

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

Dear Sir/Madam,

### Comments for Reviewing Australia's Tax System

Further to your invitation for submissions on exploring options for the new tax system, I wish to lodge the following details for consideration in the review.

The government's current initiative to review the tax system and invite public comment is an opportunity that reflects the strength of our democracy, but is an opportunity that has been absent for many years. I believe the majority of Australians accept that today's society has a duty of inter-generational care to make sure that our economy continues to grow and create opportunities for every Australian to benefit. Notwithstanding, the involvement of every day Australians into how this is actually achieved appears to have been precluded in reviews completed by the previous government.

Like it or not, Australia must embrace the notions of a global economy and continually reform our systems and industrial relations laws if we wish to preserve many of the values we all hold dear. The rules of engagement have changed – workforces are more mobile, more goods and services are relying on cheaper resources, often based overseas, and global economies are interconnected and directly compete on many levels. The latter includes the notion of government support for business and industry, substantially more competitive taxation rates and other environments that governments create to attract investment.

Australia's economy, whilst relatively diverse and stable, continues to be impacted by international trends, and these manifest themselves at the fundamental level of household net revenue levels and expenditure patterns. It is imperative that Australia redresses its historical tax, welfare and industrial relations systems which may have worked in the past, but are now contributing to a reduction in Australia's capacity to respond to global forces, ultimately resulting in a reduction in investment of human, intellectual and financial capital that benefits all Australians.

Many of the issues raised in the March 2015 tax discussion paper are a succinct summary of the very forces impacting Australia. When considered in concert with our industrial relations policies, particularly those that relate to relatively high minimum wages for low skilled workers and our general welfare entitlements, the picture of Australia's reduced global competitiveness becomes a little bleak. Some may argue Australia is a great place to be if an individual has a disability, low skill base or no intention to contribute to the economy, but a poor place to be if one intends to work hard, be innovative and excel, as the system will penalise any additional effort. The benefits gained for those that excel are greatly diminished in order to continue an unsustainable paradigm of directing wealth from the most productive members of society to those who are least productive, reducing opportunity costs for all Australians and rewarding those who rely completely on the system continuing.

Whilst this submission is not intending on arguing for Australians to ignore the plight of those less fortunate in our economy (particularly the young, the aged, the sick and the disabled), we do need to consider whether we intend to continue to ignore changes in the world economy that will ultimately cause the collapse of the system which we currently promote, if not for any other reason than we eventually reach the limit of our borrowing capacity to prop up our welfare system.

It is in this regard that the following considerations are imperative:

1. Company tax must continue to be reduced in order to attract foreign investment in both goods and services into Australia. Setting competitive tax rates is a must if we are to retain any competitive advantage in a free market.
2. Personal income tax must also be reduced as people have opportunity to earn more.
3. Taxation must be equitable and the most efficient way of achieving this is through a direct tax on goods and services.
4. Taxation must reduce the administrative burden placed on business and government, or at least increase the direct benefits of the system to justify the expenditure imposed on the economy for tax compliance.
5. Taxation must minimise distortion of the economy – we cannot function competitively in a global economy if the value of goods and services are distorted against real world values.
6. Taxation must not encourage entitlement mentalities that appear to be prevalent in Australia.

A brief discussion on these considerations has been provided below:

#### Company Tax Rates

*Company tax must continue to be reduced in order to attract foreign investment in both goods and services into Australia. Setting competitive tax rates is a must if we are to retain any competitive advantage in a free market.*

Australia appears to be subject to comparatively high taxation rates for business. This may well have contributed to numerous previously owned Australian companies moving offshore. Within the context of the current environment, this is likely to continue to occur through mergers with smaller companies outside of Australia, and subsequent transfer of monies and financial assets towards lower tax economies. The reaction of Australia and other OECD countries in the past appears to have been to bully low tax countries into increasing their taxation to protect their own (OECD countries') interests, but in a global economy, this is neither integrous nor effective.

Australia must create an environment where businesses want to invest. We are resource rich, in human, intellectual and natural capital and the system must adjust to enable maximum employment of our resources with comparable costs to the balance of the global economy. The current taxation system places a significant burden on business, both in real tax terms and tax administration terms which reduces the attractiveness of Australia for business investment. In many instances, this is resulting in companies increasing their investment overseas where skills and knowledge from Australia can be easily replicated in far more competitive economic environments. We also suffer from multinational companies divesting much of their income to overseas sources as "rent" or "licensing costs" for product.

## Personal Income Tax

*Personal income tax must also be reduced as people have opportunity to earn more.*

The current tax system has significant deficiencies in terms of rewarding our highest income earners. Many of those who earn high incomes do so as a result of particular knowledge or skills they have spent many years developing. The current system appears to be deficit based – it penalises those who have invested the most into their own personal development (through education, skill development, craft refinement, business ventures, etc) resulting in a diminishing return for increased money earning potential. Despite all the prescribed ideology of fair taxation, this approach appears to be most unfair.

Australia's present taxation system does not recognise the perverse incentive associated with levying higher taxation rates on individuals who:

- Work more hours
- Take on greater risks
- Exhibit high levels of skill or knowledge in the delivery of goods or services

We must accept that some people will work harder, place themselves in positions that accrue greater returns (through risk, greater hours, greater knowledge or skill), use wisdom in investing their returns and therefore will be better off than others. We cannot then penalise individuals for being wealthy in Australia.

This must be considered against a backdrop of ever increasing opportunities to work overseas, particularly in other developed countries. This is not a small issue, as it is the most skilled and most wealthy Australians who can afford to do this. Whilst many are tempted to go for the opportunities, the greater margin between earnings and cost of living is often a factor that results in members of Australia's highly skilled workforce relocating for significant periods of time abroad, sometimes permanently.

A simpler tax system that continues with the notion of a tax free threshold, and then a stepped tax rate, but with fewer categories and lower percentages of tax applied to income is necessary to compete with global trends. To penalise people with the highest skills and/or knowledge is a hindrance to innovation and investment. Why work hard when there is so little to show for it? We must stop depleting the financial reward allocated to our most productive workers through high levels of taxation. This is a significant injustice that is inconsistent with a global economy.

## Equity

*Taxation must be equitable and the most efficient way of achieving this is through a direct tax on goods and services.*

Building on from the previous discussion, the notion of equity is a fundamental consideration in implementing tax systems. What could be more disconcerting than agreeing to take on more responsibility in the workplace, only to realise that the return in remuneration is limited. The system currently relies on people being motivated to aspire to higher paid positions of employment and

progression of career development. But where there is limited reward, the expectations of businesses may not be met and a perverse incentive remains for people to work less hours, avoid roles of higher responsibility and reduce activities that may equate to higher returns on the basis of increased tax liabilities. The extra work is just not worth the small additional payload.

Thus the notion of the "rich" carrying more of the load is inequitable. Someone living in Canberra and dictating what income level they feel is "rich" cannot be used as a measuring stick. Certainly it is those who have a higher disposable income that are most likely to be employing personal services to assist in cleaning and maintaining their house, extending their assets, etc – all of which contributes to the local economy and has ongoing multiplier benefits. Why then do governments assume a moral right to take this money through taxation and direct to their own agenda?

Australia must address the current dilemma of declining tax revenue to fund greater demands placed on the government by its population, but this must occur through the most equitable means possible. In my view, the notion of a goods and services tax appears to be a more efficient and equitable tax in that it is based on consumption. Those who earn more, are likely to access far more goods and services, and therefore contribute more in the way of tax. The present tax review should consider extending the GST to all goods and services apart from:

- those that are offered by government in competition to the private sector (e.g. primary and secondary education, health services)
- matters already taxed (e.g. don't impose GST on a tax, such as local authority rates, vehicle registration, etc)
- other matters, such as gifts, etc.

Of particular note, the government should avoid distorting the economy by providing a service, and then taxing private sector entities that offer the same service (education and health industries are the first that come to mind). To do so would seem inconsistent with the principles of equity and justice, would significantly undermine the credibility of the government and disadvantaging the tax payer long term.

Consideration should be given to the GST extending to housing (rent and house purchases), financial services and many other aspects of the economy which appear to remain exempt (such as fresh food, etc). This would need to be offset by reductions in both company and income tax as discussed above.

Whilst government income would still rise and fall on the basis of consumption, the notion of a growing population should provide some assurance that consumption will continue to expand.

With regard to equity, the government must stop viewing superannuation as a possible target for taxation. In my travels I have noticed significant issues with respect to the security of pensions and retirement funds in the USA, Canada and Australia. If governments tamper with superannuation, the community, most notably those under 50 years of age, will lose faith in the system. The general Australian does not believe governments have the right to help themselves to every resource in the Country to fund their ideals, and superannuation remains off limits. In this regard, the government must commit to:

- stop moving the goal posts for individuals to access their superannuation by changing the eligibility age
- resist penalising those who have saved responsibly by suggesting higher tax rates on self-funded retirees
- modifying the tax rates for voluntary contributions for persons who are on higher incomes – cap the value able to be contributed at 15% per year and stick to it
- do not view superannuation as another source of income for the government to tax beyond its current rate

With respect to equity, one other matter comes to mind – the role of not for profits and charities in addressing social welfare and related issues. These should continue to be afforded shelter from tax and where appropriate, access to tax deductible gift advantages. The role that the not for profit sector contributes to our society is immense, meeting many of the needs of our society in a manner that neither draws on government resources or deducts from private business and commerce. Many such organisations rely heavily on volunteers and assist in meeting a number of positive community outcomes (and not just for clientele).

#### Administrative Burden

*Taxation must reduce the administrative burden placed on business and government, or at least increase the direct benefits of the system to justify the expenditure imposed on the economy for tax compliance.*

The current tax system with its multifaceted tax focus (income, fringe benefits, GST, etc), rebates and deductions is complex. This has resulted in a massive administrative burden being placed on Australian society, and this is exhibited in the business sector, households and government. We must seek to reduce this administrative burden by reducing the complexity of the tax system. The cost savings of this approach on the economy would be considerable and would assist in improving Australia's global competitiveness.

#### Distortion of the Economy

*Taxation must minimise distortion of the economy – we cannot function competitively in a global economy if the value of goods and services are distorted against real world values.*

Australia must be by far one of the most expensive places in the world to live. This appears to be due, in part to a number of government induced mechanisms:

- Taxation rates
- Administrative burden associated with complying with taxation reporting requirements
- Industrial relations, particularly minimum wages

The first two of these have been largely addressed in the previous sections, however it is worth noting one particular matter that has recently been raised by the Australian Labour Party with respect to the notion of removing the ability for properties to be negatively geared. Reports over the media suggest that negative gearing is a tool used by the rich to increase their wealth at the expense of a tax payer. I do not believe this is the case due to the following:

- the returns on investment properties are low and rely substantially on property values increasing
- many people with investment properties are middle class (and sometimes lower middle class) using property as an option to increase their wealth and increase their chances of self-funded retirement
- investment in property should be considered as any business venture, with costs deducted from earnings and losses offset against other income sources.

With respect to industrial relations matters, and whilst this submission is in response to a government invitation for comments on the Australian tax system, some attention must be also directed to the notion of minimum wages and penalty rates.

It is widely accepted that people should be paid fairly for the work they do, however the notion of what constitutes “fair pay” in Australia differs substantially from that around the world. The imposition of elevated awards for employees well beyond what is offered around the world must bear some of the blame for the loss of various industries in Australia (of most recent note, the car industry). Many food premises now refuse to open on public holidays as the cost of employing kitchen and wait staff under the present awards makes no economic sense. This is not a positive outcome for anyone in Australia.

It is my view that the nature of minimum wages must be revisited and a new system considered with respect to industrial relations. The replacement of low skilled workers with computerised or mechanical means is a trend that will continue to gain momentum whilst the cost of labour remains so high. Certainly we are seeing the replacement of people on cash registers with self-service systems in supermarkets, the diversion of professional services (engineering, accounting, legal services) offshore, and the continual decline of manufacturing and industry within the country. This has ongoing implications for generations of Australians to come.

### Entitlement

There appears to be little correlation between what the voting public *enmasse* want in terms of benefits and welfare, and what we as a country are willing to pay for. The paradoxical argument in Australia is that there is an expectation for the “rich” to pay an increasing share of Australia’s demands, but the number of people who earn, say more than \$180,000/year (at which the top marginal tax rate applies) is exceptionally low in comparison to the overall population. While it is important we continue to look after our most vulnerable Australians, the reality is that we have created a social dysfunction in Australia for everyone to feel entitled to everything, but with the expectation that someone else pays for it (and for many, the definition of “rich” appears to default to “someone who earns more than I do”).

Whilst some current initiatives implemented by the present government go part of the way to addressing this matter of entitlement mentality (restriction in access to Family Benefit Part B, child care reimbursements for working parents), further initiatives could be considered. Some examples include:

- Further winding back rebates and payments over time, but convey a spouse's tax free threshold to their working partner where only one partner is working and supports the entire family. This would certainly be a more efficient approach than the current system of rebates, etc.
- Exploring the option of families taking responsibility for their aging parents, rather than expecting the government (i.e. the tax payer) will pay for them. Certainly there are cases where full pensions will be required, but the last 50 years or so has resulted in Australians believing that the aged should be adequately supported by the tax payer such that they are entitled to live in a residence of their choice for some 20, 30 or more years following conclusion of their employment. Our system has encouraged the separation of grandparents from grandchildren and has instead resulted in greater needs for supplementing the cost of aged housing, and supplementing the cost of childcare. It is this general expectation that has resulted in a greater share of tax revenue being allocated to programs which do not invest in the future of Australia.

The above concepts are consistent with the notion of Australians being rewarded for supporting themselves and not relying on welfare.

### Other Matters

State taxes are inefficient and form disincentives for investment. As work forces change in response to consumer demand both domestically and globally, alternative work models, including outsourcing to cheaper work forces located offshore, contracting and other low cost, low administrative burden approaches will increase, reducing the effectiveness of payroll taxes and the like to raise capital for State governments. In this regard, an effective and consistent tax system must be implemented at a Commonwealth level to resource State expenditure.

Whilst I am not in support of luxury taxes, I do support penalty taxes on products like alcohol and tobacco. I am also in favour of these continuing to increase as both of these products create significant cost to our community.

### Concluding Remarks

This review of the tax system is a great opportunity for Australia to reconsider its current position with respect to the world economy and economic conditions that differ substantially to what they have in the past. We have a chance to embrace a system that is more equitable and sustainable in its distribution of tax burden, with lower administrative burdens and more comparable tax rates to other economies around the world. Through this approach, we can preserve the values we cherish as Australians and provide expanding opportunities for the next generations to enjoy the quality of life we hope for.

Daniel Willis