TAX DISCUSSION PAPER MAY 2015

Submission from

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1. Individuals

For individuals with income above$18200 the rate of taxation jumps in big steps as the individual income progresses through the different tax bands. There is a need for fairness in tax, such that the tax payable goes up on a linear basis, rather than in “fits and starts”. There may have been justification for this method in the past, prior to the use of computers, but that is not necessary today, when programs are readily available to automatically calculate the tax payable.

This method avoids the “bracket creep” so often mentioned as undesirable, particularly with inflation.

Taxation of savings should not be discounted. It is simply another form of investment and should be treated as it is today.

2. Dividend Imputation

Any income should only be taxed once. Dividend imputation did away with the double taxation of income in share-holders hands. Maintain the current system. Otherwise reversion to the former system will cause a large slump in the stock market, together with companies reducing or eliminating dividends.

3. Goods and Service Tax

Any change to the present arrangements will fall unfairly on sections of the population that can least afford extra tax. Persons on pensions would have to be compensated for their additional tax payments, which would certainly be considered unfair in many situations, rightly or wrongly. Similarly for persons requiring medical, or any form of health care, an additional impost in these circumstances would often result in opting to do without the treatment, possible with dire consequences. At a time when most university students have to defer payment of fees, adding a GST would not only seem to be unfair, but it would definitely be unfair. So to with all the other items currently exempt from the tax.

4. Capital Gains Tax

This tax, in its present form, is discriminatory. Essentially it is paid on the whole capital gain or just half. The difference is the length of ownership of the underlying investment. There is no distinction between 366 days and eternity, yet the risks associated with holding the investment increase with the holding period.

Therefore a descending scale of tax should be levied as the holding period increases. As an example I would recommend the following scale of discounting:

Ownership period	Discount %
Up to 2 years	Nil
3 to 5 years	10
6 to10 years	25
11 to 15 years	50
Over 15 years	100

This would encourage long term investments and at the same time discourage the short term trading of a one year, plus one day investment to obtain the 50% discount that is currently available.

For the person who is prepared to put their money into an investment for more than 15 years and take on the respective risk, then they should be entitled to a commensurate discount.

5. Superannuation

The biggest factor that people complain about Superannuation is the continual changes to the rules, regulations and contributions. Superannuation is a long term product and requires long term thinking and not a short term grab for money, by either the Government or the superannuant. I see nothing wrong with the current system, apart from the fiddling by government, so I would encourage the government to set the current system in concrete. Perhaps the only change that may be required is the partial taxation of member income in SMSF in pension phase, over a threshold level. That threshold must be set at a level that does not penalise the superannuant, compared with the age pensioner and I would suggest that the threshold is set at three times the pension level, or about $100000 for a couple, thereafter a flat rate of 15% tax be applied.

6. Trusts

Unlike all other income, which is treated as income on the date that it received, trust income is considered to be received in the financial year in which it is earned. This often means that the distribution is recorded in one income year, but the actual monetary sum is received in the next financial year. This method certainly brings in tax revenue to the government earlier than a share dividend, but at a cost to the taxpayer through a series of convoluted accounting entries that adds to red tape and accounting fees.

Just bring to account the income in the year that it is received, as with other income. In the long run the same amount of revenue is collected by the government, but the costs are contained.

7. Comparisons with other countries

Quite frequently in the Re think document, comparisons are made with other countries, often the Asian countries, which shows the Australian position in a poor light. In terms of taxation rates, Australia could never maintain a rate of taxation that was equal, or even close, to that levied in most Asian countries. The social benefits that are offered by Australian governments are un-head of anywhere in Asia and it would be suicidal for any Australian government to eliminate those payments, for the sake of matching tax rates elsewhere. I consider that making these types of comparisons is not helpful in the current debate.

8. Overseas investment

Investors, be they Australian or foreign, will always seek-out the countries with the lowest tax rate, for their operations. Again, it is virtually impossible for Australia to match the rates offered by foreign countries, nor should we lower our taxation rates at the expense of Australian companies.

In the future the right type of employees will be the major factor in foreign companies selecting the most advantageous location to set-up operations. As long as the tax regime and regulations in that location are in line with other international locations, then investors will be satisfied.

This is a brief outline of my considerations-I would be happy to expand on any item should you so desire.

Donald J Webb

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