**RETHINK**

**The Australian Government’s**

**Tax discussion paper**

**March 2015**

**Comments and Suggestions**

**“The public is cynical and angry about the tax breaks available to the well off, middle class welfare, profit shifting by multinationals, and the government’s failure to act.”**

**J Barrington**

**26 April 2015**

**ONE PAGE SUMMARY**

+ Cutting social service benefits to the needy is an attack of the Australian culture of mateship and fair go for all.

+ There are many tax avoidance measures available to high income earners and the wealthy which could be reduced rather than attacking the social service safety net.

+ We already have a smaller social safety net than most OECD countries.

+ Our social service safety net is smaller than European countries because they tax more.

+ Total tax receipts by all governments in Australia average around 27% of GDP whereas the average of all European countries is over 40%.

+ If Australia could raise its tax collections to the average of OECD countries, ie 34% of GDP, the budget problem would disappear.

+ We are a low tax country with a severe revenue problem. Talk of a better tax system that delivers taxes that are lower, simpler, and fairer is pie in the sky.

+ Taxpayers in the 3rd quintile, ie the middle 20%, receive as much in transfer payments as they pay in income tax. This indicates a serious misallocation of social service payments.

+ Concerns about the financial impact of an ageing population are over stated. We should be more concerned about the health costs of rising obesity.

+ In 2011-12, 20% of households held more than 60% of total net worth of all households

+ This skewed distribution of wealth will worsen without changes to a tax system which benefits the well off, and will be reinforced by any cuts to the social safety net.

+ Australia has a value added tax ie GST that is low by international standards. In Europe the value added tax is roughly double the rate in Australia.

+ In the absence of a higher GST the Federal government will allow bracket creep to generate much needed revenue to the detriment of lower paid workers.

+ The flat 15% tax on super contributions is of little benefit to low income earners but is of enormous benefit to those on the higher marginal tax rates.

+ Lower the value of assets which gives access to the age pension as proposed by ACOSS.

+ The law on family trusts needs amendment to limit bogus income splitting.

+ Crack down on profit shifting by multi nationals instead of just talking about it.

+ The public is cynical and angry about the tax breaks available to the well off, middle class welfare, profit shifting by multinationals, and the government’s failure to act.

1. **OUR SOCIAL SAFETY NET IS THREATENED BY A LOW TAX TAKE**

**The message in the White Paper is clear. The tax take in Australia is low, and is too low to afford the social welfare safety net we are committed to.**

**The first step to raising the tax take is to tackle profit shifting by multi-nationals and to reduce the tax avoidance measures available to the wealthy.**

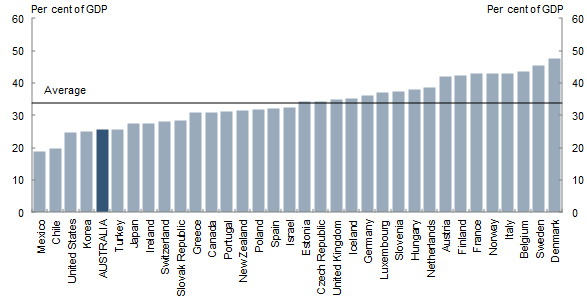
Australia has a substantial commitment to providing a strong social safety net for the weak and needy in the community. Our safety net is already smaller than most other OECD countries. **Cutting benefits to the needy is not a sensible option**. It is an attack on our culture of mateship and fair go for all.

1. **AUSTRALIA: A LOW TAX COUNTRY**

Talk of a better tax system that delivers taxes that are lower, simpler, fairer is pie in the sky in the absence of action to deal with tax avoidance by corporates and the wealthy.

It is a shame that we have a Prime Minister who talks constantly about lower taxes and has the vapours at the mention of higher taxes. We are already a low tax country with plenty of scope for higher government revenue.

OECD TOTAL TAX TAKE AS PERCENT OF GDP



The tax take for Australia is well below the OECD average and well below the average for western European countries with whom we are inclined to compare ourselves.

Is this the reason why countries like France and Denmark have a first rate education system, a first rate health system, and first rate transport systems? By comparison we live in a second rate country.

1. **CONCERNS ABOUT AN AGEING POPULATION MAY BE OVERSTATED**

The White Paper points out that some 1.93 million Australians are in receipt of a government pension and associated benefits. But over time, the proportion of pensioners receiving a full-rate of Age Pension is expected to decline, as superannuation balances for low- and middle-income earners make up a larger part of their retirement incomes**.**

**Maybe the concern about the impact of an aging population is over stated. The proportion of Australians who are over-weight or obese is of more concern than an ageing populations. Heart disease, diabetes, and other health problems related to obesity will be a greater cost to the budget than age pensions.**

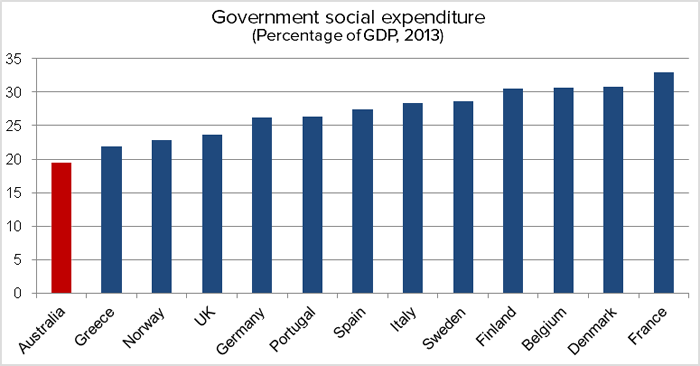
1. **HOUSEHOLD NET WORTH (FROM A REPORT BY THE ABS)**

As the White Paper makes clear, the well-off have access to tax avoidance measures not practically available to the less well off. This is reflected in the high net worth of a small section of households.

A report by the ABS shows that In 2011–12**, 20% of households held more than 60% of the total net worth of all households**. By comparison, the lowest 60% of households held, in total, 18% of total net worth**.**

**This skewed distribution of wealth will worsen without changes to our tax system which benefits the well off** and will be reinforced by attempts to reduce the social safety welfare net.

1. **THE SAFETY NET IN AUSTRALIA IS QUITE SMALL**



Source: Professor Peter Whiteford, of the Crawford School of Economics at the Australian National University. He says a closer look at the OECD data shows Australia is "relatively low in terms of social security ".

The OECD's list of "cash benefits" paid by its member countries is comparable to how the Australian government defines welfare spending, which includes age pension, veterans' pension, disability support pension, unemployment benefits, study and carers' allowances, and other payments.

**What this chart does not show is that European countries are able to spend more on social services because they tax more. In recent years tax receipts by all governments in Australia has averaged around 27% of GDP whereas the average of all European countries is over 40%.**

1. **A SERIOUS MISALLOCATION OF SOCIAL SERVICE PAYMENTS**

A disturbing feature of the Australian safety net is shown in Chart 2.11 of the Discussion Paper (Transfer payments and taxes as a percentage of gross income by household income quintile, Australia, 2009-10) .

This chart shows that taxpayers in the 3rd quintile, ie the affluent middle class, receive as much in welfare payments as they pay in tax. Incredibly, taxpayers in the 4th quintile also receive some government benefits. This indicates a serious misallocation of social service payments.

1. **COST CUTTING versus HIGHER REVENUES**

The Government is suffering a revenue crisis but has taken the cost cutting route to restore a balanced budget. In so doing it has broken a large number of undertakings not to cut services and programmes. This is bad politics and a poor strategy.

Addressing the revenue side is a better strategy. The government’s stated goal of lower taxes is not credible in the current environment. There are many avenues to tighten up tax laws to reduce the scope that now exists for tax avoidance**. If Australia could raise its tax collections to the average of the OECD ie 34% the budget problem would disappear.**

1. **THE ABC**

Cutting funding to the ABC in direct contravention to an unequivocal pre-election promise was not clever. There are many who believe that the ABC is the best show in town, particularly among the well-educated middle class who might otherwise vote for the coalition**. The cynical might see this as a concession to the Murdoch press who are constantly attacking the ABC .**

1. **HIGHER GST OR BRACKET CREEP.**

Australia has a value added tax ie GST that is low by international standards**. In Europe the value added tax is roughly double the rate in Australia.**  Getting bi-partisan support for an increase in the scope and rate of the GST will be difficult. But the GST legislation can be amended at any time by the Commonwealth Parliament by ordinary majorities in each house.

Although the present legislation says that the states must agree to changes in the rate and base of the GST, this can simply be amended or repealed by ordinary Commonwealth legislation. Without bipartisan support, the Federal government will allow bracket creep to generate much needed revenue to the detriment of lower paid workers**. There is scope here for a trade-off. A higher rate of GST would enable lower income taxes.**

1. **SUPERANNUATION**

Make the tax on super contributions the same as the marginal tax rate for each taxpayer**. The flat 15% tax on super contributions is of little benefit to low income earners but is of enormous benefit to those on the higher marginal tax rates.**

1. **AGE PENSION ASSETS TEST**

**Lower the value of assets which gives access to the age pension**. 1.1 million dollars provides a nice income even at today’s low interest rates. Even a tiny part pension gives card holder access to a range of non-cash benefits. Oblige the well-off to consume some of their capital before becoming eligible for the pension. The proposal by ACOSS makes sense.

1. **THE FAMILY HOME**

**The proposal by some that the family home should be included in the assets test for an age pension has not been thought through**. There are many elderly people for whom the family home is their only asset and they have no income other than the pension. These people would be obliged to sell their home to have cash for their daily living and would need to seek rental accommodation. This would uproot the lives of thousands of elderly Australians who happen to have a home that has risen enormously in value over the years but provides them with no income.

1. **PROFIT SHIFTING BY MULTI NATIONALS**

**Crack down on profit shifting by multi nationals instead of just talking about it.**

1. **FAMILY TRUSTS**

The law on family trusts needs amendment **to limit bogus income splitting**.

1. **AVOIDANCE OF GST**

**The cash economy still thrives** among self-employed contractors and small business. The best of them provide tax invoices for the work they perform for householders. Others continue to ask for cash. Change the law to make it an offence for a householder not to ask for and receive a tax invoice from independent contractors.

1. **FAIRNESS AND VOLUNTARY COMPLIANCE**

The perception that the tax system is fair is critical to the public acceptance of voluntary compliance. The public needs to feel they have ownership of the tax system. **The public is cynical and angry about the tax breaks available to the well off.** Tax avoidance free riders undermine the willingness of the public to cooperate.

1. **MULTIPLE TAXES**

There are 125 different taxes where current tax laws enable taxpayers to slip and slide from one to another to achieve the lowest marginal tax rate. This enables many of the affluent to pay less tax than the ordinary taxpayer. This undermines the public’s view of the fairness of the system. The compliance costs for both taxpayer and the Tax Office must be huge**. The system needs simplification.**

1. **TAX OFFICE FUNDING**

Funding for the tax office has been cut substantially. The Government has just slashed many millions out of the budget of the Australian Taxation Office thus reducing its capability to catch tax dodgers**. On the face of it this is a self-defeating saving.**