

# SDA Submission

*on*

*“Re:think”*

*Tax Discussion Paper*

Better tax system, better Australia

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## **Better tax system, better Australia**

The Shop, Distributive and Allied Employees' Association (SDA) is Australia's largest trade union with over 213,000 members. These members are, with few exceptions, low income earners and most live in low income families. The majority of SDA members are women.

## **The key principles to apply to taxation reform**

1. In our view government policy and action in all areas should be underpinned by a commitment to the following core principles:
  - recognition that the family is the fundamental group unit of society;
  - a standard of living consistent with human dignity is a fundamental right of all Australians;
  - support should be provided by government to families on an equitable basis with priority given to low income families.
  - poverty is abhorrent and completely unacceptable;
  - respect for the various choices families make in respect of work and caring for family members;
  - easy access for all families to the various types of support open to them;
  - given the scarcity of government resources, there is no argument for any family support payment to be made on a universal basis.
2. Any review or reform of the Australian taxation system should start from this position.

## **The purpose of taxation reform**

3. Every Australian must have the right to live decently with dignity. A fair taxation system plays a crucial role in the achievement of this outcome.
4. Taxation reform cannot be implemented without due recognition being given to the current economic situation of many Australian families.
5. A considerable number of families are today facing substantial economic difficulties. A large number of Australian families are living below, or close to, the poverty line.
6. In the report "Poverty in Australia" released in 2013 by ACOSS (Australian Council of Social Service) and the Social Policy Research Centre it was calculated that 12.8% of the total Australian population or 2,265,000 people were living below the poverty line. This includes 575,000 children or 17.3% of all Australian children.<sup>1</sup>
7. An OECD report released in March, 2014 estimated that 14% of Australians get by on less than half of the nation's median income, significantly above the OECD average of 11%.<sup>2</sup>
8. An inequitable taxation system and inadequate levels of financial support for families are the major causes of this. There is a need for immediate and substantial reform of both.
9. Families with children are more likely to be living in poverty than those without children. The larger the family the more likely it is to be facing financial hardship. Those with three or more children are twice as likely as those with one child to be living in poverty.
10. Families with only one income are more likely to be living in poverty than those with two incomes. The risk of poverty declines as the number of income earners in a family increases.
11. There is a clear link between poverty and employment. Those most likely to be in poverty are the unemployed. Two thirds of all children living in poverty come from families whose principal source of income is government payments. Overall, the least affluent of Australia's children live in families where the head is not in the labour force, or is unemployed. Over one quarter of families with children rely principally on government transfer payments as their major or only source of income. The second most likely group to be in poverty are people not in the labour force.
12. Gender, ethnicity, location and age are also relevant factors in any consideration of the incidence of poverty.
13. A much larger proportion of families with children are living on incomes that are just above (less than 10% higher than) the relevant Henderson Poverty Line (HPL),

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<sup>1</sup> The Australian 24,1,2014

<sup>2</sup> Sydney Morning Herald,19,3,2014

suggesting that a more substantial proportion of families are at risk of poverty. Henderson regarded those with incomes of less than 20% above the HPL as 'poor'.

14. The percentage of disposable income expended upon necessities by the first quintile of households is significantly greater than that expended by higher quintile groups. Conversely, the proportion of disposable income expended upon food and non-alcoholic drinks, housing, household services and domestic fuel and power declines as household income rises while the proportion spent on transport, recreation, clothing and footwear and alcohol increases. This is clearly due largely to the presence of more discretionary income in higher income households.
15. Disposable income plays a major role in influencing whether a family is able to function effectively. Financial insecurity is often a key factor in the development of dysfunctional families.
16. The absence of adequate disposable income means that families may not be able to meet the basic needs of their members. In turn this may well lead to social isolation, feelings of lack of control, low status and low self esteem.
17. Australians want a society which is fair, a society in which all people can live decently with dignity and a society which values families and places them centre stage.
18. Growth in poverty has a deleterious impact upon families and the individuals therein. It leads to problems in areas such as community safety, educational achievements and health. Apart from the direct impact on the people affected, crime impacts upon the rest of the community in greater risks of danger, increased insurance premiums and greater costs in maintaining community and personal security.
19. Government policy, especially in the area of taxation reform must address the issue of poverty. The central theme of any coherent approach to tax reform must be to ensure that all families have an income sufficient for them to be able to live decently in dignity.
20. **Australians are looking for a taxation system which is characterised by the concepts of equity, fairness, transparency and adequacy.**
21. As illustrated in "Re:think" Australia is a low tax country.
22. **Australia needs to generate sufficient revenue to allow government to fulfil its basic obligations to the people and families of Australia.**
23. It would be counter-productive to the long term needs of Australian families for the government to pursue an approach designed to reduce or even retain at the current levels the current taxation revenue.
24. As the population ages Australia will need greater revenue if all Australians are to receive adequate levels of support.
25. This then must be the starting point for any review of the current taxation system.
26. This is not to say that future economic growth is not important. Any reform of the taxation system should seek to maximise opportunity for future economic growth.

## Individuals and personal income tax

27. In regard to individuals the principal goal must be the ensuring that individuals are taxed according to their capacity to pay.
28. The Australian taxation system lacks this basic principle of equity.
29. The history of tax changes over recent years highlights this fact.
30. In a series of "tax cut" announcements, the Howard government delivered very substantial tax cuts to high income earners and relatively modest cuts to low and middle income earners.
31. The impact of the tax cuts between 2003 and 2007 is set out for a range of income levels in the table below. It is clear from this table that while low income workers benefited by only \$13 per week over the period, higher income earning people received much larger benefits, with the highest income earners receiving over \$142 per week tax cuts over the period.

### Tax Cuts between 2004 -2007

Annual Income	Tax Cuts per Week - From 1 July					
	2003	2004	2005	2006	2007	Total
\$25,000	\$4.00	-	\$6.00	-	2.88	\$12.88
\$50,000	\$4.00	-	\$6.00	-	14.42	\$24.42
\$60,000	\$8.62	\$13.85	\$10.60	-	14.42	\$47.49
\$70,000	\$11.02	\$21.06	\$17.50	\$16.15	14.42	\$80.15
\$80,000	\$11.02	\$21.06	\$27.15	\$16.15	24.04	\$99.42
\$90,000	\$11.02	\$21.06	\$36.76	\$16.15	24.04	\$109.03
\$100,000	\$11.02	\$21.06	\$41.57	\$20.96	24.04	\$118.65
\$125,000	\$11.02	\$21.06	\$41.57	\$45.00	24.04	\$142.69

32. Ross Gittins, writing in the Sydney Morning Herald, observed after the 2007 Budget was delivered that *"the big winners are people....earning more than \$85,000 a year....the relative losers are the great bulk of taxpayers who are on middle incomes between about \$40,000 and \$70,000 a year"*.
33. During that period high income earners benefited from the lifting of the second top tax rate from \$50,000 p.a. to \$80,000 p.a. and the lifting of the top tax rate from \$60,000 p.a. to \$180,000 p.a. They also benefited from the cutting of the second top rate from 42% to 40% and the cutting of the top rate from 47% to 45 %.

34. Gittins pointed out that as a result those high income earners then paid between 2 cents and 4.5 cents less tax on every dollar than they paid in the year 2000. The greatest savings went to those on an annual income of \$180,000.
35. Over time the top marginal tax rate has dropped from 65 cents in the dollar to 45 cents.
36. On the other hand the bottom tax rate has risen from 15 to 19 per cent.
37. By comparison, in the same period middle income earners had overall tax savings of about 0.5 per dollar and no change on the 30% rate they paid on any increase in their earnings.<sup>3</sup>
38. The tax cuts introduced by the Rudd Gillard government went some way towards restoring equity to the taxation system.
39. However the fundamental imbalances and inequities in the system remain.
40. **Australia needs amore progressive taxation structure. Tax rates for low and middle income earners should be reduced.**
41. The absence of tax indexation has led, over the years, to low income earners moving into brackets where they are paying a greater share of their income in tax than previously.
42. “Re:think” has highlighted the impact of “Bracket creep” and acknowledged that this impacts most harshly on low and middle income earners.<sup>4</sup>
43. The structure of the tax system should be re-visited to provide greater equity to low income families.
44. **There is a need to ensure indexation of thresholds, at least at the lower threshold levels.**
45. The problem of bracket creep is compounded by the impact it has upon the effective marginal tax rates. The interplay of the tax system and then social welfare system often acts as a double whammy to working parents who not only find themselves moving into higher tax brackets over time but also find that while their relative income remains static or even declines they are also losing social welfare entitlements because of the impact of the threshold and taper rates which apply to such payments. Where more than one welfare payment is impacted this stacking of income tests leaves families significantly disadvantaged.
46. The impact of effective marginal tax rates acts as a strong disincentive for people, especially mothers as the second income earners, to participate in the paid workforce.
47. Low income families are very reliant upon adequate government payments to make ends meet.<sup>5</sup>

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<sup>3</sup> The Sydney Morning Herald, Wednesday, May 15,2007

<sup>4</sup> Re:think, p22

48. *"Social security is very important for the well-being of workers, their families and the entire community. It is a basic right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of government social policy and an important tool to prevent and alleviate poverty. It can, through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice."*<sup>6</sup>
49. Without these payments many more families would be in poverty and many low income working families would be better off relying totally on social security. Public education and health services also play a hugely important role in income redistribution.
50. For SDA members and their families, an effective social welfare or social security system is critical. Income support payments from government often make the difference between whether low income families can enjoy a basic but reasonable standard of living or otherwise.
51. The social security system should not prevent or discourage an individual from entering, re-entering or remaining in the workforce or from taking additional part-time work. The current system, in some circumstances, does exactly this.
52. **There is a strong case to argue that poverty traps caused by the "stacking" of income tests should be removed or at least seriously reduced.**
53. Inequality in wealth within the Australian community is substantial and increasing. Australia's richest households are acquiring an ever greater share of the nation's wealth and the gap between the haves and the have-nots continues to grow.
54. Research shows that the top 20% of people have five times more income than the bottom 20% of the population and seven times the wealth. The richest seven people in Australia hold more wealth than the 1.73 million households in the bottom 20%.<sup>7</sup>
55. A wealth tax would reduce the wealth gap and help fund the establishment of greater vertical and horizontal equity in the system.
56. **The imposition of a wealth tax on those with substantial wealth is justified on equity grounds.**

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<sup>5</sup> ABS Income Distribution - 6523 - 1999-2000.

<sup>6</sup> International Labor Organisation, Report of the Committee on Social Security, Conclusions Concerning Social Security, 6 June 2001.

<sup>7</sup> Income and Wealth Inequality in Australia, D. Richardson and R. Denniss, The Australia Institute, Policy Brief 64, July 2014



## Savings and Revenue

58. **All Australians and all companies should pay their fair share of tax.**
59. **Artificial contrivances which enable individuals and or corporations to avoid this fundamental obligation should be removed immediately.**
60. **It is imperative that the taxation system guarantee the government sufficient revenue to achieve its fundamental responsibilities and goals.**
61. In bringing this about it should be noted, that by international standards, Australia “has a relatively low tax burden compared to other developed countries.”<sup>8</sup>
62. “The tax system imposes economic costs by distorting the decisions of individuals and entities”<sup>9</sup>
63. The current system is structured to give every opportunity to maximize deductions and thus reduce assessable income. Overwhelmingly this benefits higher income earners.
64. Bringing provisions which lead to distortions and hence some people to paying less than their fair share of tax to an end must be a priority of tax reform.
65. A range of initiatives are required to achieve this outcome.
66. Fringe Benefits Tax is payable on the Fringe benefits provided to an employee by their employer. Due to the structure of the FBT many employees are able to minimize or remove their tax obligations. For example, the current FBT arrangements allow for the exemption for employer provided childcare and the concessional treatment of company cars. In practice it is normally better paid and more senior employees who reap the benefits of FBT.
67. **Fringe Benefits Tax should be remodeled to prevent the extensive salary packaging currently allowed.**
68. While we acknowledge that it is generally wage and salary earners who claim deductions, it is higher income earners who benefit most from such claims.
69. This is particularly the case in respect of those who claim financial and rental property losses and or business deductions.<sup>10</sup>
70. Most low income workers have a relatively low total value of legitimate work related expenses. On the other hand we believe many higher income earners benefit disproportionately from being able to make claims which are legitimate under the current arrangements.

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<sup>8</sup> Re:think ,p16

<sup>9</sup> Re:think, p24

<sup>10</sup> Re:think, p50,Tables 3.5 and 3.6

71. **Re:think has raised the issue of a standard deduction for work related expenses. We believe this is worth further consideration.**
72. The current system allows for earnings within private companies to be delayed. Discretionary trusts can also be used for a similar purpose. They can delay payments or direct payments in ways that minimize tax obligations.
73. Capital gains tax is payable on a “realization basis”. However, in certain circumstances exemptions and concessions apply.
74. **Capital gains tax should not allow exemptions or concessions.**
75. Investment properties are the third most popular savings vehicle after the family home and superannuation. In our view the capacity to negatively gear such properties has been a major driver of their popularity. The proportion of tax filers with negatively geared properties increases as taxable income increases.<sup>11</sup>
76. Almost 300,000 people have five or more homes negatively geared for tax offsets, costing the nation up to \$5 billion a year in lost revenue. ATO figures show 15,264 landlords own at least six investment properties, which they claim run at a loss. Another 14,555 own five.<sup>12</sup>
77. Negative gearing is used to avoid paying tax. It overwhelmingly benefits middle and higher income earners. Such arrangements are unfair. They enable some people to avoid paying their fair share.
78. Negative gearing pushes up the cost of housing. In the decade to 2012 the average house price rose 92% and the average cost of flats rose 40%. Home ownership, especially for working families is declining due to the increased costs of such dwellings.
79. **Negative gearing should be abolished.**
80. Employee share schemes allow employers to provide shares or options to employees at a discount rate. The provided shares are taxed at the discount rate. In due course the employee may dispose of the shares at their full rate.
81. **Concessions associated with employee shares and share options should be abolished.**
82. A range of concessions apply in regard to superannuation.
83. Those on the highest incomes receive the greatest benefit from these arrangements.
84. It has been estimated that the nation’s wealthiest retirees are collecting \$10 billion a year as a result of these concessions. About 24,000 of the richest superannuation holders – each with more than \$2 million in their accounts – are receiving about \$5.2 billion a year in tax free income. A further 51,700 retirees with balances between \$1 million and \$2 million receive \$4.9 billion a year tax free.

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<sup>11</sup> Re:think, p64

<sup>12</sup> Herald Sun, 15 April, 2015

85. The 24,000 people with the largest balances receive average annual payments of \$216,000 and those in the second group receive average annual payments of \$95,000. ASFA has argued that people will need about \$58,000 per annum for a comfortable retirement.<sup>13</sup>
86. This all follows from a government decision in 2006 to scrap taxes on the retirement income from superannuation.
87. The SDA recognizes that industry superannuation was established to ensure adequate retirement incomes for all working Australians. In the introduction of industry superannuation workers “traded” wage increases for the introduction of superannuation.
88. **The SDA supports the concessional treatment of superannuation, on the basis that it is aimed at maximizing retirement incomes and ensuring a greater number of Australians have more adequate retirement incomes.**
89. **However, the current system is economically unsustainable as many wealthy individuals are using the superannuation system to avoid paying their fair share of tax.**
90. AIST (Australian Institute of Superannuation Trustees) has pointed out that the cost of the superannuation tax concessions is expected to rise to more than \$50 billion by 2018-2019.<sup>14</sup>
91. **Excessive superannuation earnings should be subject to taxation at the relevant individual’s marginal rate.**
92. Australian Tax Office data shows 300,000 self managed super funds legally eliminated or reduced their tax bill in 2012-2013, the most recent year for which data is available. In addition there were 450,000 funds which generated gross taxable income of \$25.8 billion of which \$16.8 billion was totally exempt from income tax because the funds were in the pension phase, which does not incur tax.<sup>15</sup>
93. **The current tax breaks available to SMSF’s should be removed.**
94. It is of great concern to the SDA and we believe the Australian community that not all corporations pay their fair share of tax.
95. In our view it is pie in the sky to suggest that lower tax rates for corporations would bring about any change in the behavior of those who seek to avoid paying their fair share.
96. **Stronger compliance measures which had the effect of effectively policing the corporate tax payment regime are necessary.**

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<sup>13</sup> The Australian, 1 April, 2015

<sup>14</sup> AIST Special Budget Bulletin, 13 May 2015

<sup>15</sup> The Age, 25 May 2015

97. In recent times the issues of multinationals avoiding tax has received broad media coverage.
98. There is an extraordinary amount of money being moved out of Australia on a regular basis by multinational corporations so that they can avoid paying the proper amount of tax.
99. The Australian Tax office has listed 10 companies alone which, in the 2011-2012 financial year moved \$31.4 billion from Australia to Singapore.<sup>16</sup>
100. **The SDA supports any moves which bring about multinationals paying their fair share of corporate tax.**
101. All of these concessions listed above provide substantial benefits to high income earners. Few low or genuine middle income earners benefit from such schemes.
102. The removal of these provisions would substantially improve the equity, simplicity and fairness of the overall system.
103. **In his 2015-2016 Budget speech the Treasurer announced plans to levy tax on digital products and services. We support this decision.**
104. However, that announcement leaves the job half done.
105. The retail industry in Australia is facing a significant disadvantage against overseas on-line retailers.
106. Australian retailers are required to pay G.S.T. on all merchandise they handle, plus pay any import duty on this merchandise.
107. Overseas-based on-line retailers do not pay the G.S.T. on merchandise priced under \$1,000. They do not pay import duty. This gives them a price advantage of up to 20% over Australian-based retailers who must pay both the G.S.T. and any import duty.
108. Therefore, we have an uneven playing field. This is unfair competition.
109. The magnitude of the disadvantage suffered by Australian retailers is substantial for an industry where profit margins are generally quite small. It is not a sustainable situation.
110. International on line in retail should not be given preferential treatment at the expense of Australian workers and businesses.
111. Overseas operators are taking advantage of the unfair competitive environment to grow their business. It is not uncommon for overseas operators to ensure GST and import duties are avoided. For example, if an order is over \$1000, it is automatically split into two orders to fall below the \$1000 threshold. A system that actively and willingly condones such approaches is wrong.

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<sup>16</sup> The Age, 7 April, 2015

- 112. Having inefficiencies that give overseas competitors an advantage in that they can avoid GST and import duties is something that the Australian retail industry should not have to contend with.
- 113. Many countries deliberately protect domestic companies from overseas competition. Here, we are doing the opposite. Government policy actually penalises Australian retailers against their overseas on-line competitors.
- 114. The Australian Retail Industry is already a modern and competitive industry with an extremely flexible workforce and an efficient mode of operation. It is as advanced as any retail industry in North American or Western Europe.
- 115. The Government legislates to impose various taxes and duties. In doing so, it has an obligation to the retail industry and its employees to ensure that this taxation regime does not disadvantage any companies, whether domestic or foreign. It has a duty to ensure there is a level playing field.
- 116. Overseas on-line retailers should pay the same taxes and duties as their Australian-based competitors.
- 117. **There is a need to introduce a requirement for G.S.T. to be paid on all goods and services purchased on-line from overseas.**

## The Goods and Services Tax and state taxes

- 118. The GST is Australia's primary tax on consumption.
- 119. The SDA opposed the introduction of the GST in 2000. We continue to maintain our opposition to the concept of a GST.
- 120. **We do not support any expansion of the GST, either by raising the current figure of 10% or by expanding its coverage.**
- 121. As a consumption tax the GST impacts most heavily upon those on lower incomes who have less financial capacity to absorb its impact.
- 122. In particular the GST impacts most heavily upon young families, where the family income tends to be lower than in the latter years of the parents who over time generally progress in their employment with consequent increases in wages or salaries.
- 123. As Re:think points out at page 135 broad based consumption taxes increase prices and by consequence this has the effect of reducing the real value of the stock of existing household savings.<sup>17</sup>
- 124. Given Australia has a major problem with the overall low level of household savings, moves which would have the effect of further reducing such savings stock would have a detrimental impact upon the economy
- 125. Home ownership is becoming increasingly difficult for many families. Low income families in particular are finding it extremely difficult to enter the housing market. Home ownership is generally regarded as a major bulwark against poverty and a major factor in bringing about family stability.
- 126. Government has a responsibility to help and support families into home ownership. In particular, mechanisms should not be put in place which make it unreasonably difficult for young families to achieve home ownership.
- 127. The existence of negative gearing which encourages investors into the housing market to compete against families works against families achieving home ownership. Likewise the requirement upon purchasers to pay stamp duty on house acquisitions leads to the same outcome.
- 128. **Taxation reform should aim to bring about an end to stamp duties being paid on the acquisition of the family home.**
- 129. Re:think has raised the issue of user charges being more widely used to meet the costs of services.

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<sup>17</sup> Re:think 135

130. User charges fall disproportionately on low income earners. In most cases the costs of services do not vary according to the income of the individual involved. The higher the income the more able an individual is able to comfortably meet the costs of services.
131. **The SDA does not support the increasing or extension of user charges.**