

Dr Klaus D Wiegel, 1/12 Wattle Rd, HAWTHORN VIC 3122

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Tax White Paper Task Force  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Madam / Sir,

Re: Submission to the Tax White Paper (TWP)

I appreciate very much the openness and willingness of the Government to explore all facets of the Australian Taxation System and the possibility to be able to contribute to this review.

I also would like to mention upfront that by reading through the Tax Discussion Paper and previous Tax Reviews, The Treasury appears to know all the answers and required changes to make Australia's tax system much fairer, economical, and sustainable, but we need the courage, conviction, consensus, cooperation and resolve of the major political decision makers to do what is right for Australia and Australians in the long term and not what will win a particular party the next election.

In light of these circumstances, as a concerned Australian citizen, I would like to add my observations and possible suggestions to the debate.

The excellent TWP gave at places a very informative and comprehensive history about why we have the tax system that we have at the moment. Let me go back a few millennia and provide a very long view of the tax situation that fully supports the views expressed by the TWP:

If one looks at the early and later empires and how they financed their spending or the lavish lifestyle of a small group of leaders, their infrastructure building and warfare throughout history, a clear pattern emerges:

- Taking a percentage from producers of their production (direct taxation);
- Taking land and slaves from neighbouring countries, including reparation payments, through occupations.

There was very little opportunity to get anything from the masses of primarily poor people (except by making them slaves or soldiers) in form of indirect taxation.

Unfortunately, we still apply many of these early principles in our tax system today, although in a much more sophisticated way. We know that higher prices (or taxes) on goods and services reduce demand, but we still raise over 50% of our taxes in Australia on value-creating activities directly, and in the process reducing wealth for all Australian, particularly with high payroll and company taxes.

To create a more beneficial tax system for all Australian, we should shift our tax take significantly from these wealth-destroying direct taxes on productive factors to more neutral spending or consumption taxes. Let me pick just a few examples, where I believe a great difference can be made by shifting the tax burden around for a lower, simpler and fairer tax system.

## **FAIRER AND MORE EQUAL TAX TREATMENT OF SAVINGS**

One of the biggest issues in Australia is the unequal treatment of savings (Chart 4.1 of the TWP), which has the effect that we have unlimited, onshore tax havens for certain investments, particularly 'own home and superannuation'. Any attempt from

any government to reduce these excessive benefits will meet strong resistance from the effected population and those who believe they might be affected. (And all this while we borrow heavily from foreign saver for the last two centuries to support our high living standards.)

## **Own Home**

However, one of the major negative economic side effects of exempting the 'own home' in any tax consideration is that trillions of dollars are invested in the unproductive, established housing market, which provides very little economic benefit to the Australian economy as a whole, but only a great feeling of wellbeing to their inhabitants.

There could be numerous ways to slightly start touching this onshore domestic tax haven for many.

- Start including the value of the owner-occupied home into all asset tests for receiving government transfer payments
- Replace the current inefficient and highly volatile property stamp duty (plus the land taxes) into a comprehensive, tiered property tax, where the lowest tier (maybe up to the average property price) might be zero or very low, than an 'average' tax rate and a higher tax rate for the 3<sup>rd</sup> tier, the more expensive properties. This could be designed that the overall tax take is neutral, but it would need transitional arrangements, as the tax burden would shift dramatically from property transactors to the better-off property owners, particularly those with the higher property values. First-home buyers would benefit significantly, but owners of expensive properties would have to pay more taxes on an annual basis.

An associated issue with the home ownership is negative gearing for purchasing existing, established residential properties, which has the effect of driving property prices up, making it more difficult for first-home buyers to enter the market, but it creates few general economic benefits for the Australian economy.

The benefits of negative gearing could be increased for all tax payers, if they were only available for new constructions or even better for 'affordable' housing. However, any potential changes would need to be carefully monitored, as tax-driven investments might lead to faster-build, lower-quality new residential construction or over construction and oversupply over time, leading to pressure on all home prices.

## **Superannuation Savings**

Like the 'own home', superannuation has become a domestic tax haven for some very rich and high-income people. As a start, we should clarify/define what the main purpose of superannuation savings and the superannuation system are: Provide a reasonable income stream for average Australians in retirement or allow high income earners or very wealthy people to use the existing rules to shield great wealth from the touch of the Australian tax system.

To make the existing superannuation system fairer, one could double the contribution tax for tax payers in the top marginal tax bracket and impose taxes on certain incomes above a significant tax-free threshold for retirement incomes that are tax free currently for everyone, no matter how large their superannuation balances or incomes are.

## **SHIFT FROM DIRECT TAXES TO INDIRECT / CONSUMPTION TAXES**

Two areas stand out to make the current system simpler and more sustainable in the long run: Broaden and increase the GST and design and implement more 'corrective' taxes.

### **GST**

From the TWP it is obvious that in the international context the Australia GST is too narrowly based and the rate is too low. As a first step, the Australian GST should include food, health and education and in addition or as a next step, the government could consider raising the GST rate towards the international average.

The key argument against such action is and has been that a flat and wider GST is regressive and impacts disproportionately on the low income earners. That is correct, but can be easily avoided by compensating or better overcompensating the lowest quintile of income earners and collect the GST from the rest of the population who can afford to pay it.

### **'Corrective' Taxes**

#### **Re-introduce a Carbon Tax**

The current 'Direct Action Plan' to reduce 'greenhouse gas (GHG) emissions' is not sustainable in the long run. It might succeed to achieve the 2020 target because of the significant reduction in electricity usage and introduction of new technologies, but it will not be affordable to achieve larger emission cuts beyond 2020. Long-term, the plan to pay polluters to reduce their emissions or to create sufficient offsets elsewhere is equally bad policy as creating large fossil-fuel or food/bread subsidies in many countries around the world. All these schemes fail when prices of the subsidized products (or targets in case of GHG emissions) increase significantly and governments run out of money to support these schemes.

The sooner we return to a sensible, long-term sustainable carbon tax the better it will be for the welfare of all Australians.

#### **Introduce Congestion Charges in major cities**

With the fast growth of our population in major cities and the resulting increased traffic on our roads, it could now well be the time to study successful congestion charge regimes in other major cities around the world and introduce a suitable scheme into Australia. With modern technology, time of day and day of week charges can make the traffic flow much smoother for everyone, creating significant benefits for everyone in the process.

#### **Continue to introduce road tolls for all major new road project infrastructures**

In addition to congestions charges for existing roads, we also need many new road infrastructure projects to be built now and in the foreseeable future. Instead of having tax payers, who will not have any benefits at all from these major new projects pay for them via their taxes, it would be much fairer to continue to collect road charges from the users to pay for these new projects (user pays).

#### **Introduce new taxes on salt, sugars and saturated fat in processed foods and drinks**

'Corrective' taxes are well established and their use is widely supported in areas of alcohol and tobacco use. We should extend this concept for other food and drink ingredients, where we know that they cause significant detriment to our health and wellbeing: Overuse of salt, sugars and saturated fat in processed foods and drinks. (Nothing wrong with these ingredients in unprocessed foods, like fruits and

vegetables, honey or steaks and lamb chops.)

However, there is a growing body of evidence that increased amounts of salt, sugar and fat in processed foods and drinks lead to numerous health issues that require costly treatments by doctors, hospitals or pharmaceuticals, paid for by all taxpayers.

Corrective taxes on these food and drink ingredients will increase their prices, therewith lower the demand and consumption and reduce the health problems of the population. We will get a double benefit: Increase of tax revenues and reduction in tax spending on reduced health costs. There is no better way to go for a sustainable tax system than to increase receipts and reduce spending at the same time.

### **Liberalise and tax illicit drug use**

Here is another completely out-of-the-box idea that could create a number of benefits for the Australian society, where the tax system plays just a minor, but important role: Liberalise illicit drug use and tax the then legal drug supply so that prices stay significantly below the 'black market' prices, destroying the business model of drug dealers and smugglers and shifting the profit pool from the black market economy into government revenues. At the same time, the government would need to fund significant education and rehab centers and supply high-quality drugs in a safe environment. The end results of this will be fewer deaths from drug overdoses or low quality drugs, much higher rehabilitation of users (because of available education and rehab centers), better health and mental health, much less crime (because drug users don't need to steal so much money (or goods)) and drug gangs have much less to fight for) and fewer people (drug users) in prisons (reducing government spending further).

As we all know from history, no prohibition of any sort (be it sex, drugs, alcohol, tobacco, homosexuality or whatever) has ever worked and just drives the problem underground and increases crime. Therefore, why don't we try at least (as has been done already in many European countries) to use economic means (e.g. taxes and spending) to solve what the criminal law or 'war on drugs' has failed to achieve over many decades now.

Apart from the spending that needs to be provided to make these tax extensions mentioned above acceptable to the community, these tax increases could fund the elimination of payroll taxes, reductions in the corporate and individual tax rates, increased transfer payments to lower income and less well-off people, reduce 'expensive' taxes that cost the payer or receiver a very high percentage of the tax revenue collected, reduce the plethora of small, insignificant taxes that make little difference to anyone, simplify the existing tax code with a goal that 80% of individual tax payers don't need an accountant to lodge tax returns and make the compliance burden lower for small businesses, reduce budget deficits and increase spending where it is most needed.

### **REDUCING AND REPORTING TAX CONCESSIONS**

In every budget there is great detail about the taxes raised and on what categories or line items they are being spent, but very little about the taxes forgone by concessions and the major groups benefitting from these concessions. Thankfully there is some initial information in the TWP that should be continued to be published in every annual federal and state budget. This information should not only be provided in percentage terms of 'whatever the basis' is, but also in total dollars and percentages and total dollars by income decile – as far as possible, even if only estimated. This would most likely show that a very large amount of concessions are taken up by the highest income earners outstripping hugely the benefits transfer payment recipients receive.

On the concession side it is also highly questionable why major, very profitable multinational mining companies get fuel tax credits worth billions of dollars every year. One argument for fuel taxes is that they all go into building new roads and that

mining companies' 'off-road activities' need to be exempt. There is no direct link with other taxes, so why are we accepting it here for the benefit of multinational corporations?

Without creating too much extra and low-value effort in this respect, a good start would be to begin with publishing the 'Top 10' major tax concessions in total value allowed by the tax code annually. Surely superannuation tax and CGT concession, fossil-fuel tax credits and GST-exempt spending would be among them.

## **CONSISTENCY OF THE TAX CODE WITH OTHER GOVERNMENT POLICIES**

Just one example under this headline is the inconsistency of government policy to reduce greenhouse gas emission and the concessions (and subsidies) for fossil fuels. Apart from the fossil fuel tax credit mentioned above, it appears that jet-engine fuel is not taxed at all, but should be like all other polluting emissions, and with significant FBT-allowances for motor vehicles and with no benefits for using public transport that should be reversed, by providing incentives to use public transport over the use of the own motor car.

## **OTHER COMMENTS / OPINIONS OF QUESTIONS RAISED IN THE TWP**

Closing my remarks, I would like to make a few parting and personal remarks on some of the direct questions raised in the TWP:

- Q4: Reducing complexity should become a major priority of tax reform for all the unseen and unimagined benefits by doing so.
- Q5: Paying a 'fair share' of taxes according to income and / or wealth. Fairness in tax contributions are questionable, where very rich people or high-income earners can put their money into domestic tax havens like family homes or superannuation without contributing to the tax collections. Many of these people can also arrange their tax affairs legally so that little tax is to be paid. This is clearly not an issue for the people (and corporations), using all legal means to reduce their tax liabilities, but the drafting and wording of the tax code that makes such arrangements possible. One compelling proposal in this respect is the '**Buffett rule / tax**', where people above \$1 million income a year would need to pay 30% tax on their income. This would affect only less than 1% of tax payers.
- Q12 & 13: Tax planning is part of every tax system. It arises when the same amount of money held in different asset classes is taxed differently. It becomes a problem when some tax payers can achieve huge advantages through tax planning, whereas others can't. Huge discrepancies in the tax system should be corrected, when certain investments, like at the moment superannuation savings; residential properties and negative gearing of residential property investments; grow out of all proportions. Just follow the money!!! And rebalance / 'tax away' 'unfair' advantages or limit investments in these advantageous areas.

Yours sincerely

Klaus Wiegel

