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Tax White Paper Task Force
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Submission for Better Tax 2015

Remove work related expense claims by PAYG workers

To simplify our tax system greatly I suggest the removal of claiming a tax return for work-related expenses. This would mean that the employer, not the employee, would provide any money that was required to be spent on a person's employment expenses. Companies would be more likely to be more careful of their spending on companies needs than employees who seem to claim for frivolous things or items not really needed.

This would reduce most PAYG tax returns to a very easy return not needing accountants. It would stop the tax office processing unnecessary paperwork that would be eliminated for most people. An analysis by Treasury of how much money the Government would save should be conducted and also included would be the reduction in the complexity of the tax returns and the amount of audits that would need to be completed as the tax office could target companies rather than PAYG individuals. It would vastly simplify the audit process for the tax office.

Losses from investments can only be claimed on that investment

I own a number of investment properties and benefit from negative gearing which allows me to get a tax refund every year of thousands of dollars. However, I find that a good outcome of the tax review would be to recommend that losses could only be claimed against income from the investment property in question, and not offset against income from other sources, such as wages from a job. I believe that this is what happens overseas in a number of countries, such as the U.K. This would mean that losses would accumulate.

Only after the investment property starts making more money than it loses could those losses then be offset against paying tax on the income from the investment property until all the losses are used up. This would mean that investors would pay far more attention to the property as an investment rather than just as a means to reduce their taxable income and receive a large refund. This is what I believe the tax office changed a number of years ago in relation to farms owned by high income individuals.

An effect of this decision would also mean that property speculators would not be so keen to buy houses as losses would take many years to make back when the property eventually becomes profitable. Property prices would not rise on speculation from investors and this would assist first home owners to buy. Property prices would not rise as much and stabilize.

This system could also be used for all other situations of negative gearing such as buying shares through margin or other loans. Losses could only be claimed against future profit of those investments. Losses could still be claimed, but would be delayed and investors would look at the underlying investments such as shares or managed investments in forestry or ostrich farms far better than just looking to claim losses against their taxable income, which is usually their PAYG job income or income from other sources. This would again make

people far more cautious and invest more prudently. No loss from one investment should be able to reduce the taxable profit or income from another investment or job.

I have attended a large amount of property investment seminars and it seems they all seem to say to buy new properties and get a large amount of depreciation and tax benefits. I can't recall any actually saying to try to make a profit. They all point out how the tax-man helps make up any loss. With the cost of most of the new units and apartments they advocate, their initial cost and low rent, it would be many years if ever before the rent would cover all costs. If investors were only allowed to claim losses against income from the individual property, more people would then treat it as a true investment, rather than just a tax break. This would reduce investor demand for housing, and reduce the cost to the taxpayer of subsidizing those losses.

Negative gearing would not be removed as in the middle 80's, but result in investors looking more closely at the underlying investment. With less demand, prices would not increase as much and prices would remain far more affordable for first home buyers. Governments could easily provide more public housing from the money saved from tax refunds. This policy would not stop investors claiming losses, just delaying claiming those losses.

Change how Capital Gains is taxed

Any capital gains that an investment makes when it is sold should be taxed at normal tax rates only for that investment and not included in the total taxable income of the investor. The trade off would be that when the investment was finally sold and it made a loss then that loss would not be able to be offset against other income or profit. The halving of capital gains tax for investments held for more than one year should be replaced by this method. This would reduce the huge profits that high income earners can make using this tax break at the expense of the Australian public.

Profits from investments such as shares and property should only be taxed when that investment is sold and not on any notional capital gain in any tax year as the investment's value can rise and fall throughout the years that the investor owns it and would be far too complicated to administer. Keep the system simple by using what the investment was bought for and what it was sold for with nothing else able to be used to bring down the profit.

Tax Trusts

Investments held in trusts should be taxed according to the percentage of the asset that each person in that trust holds. That percentage should be stated when the trust is set up and should not be allowed to change. Children in the trust can then be taxed, as they now are if they earn income over a certain amount. This would reduce high-income earners from diversifying their income and reducing the tax they should be paying. If anybody is added to the trust, then capital gains tax should be payable on the transfer.

Tax income from Superannuation better

Superannuation has annual caps of \$30,000 to \$35,000 that can be claimed against an individual's taxable income as salary sacrifice. They can also make large contributions after tax of \$180,000 a year or bring forward 3 years to \$540,000. I see no problem with this continuing, however what needs to be changed is how much a person can draw as a pension tax free. This should be set by the Government at a reasonable limit again, of say \$70,000 for an individual or \$100,000 for a couple tax free.

Any amount over that should be taxed at normal tax levels. This would provide a very comfortable lifestyle indexed to inflation for people while still allowing high income individuals to be taxed and protecting the integrity of the tax system. All earnings in the

superannuation fund should be taxed at 15% as is current and then when in pension mode continue to be taxed at 15%, but this can be claimed against the person's pension like a dividend imputation that currently exists for shares.

Seize assets from people with unexplained income

To stop the black economy, the Australian Government needs to bring in a simple law in the Tax Act that allows the Police from any Australian jurisdiction, State or Federal, or any nominated Tax official that finds a person or company or trust has assets that they cannot prove through their tax returns that they acquired lawfully, that asset is forfeited to the Government. If the person, company or trust has a million dollar house and they have never filed a tax return, or have only said they earned \$30,000 a year or are on benefits then all their assets they could not have acquired on that income, such as their house are forfeited.

This would stop the black cash economy, high wealth individuals dodging tax through tax havens overseas and criminals (mainly from illegal drugs) spending their illegally acquired money. This would not need any court case by Police or Tax officials and it would be reverse onus for the individual to prove at court they had earned the money legally to buy the asset. Winning money at the races or in a lottery would not be sufficient unless the court accepts it beyond reasonable doubt. This would be very popular with law abiding and taxpaying citizens.

The current state and territory laws on asset confiscation are totally inadequate, cumbersome and ineffective against the huge profits from tax avoidance and criminal activity currently being committed in Australia.

Tax companies on income made in Australia

Companies must be taxed on income made in Australia and not allowed to shift profits out of Australia to low taxing countries such as Ireland and Singapore. These companies must also not be allowed to bring in artificial expenses such as high interest loans to their parent companies to increase their costs and lower taxes they pay.

Increase GST and broaden its base to everything

The GST is a very good tax and has been accepted by the Australian public for many years. It was hamstrung when implemented by deals being made with the Democrats and needs to be changed to include everything it was supposed to when originally proposed. This would include fresh food. It would simplify the system and low income people can be compensated by increasing their pensions, benefits or tax thresholds. It needs to be increased to 15% and this increase used to remove other inefficient taxes.

Remove most taxes

It has been widely reported and accepted that 90% of tax revenue is raised by only 10 taxes. For efficiency, remove the 90% of the taxes completely and increase the 10 taxes to make up the difference. The tax revenue base would still be kept as tax would be able to be collected from companies from their 30% company tax rate. Efficiency is what is needed.

Results if these suggestions are implemented

These suggestions when implemented would go a long way to reducing the complexity of the current tax system, allowing the tax office to target more companies rather than lots of individuals in different occupations as they seem to do each year. Changes to capital gains tax would make the tax system more equitable between high and low-income earners. Having a reasonable pension tax free before tax is paid is very equitable. Having a simple way to stop criminals and tax

avoiders forfeit assets they acquire because they pay no tax is very fair. Companies paying tax in Australia on revenue here would provide billions of more dollars for the Government to spend on the public services they provide. Broadening and increasing the GST would ensure the tax base is kept as more people retire and there are fewer working taxpayers. Removing most taxes simplifies the current complicated tax system.

Problems if nothing is done to change the tax system

If the Australian Government does not make the tax system fair for all taxpayers, be they individuals or companies then more and more honest people will start to say that if the Government won't fix the problems with our tax system then they may as well join the tax evasion or avoidance rorts. This will start with small bogus claims on people's tax returns and end up becoming endemic to cripple Australia. By implementing the changes I have proposed, the tax system can become far better and fairer for all.

Appearance before the Tax White Paper Task Force

I am prepared to appear before the review to expand on any of these suggestions or answer any questions the Tax White Paper Task Force may have.

Yours sincerely,

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