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*Submission To:*

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

**Managing Tax Breaks for the Rich**

The aim of the Federal Government's Re:think Tax Discussion Paper is to encourage public debate and feedback about how to simplify the tax system so everyone pays their fair share of tax and the government can afford to provide the services that people want. The report is well intended and deals with huge amounts of money that will affect the financial well being of the country and millions of investors. Here are my suggestions to help bring tax breaks for the rich down from the stratosphere and closer to Earth.

The areas in the Tax Paper that mostly affect investors are superannuation and negative gearing on investment properties. I think that at present both are so overly generous that they encourage and indulge greed. That should be changed. Superannuation and negative gearing should be structured to encourage enough wealth accumulation so that as many people as possible can achieve financial independence for their retirement. When they do, tax payer assistance should be severely limited.

With superannuation, I would like to see a limit on superannuation accounts after which the tax concession on contributions cuts out. I think $1 million is about right. If a person retires at 65 and lives to 85 that means they could live on $50,000 per year for 20 years plus the additional earnings from the undrawn amount. For a person who owns their home, that is more than enough to comfortably pay their bills.

The wealthy could still get tax benefits by contributing to their spouse's/ partner's super so a couple could retire in their own home with $2 million in super.

A super account limit that applies to all is much simpler than trying to give each person the exact same amount of tax benefit over a lifetime. The objective should be to get as many accounts as possible to the million dollar mark. Whether that money comes from contributions that attract the tax concession or contributions that do not, such as account earnings or non concessional contributions, should be irrelevant.

Once they reach $1 million, the wealthy would still have an incentive to continue contributing to super as they would benefit from the 15 per cent tax on super earnings compared to the 45 per cent top tax rate. But I would put a limit on that too, say when the account reaches $2 million, after which no more contributions can be made.

The $1 million and $2 million marks should be indexed to inflation. For those accounts near each mark, the 30 June super report each year could tell the person how big a concessional or non concessional contribution they can make for the next year.

On negative gearing, I would limit negative gearing on established rental properties to those properties with a maximum price of $1 million at the time of purchase, and I would limit each person to two such negatively geared properties at any one time.

The $1 million level could be indexed say every five years. Over time the less well off could upgrade from less expensive to more expensive properties, but once two properties were acquired, the focus should move to paying them off and no new negative gearing made available until one of the properties is sold or the loan discharged.

If a person wants more tax breaks on established property, they can negatively gear through a company structure where the tax rate and the tax break is 30 per cent and not 45 per cent.

Negative gearing should remain available at all times for investment in new housing and new commercial developments. In this way individuals who can afford it can continue to enjoy full tax payer support to invest in property, but in a sector of the economy where it is needed.

I would also look at setting an upper limit on margin loans with deductible interest. An investor who has enough collateral for a loan of say $0.5 million or $1 million doesn't need more full support from the tax payer. If they want more gearing or tax breaks, they should do it through a company.

Even at these levels, the tax concessions are considerable. A very wealthy person who owns their own home could retire with a $2 million super account and two or more rental properties. A home owning couple could retire with $4 million in super and four or more rental properties. No one should complain about that lifestyle nor about that level of tax payer generosity.

The above examples show that the well off can continue to enjoy huge benefits even with sensible limits on tax payer support for superannuation, investment properties and margin loans.

Importantly, the Budget would benefit through a reduction in the cost of concessions, and through the increase in self funded retirees and the decrease in pensioners and part pensioners.

People should be encouraged to achieve financial independence and to feel proud when they do. After that, they should move over and let the less well off enjoy the assistance.

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