnings will pay about 20% of his income in income taxes and GST.

Other Notes

1) Everyone completes a taxation return it they either earn income or wish to access government benefits.
2) Division 7 to be applied to Companies and Trusts

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