



Andrew Wilkie MP  
INDEPENDENT MEMBER FOR DENISON

15 SEP 2011

The Hon Julia Gillard MP  
Prime Minister  
Parliament House  
CANBERRA ACT 2600

Dear Prime Minister

I am writing to request that you forward the attached proposal from a constituent to the Treasury for costing pursuant to Section 5.1(e) of our agreement. In view of the Tax Summit approaching in October, I would ask that a response is received within the timeframe outlined in the agreement.

Yours sincerely

A handwritten signature in black ink that reads 'Andrew Wilkie'.

Andrew Wilkie MP  
Independent Member for Denison

# AUSTRALIAN TAXATION INDIVIDUAL AND SMALL BUSINESS PROPOSAL FOR RESTRUCTURE

Individuals are taxed differently depending on the underlying taxation structure. This leads to inequity and a complicated system.

Overall taxation structure needs review. Henry review has given many recommendations (on small issues) but does not seem to review the overall structure.

**1 Tax on a Family basis (Husband & Wife) rather than on individual basis**  
Income is earned by either spouse in varying amounts and then pooled to meet the family budget. The total income earned then benefits each spouse equally. As both spouses benefit equally then taxation should also be calculated on an equal income basis.

For example Husband has taxable income of \$100,000 and wife has nil. Husbands tax is \$26,450, Wifes tax is nil. With family based taxation Husband and wife both have taxable incomes of \$50,000 and tax of \$8,600 each = total tax of \$17,200. Tax difference is \$9,250 less spouse tax offset of \$2,286 = \$6,964.

## Discussion points

Families that have the same taxable income should pay the same tax.

Complicated Personal Services Income (PSI) rules will not be required as the PSI rules are designed to stop alienation of income (mostly between spouses) to reduce tax.

The taxation system inequitably allocated the \$900 government incentive payment. For the husband with a taxable income of \$100,000 and the wife with taxable income of nil there was no government incentive payment. For a husband and wife with taxable incomes of \$50,000 each, both received \$900 government incentive payments.

The taxation system will inequitably charge the flood levy. For the husband with a taxable income of \$100,000 and the wife with taxable income of nil the flood levy will be \$250. For a husband and wife with taxable incomes of \$50,000 each, the flood levy will be nil.

A family based taxation system will be in alignment with centrelink as benefits are paid on a family income basis.

Single people would continue with an individual taxation return.

Complete a family taxation return or spouses could complete individual returns with a taxable income equalising income/deduction entry.

# AUSTRALIAN TAXATION

## INDIVIDUAL AND SMALL BUSINESS

### PROPOSAL FOR RESTRUCTURE

#### 2. Tax the underlying family that earns the income - no Private Company taxation and Trust distributions

A look through approach is advocated on the basis that the family that earns the income should pay the tax.

The use of different taxation structures provide various methods of taxation treatment. This gives a taxation advantage to some taxpayers.

#### **Company - Discussion points**

Provides opportunity for tax planning by distributing taxable income to shareholders with fully franked dividends in later years (taxable income is taxed in a year later than when earned - company tax is really only an income tax instalment towards a future personal tax liability)

Company taxable income (really underlying family income) is not considered by Centrelink when assessing family income for benefits.

50% capital gains discount is not available for companies.

Small business CGT concessions are difficult to access.

No need for Division 7A undistributed profits tax.

Tax free pensions now mean that taxpayers with a Company structure can retire, pay a fully franked dividend \$18,676 from undistributed profits and receive a refund of the franking credits of \$8,004 (assume taxpayer over 65, no other taxable income). Taxpayers outside the company structure would have paid tax on \$26,680 in earlier years. This seems to be an unintended consequence of the Howard / Costello tax exemption of superannuation pensions.

Government is proposing to reduce the company tax rate. This will benefit taxpayers with a private company structure but not other taxpayers.

#### **Trust - Discussion points**

Provides opportunity to distribute income to beneficiaries who do not contribute to earning the income (children under 18 now limited to \$416).

Solves complicated Bamford trust distribution legal case ruling.

Small business CGT concessions are difficult to access.

# AUSTRALIAN TAXATION INDIVIDUAL AND SMALL BUSINESS PROPOSAL FOR RESTRUCTURE

## 3 Tax calculated on cash rather than accrual basis

Taxation is a cash payment and should be payable when taxable income is received and expenses are paid. Accrual accounting is not relevant for taxation as it is an accounting concept that calculates Net Profit on a matching of income and expenses as to when the earning event occurs or the expenses are used. Accrual accounting businesses with significant debtors pay income tax on these sales even though the cash is not received. Other accrual accounting businesses have an advantage when they have significant creditors. Some business structures are allowed to use cash and others are required to use accruals to calculate tax payable.

## 4 Small Business Taxation Incentives

This proposal removes the obscure taxation advantages that small business enjoys over salary and wage taxpayers. New incentives to small business should be reviewed and actioned accordingly.

## 5 Other

Entrepreneur tax offset.

Superannuation 10% rule for employees.

Small business \$2,000,000 turnover test is inequitable.

Older people with wealth outside of superannuation pay tax where younger retired people pay far less tax.

## Summary

Personal income tax should be calculated on a family income basis, split equally between spouses with all taxable income from underlying Company and Trust structures included and calculated on a cash (not accrual) basis.