

To whom it may concern.

### Superannuation

As an instrument to reduce future age pension liability it is adequate but as a subsidy to the wealthy it is spectacular. In summary:

- the wealthiest couples in Australia are able to contribute \$18 million (in today's dollar terms) into super over their working lives and accumulate \$150 million. By age 65 they will have saved tax of nearly \$2 million on their salary-sacrificed component and resultant investment earnings and a further \$18 million on their post-tax contribution earnings. After retirement they enjoy further tax savings on their accumulated earnings. If they live to 85 this will amount to another \$27 million. Total tax savings/cost to public revenue is \$47 million which comprises 32% of their super accumulations.
- the super of the poorer population comprises only super guarantee contributions & earnings thereon as they can't afford salary sacrifice or post tax contributions. Assuming a combined wage of \$70,000 pa over their working lives their total tax saving will be around \$320,000 comprising 14% of their super accumulations of \$2.1 million.
- Further, it is relatively easy for the wealthy to rort the system "legally". One of the easiest & most profitable is, after age 65, to provide paid 'advice' to their family company/trust for 40 hours in one month each year for a wage. This allows them to contribute another \$3.6 million back into their superannuation tax shelter over 10 years.
- My assumptions in making these calculations are: a working life from age 23 to 65; life expectancy of 85 years; after inflation earning rate of 6%pa

Suggestions:

1. dramatically reduce the after-tax contribution limit & reduce the pre-tax limit as well. The only ones able to exploit this tax shelter are not those who will otherwise be eligible to the aged pension
2. phase in progressive taxation of super fund earnings

### Taxation of capital gains

Our current system of taxing only 50% of the capital gains realized on assets owned for more than a year is undesirable for many reasons. For instance –

1. It is a huge drain on tax receipts
2. It is a large incentive for negative gearing which is itself highly undesirable (see below)
3. It skews investment away from otherwise profitable enterprises to those which offer capital gains
4. It is hugely discriminatory in favor of the wealthiest Australians.

Suggestion: eliminate the CG special tax treatment. Perhaps a CG discount of 15% for every 5 years held is a fair alternative (takes into account average inflation) or perhaps revert to the previous (indexation) method used.

### Negative gearing for financing property ownership

Periodically we have a property boom and property prices rise steeply. These booms are exacerbated by a buying "frenzy" fuelled by estate agents & financiers promising quick wealth using negative gearing.

Our cities have amongst the most expensive property in the world. This distortion has a number of effects – none good for Australia. High property costs –

1. Add directly to business costs making us globally less competitive
2. Necessitate higher wages with same effect as point 1
3. Move investment capital away from productive endeavors into real estate ownership
4. Make loss of a job (or threat thereof) or casualization (see below) into a catastrophe as rent/mortgage repayments form a major component of our living expenses
5. Make home ownership in cities (where work is available) unobtainable for many

This problem has been exacerbated recently by allowing DIY super funds to buy, even gear, into real estate.

In the 90's the Government moved to remove the tax benefit for negative gearing and had the desired effect on property prices but much too quickly. The resulting voter backlash caused the reversal of the policy.

Suggestion: remove the tax benefit for negative gearing but this time by phasing it out (say over 10 years) thus causing a slower exodus of speculators from the market with a much less dramatic effect on prices.

### Investment in residential property by DIY super funds

This recent development is contributing to spiraling real estate prices.

Suggestion: ban super funds from buying residential real estate in Australia

### GST

This tax was implemented because it is cheap to collect and difficult to avoid. The last hope has proved unfounded due to the black-market continuing unabated. This tax is particularly unfair though. Consider the poorer taxpayers who spend all they earn. Some of that expenditure is GST-exempt but much is not. Compare this with a wealthy taxpayer whose income is disbursed largely into GST-exempt paths notably superannuation, purchase of shares & property, overseas purchases like holidays, wages to domestic staff, and under-the-table payments to handymen, nannies & the like.

The GST paid by the poorer taxpayer as a percentage of income will be greater and hence it is a regressive tax. Any increase in the rate of GST will consume a greater proportion of a poorer person's income. Pensioners with their own home or anyone in subsidized housing are amongst the hardest hit by a GST as the majority of their expenditure is on items which attract GST.

Recent figures by ACOSS showed that the poorest third of taxpayers paid a higher percentage in tax than the middle third – mainly due to this GST distortion. In fact they paid only a marginally lower percent (5%) than the wealthy third.

Extending the GST base may be equitable as long as rent and other necessities remain excluded to protect the poorest taxpayers. An obvious target would be private education fees.

Suggestion: do not increase either the GST rate and only broaden the base to non-necessities.

### Family trusts & income tax rorts generally

Family trusts have long been a thorn in the ATO's side. It has tried all sorts of ways to reduce the drain on revenues caused by income splitting through trusts without much success.

Suggestion: Tax trusts the same as companies, allowing the equivalent of franking credits to beneficiaries in only some cases.

### Breaching the corporate veil

The judiciary has always, quite rightly, been reticent to look behind a corporation at the actual owners to determine liability. After all, that is why the concept of the limited liability company was created. This has regularly caused inequitable results. Unfortunately this reticence is now being exploited at an unprecedented rate.

It is particularly noticeable in the building industry. On a large scale operators are setting up multiple companies – some effectively to accept revenues, others to pay costs, with fund transfers from the former to the latter. It is now common for the cost-paying company to go into liquidation leaving the revenues untouched in the revenue receiving company. Thus all the sub-contractors have no funds to access for their unpaid claims.

Also companies are created just for single projects. Where that project is not proceeding as planned the company can be put into liquidation so the unpaid "subbies" have no recourse to the accumulated profits from the developer's other projects.

Family trusts (with corporate trustees) are being misused in the same way.

Suggestion: Change the corporate law to make it easier for judges to "go behind the corporate veil".

### Using a dealers licence to avoid paying luxury car tax

Owners of luxury cars find it quite easy to get such a license which enables them to avoid payment of said tax.

### Casualization of labour force

We have one of the highest labour force casualization rates in the OECD. We need to remove incentives for employees to use casual rather than permanent labour for many reasons –

- Casual workers are subject to exploitation and cannot be protected in practice. The reason is that if they complain in any way they are simply not called for further work – no explanation needed. Common problems are – workers being called in or cancelled with little notice (30 minutes), working very short shifts to avoid payment for tea or lunch breaks or superannuation, being abused.
- Most casual workers have no financial security so can never buy a house or commit to medium term expenses such as private school fees or a car.

- Sudden termination of casual work can lead to ruinous results ie families living in a car, homeless singles
- Cannot take holidays or spend predictable time with family unless agreed to by the employer

Thanks for reading this,

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