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SUBMISSION TO TAX WHITE PAPER TASK FORCE

This submission briefly considers

1. Payroll Tax
2. Land Tax
3. Superannuation
4. Threshold indexing
5. HECs
6. Main residence exemption for CGT
7. Not-for-profits

1. Payroll Tax

Payroll tax is currently governed by the states and Territories. The revenue that is raised is kept by the state or territory it relates to. This treatment has resulted in differing tax entry thresholds, rates and methods to calculate the total wages to which the tax applies.

This has resulted in a large amount of bureaucratic “red tape” which causes high compliance costs for business, especially where an employer operates in more than one state or territory. Furthermore, once an employer meets the opening threshold they are required to calculate payroll tax on total wages, even if they have only exceeded the threshold by 1 dollar.

Often, this obligation can arise un-expectantly when the employer has a better than anticipated year, meaning that they have not included this expense in their forecasted budgets and are unable to readily meet this obligation. This can undue cause stress and anxiety to small business owners.

In order to ensure payroll tax fairer and simpler there should be nation-wide harmonisation, including the threshold and rate, as well as the calculation of total wages. The lodgement of payroll tax returns could then be simplified to via a form that is used to report to all of the states and territories. Additionally, employers should only be required to make one payment, to a clearing house which then distributes the tax to the relevant states and territories, based on information provided by the employer.

To make the transition to the obligation to pay payroll tax fairer, the threshold should be lowered along with the accompanying rate. However, to prevent businesses from being disincentivised to grow, the payroll tax thresholds need to be stepped in the same that the individual tax rates are stepped. This would increase the number of employers required to pay payroll tax and complete annual payroll tax return however, it would also reduce the number of employers who become un-expectantly obligated to pay payroll tax.

2. Land Tax in Australia

Land tax is considered to be an efficient tax due to its relative simple structure and administration. The land title of each parcel of land states the owner of the land, and the value of the land is determined by the Valuer General. This provides a simple basis for calculating the tax and reduces the scope for evasion. However, there are shortfalls in the system that if remedied, could further simplify the system.

Land tax is currently taxed on a state and territory basis, presumably because a parcel of land can be easily attributable to a particular state or territory. However, is this any different to income tax on salary and wage or business income which may be clearly attributable to a particular state or territory? If a small business operates solely Tasmania, is that income not attributable to Tasmania? Land tax could be altered to become a federal tax that would be added to the pool of taxes to be distributed as required to the various states and territories. For administration purposes, payments would be made to the ATO, rather than the respective State Revenue Offices.

The land tax rates and thresholds are different in each state and territory. Note, land tax is not imposed in the Northern Territory. The following is a summary of the land tax rates and thresholds for Tasmania, NSW and Queensland:

Tasmania

Land Value	Rate
$0 - $24,999	Nil
$25,000 - $349,999	$50 plus 0.55% of value above $25,000
$350,000 and above	$1,837.50 plus 1.5% of value above $350,000

NSW (2015 rates)

Land Value	Rate
$0 - $431,999	Nil
$432,000 - $2,640,999	$100 plus 1.6% of value up to $2,641,000
$2,641,000 and above	$35,444 plus 2% of value above $2,641,000

QLD (Individuals)

Land Value	Rate
$0 - $599,999	Nil
$600,000 - $999,999	$500 plus 1% of value over $600,000
$1,000,000 - $2,999,999	$4,500 plus 1.65% of value over $1,000,000
$3,000,000 - $4,999,999	$37,500 plus 1.25% of value over $3,000,000
$5,000,000 and above	$62,500 plus 1.75% of value over $5,000,000

The above illustrates just how different the land tax schemes are between the states. The NSW rates and thresholds increase each year, while the Tasmanian figures have remained the same since 1 July 2010. Further, Queensland has different rates depending on whether the land is owned by an individual or an entity. An improvement to the system would see these disparities removed, resulting in a more equitable system across the nation.

There currently exist various exemptions for land tax, such as an exemption for main residences. Additional revenue could be raised by increasing the scope of land tax to encompass all land, i.e. remove all exemptions. This would have the added benefit of encouraging efficient use of land and encourage residents to downsize their properties when and where appropriate.

If the scope of land tax is increased to include all land, the additional revenue earned may allow for the abolition of stamp duty on property. This would also replace a large initial cost with a small ongoing cost, thus making the property market more efficient and easier to enter by reducing the transaction costs of buying and selling property.

3. Superannuation – not supporting pension as intended

The Purpose of Superannuation is to provide for retirement, reducing the burden on government to provide age pension. However, there are many issues with the current system which inhibit this primary function.

The current rules allow individuals with account-based pensions (the majority of the non-government workforce), once they have satisfied a condition of release, to withdraw unlimited amounts of their superannuation, potentially spending the entirety in a short period of time to fund activities such as paying off household debt, non-essential spending spree, giving financial assistance to children etc. Those individuals are then left with no independent income to fund retirement.

Therefore, this “loop hole” prevents individual superannuation savings from fulfilling its intended purpose. The problem is particularly prevalent in those over the age of 60 who are not be taxed at all on the withdrawal can remove the full balance of their superannuation and then be able to access the age pension.

Suggested solutions – 4 broad categories”

1. Incentives to leave money in super funds
2. Disincentives to take money out of super funds
3. Further regulation to restrict withdrawals from super funds
4. Different structure – a complete overhaul on how superannuation system is run (changing to structures such as allocated pension funds or where superannuation contributed to government to cover government-based pension later in life)

Category 1 – Incentives

- Currently there is already an incentive to leave money in superannuation funds as earnings funding a pension are tax free, whereas earnings outside the superannuation environment are taxed at marginal rates.

- Introducing a cash incentive for having smaller withdrawals may be more visible benefit than the one above. However, a cash incentive is more likely to be received by high-wealth individuals who can afford to take less from their funds either due to holding income-producing assets outside the fund and/or because their higher balance means they need to take a lower percentage of their funds to live on than an individual with a low balance and no income-producing assets outside of superannuation.

Category 2 - Disincentives

- An analysis upon pension commencement of how long the pension should last where individuals not eligible for age pension until that time. However, this could cause immense hardship if superannuation funds run out beforehand, either due to higher-than-expected withdrawals or lower-than-expected income in the fund.

- Additional tax paid on amounts in excess of a certain amount or percentage.
    - This introduces extra complexity
    - Charging tax on excess of a certain withdrawal amount is likely to hit higher wealth individuals (who tend to have higher balances)
    - Charging tax on excess of a certain withdrawal percentage is likely to hit lower wealth individuals (as having a lower balance means they need to withdraw a higher percentage to cover their living costs)
    - This solution is similar to the old system (where withdrawals from superannuation were taxed at marginal rates less a 15% offset)

Category 3 - Further Regulation

- Re-introduce maximum percentage withdrawals based on age
    - This introduces another level of complexity, however, this could be diminished if fewer brackets than previously are used (for example, if we use the current brackets for minimum pension withdrawals to decide which maximum percentages people shall comply with – there are currently seven brackets)

Category 4 - Different Structure

- Allocate pensions based on working life, wage etc.
    - Extremely difficult to calculate and manage where people often change employers many times over their career
    - Previously these were run by employers (and occasionally people lost all their superannuation if the fund did badly)
    - If introduced as the standard structure these could be run by:
        - The government
        - Public funds can run their own and people can opt to join their choice of fund
- Government collects superannuation and uses this to fund age pensions
    - How would each individual’s pension be decided using this system? Everyone receiving the same, or a pension based on how much they have contributed?

4. CPI Increases for thresholds

A number of thresholds have not been increased since they were initially determined, in some case more than 3 decades ago. These include:

- The FBT exemption and Rebate caps of $30,000 and $17,000
- The superannuation contribution caps
- The Small business maximum net asset and turnover thresholds

As the cost of the expenses and value assets increases on an annual basis due to inflation and other economic factors the fact that these thresholds and caps have not also increased has a similar effect to that of bracket creep for individual taxpayers. Eventually, the individuals and entities that the cap or threshold is meant to assist are no longer eligible for the concessions (such as the CGT small business concessions) or the value of the concession is eroded as is the case for the FBT caps. Therefore, to all tax thresholds should be indexed to CPI increases.

5. HECS

In much the same way as payroll tax obligations can abruptly arise for employers, mandatory HECS debt repayments can shock individuals, making the after-tax value of pay rises negligible or even negative. Therefore, the initial repayment rate and threshold should be lowered, and the repayment rate should be stepped in the same way income tax is stepped for individuals. This would ensure that more HECS debts are paid off sooner and not left to accumulate. Additionally, non-residents should also be required to pay off their HECS debt based on their worldwide income rather than just their Australian Income.

6. Main Residence Exemption – capital gains tax

Currently the main residence exemption for capital gains is available to anyone who sells their main residence regardless of how long they have resided in it. A minimum holding period should be enforced before individuals are eligible for this exemption, such as the one announced in New Zealand’s most recent budget. This would reduce instances where people continuously build and buy homes with the intention to sell for tax free profit.

7. Not for Profits

The current status of the rules around not for profit entities has the sector in a state of flux. The introduction of the statutory definition of charity was intended to simplify, but has instead created confusion, and additional cost for charities as they seek advice to determine that their activities, which in the past have always been treated as charitable, meet the definition. The various different “types” of NFPs add to the confusion.

Given the significant reliance by the NFP sector on the FBT concessions in their recruiting practices, some consideration to the levels at which concessions cease should be given. These are currently not subject to indexation or other increases and as such the value of these thresholds has eroded over time. In addition, the *Fringe Benefits Tax Assessment Act 1986* is hard to read. This significantly adds to compliance costs for NFPs. A rewrite, with the aim of simplification is well overdue.

The requirement to seek approval from the Minister and Treasurer for specific types of DGR is a significant impediment to the process. One questions why this is necessary, particularly in the areas of the environment and harm protection. Clients tend to see this as a blocker and cease the process, despite the reality that their particular activity likely qualifies. This could be addressed by a review of the legislation and adding some of these areas into the Act.