REVENUE REVIEW'S RESPONSE TO RE:THINK

by RICHARD HACKETT-JONES – July 2015

INTRODUCTION

I would like to start my remarks by relating the following information provided by my friend Ted Bullock, Retired Qantas Captain, which depicts the disastrous consequences of human presumption.

> "Flying on a clear day, a pilot can see everything out of the cockpit: the visual cues match the instrument readings so there is no ambiguity about what the plane is doing. But piloting at night is completely different: you are flying blind so you are entirely dependent on the instrument readings. In fact, you should rely exclusively on the instruments because your internal instincts will lead you astray. Without visual cues, our brains try to makes sense of position and direction by relying on a sense of balance created by mechanisms in our inner ears. But our inner ears can be easily fooled: in the darkness, a plane can feel as though it's ascending or descending when it's doing the opposite.
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> The inner sense of balance is such a strong instinct that a pilot will be tempted to disbelieve the instruments when they contradict gut feelings. Experienced pilots know to over-ride their instincts, but new pilots can succumb to the strong pull of their intuitions — sometimes with tragic consequences.
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> John F. Kennedy Jr. was a competent pilot with limited night-time flying experience when he departed for a short flight on a hazy Friday night in July 1999. Radar showed his plane ascending and descending repeatedly before it plunged into the ocean. Investigators determined that pilot error, as a result of spatial disorientation, was the probable cause of the crash. The tragic accident is a stark demonstration of what happens when we rely too heavily on our intuition in complex situations where our instinctual "gut feel" doesn't serve us well."

Much of this is a paraphrase of our so-called progressive tax system. As Captain Bullock summerises "our instinctual gut feel doesn't serve us well". It is obvious, is it not that, to look after the poor we must over-tax the rich. However with avoidance and evasion mechanisms along with good management the goose that lays the golden egg flies offshore. And should the goose duck under the radar then all that is left remaining is the tax free threshold. The 15% is lost, the 30% is lost, and so on. The overall sadness of this parallels that of the loss of the precious lives of John Fitzgerald Kennedy, Jnr and his passengers.

24TH JULY POSTSCRIPT

The lodgement date for the Re:Think submission was extended several weeks to allow adequate commentary on the subject of superannuation. I would of thought that the original format allowed sufficient space for this subject. In Revenue Review's 21 Significant Discussion Points, paragraphs 15 & 16 briefly mentioned the subject. I also remarked in more detail in my response to Re:Think's question 22.

Additionally, I had provided, Appendix B "Letter to Parliament" and Appendix C "Wealth for toil".

I believe that these two articles clearly define the point at which tax should be applied to retirement savings.

Furthermore, included in "Letter to Parliament" are some worthwhile notes on transition.

Legislators should awaken to the fact that, under current arrangements, for each dollar of S/G taxes raised from the ordinary workforce at least $1.70 will ultimately be added to Social Security liability. By the way "Letter to Parliament" did receive an 11% response from MHRs and Senators.

These articles should be studied carefully, and then re-modelled using your best practices. I assure you that my claims will be found to be modest. Probably the best basis of analysis is to obtain retirement fund details of recently retired personnel who have served one only employer throughout their entire working life. A simple comparative spread sheet can be created to determine the effect of taxation. From there it should be easy to determine the extent to which an individual's tapered social security receipts are increased.

These days we are less ruled by the right or the left, and more so by either common sense or stupidity. Taxing the retirement savings of future aged pensioners is simply stupid.

In 1963 at the age of 17, I commenced work as a clerk for a Trustee Company in Adelaide. The company provided an in-house managed "Provident Fund" for the benefit of retired staff. Staff contributed 5% of salary. The company matched this contribution dollar for dollar. Taxes of 5% of fund income were applied. Typically men retired at 65, and women retired at 60 years of age. In those days most senior staff had left school at 14 or 15 years of age, and it was regarded proudly as a badge of honour to achieve 50 or 51 years service before retirement.

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Three years later we were advised by management that (1) we would achieve senior clerk salary from age 25 instead of the then current 33 years of age, and (2) retirement of any employee under the age of 25 years would occur after 40 years service. Hence my proposed retirement age was to be 57 years. Management was confident that the income derived from forty years of accumulated savings would be sufficient to replace personal exertion income.

As I mentioned, the fund was managed in-house and the taxes were only 5% of income; accordingly there was not much drag placed upon accumulation. Also, life assurance was not included. However the fund had the reputation of being kind to people with either temporary or long term disablement, World War 2 veterans in particular.

In recent years, much alarm has been raised concerning the future effects of the ageing population through to 2050 and beyond. It is quite obvious that such effects can be drastically reduced if the S/G tax settings are shifted off the backs of the middle and lower wage earners. As around 36% in capital accumulation is lost to all retirees, then it follows that each future retiree could be at least 50% better off. This fact alone would dramatically reduce dependency upon the aged pension, as well as all other age related benefits.

The other drag on accumulation relates to commissions and management expenses. Due to the fact that participation is compulsory commissions should be very modest. Imagine being handsomely remunerated for persuading someone to do something that they were already legally obligated to do! Expenses should be designed and tailored in such a fashion that they do not diminish the accumulation account by more than 10%. Many future retirees are totally ignorant of the fact that their “nest egg” is depleted to around 50% of its potential due the combination of commissions, management expenses, and taxation.

Death and disability insurance to a value that replaces Centre Link’s obligation is important. However work needs to be done by both the government and insurance industry to create a product, that in the event of a claim, takes first call over other forms of protection such as worker’s compensation, vehicular third party, boating, sport and aviation.The consequently lower premiums would provide less drag on capital accumulation. Additionally this initiative would also further the prospects of the NDIS being sustainable in the long run.

Over recent weeks, senior politicians have encouraged public discussion on a number of revenue related issues. Negative gearing of residential property, Goods and Services Taxes, Federal /State issues, medicare, and taxes on foreign entities, in particular. Not once has anyone of them referred to this current review process saying words to the effect “we will wait as see what the respondents to the review come up with”. Rather they have continued on oblivious to the fact that real taxation reform will benefit the people and the government alike.

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REVENUE REVIEW FOUNDATION

COMMON SENSE TAX REFORM

21 SIGNIFICANT DISCUSSION POINTS

01. Taxes must be neither retrograde nor counter-productive.

02. The system ought to be simplified to the point whereby it can be fully understood by any person capable of achieving elective office.

03. Indexation should be intrinsic to all thresholds and benefits. “CPI” to be applied in terms of income and welfare; “Inflation rate” to be applied to assets and investment income.

04. Arbitrage must be engineered out where possible. Proper practical design will largely eliminate avoidance and evasion.

05. The rate of personal and corporate tax should be the same, as a corporation is merely an amalgamation of individuals. Consideration could be given to varying the rate relative to prevailing surplus / deficit expectancies.

06. Recognition of the fact that a taxpayer is simultaneously a citizen of a State or Territory as well as of the Commonwealth.

07. The concept of the Income Tax / Social Security Transfer System should remain intact. “Welfare to work” should be seamless in respect to retention of net receipts as proportion of gross salary and entitlements. Tapered withdrawal should be uniform in respect to both tax and benefit reduction.

08. Family assistance must be measured to the point where an average fulltime adult worker with a dependent spouse and two children receives back in benefits an amount up to, but not exceeding tax paid.

09. Assets and Income means testing, in relation to young people, should be generational; taking into account the combination of wealth and income of parents and grand-parents. The same principle should be applied to the elderly in relationship to the wealth and capacity of adult children.

10. The assessment of tax upon fixed interest earnings should take into account the prevailing inflation rate.

11. Fuel excise has traditionally been spent on things other than roads and transport infrastructure. The budget is hard to analyze in this respect. Taxes on the motorist and the transport industry should be earmarked and spent appropriately.

12. Goods & Services Tax originated from the British Value Added Tax. The fact that more than 85% of these taxes are credited back is indicative of the need for substantial rectification. Replace GST with a simple 1.5% to 2.25% (non rebating) tax on all sales and activity.

13. Capital Gains Tax is ambiguous; proportional rates, along with the abolition of CPI value adjustments, have rendered it so. Replace CGT with a small “Capital Exit Tax” on all shares and real estate upon disposal.

14. Negative gearing of residential property should be limited to properties valued at median price or less, and allowable deductions should be capped at 25% of gross earnings.

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15. Salary sacrifice for superannuation should not be extended to those whose projected future retirement income already stands to exceed 80% of average fulltime earnings. Salary sacrifice contributions must be seen to have originated from current income surpluses (savings) and not from avoidance expediencies.

16. Superannuation should not be taxed at all until the member's account provides an income of around 80% of average fulltime earnings, and thereafter should be taxed at 30%. Currently taxes retard retirement benefits by more than a third, placing future hardship upon both the retiree and the government.

In reality the SG taxes obtained from the median and lower salaried workforce are retrograde, leading to a future social security burden much greater than revenue raised from such taxes.

17. Payroll tax should be standardised throughout all States and Territories and all payroll amounts. The personal exertion content of contract work should be similarly taxed.

18. Export earned revenue should be taxed at a much-reduced rate (10% in lieu of 30%).

19. Foreign entities should pay a turnover tax where other mechanisms are either impractical or unworkable. Internationally, taxes should be levied in the jurisdictions in which revenues are earned.

20. Assistance to specific industries or companies (when warranted) should be applied directly, and not through the Taxation System.

21. Duplication of State and Commonwealth Departments is unnecessary, inefficient and costly, especially in respect to large portfolios such as Health and Education. In such cases the State and Commonwealth Departments should be amalgamated into one "Federal Department" micro-managed by each respective State Government. In practice, each state would provide an equal (but small) number of staff to a Commonwealth office for macro-management in the national interest.

1. Can we address the challenges that our tax system faces by refining our current tax system? Alternatively, is more fundamental change required, and what might this look like?

The fundamentals of the Income tax / transfer system stand up well in the terms of being responsive to the needs of the lower waged workforce in acting as a *prefix to direct social security*, however attention must be given to imbalances such as excessive salary sacrifice / deductions in respect to matters such as superannuation and negatively geared residential property amongst other considerations. All forms of salary sacrifice should be capped both in terms of value and percentage of taxable income. The taxpayers who overdose on tax minimalisation in this way diminish the pool of money available for socially responsible gestures; hence failing in their contribution to such purposes.

Refinement can only come fully to the transfer system when the higher marginal rates are adjusted, as many regard this as the Genesis of avoidance and evasion. Tax reform will not go very far unless the higher marginal's are removed. Exchanging the 15% rate for expanded thresholds will lead to seamless withdrawal of all entitlements within the transfer sector. The overlapping of withdrawal and tax under our current system convolutes the effective marginal rate for all categories from welfare to work to working families.

Never the less, both fundamental change and refinement are also required in most other sectors such as Superannuation, Company Tax, GST, CGT, FBT, Payroll tax, etc., to which I will respond later.

Importantly, properly designed reform will enable greater revenues to be raised more easily, causing less drag or burden on the taxpayer.

2. How well does Australia's utilisation of its available taxes align with the evolving structure of Australia's economy and changes in the international economy?

Not as well as it should. Frequently much change and alteration occurs over time without reversion to the core reason of the original tax or concession. There is a strong tendency for changes to be politically motivated rather than coming from sound arithmetical and economic foundations. Much opportunity is lost to both "Common Wealth" and "collective personal wealth", in other words NATIONAL WEALTH.

Australia should stop being taken advantage of by foreign countries. If we adopt policies that assist our own exporters, we will consequently cause multi-nationals already active here to produce an increased amount of their global production and services here, creating more career opportunities and enhancing our balance of trade position.

3. How important is it to reform taxes to boost economic growth? What trade-offs need to be considered?

The human nature mindset behind tax minimalisation and welfare enhancement is similar to that which drives market forces. We must "trade off" the rates of tax that drive enterprise and investment offshore. Many so-called trade offs will result in a trade up in terms of production and investment leading to even greater revenue, with less drag.

It is of great importance that tax reformers concentrate on reducing the perennial fact that whether we are an individual or a corporation we may tend to overstate our expenditure and or understate our receipts, with only one purpose in mind; tax minimalisation. There needs to be greater emphasis on tax forms that bypass the opportunity for arbitrage. Many of my suggestions maintain this focus.

4. To what extent should reducing complexity be a priority for tax reform?

Reduce (arbitrage) evasion & avoidance opportunities first; then there will be less complexity to deal with.

5. What parts of the tax system are most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?

All areas could be improved. The prevalence of give and take between tax and social security could be much better managed by combining a uniform tax rate with extended thresholds. Each person; (wage earner, student, social security recipient, spouse, child,) should be given a common basic starting value or credit. Should our politicians fail to fully appreciate the benefit of a two-tax rate system; 0% and 30%, then real fairness and simplicity will, unfortunately, be illusive.

Certainly if government is not prepared to go all the way in terms uniformity then it should in any event accept the significance of a standard rate prevailing in each individual taxpayer's circumstances until all entitlements are exhausted. In some cases this may mean that a breadwinner with several dependents may be a tapered beneficiary through into the $200,000 plus or what is currently the 47% arena.

"If it quacks like a duck, and it walks like a duck, then it probably is a duck"; this saying is applicable to payroll tax. Such a tax has markings synonymous with both personal income tax and company tax, both Commonwealth issues. Our Federal structure should never have been able to develop along these lines. Payroll tax should be standardised throughout the nation. Thresholds should be eliminated. The personal exertion component of contract work should be included. The rate should not exceed 2%. It should be ameliorated with company tax. In this event it will virtually return to the Commonwealth an amount approximately equal to the cost of providing unemployment benefits. Fantastic! Let's have specific reasons at least for some of our taxes! But there is no logical reason, what so ever, for the current arrangements.

There is a very urgent need for the Government to be up front in displaying integrity if it expects the same from the taxpayer. In this regard I refer to taxes being applied to other taxes. This is pure humbug. Look at your next fuel receipt. You actually pay GST on top of your fuel excise. Excise duty is neither a good nor a service, in my candid opinion.

6. What should our individuals income tax system look like and why?

Firstly annual returns should be obsolete for the majority of wage and salary earners. Secondly the taxation system should not be primarily concerned with the different values of a dependant spouse, a first child, second child, third child, toddler, middle-aged child, and teenager etc. as this leads to costly administration. A family-sised threshold (inclusive of a fixed deduction for work related expenses) could see the employee's declaration replace the annual tax return in most cases. The payroll system could substantially reduce Centrelink's administrative burden by distributing credits to the lower paid workforce whose net position is negative. In other words those workers whose entitlements exceed tax payable.

7. What should our fringe benefits tax system look like and why?

When the issue of the higher marginal rates is addressed the proliferation of fringe benefits will be reduced. Another contributing factor is the differential between corporate and personal tax; so these should be aligned.

8. At what levels of income is it most important to deliver tax cuts and why?

There always will be issues between groups and parties as to who should pay more and who should pay less, until a single uniform rate is applied; such as 30%. The effective tax-free threshold will differ in individual cases due to the number of dependents and the sise of the income pool that they share. This effective tax free (family sised) threshold would easily convert to a cash value shared equally between the members of the family unit. Such a cash benefit or entitlement would replace the breadwinner's tax-free threshold, (as we now know it), as well as the dependent spouse allowance along with child family benefits.

CPI indexation would be an easy calculation within such a system, and would not be as easily overlooked by the taxpayer, as is currently the case. The increment in the effective tax-free threshold would automatically flow through to increases to the unit value of the per person benefit or entitlement.

9. To what extent does taxation affect people's workforce participation decisions?

Largely at both the low end and the high end of the income scale. In the middle people seem to believe that they are being taxed fairly. Historically some of our lowest paid welfare to work people are in many cases "taxed" more highly than our highly paid professionals. A two-rate system, 0% and 30% will enable the wrongs at both ends to be systematically rectified. If the current system is to in some way survive no taxation should be applied concurrent to withdrawal, whether the case in question be welfare to work or family benefit reduction. The intersection on a graph should be the point of transfer between social security or entitlement withdrawal and tax.

However the system of uniformity that I propose runs both entitlements and taxes from the first dollar, the intersecting points become very clear.

10. To what extent are the interactions between the tax and transfer system straightforward for the people who deal with both systems?

In a sense every taxpayer has some engagement with the concept of transfer if you consider that even a tax free threshold (0%) or a concessional rate (15%) is a transfer upon the basis of entitlement. Conversely people taxed at the higher marginal rates theoretically compensate. However the middle class working families are engaged in a beaureaucratically expensive exercise of give and take, sometimes referred as "churn". Churn can be completely eliminated by introducing "family-sised" thresholds along with a uniform tax rate. I strongly doubt that a "churn" system can ever be regarded as straightforward.

My proposals are straightforward and totally free from beaureaucratic churn. In fact the taxpayer will know exactly where he or she stands for the first time in their lives. Even Centrelink interactions, if and when necessary, will be straightforward.

11. How important is tax as a factor influencing people's decisions to work in other countries?

Extremely important for some.

12. To what extent is tax planning a problem in the individuals income tax system? Are existing integrity measures appropriate?

The current financial planning system evolved from the time honoured mutual life assurance industry, which was heavily dependent upon tax deductions to achieve a reasonable rate of return. As well as retirement savings and superannuation these institutions also provided products to reduce the impact of death duties. When the tax concession, of itself, becomes the dominant feature of an investment or savings product then the guard is often dropped in regards to basic fundamentals. Whilst I have no current experience in this matter, it obviously follows that proper design or architecture will minimalise the inefficiencies both in terms of revenue and collective individual wealth.

13. What creates incentives for tax planning in the individuals income tax system? What could be done about these things?

Avoid dignifying arbitrage by calling it "tax planning" where simple advantage is being taken of poor legislative design on the part of the government, coupled with poor intellect and morality on the part of the financial institutions and their agents.

14. Under what circumstances is it appropriate for assistance to be delivered through tax offsets?

Assuming that tax reform also includes Social Security reform the need for offsets will become obsolete. Good reforms will avoid the intermingling of tax and benefits.

15. To what extent do our arrangements for work-related expense deductions strike the right balance between simplicity and fairness? What could be done to improve this?

My approach to reform is principled upon the virtue of uniformity, together with the objective of reducing the need for annual tax returns for most salary and wage earners. In order for this to be accomplished, deductions must be standardised within the various workforce categories.

Union and workplace agreements guided by the ATO's historical data can accurately determine the different amounts applying to various occupations such as schoolteachers, police, fire personnel, shop assistants, drivers, clerks, factory workers, etc.

As no one system can be fair to everybody, it should be fair to the majority. In order that any perceived disadvantage can be addressed the right to lodge a return should be retained, whilst the necessity to do so should cease.

16. To what extent does our fringe benefits tax system strike the right balance between simplicity and fairness? What could be done to improve this?

Cut it out at the roots. Switch the electricity off. Empty the tank. Match the marginal to the corporate. For example Birk has a BMW as part of his $200,000 package and diligently completes a log book. He hates the thought of the Beemer being scratched in the city car park. Consequently he does the 45 kilometre peak hour crawl to and from work in his wife's Mazda 2, while she ferries the kids to and from school 2 kilometres from home. At the end

of the BMW's lease Birk acquires it for 30% of its original purchase price. (Or 16 other permutations). What a waste of time for everyone concerned, wrought about purely because of high marginal rates.

The extention of concessions in the recent Budget is a good way forward. The obvious recognition of the fact that employee usage of many items may not, in fact, cost the employer anything at all.

17. To what extent are the concessions and exemptions in the fringe benefits tax system appropriate?

In respect to the provision of gain to the employee, in so far that is cost neutral to the employer.

18. What tax arrangements should apply to bank accounts and debt instruments held by individuals?

There should be no tax whatsoever on deposits and withdrawals of capital. Withholding tax should apply on interest payments, but only beyond the current inflation rate. Stamp duty should apply at a modest level only, on debt instruments. This should remain a state tax, as the first port of call for redress is the state courts. The amount of revenue sought should be reflective of the costs to the court system, and should not be seen as a revenue opportunity.

19. To what extent is the rationale for the CGT discount, and the size of the discount, still appropriate?

It is very bad tax architecture have different considerations. The correct adjustment was always the CPI as originally initiated. Administration becomes onerous when records for investment properties have to be kept for decades rather than years. The same can be said of shares, particularly in respect to mergers, takeovers, share buybacks, new issues, and bonus issues etc.. Capital Gains Tax should be replaced with a small, but very broadly based "Capital Exit Tax" on all shares and property with very few exceptions.

In order that such a proposal avoids disadvantaging the short term share trader, the standard rate should spread over a 50 day period; 7 weeks + 1 day of trade.

20. To what extent does the dividend imputation system impact savings decisions?

This system is largely a product of variable marginal rates. A uniform rate of personal tax should be adopted and company tax, in its current form, should be further biased towards the shareholders as individuals.

21. Do the CGT and negative gearing influence savings and investment decisions, and if so, how?

CGT tends to retard the participation rate and volume of capital expenditure.

Negative gearing is predominantly a mask for underperformance in the property sector. Properly designed, the transfer system should not become overburdened by subsidising accommodation such as million dollar CBD apartments. A good case can be made for continuing negative gearing up to a median price, applicable to new properties only, but no rational case whatsoever can be made for the overall cost in terms of foregone revenue approaching or exceeding the cost of government assisted housing.

I propose that Capital Gains Tax be abolished in its current form and replaced with a small Capital Exit Tax on all shares and property without exemption. Where small taxes are applied, then exemptions should not be seen as necessary, apart from my comment concerning short

term share trading in Q 19. The family home and superannuation should not be exempt in this instance.

22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

The unfairness and complexity within the Superannuation Guarantee system is solely caused by variable marginal tax rates. Subsidising the bottom end and penalising the top end (in terms of income) is not the answer. Some people enjoy high salaries for only a small part of their working life and may not have generated sufficient funds to be entirely free of the social security safety net. Similarly skilled migrants entering our workforce at middle age have little chance of becoming fully independent in retirement. The same can be said of women who may take many years out child raising etc.

At the other end how do you identify which low income earner you create a subsidy for? A low income, just as often as not, is a passage through to a higher income. Also worth taking into account is the fact that some low income earners may get lucky and have the benefit of an excellent fund manager, whilst some high income earners may be less fortunate.

Broadly, the lower 50% of our workforce earn only 25% of total earnings. It follows that their contribution in terms of both contribution and earnings taxes is only 25% of the pool. These are the very people who will be significantly dependent upon social security in retirement. Therefore it is this very group of people that should have no tax whatsoever taken from their retirement savings. This measure alone will increase future retirement accounts by more than 50% and consequently reduce the cost of social security very significantly. It would be well within the capacity of the top 25-35% of retirement accounts to bear the burden of a 30% tax on earnings after reaching the point of self-sufficiency. These matters are well articulated in appendix b, and c "Letter to Parliament" and "Wealth for Toil".

Often overlooked is the fact that superannuation was alive and well within Australia long before the 1990's advent of the Superannuation Guarantee. We still had troops on Gallipoli when tax deductibility for retirement savings came into being. Accordingly it is quite erroneous within the conversation network of so called informed people to be drawing attention to the relationship between so called "revenue foregone" and the cost of providing the aged pension. The original designers of the superannuation guarantee proposed that the contribution rate increase through to 12% and then to 15% over time.

A few years ago the conversation network (the modern day equivalent of the ancient scribes and Pharisees) sent out a clarion call of alarm concerning the future costs of "the aging population". Once the reader has had time to read and digest "Letter to Parliament" and "Wealth for Toil" it will be clearly understood that an untaxed SG contribution of 10% will yield more both in terms of capital and income than a future 15% contribution taxed in the current fashion. Not to mention the 5% drag on the GDP, and living standards.

There seems to be no better way to place a burden both on the future aged and the future taxpayer than to let this hastily designed and flawed system remain in its current form.

23. What other ways to improve the taxation of domestic savings should be considered? How could they be applied in the Australian context?

The only way to attain real fairness whilst simultaneously reducing complexity is to apply a uniform rate of tax to savings and to have such taxes remitted directly to the ATO. (cross reference re: CPI, Q18).

24. How important is Australia's corporate tax rate in attracting foreign investment? How should Australia respond to the global trend of reduced corporate tax rates?

    I strongly affirm the principal that the personal and corporate rates should be similar. As a corporation is comprised of members (shareholders) who are persons, the concept of corporate tax as we now know it should mature to this reality, and give way to a system of dividend withholding along with the taxing of undistributed profits.

    I have long advocated that monies derived from overseas trade should be given favourable treatment. 10% ilo 30%. The bi-product of such a strategy would see the multi-nationals already here engaging in a larger share of their global activities in our country, increasing local employment, increasing revenues, reducing trade imbalances etc..

25. Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?

    The imputation system is another bastard child of the system of various marginal rates. A uniform rate would lead to a substantial reduction in complexity in this regard. (read in conjunction to point 24).

26. To what extent would Australia benefit from the mutual recognition of imputation credits between Australia and New Zealand?

    If notice is taken of the 2 previous points, then this gives way to irrelevance. In any event page 87 of Re:think emphatically points out that mutual recognition places Australia at a disadvantage.

27. To what extent does the tax treatment of capital assets affect the level or composition of investment? Would alternative approaches be preferable and, if so, why?

    Regarding property and shares; CGT should be replaced with a small Capital Exit Tax (refer to Q 21). Regarding depreciation; by all means apply different methods and periods to different situations, as one sise will never fit all in this regard.

28. How complex is the tax treatment of capital assets and are the costs of compliance significant?

    See above Q27.

29. To what extent does the tax treatment of losses discourage risk-taking and innovation and hinder businesses restructuring? Would alternative approaches be preferable and, if so, why?

    I have had very little experience regarding this matter.

30. How could the current tax treatment of intangible assets be improved?

    As above Q29.

31. To what extent should the tax system be designed to attract particular forms of inbound investment (for example, by distinguishing between active and passive or portfolio and non-

portfolio)? If so, what principles should inform this?

Encouragement should be given for the multi-nationals to produce a greater proportion of their overall global activity in Australia. A 10% company tax rate on export income, whilst benefiting our local exporters, would simultaneously cause foreign companies to do more here.

32. To what extent does the tax treatment of foreign income distort investment decisions?

Ultimately taxes should be raised in the jurisdictions in which the relevant revenues are achieved.

33. To what extent should the tax system be designed to encourage particular forms of outbound investment (for example, by distinguishing between active and passive or portfolio and non-portfolio)? If so, what principles should inform this?

I have no current experience in this regard, specifically.

34. How can tax avoidance practices such as transfer pricing be addressed without imposing an excessive regulatory burden and discouraging investment?

The previously mentioned 10% company tax on exports will go some way towards reducing transfer pricing. However the most cost effective and efficient way is to gauge proportional activity is by reference to the publically available accounts in the country or countries of origin.

At the point where tax havens are at play, it is quite pertinent to ask the following question; "if coy x can bring 90% of its income to account in the Channel Islands, for example, then why is it that it derived only .001% of its global earnings from the people of the Channel Islands. Waiting for international treaties to occur, and trusting that such deliberations will be to our benefit, is fraught with more pain down the track. The quantity or volume of business is the easier figure to obtain from the public domain in overseas countries.

The argument between a tax official in say the USA and one of our own as to whether the cost of an airfare from Sydney to New York is to the account of the Australian subsidiary or the parent company is a complete waste of time and money. Trying to interface beauraucracies between OECD or G20 countries is to say the least total bunkum when turnover taxing can be applied with relative ease and accuracy.

It stands to reason that, if an Apple or a Google type of global company, declares to the New York Stock Exchange that it achieved a world wide net before tax earnings of 100 billion dollars, and easy to obtain figures indicate that 2% of the global activity was derived from Australia, then Australia should put its hand out for its share. The best way to do this is through turnover taxing.

35. Should the tax system provide a more neutral treatment of different financing arrangements (debt, equity and retained earnings), and if so, how? What principles should inform the approaches?

Debt or borrowings within an entity for operational reasons should be regarded as distinct from debt or borrowings outside the entity that replace or reduce the amount of capital that proprietorship would otherwise require. The latter is illegitimate in the extreme where it impacts upon revenues that would otherwise have been achieved.

Retained earnings should be taxed in the same way and at the same time as distributed earnings. There should be no such provision.

36. Should the tax system provide a more neutral treatment of income earned on revenue account and capital account? Does the distinction create significant compliance costs for business and, if so, how could it be simplified?

Certainly a greater bias towards turnover taxing will simplify things, as the above mentioned revenue account will be taken out of the equation. If in more than 20% of cases a particular tax ruling causes complications and unnecessary expense then it should be scrapped. As "one side fits all" frequently cannot suite both the taxpayer and the ATO, at least it should be a fit for the majority of circumstances.

37. Are there other important issues in the business tax system, not covered in this section, which should be considered as part of the Tax White Paper process?

38. In what circumstances is it appropriate for certain types of businesses to be subject to special provisions? How can special treatment be balanced with the goal of a fair and simple tax system?

Measured against complexity and cost, special provisions should be removed from the ATO's direct responsibility. The provisions pertinent to the forestry industry eventually were used to subsidise the production of tomato seeds. The appropriate government department should make determinations regarding special provisions, and these rulings should be reviewed annually.

39. Does the R&D tax incentive encourage companies to conduct R&D activities that would otherwise not be conducted in the absence of government support? Would alternative approaches better achieve this objective and, if so, how?

It can be a very grey area as to whether the R&D would have taken place in any event. Would we be still waiting for the stump jump plough if its inventor had required an R&D incentive? Certainly a return should come back to the taxpayer when profitability from the research is established. Care should be taken that funds are not wasted by allowing foreign owned entities to participate.

Are we still either directly or indirectly providing assistance to multi-nationals with Irish and tax haven roots?

40. What other taxation incentives, including changes to existing measures, are appropriate to encourage investment in innovation and entrepreneurship?

Well and truly outside of the tax act, please.

41. What effect is the tax system having on choice of business structure for small businesses?

All business structures should be equal under taxation law and provisions.

42. What other options, such as a flow-through entity (like an S-Corporation), would decrease the overall complexity and costs for small business involved with choosing a business structure? How would such an entity provide a net benefit to small businesses?

43. Is the interaction of the personal and business tax systems a problem? What can be done to

manage the personal-business tax interactions?

The one and only solution is for there to be no difference between the personal and corporate rate. In other words the introduction of a uniform rate. There should be no incentive for companies to retain earnings for tax reduction purposes; the decision to either distribute or retain earnings should be tax neutral. Nor should so called "complex structures" or trusts be allowed to bring about a reduction in either the amount of revenue to be raised or the timing of its remittance. There are intellectual, and moral issues that play against common sense economic principles.

44. What are the most significant drivers of tax law compliance activities and costs for small business?

45. How effective is the current range of tax concessions (such as CGT and industry specific concessions) at supporting small business engagement with the tax system? To what extent do the benefits they provide outweigh the compliance, complexity and revenue costs they introduce?

The second part of the question gives the clue to the answer. Obviously the tax system should not become overburdened by industry differentials. Specific concessions should be dealt with outside of the ATO by the appropriate department.

46. What other mechanisms (such as a single lower tax rate, improved technology deployment or other non-tax mechanisms) could assist small businesses to engage with the tax system while decreasing compliance and complexity costs?

Maybe this question relates to tradesmen as well as the typical retailer or service provider commonly found across suburbia covering a wide variety of battlers whose day to day survival does not prioritorise accurate record keeping. Taxation compliance is an onerous task for many in the self employed sector. Indifferent bookkeeping, procrastination, etc causes problems for the ATO and the taxpayer, alike.

As the ATO has the records of all taxpayers, it should be a very easy matter to analyse a significant number of coffee shops, bicycle shops, hairdressers, newsagents, pharmacies, bread shops, butchers, and so on. A deemed rate of turnover tax can be ascertained by both sector and scale for each category, remitting at the same frequency as the BAS statement. This in many cases would replace our current manner of annual assessment.

The right to lodge an annual return should be retained, as one sise never fits all, however there should no longer an obligation to do so.

47-50.

NFP is a sector that I have no administrative experience of. However, I see no good reason why my comments upon Capital Gains Tax, Fringe Benefits, and GST should not also apply to NFP.

51. To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?

The current arrangements are pathetic. The revenues should be distributed across the entire nation on a per capita basis. The event that some states are advantaged through resource revenues should be of no consequence whatsoever to the principle of uniform distribution within the true spirit of the Federation. If the likes of Queensland and Western Australia have a revenue advantage then so what! Both these states have to provide the costs of the tyranny of distance. If such states, through royalties, gain extra schools, universities, hospitals, four lane highways and or less debt, then so be it.

The people who have caused the West Australian government to receive only about a third of its pro rata, per capita GST revenue have set back for decades the possibility of sensible federal fiscal reform.

I have stated elsewhere, GST in its present form is better replaced by a small, non rebating, non exempting tax, very broadly based on practically everything with no exemptions including NFP and Local Government.

52. What are the relative priorities for state and local tax reform and why? In considering reform opportunities for particular state taxes, what are the broader considerations that need to be taken into account to balance equity, efficiency and transitional costs?

The fact that some taxes are State and others Commonwealth should never be allowed to retard the process of taxation reform. After all, taxpayers are simultaneously citizens of a State or Territory and the Commonwealth.

Payroll tax is ambiguous to say the very least. Is there any economic or moral justification for it? The States should never have been put into the position of having significant reliance on such a tax. Certainly the burden should not fall disproportionally upon the larger employers, favouring small business. What evidence, if any, is there that large companies earn a higher rate of return than smaller companies? Certainly there is none present within the political domain.

A labour intensive, low profit margin venture may even pay as much, and in many cases more, payroll tax than company tax. There can be only two ways to instil some morality into this system. Firstly, serious consideration should be given to making this tax uniform throughout all states and all payroll settings. Secondly, the rate should not under any circumstances exceed 2%.

Stamp Duties are a disgrace. Surely some taxes should apply on property, shares and other financial instruments, but only sufficiently to cover the legal contingencies associated with commerce. I cannot see why a contribution of around $30,000 to a state court system is required to cover the small chance that a million dollar home will become the subject of court involvement.

53. Does each level of government have access to tax revenue bases to finance new spending decisions? If not, should arrangements change to achieve this? How should they change? How important is it that the national government levies taxes on mobile bases? Could some taxes be shared?

54. To what extent does Australia have the appropriate mix of taxes on specific goods and services? What changes, if any, could improve this mix?

55. To what extent are the tax settings (i.e. the rates and bases and the administration) for each of these indirect taxes appropriate? What changes, if any, could be made to these indirect tax settings to make a better tax system to deliver taxes that are lower, simpler, fairer?

56. What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?

Every single person is to some extent is effected either directly or indirectly by complexity. In fact the common wealth of the Australian people together with their collective personal wealth suffer through complexity. Quantitative differentials lead to complexity.

Political and philosophical objectives frequently overlook commercial, clerical, and economic reality to such an extent that "unintended consequences" occur; the goose that lays the golden egg gets killed and eaten, never to lay another egg.

57. Would there be benefit in developing an Australian metric for tax complexity? What factors should be included? How should they be combined into a metric?

58. What system-wide approaches could have the greatest impact on reducing complexity in the tax system? Why have previous attempts to address complexity in the Australian tax system not succeeded? How might it be done in a way that is more successful?

125 taxes; 10 taxes raise 90%, 115 taxes raise 10%. This fact has been well reported in the public domain since the Henry Review, however very little has been done about it to date. WARNING: AVOID any undue relationship with the with the Legal, Accounting, and Financial Planning sectors as real reform will again will be illusive. I well remember the release of the Henry Review being delayed whilst "experts" checked it out.

59. In what ways can reforms of tax administration best assist in reducing the impact of complexity on taxpayers? Are there examples from other countries of tax administration reform to reduce the impact of complexity that Australia should adopt?

Proper design and architecture will be of benefit to both the tax department and the taxpayer.

60. What processes or systems currently being used by businesses and individuals could the ATO better utilise to lower the compliance costs of the tax system?

61. Could administrative responses — such as embracing technology, harnessing data and taking the whole-of-government approach to administration — help address the issue of tax system complexity?

62. Would there be benefits in integrating the administration of taxes across the Federation? If so, what would be required to realise these benefits?

Yes, but for the fact that the Commonwealth has interfered unnecessarily in what should have been a proportional distribution of the GST. How can it be trusted in further reforms, such as payroll tax, to render proportional distribution to each state?

63. What changes could be made to provide greater certainty, transparency and accountability to tax policy development in Australia?

64. Are current tax review arrangements appropriate? How could they be improved?

65. Could the arrangements for developing tax policy in Australia be improved? If so, how?

66. Would the benefits of releasing more tax data and detail around costings outweigh the costs?

APPENDIX A

Marginal Tax Rates ***(Retrograde Taxation)****

Real taxation reform is ransomed by the politics of envy. The idea of so-called progressive taxation sounds good in theory to those who are intellectually predisposed to socialist thought processes. The concept also has favour with lower income groups who falsely believe that higher rates, applied to high salary earners, bring about lower taxes for themselves. The Communist Manifesto called for "a heavy progressive or graduated income tax", yet Russia and many of the former Soviet States have abandoned the concept of progressive taxation.

Our total State and Commonwealth revenue approaches about $420b per annum, and the $11b that is obtained through the application of the 40% (recently 38% and now 37%) and 45% rates is only around 2.5% of total taxation revenue. However, ***this is the cause of all manner of complications within the taxation system itself***, stifles initiative, as well as driving people into offshore taxation arrangements. I am of the opinion that the $11b raised in these brackets causes a loss to revenue of between two to three times as much by way of evasion and avoidance (arbitrage).

** Taxes become retrograde when they are applied in such a way as to reduce activity/turnover to such a point where a lower rate can achieve more revenue by increasing activity/turnover.*

REVENUE REVIEW FOUNDATION

Richard Hackett-Jones

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Personal income tax rates for residents, 2008-09 income year

Taxable Income	Tax Payable
$0-$6,000	0% or $0
$6,001-$34,000	Nil plus 15 cents for each $1 over $6,000
$34,001-$80,000	$4,200 plus 30 cents for each $1 over $34,000
$80,001-$180,000	$18,000 plus 40 cents for each $1 over $80,000
$180,001 or more	$58,000 plus 45 cents for each $1 over $180,000

Resident individuals' net tax payable, by taxable income, 2008-09 income year

	Taxpayers		Net tax payable		
Taxable income	**No.**	**%**	**$m**	**%**	
$0-$6,000	6,044	0.1	6	<0.1	
$6,001-$34,000	2,859,699	31.3	4,864	4.2	
$34,001-$80,000	4,868,824	53.2	47,456	41.1	
$80,001-$180,000	1,227,804	13.4	36,699	31.8	*
$180,001 or more	184,167	2.0	26,372	22.9	**
Total	**9,146,538**	**100.0**	**115,398**	**100.0**	

*		
1,227,804 taxpayers had a top marginal of 40%	$m	
Tax paid	36,699	
1,227,804 x $18,000 (@ 30% and less)	22,100	
Taxed paid at 40%	14,599	
If taxed at only 30%	10,949	
Cost to revenue		$3,650
Percentage of total		3.16%

**			
184,167 taxpayers had a top marginal of 45%	$m	$m	
Tax paid		26,372	
184,167 x $18,000 (@ 30% and less)	3,315		
		23,057	
Current tax paid between $80,001-$180,000 at 40%	7,366		
If paid at 30% in lieu of 40%		5,525	
Cost to revenue			1,842
Total current tax paid to $180,000		10,681	
Taxed @ 45%		15,691	
Taxed @ 30% in lieu of 45%		10,461	
Cost to revenue			5,230
Total cost to revenue for taxpayers earning above $180,001			7,072
Percentage of total			6.13%

Total cost to revenue	10,722
Total percentage of revenue	9.29%

Figures extracted from Taxation Statistics 2008-09

Personal income tax rates for residents, 2007-08 income year

Taxable Income	Tax Payable
$0-$6,000	0% or $0
$6,001-$30,000	Nil plus 15 cents for each $1 over $6,000
$30,001-$75,000	$3,600 plus 30 cents for each $1 over $30,000
$75,001-$150,000	$17,100 plus 40 cents for each $1 over $75,000
$150,001 or more	$47,100 plus 45 cents for each $1 over $150,000

Resident individuals' net tax payable, by taxable income, 2007-08 income year

	Taxpayers		Net tax payable		
Taxable income	**No.**	**%**	**$m**	**%**	
$6,000 or less	7,742	0.1	2	0.0	
$6,001-$30,000	2,885,702	29.3	4,341	3.6	
$30,001-$75,000	5,404,053	55.0	50,098	41.2	
$75,001-$150,000	1,271,845	12.9	34,347	28.3	*
$150,001 or more	264,824	2.7	32,728	26.9	**
Total	**9,834,166**	**100.0**	**121,516**	**100.0**	

*

1,271,845 taxpayers had a top marginal of 40%	$m	
Tax paid	$34,347	
1,271,845 x $17,100 (@ 30% and less)	$21,748	
Taxed paid at 40%	$12,599	
If taxed at only 30%	$9,449	
Cost to revenue		$3,150
Percentage of total		2.59%

**

264,824 taxpayers had a top marginal of 45%	$m	$m	
Tax paid		32,728	
264,824 x $17,100 (@ 30% and less)	4,528		
		28,200	
Current tax paid between $75,001-$150,000 at 40%	7,944		
If paid at 30% in lieu of 40%		5958	
Cost to revenue			1,986
Total current tax paid to $150,000		12,472	
Taxed @ 45%		20,256	
Taxed @ 30% in lieu of 45%		13,504	
Cost to revenue			6,752
Total cost to revenue for taxpayers earning above $150,001			8,738
Percentage of total			7.19%

Total cost to revenue	11,888
Total percentage of revenue	9.78%

Figures extracted from Taxation Statistics 2007-08

Personal income tax rates for residents, 2006-07 income year

Taxable Income	Tax Payable
$0-$6,000	0% or $0
$6,001-$25,000	Nil plus 15 cents for each $1 over $6,000
$25,001-$75,000	$2,850 plus 30 cents for each $1 over $25,000
$75,001-$150,000	$17,850 plus 40 cents for each $1 over $75,000
$150,001 or more	$47,850 plus 45 cents for each $1 over $150,000

Resident individuals' net tax payable, by taxable income, 2006-07 income year

	Taxpayers		Net tax payable		
Taxable income	**No.**	**%**	**$m**	**%**	
$6,000 or less	7,835	0.1	2	0.0	
$6,001-$25,000	2,053,837	22.2	2,435	2.1	
$25,001-$75,000	5,902,167	63.7	52,531	46.2	
$75,001-$150,000	1,065,080	11.5	29,258	25.8	*
$150,001 or more	234,495	2.5	29,393	25.9	**
Total	**9,263,414**	**100.0**	**113,620**	**100.0**	

*			
1,065,080 taxpayers had a top marginal of 40%		$m	
Tax paid		$29,258	
1,065,080 x $17,850 (@ 30% and less)		$19,011	
Taxed paid at 40%		$10,247	
If taxed at only 30%		$7,685	
Cost to revenue			$2,562
Percentage of total			2.25%
**			
234,495 taxpayers had a top marginal of 45%	$m	$m	
Tax paid		29,393	
234,495 x $17,850 (@ 30% and less)	4,185		
		25,208	
Current tax paid between $75,001-$150,000 at 40%	7,034		
If paid at 30% in lieu of 40%		5276	
Cost to revenue			1,759
Total current tax paid to $150,000		11,219	
Taxed @ 45%		18,174	
Taxed @ 30% in lieu of 45%		12,116	
Cost to revenue			6,058
Total cost to revenue for taxpayers earning above $150,001			7,817
Percentage of total			6.88%
Total cost to revenue			10,378
Total percentage of revenue			9.13%

Figures extracted from Taxation Statistics 2006-07

Taxable income band	Marginal income tax rate	Individuals — no.	Individuals — %	Net income tax — $b	Net income tax — %
$16,000 or less	0%	2,307,735	18.3	0.0	0.0
$16,001 — $37,000	15%	3,453,310	27.3	5.3	3.7
$37,001 — $80,000	30%	4,745,935	37.6	47.4	32.8
$80,001 — $180,000	37%	1,836,900	14.5	54.0	37.4
$180,001 and over	45%	292,500	2.3	37.7	26.1
TOTAL	n.a.	12,636,380	100.0	144.4	100.0

Note: The effective tax free threshold in 2011-12 was $16,000, after including the low-income tax offset. Totals are for those individuals lodging a tax return for that year.
Source: Treasury estimates using income tax returns for resident individuals for 2011-12.

If we take a crude assumption that the $37.7B raised above the $180,000 bracket was taxed @ 30% instead of 45% then a “loss to revenue” of one-third or $12.56B would occur. This is much more than the previous years charts due to both bracket creep and economic expansion. Again it is more than probable that reduced arbitrage would return to Treasury much, much more than the “loss to revenue”.

E&OE. Exact analysis, for which I am not equipped, will show these assumptions to be conservative.

APPENDIX B

REVENUE REVIEW FOUNDATION

COMMON SENSE TAX REFORM

Wealth for Toil / Not so Super

Over the past few years I have corresponded with all members, regardless of party allegiance, in respect to taxation reform. Typically, I receive a favourable response from about 7.5% of members and senators. *(Perhaps I should consol myself with the fact that people such as yourselves are very busy, and that 75% intended to write had time become available to do so).* I have so far received only one unfavourable response from a now ex-member of the House of Representatives. However, my letters of the 13th December 2012 and 31st January 2013 (both on the subject of the Superannuation Guarantee) received a response of only 2.5%! **So obviously this issue is a "hot potato"!!**

The Superannuation Guarantee has been lauded as an invincible piece of fiscal architecture since its inception 20 years ago. ***However, the design is seriously flawed***. The deficiencies must be dealt with sooner rather than later. The cost to our nation and its people is too great to ignore for too much longer. To put this problem in the "too hard basket" will only make matters much worse going forward into the 2030s and beyond.

The attachments are a collection of articles produced over the past 12 months, which I really can't improve upon, by writing a totally new version. Regardless of position and seniority in the parliament and the government, members and senators should familiarise themselves with the attached material and become cognisant of this issue. No member or senator should be excused for indifference to this material.

I look forward to hearing from your office at your earliest convenience.

In the best interests of Australia.

Yours Sincerely,

Richard Hackett-Jones

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Revenue Review's Richard Hackett-Jones has given up waiting for the tax experts, academics, bureaucrats, and politicians to solve a very serious problem. Richard presents the following as a solution and looks forward to some commonsense debate.

(Not So) Super. Arithmetical realities are being ignored.

The current conversation on Superannuation overlooks the realities of simple arithmetic and compound interest. The problems inherent in the current system stem from arbitrage (avoidance and evasion).

The power of compound interest. You don't have to be Einstein to realise that the combined effect of the 15% contributions tax and the 15% tax on earnings inhibits personal and national wealth. If $850 ($1000 minus 15%) was invested at (8.2% minus 15%) 7% for 48 years it would generate $20,400. If $1000 was invested at 8.2% for 48 years it would generate $40,600 – almost twice as much!

In 1915 the Fisher/Hughes Government introduced corporate tax concessions for retirement funding. Before the superannuation guarantee was introduced a 5% tax on fund earnings was applied. Typically white collar and professional employees contributed 5% from salary (deductable) which was matched by an equal contribution from the employer.

When the Superannuation Guarantee arrived the 5% tax was increased to 15% and a contributions tax of 15% applied. The combined effect of these two taxes has the potential to reduce a future retiree's accumulation by at least 35%, leaving **only 65% in terms of capital**, in other words the retiree's capital account could be **around 54% greater.**

The below average to average worker of today is going to be either significantly or partly social security dependent upon retirement. Consider the reduction in future aged care costs if those who would be significantly dependent were to become less dependent and those who would be partly dependent were to become fully independent.

A casual observation indicates that less than $7B in SG taxes is derived from the lower 50% of the workforce, whereas a future reduction of say 30% in the aged care budget would save around $11B in today's money values.

The future value of our nation's employee superannuation accounts will have the potential to be around 40% greater if taxation is avoided until **the goose that lays the golden egg has reached puberty.**

The considerable cost in money and time of increasing the contribution to 12% (and thereafter to 15%) can be averted **as a 10% fund untaxed matches a 15% fund taxed**.

The current issue stems from arbitrage. Lump sum investors in the later years of the Howard/Costello government were encouraged to invest up to $1,000,000 into a 15% tax shelter. They were exchanging a 45% (or 40%) tax rate for a 15% rate. Therefore every $1B of super tax revenue gained was at the cost of $3B ($2.66B) to other revenue. At the time aged pension asset means test was less than $400,000!

A simultaneous solution must be found to address both arbitrage and inadequate retirement accumulations. I advocate that all ***account earnings*** be taxed at 30% from a tax free threshold of $60,000*. This threshold should reduce by $500 for each extra $1,000 earned and therefore fully exhaust at $120,000. Thereafter further money should either be deposited into a normal savings product (after withholding 30% tax), or cease (and convert to taxable salary).

The current tax points are toxic. I am sure that taken to a ***40 year forward estimate*** the future will be much brighter if we make the changes sooner rather than later. **Our current arrangements have probably already cost the nation and its people around $300B in net wealth.**

I propose that the changes should be made over a five year period from 1 July 2015.

- The proposal to increase contributions to 12% (and thereafter to 15%) should be scrapped. The compulsory contributions should be capped at 10% from 1 July 2015.

- Each of the 15% taxes should be rolled back by 3% per year to zero at 1 July 2019.

- Compensation should be given to retirees who will have suffered over two decades of SG taxes. I propose that the threshold be loaded by 60% as at 1 July 2015, reducing by 2.5% per annum to zero at 2039 for such people. Naturally, those who put $1,000,000 on deposit 30 June 2006 will only receive a 20% loading.

- In the transitional period the threshold will actually be taxed 12% from 1 July 2015 tapering to a fully tax-free threshold of zero from 1 July 2019.

The cost of implementing changes could be in the vicinity of $30B over five years. **The real cost is to do nothing**. Rather than postpone reform due to current budgetary constraints, the monies required for the transitional period could be acquired through a bond issue to the largest superannuation funds.

Under the current system both our individual prosperity and national wealth are being seriously compromised.

Go to www.revenuereview.com.au homepage item "Wealth for Toil or Safety Net Dependency" for more information.

I look forward to your comments.

Contact

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ked to 80% of average fulltime wages $72,500 x 0.8 = $60,000

Explanatory Notes

Contributions tax

Worker Bloggs has a salary of $52,000 per annum and his employer pays $5,200 per annum in superannuation guarantee contributions which is taxed at 15% ($780) netting $4420 to his retirement account.

Sometime in the future, worker Bloggs receives the benefits of a 15% contribution or $7,800 in Superannuation Guarantee contributions also taxed at 15% ($1,170) netting $6,630 to his retirement account.

Where does the extra 5% contribution come from? It can only come from either Bloggs' employer or Bloggs himself. If Bloggs is a public sector employee then government has to raise extra taxes.

Clearly, if the extra $2,600 is in the hands of either Bloggs or his employer, and they are both on the 30% tax rate, then their collective contribution to revenue is $780. ***That should make the legislators think.***

Therefore, this clearly demonstrates that any long-term loss to revenue by foregoing the contributions tax is compensated by not having to increase the superannuation guarantee to 15% over time, which is clearly the governments long-term objective.

Tax on earnings

As pointed out "the considerable cost in money and time of increasing the contribution to 12% (and thereafter 15%) can be adverted as **a 10% fund untaxed matches a 15% fund taxed**."

Withdrawal of threshold

I propose that taxes **(30% in lieu of 15%)** apply on all accounts both pre and post retirement from the point of the $60,000 threshold, with the threshold exhausting at $120,000. Both these figure should be **indexed**.

Loading of threshold (compensation)

The reason for the loading is to compensate in part those who have had their savings accumulation diminished by the ravages of the two SG taxes. The 60% loading should diminish by 2.5% per year over 24 years from 2015.

Naturally a retiree, who had retired before the SG taxes were introduced, would not need to be compensated. Adjustments to the 60% loading would pro-rata over the number of years that the retirees' monies were subjected to Superannuation Guarantee taxes.

Notes provided to Taxation Institute pre-election debate between David Bradbury and Mathias Corman 24th July 2013 (time did not permit this subject to surface)

Taxation applied to employee superannuation reduces the value at retirement to around 65% of untaxed potential.

Accordingly, a future median waged retiree might receive $500,000 in today's money value UNTAXED and only $325,000 TAXED AS CURRENTLY.

At 8% the retiree couple would receive $40,000 in the first instance and only $26,000 in the second instance. This means that the tapered social security dependency is almost doubled, and the net disposable income is reduced to 85%.

Another consequence of this is that the future combined value of all employee superannuation accounts will languish at around 70% of untaxed potential.

For every 48 workers, aged between 17 and 65, at current life expectancy figures there will be 19 retirees aged between 66 and 85 riding on their shoulders.

The Superannuation Guarantee taxes raised on these 48 workers, within the median ($52,000 p.a. approx) and below, is considerably less than the additional monies paid in social security pensions.

What is your solution?

Richard Hackett-Jones

Revenue Review Foundation

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Copy of letter dated 13 December 2012 (amended 18 November 2013)

13 December 2012

Holiday Reading for all MHRs, Senators, their senior staff and advisors

In my submission to the Henry Review (May 2009) I pointed out that a retiree who might otherwise have accumulated $500,000 would have an accumulation of only $325,000 due to the taxes applied to the superannuation guarantee.

*$500,000 @ 8.2% would produce an income of $41,000 p.a. This retiree (couple) may be eligible for some social security tapering ($6,750 approx.). A single retiree would neither need nor be eligible for any additional social security support.

This article demonstrates that in respect to the ordinary worker the only thing that the Superannuation Guarantee guarantees is that the social security department ultimately will have to pay out significantly more in pensions than what is received in Superannuation Guarantee taxes in relation to the future workforce going through into the 2030s.

*$325,000 @ 7% produces only $26,650 p.a in SG pension. This retiree (couple) is in need of social security assistance and would be eligible to receive a tapered benefit of around $15,800 p.a under the current arrangements. A single retiree would receive around $6,700.

*The above figures (2012) are derived from the pre-upgrade social security entitlements. The new figures further exacerbate the illustration.

When we compare paragraphs two and four we discover that the taxing of the fund causes the social security dependency to more than double. ***Currently the government pays around $33 Billion to the aged. If the number of eligible recipients was reduced by a third and that the monies claimed by those eligible was reduced by one third then the cost of the above mentioned $33 Billion would be halved.*** Upon the basis of the attached article (www.revenuereview.com.au "Wealth for Toil or Safety Net Dependency"), it is quite reasonable to assume that the removal of taxes from superannuation in respect to average and below average wage earners would at least halve future government pension liabilities.

*2013 upgrade. The "hollow men" might get the better of me on this statement, however Treasury should determine as accurately as possible the substance of the above paragraph.

The advent of the Superannuation Guarantee in 1992/93 was only a token 3% of salary for people not already superannuated. However, when introduced it tripled the tax on fund earnings from 5% to 15% as well as taking a contributions tax of 15% on people who were already superannuated. This enabled the Government to bring down a budget of around $18B in deficit instead of a deficit closer to $22.5B.

Sadly the architects of the Superannuation Guarantee overlooked the fact that taxes on savings reduce outcomes, and that ultimately the reduced outcomes require increased engagement with the aged pension system. ***Not only does a pensioner achieve only 65% of what he or she might otherwise receive, but the pensioner (and the nation) have had their capital accounts eroded to around 65% of untaxed potential***. Twenty years have passed since 1992 and people entering the workforce then are around halfway through their working life now. By sometime in the 2030s our total superannuation capital accounts will be eroded by around $500B in today's money value. ***Recently much public discussion took place concerning the sale of Cubbie***

Station for $300M to overseas interests. This future $500B is the equivalent of more than 1,650 similar entities. Whilst we may need foreign investment we shouldn't overdose on it unnecessarily.

The following analysis speaks for itself in regard to the median and low-income workforce. Whilst my "model" is simplistic, a safety margin for error of around 30% exists; thus the facts and assumptions are not ambiguous, but understated. I have not yet engaged in a similar analysis of the top 25% of the workforce. In this respect my proposals have always been centred upon the abolition of arbitrage and accordingly the high-end superannuation accounts should be taxed at a much higher rate to prevent arbitrage. However there seems to be very little to be gained over the long term in adjusting the contributions tax paid by high-income earners in the current manner. The superannuation account should in itself be the taxation target and taxes should not apply until "the goose that lays the golden egg" has gotten fat. By not taxing the early accumulation phase of a savings plan, tax will ultimately be levied on a fund that will be approximately 30% higher than it otherwise would have been. This means that a 30% tax in lieu of the current 15% tax is in fact the equivalent of a 39% tax. ***Theoretically nobody's savings should be taxed whilst the accumulation is providing funds that negate the future need for social security.***

The Howard/Costello introduction of the $1,000,000 lump sum contribution has allowed arbitrage to thrive whereby people exchanged a 30/40/45% tax rate for a 15% tax rate. What is the use of $2B of revenue from the 45% marginal tax payers, when the ultimate gross cost to revenue is $6B? Similarly, what is the benefit of $4B in revenue being achieved from the 37% marginal tax payers exchanging to a 15% rate? Gross cost to revenue; $9.86B. Assuming an investor had a spare $1,000,000 in the 2006/2007 period; what would his/her social security pension eligibility have been? Zero!

Regardless of which political party you serve and regardless of your so-called right wing, left wing orientations, I expect you as a serving member of parliament to reflect intelligently and take appropriate action. The material herein has had a reasonably wide exposure over the last couple of months and it has not received any rebuttal; not even from Treasury.

I have had wide experience over the last few years in discussing taxation reform with many politians. Regrettably the majority response is one of indifference, which is sad for our country as much could be done if so-called legislators applied their minds appropriately. The subject of this letter amply illustrates what I call ***retrograde*** taxation, and sadly this is not a standalone example of retrograde taxation.

A recent Q&A (19.11.12) discussed many taxation related matters. Heather Ridout pointed out that out of 125 taxes 10 raised 90% of revenue leaving 115 taxes to raise 10% of revenue. Prior to her appointment to the board of the Reserve Bank, Heather served as CEO of the Australian Industry Group as well as being a panellist to the Henry Review. One would think that the efforts of a very proactive community leader such as Heather would have lead us to practical reform; which obviously has not been the case. Former Prime Minister Kevin Rudd ("... then I think it cascades down the spectrum.") demonstrated an increased comprehension of taxation since his statement at the time of the 2007 election, however struggled to keep up with Malcolm Turnbull's attention to detail. Of more significance to this subject matter is Professor Judith Sloan's commentary in The Weekend Australian newspaper (8 Dec). I don't think she said "the Emperor has no clothes" but she may just as well have.

I have observed over the years that too often when the minds of bureaucrats and intellectuals meet, the practicality and simplicity which can be applied to difficult problems is ignored. Our current taxation system is a living monument to ignorance in terms of practical application.

Regards,

Richard Hackett-Jones

Taxation Statistics 2009-2010

Table 9 Personal Tax

		Bottom 25% contribute 2.7% to revenue		Top 75% contribute 97.3% to revenue	
Yearly Earnings	Total Earnings	Percentile	Contribution to revenue	Percentile	Contribution to revenue
$31 911	10.1%	25	2.7%	75	97.3%
$36 163	14.6%	33	4.6%	67	95.6%
$46 411	26.3%	50	11.7%	50	88.3%
$60 208	41.3%	67	24.2%	33	75.8%
$69 263	46.9%	75	32.6%	25	68.4%
$99 037	70.2%	90	54.7%	10	45.3%
$131 192	79.5%	95	66.5%	5	33.5%
$190 005	87.2%	98	77.3%	2	22.7%
$264 229	90.9%	99	83.0%	1	17.0%

It is important for community leaders and people of influence as well as policy makers to fully understand the fundamental realities that underpin our taxation system. For example:-

Top 25% of taxpayers contribute 68.4% to revenue (after 46.9% of total earnings)

As the tax burden naturally falls on these people then why shouldn't this also be the case in respect to superannuation taxes?

This group would be quite capable of being taxed at 30% on fund earnings (whether retired or not) beyond the before mentioned threshold arrangements. They would still be around 30% better off than under the current arrangements. This will take arbitrage out of the equation.

Bottom 50% of taxpayers contribute only 11.7% to revenue (after 26.3% of total earnings)

Many of these people will still be partly dependant upon social security (see below).

Bottom 25% of taxpayers contribute only 2.7% to revenue (after 10.1% of total earnings)

These people inevitably become social security recipients. If their superannuation had not been taxed then their income in retirement would be around 54% higher. This would lead to considerable savings in aged pension and aged care entitlements. These savings would far exceed the current revenues raised within the Superannuation Guarantee system.

APPENDIX C

REVENUE REVIEW FOUNDATION

COMMON SENSE TAX REFORM

"WEALTH FOR TOIL"

or SAFETY NET DEPENDENCY

- Future retirees face a 35% reduction in super due to Superannuation Guarantee (SG) taxes
- Conversely, they could receive at least 55% more
- Reductions cause an increase in social security dependency
- This increased dependency is typically between 35% and 65%
- Total SG taxes are far exceeded by greater social security liabilities
- Even after rescue by the safety-net the retiree is typically 25% worse off
- Accordingly future retirees will have 20% less spending power
- ***Taxing to a point that increases social security is retrograde***
- ***Retrograde SG taxes will reduce future national savings by over 30%***
- Conversely, future total super accounts should be over 40% greater
- SG taxes should not be the cause of increased future Social Security liability
- Substitute revenues can be easily achieved by taxing high-end accounts
- Such accounts will typically be held by the top 25% of wage earners
- SG tax should not apply until income accruals reach 80% Average Weekly Earnings

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Australia's current taxation laws applying to superannuation are illogical and unfair.

The $1.4 trillion investment in superannuation contributes about $28 billion p.a. to revenue, ie 2%. Currently this 2% is raised through a 15% tax on contributions, and 15% tax on fund earnings – approximately $12 billion and $16 billion respectively.

A future retiree's benefits could be enhanced by at least 55% if neither of these taxes were applied to average people. Consequently, a superannuation contribution of around 10% (untaxed) would produce a similar result to a 15% guarantee that is taxed in the present manner. I have used an earnings rate of 8.2% on untaxed examples and an earning rate of 7% on the taxed examples (7% being 85% of 8.2%).

Following is a snapshot presented to draw attention to the anomalies in the system. In order to facilitate better understanding, I have resorted to a Geoffrey Robertson 'Hypothetical' based on people born from 1950 and, presumably living up to and beyond 2030, after having served around 48 years in the workforce – and retiring from 2015. So, I have assumed that one worker has commenced work every year since 1967, and over the 48 year period of employment the annual tax revenue under this proposal would be around $110,000 and $140,000 respectively, short of the current two 15% arrangements.

By setting aside the future aspiration to increase the superannuation guarantee to 15% there will be significantly greater future revenues for both individuals and companies, and consequently taxation receipts. So, let us not concern ourselves with the 'loss' of the contributions tax as the above-mentioned revenues will adequately compensate.

The 33rd percentile and the 50th percentile figures in this illustration are derived from the latest available taxation statistics (2009-2010). Real wage scenarios are used through to 2011 and 1.5 net real wage productivity increase beyond that point. Immediately it is clear that the total accumulation for these 48 workers taxed under the Keating Superannuation Guarantee would be $9,195,000; whereas the accumulation under the untaxed proposal would be $13,139,000 (50th percentile) – 43% greater.

The 33rd percentile will always be significantly social-security dependent. For simplicity these illustrations are based on the assumption that for every additional dollar earned from either private super or personal exertion, social security dependency is reduced by 50c in the dollar. Any minor distortions in this approach are of little significance.

In the ordinary income tax system the top 25% of wage earners contribute more than two-thirds of the tax revenue. Similarly superannuation should only be taxed on the high-end accounts where accumulations produce an income which far exceeds the social security safety net; and such taxes should then be applied at 30% and not 15%. These higher income earners will still have a much better accumulation than they enjoy under the current system and the government's revenue might even improve directly and also indirectly, through reduced arbitrage.

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Policy makers need the correct information to consider proposed policy.

The question they must ask themselves is whether the $140,000 of tax revenue is a good thing for the country's economy if our capital accounts are down by $4 million. Conversely if the $4 million is not lost to the investment sector, then tax on corporate earnings could quite reasonably largely compensate the Treasury for this $140,000. *However, it is important to consider that higher performing superannuation will cause a significant reduction in future social security expenditure.* Conversely, low performing superannuation funds will increase social security dependency.

The 50th percentile. Policy makers please consider that in this snapshot of people from 1950 and, we assume, living until 2030 and beyond, there will be 19 retirees drawing at least $11,113 extra in social security, or around $211,147 p.a. This far exceeds the $139,719 achieved in revenue; by such a margin that probably fully negates any statistical or analytical error that may have occurred in my assumptions. Obviously there is a need for simplification; however, I do not let this need exceed the need for accurate analysis. Statistically, widows live several years longer than widowers. By mixing the singles figures with the married on a ratio of 1:2, the $11,113 reduces to $9,109.00 average. This totals $173,000 which still far exceeds the $139,719.

And for those in the 33rd percentile, policy makers please consider that in this snapshot of people born from 1950 and, we assume, living until 2030 and beyond, there will be 19 retirees drawing at least $8,400 extra in social security or around $159,600 per year which far exceeds the $109,344 achieved in revenue; again by such a margin that probably fully negates any statistical or analytical error that may have occurred in my assumptions.

Under my proposal the average **full time** worker (74th percentile) will have no dependency on social security. Analysis clearly demonstrates the cost to social security caused by the current system. Obviously taxation is pure humbug when it interferes with activity and investment to the point where the net gain is zero in terms of government revenue and negative in terms of personal enterprise and investment.

My research details that the SG tax raised on our snapshot of 48 workers is less than the extra moneys that the social security department has to pay to the 19 retirees.

The power of compound interest. You don't have to be Einstein to realise that the combined effect of the 15% contributions tax and the 15% tax on earnings inhibits personal and national wealth. If $850 was invested at 7% for 48 years it would generate $20,400. If $1000 was invested at 8.2% for 48 years it would generate $40,600 – almost twice as much!

I do not see why I should have to apologise for pointing out the arithmetical obvious. However, Keating still carries a lot of a clout amongst the Scribes and Pharisees of our society. According to one of Keating's biographers his Departmental head

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dreamt up the Superannuation Guarantee as a compensatory gesture to the Union Movement in place of excessive wage demands. It is quite apparent that the combination of these two taxes has gouged our super funds of the best part of $350 billion in accumulations. This tax gouge quite probably exceeds the inputs over the past 20 years of the blue collar and miscellaneous workers who were added to the super pool through the Superannuation Guarantee – and whose employers were compelled to make contributions.

EXTRACTS FROM TABLES (Tables available upon request)*

Value of fund 2015	(50th percentile)		(33rd percentile)	
Untaxed	$13,139,171		$10,282,715	42.90% EXTRA
Taxed	9,194,953	69.98%	7,195,970	
Retiree's A/c				
Untaxed	587,561		459,825	58.48% EXTRA
Taxed	370,752	63.10%	290,151	
Super Income				
Untaxed	$48,180		$37,706	85.64% EXTRA
Taxed	25,953	53.86%	20,311	
Safety Net				
Couple				
Untaxed	3,163			22.16%
			8,400	49.13%
Taxed	14,276		17,098	
Single				
Untaxed	-6,012		-775	ZERO
Taxed	5,102		7,923	
Total Disposal Income				
Couple				
Untaxed	51,343			27.62% EXTRA
			46,106	23.25% EXTRA
Taxed	40,229	78.35%	37,408	81.10%
Single				
Untaxed	48,180			55.15% EXTRA
			37,706	33.59% EXTRA
Taxed	31,054	64.45%	28,233	74.87%
Social Security Dependency				
Couple	52.38%		62.74%	
Single	28.22%		43.83%	

E&OE *If you have access to employee or fund files you may like to do your own calculations.
September 2012

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APPENDIX D

UNIFORM TAX TRANSFER SYSTEM

Consider an average full time employee with a dependent spouse and 2 children earning $75,000 pa. This person is placed between the 26th/ 27th percentile of the tax filing population, being smarter and or harder working than at least 73% of the population. Also consider the ramifications of giving such a person more in entitlements than is received in personal income tax. Should this taxpayer, in the wash up between tax and social security, have net receipts in excess of $75,000 then one must ask some serious questions about the family and the nation living beyond their means.

Assuming that a uniform tax rate of 30% is applied; $22,500 becomes the benchmark for all thresholds and gross entitlements. $22,500 spread over a family of 4, being net benefit of $5,625 per person or a threshold equivalent of $18,750 per person.

If we were to reduce by tapering the cash entitlements to zero through higher incomes at 20c in the dollar then the entitlements or benefits would expire fully over income exceeding five times the net benefits. Clumsy withdrawal will never again cause disincentives.

It is of paramount importance that tax and social security be seen as a single item in respect the transfer system. The convoluting of tax on one hand and entitlement reduction on the other hand leads to some very unfair effective marginal rates, particularly in the welfare to work transition phase. However, whilst these numbers more aptly apply to different people in different circumstances, in the welfare to work sector the numbers also impact the individual directly as activity and income increase.

Given that things are not equal at the bottom line this same formula can be carried through all wage and salary variations as well as taking account of different family sises. It will never be possible for real improvements to the transfer system to see everybody better off in a direct comparison, however every man women and child, in other words; THE NATION, will be better off.

This table illustrates a 4 person family unit:–

Income $	Tax $	Benefit	Disposable	Per Person
75,000	22,500	22,500	75,000	18,750
65,000	19,500	22,500	68,000	17,000
55,000	16,500	22,500	61,000	15,250
45,000	13,500	22,500	54,000	13,500
35,000	10,500	22,500	47,000	11,750

Lets now look at a 5 person family unit:–

Income $	Tax $	Benefit	Disposable	Per Person
75,000	22,500	28,125	80,625	16,125
65,000	19,500	28,125	73,625	14,725
55,000	16,500	28,125	66,625	13,325
45,000	13,500	28,125	59,625	11,925
35,000	10,500	28,125	52,625	10,525

The following illustrates a three person family unit:–

Income $	Tax $	Benefit	Disposable	Per Person
75,000	22,500	16,875	69,375	23,125
65,000	19,500	16,875	62,375	20,792
55,000	16,500	16,875	55,375	18,458
45,000	13,500	16,875	48,375	16,125
35,000	10,500	16,875	41,375	13,792

Now for the couple:–

Income $	Tax $	Benefit	Disposable	Per Person
75,000	22,500	11,250	63,750	31,875
65,000	19,500	11,250	56,750	28,375
55,000	16,500	11,250	49,750	24,875
45,000	13,500	11,250	42,750	21,375
35,000	10,500	11,250	35,750	17,875

Bear in mind that with a uniform rate it is of no consequence as to which of the 2 parties contribute to the income pool, nor to what proportion. The ramifications of income splitting are no longer relevant.

Now lets hear it for the poor old single:–

Income $	Tax $	Benefit	Disposable
75,000	22,500	5,625	58,125
65,000	19,500	5,625	51,125
55,000	16,500	5,625	44,125
45,000	13,500	5,625	37,125
35,000	10,500	5,625	30,125
25,000	7,500	5,625	23,125
20,000	6,000	5,625	19,625

Now let us work our way up the scale:–

Single person.

100,000	30,000	625	70,625	see para 2
125,000	37,500		87,500	do
150,000	45,000		105,000	
175,000	52,500		122,500	
200,000	60,000		140,000	
225,000	67,500		157,500	

Now go back to the couple:–

100,000	30,000	6,250	76,250
125,000	37,500	1,250	88,750
Benefit expiry	131,650		
150,000	45,000	105,000	
175,000	52,500	122,500	
200,000	60,000	140,000	
225,000	67,500	157,500	

The 5 person family unit:–

100,000	30,000	23,125	93,125	18,625
125,000	37,500	18,125	105,625	21,125
150,000	45,000	13,125	118,125	23,625
175,000	52,500	8,125	130,625	26,125
200,000	60,000	3,125	143,125	28,625
Benefit expiry	215,625			
225,000	67,500			

The 3 person family unit:-

100,000	30,000	16,875	86,875
125,000	37,500	11,875	99,375
150,000	45,000	6,875	111,875
175,000	52,500	1,875	124,375
Benefit expiry	184,375		

And back to where we began: the 4 person family unit.

100,000	30,000	22,500	92,500
125,000	37,500	17,500	105,000
150,000	45,000	12,500	117,500
175,000	52,500	7,500	130,000
200,000	60,000	2,500	142,500
225,000	67,500	Benefit expiry	212,500