

Tax White Paper Submission

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Preamble

One of the fundamental failures of governments has been to not adequately utilise fiscal policy to exercise some control over their economies, instead preferring to rely on non-elected central bankers to influence their economy with monetary policy alone.

This is meant purely as a submission of concepts that would be simpler, more equitable and productive towards a sustainable revenue model. Simplicity has to be the key in the long run. This avoids creating opportunities for creative accounting and incentives to blatantly avoid paying tax. This paper presents some of the things that could be fine-tuned to simplify the tax system.

It is also essential that expenditure be looked at prior to setting revenue targets. This includes welfare as an area where change has to occur to alter the undesirable outcomes that have occurred since expanded in the 1970s.

Executive Summary

1. Get rid of the expression “foregone tax” as it encourages the sense of entitlement that exists in this country
2. Revenue can’t be looked at without first looking at expenditure and there has to be a decision about what is mandatory and what is nice to have
3. As the Nation grows it is fundamentally important to place those mandatory services that can be provided by private enterprise to be placed in the private sector and let government do what they should do – oversee the delivery of the services
4. Review GST and have it applied to every transaction
5. Make home improvements tax deductible, pick up the GST and the undeclared income of potentially billions of dollars
6. Make home insurance compulsory to reduce the burden on tax payers to cover those who choose not to cover themselves
7. Cease further increases in the level of the Superannuation Guarantee
8. Change the legislation to rule out anti-detriment payments on superannuation – trade off, no tax on payments to beneficiaries of deceased persons over 60, regardless of status
9. Tax on the returns on superannuation account during income phase if over \$1,500,000
10. Increase concessional contribution cap for over 50s to \$50,000 and indexed to the nearest \$1,000 to AWOTE
11. Anyone with a combined household income of more than \$100,000 shouldn’t need a hand from the taxpayers to look after their offspring

12. Allow income splitting to foster and encourage a more equitable outcome for dual income families to remain as a family
13. In 2007 the government was handed a mandate to take over the responsibility for health – this would reduce duplication and hence costs and needs to be done
14. Introduction of income tax on superannuation income over \$75,000 per annum, once again to be indexed to AWOTE to the nearest \$1,000 on an annual basis
15. Remove the criteria for employees under the age of 18 and working less than 30 hours per week not being entitled to the Superannuation Guarantee
16. Adopt the New Zealand approach for income tax returns
17. Minimise the number of taxes as much as possible
18. Stop interest being tax deductible on investments
19. Make home owners interest tax deductible
20. Remove all Company tax – dividends to be taxed in hands of the recipients with a flat rate to be applied to foreign residents
21. Focus on agriculture to drive our economy
22. Welfare payments have to be changed to a voucher or card system

Explanatory Notes

The first action that has to occur is to remove the language about foregone tax. This appears to be a hangover from feudal days. Governments don't have a right to tax; they have a right to raise revenue according to mandates given them by the people in a democratic society and in accordance with the constitution. This has contributed to the sense of entitlement as many people have been expressing phrases like; "Why doesn't the government do something?" and "The government has plenty of money." All seriously misled, as the Government really has no money, it is all funded by those who work and pay taxes. Perhaps there should be an explanation of what programs and their improvements cost in terms of a, for example, 0.5% increase in the GST would provide "X" benefit to health or education, as this is a tax that everyone pays.

No review of revenue can be undertaken without a review of expenditure and there is particularly an interaction between welfare and revenue. The most critical part of this is the pressure put on the costs of welfare by an aging population. Lets not overlook the cost of taxpayer-funded childcare for people who choose to have children. Surely more than one accident can only be considered irresponsible. In preference we should, as a society, be celebrating the stay at home parenting and particularly the contribution mothers have made to generations of children. Numerous amounts of research point to the benefits of a stay at home parent to a child's long-term development.

The concept of limiting unemployment benefits to people under 25 also has a lot of merit. There are hundreds of thousands of jobs filled each year by imported labour in the form of backpackers who pick fruit and small crops, fill vacancies in hospitality and tourism and many other roles. The necessity to earn a living

would provide the impetus for our young Australians to get out and gain some invaluable life skills as well as an appreciation for the country they live in.

The starting point for a proper review would be to look at what is required in the way of revenue. Priorities have to be set, the “must haves” first and maybe some of the expenditure on the less important expenses may have to be dropped until the budget is in surplus.

The current dialogue appears to be about targeting the aged pension. On the eve of our 100th ANZAC memorial it would appear somewhat unfair to withdraw benefits from the generation that didn’t have the benefit of HECS, subsidised childcare, parental leave, superannuation or free health for a lot of their working lives, first home owner/buyer’s grants, baby bonuses to name but a few of the benefits baby boomers have provided for current generations by paying their taxes over many years and who now look to have a long planned for benefit reduced.

Alternative sources of revenue should be explored. Are there government functions that could be at least equally as well handled by private enterprise?

Simplify GST by having it applied to every transaction at a reduced amount. This would also foster greater efficiency within our economy by providing incentive to have a product delivered to the end user as soon as possible. This would require a review of benefits in preference to complicating the system with exemptions. A consultative approach should be undertaken with states to get rid of further impediments to good competition in the market such as stamp duty and an impediment to employment, payroll tax. These two taxes need to be axed as a matter of priority. In the first instance it is a major part of the cost of buying a home and also can be a reason people don’t refinance their loans into a more favourable product and why there is no real competition in the finance industry with the Big Four increasing market share since deregulation. Secondly payroll tax is an added cost to employment and there should be as few disincentives to employment as possible.

Allowing deductions for home improvements would close a major part of the black economy and would increase revenue from both GST and income tax. It would have an added benefit of encouraging people to maintain their homes in good repair. It would get rid of the dialogue about – “Do you want an invoice?”

Home insurance should be made mandatory along the same lines as third party insurance is for vehicles. This could be administered through the Local Government rates and would reduce the demand on taxpayer funds to rectify property after natural disasters. It should also have the side benefit of reducing the premiums with a larger spread of the risk. There are reportedly around 40% of homes in Australia uninsured.

Tweaks to superannuation can be made; anti-detriment payments should be legislated out of existence. As a trade off all beneficiary payments after age 60 should be provided free of tax. This would simplify the current situation and rid

the industry of another opportunity for financial planners to charge for advice on a strategy to minimize the tax for beneficiaries. This would actually simplify the situation while making it easier for the less financially literate to understand.

The people who were in a position to take advantage of massive tax breaks prior to the introduction of contribution caps and have subsequently accumulated very high balances could be taxed on the returns of their funds. The cut off for this is probably somewhere around the \$1.5 million level. The aim should be to make sure people are well above the level where they are eligible for the Aged Pension and hopefully have sufficient funds to be self funded in retirement and Aged Care if required.

Certainly the home needs to be taken into consideration when looking at ways to fund aged care, counting this as an asset for the amount that can be held without reducing tax payer funded subsidies.

Increasing the superannuation guarantee to 12% over time is bad policy. What has failed to be recognised is that the increase will be a trade off for wage rises over time and when the typical expenditure cycles are looked at this means that people won't be paying down mortgages as rapidly. To reach retirement owning a home should still be considered a corner stone of retirement planning and it can be seen how this can help fund aged care into the future to a large extent. Generally, for most people, the time when there is the most pressure on the household budget is the period between late twenties and early fifties. This is when there are mortgages to pay off, children to raise and educate plus often the cost of self-education. It is after this period that most people are in a position to increase contributions to superannuation and why it is so important to increase the concessional cap for over 50's.

In New Zealand apparently everyone is sent an appraisal of their income and tax liability and if they agree they don't have to do anything other than meet the liability if there is one or wait to receive their refund. For most wage earners in Australia this would appear to be a much simpler way to complete tax returns and would undoubtedly reduce the cost of administering the tax collection process.

<https://www.newzealandnow.govt.nz/living-in-nz/money-tax/nz-tax-system>

Point 17 is the most important as this is a golden opportunity to provide a system that is fair and equitable and so simple that is difficult to find loopholes. Some of the taxes that are not necessarily federal but should be scrapped are payroll tax, wine equalisation tax, agricultural levies, stamp duties and any number of the 125 taxes currently levied on the Australian public should be looked at with a view of getting rid of them and only retaining income tax and GST perhaps.

Now it is time to expand our thinking, firstly lets deal with stopping interest for investment being tax deductible. One of the key reasons for this is to reduce private debt levels. Australia currently has about double the 85% of GDP level considered being desirable ceiling for private debt. This means we are

potentially perched precariously on the edge of a huge precipice. This change would encourage equity and remove some of the danger from the current situation. Imagine the collapse if unemployment rises to a level where people aren't able to afford mortgage repayments, car loans and credit card repayments. The share market would take another massive hit as well, probably be the first to go as these would not be essential to anyone's day-to-day living.

Public companies wishing to expand and invest would be able to do so with a share issue. Currently, some taxpayers are funding all manner of items from luxury yachts and homes to investment portfolios of shares and real estate. To make matters worse, ever since we had a treasurer who lacked the foresight to not float the currency and deregulate banking at the same time Australia has been carried through the retail industry (and we are the most retail serviced country in the world apparently) by the financially inept on overpriced credit cards. Hardly an equitable outcome for the less informed.

Interest on homeowners' own residence should be tax deductible, encouraging debt reduction and making home ownership more affordable. Undoubtedly the usual cry will come that it is worth more to the high-income earners but then they typically have to live in more expensive places to earn the higher incomes. Difficult to make it more equitable without making it overly complicated.

Imagine the inflow of business if there were no company tax, the opportunities that would be created, the problems avoided. No Google tax, offshore set ups and numerous other tax avoidance measures. The tax would still come by way of dividend income in the hands of the recipients of this income and in most cases would probably be above the current level of company tax. It would also remove the franking credit system and payments to retirees, they would simply have a larger income that would offset against pension entitlements.

The biggest problem created by this approach would be dragging our 1970's infrastructure up to and beyond 2050 needs. Australia needs to have our infrastructure ahead of our needs and not lagging 10 years behind, as it currently is. Most importantly would be the need for water, the resource that makes us most vulnerable, especially with the forecast future weather patterns due to climate change. Anyone doubting climate change I would invite them to remember that inland Australia used to be an inland sea, the Giekie Gorge in the Kimberley Region has been carved out of what was a coral reef by the Fitzroy River.

Speaking of the inland sea should stimulate the imagination further, what if there was a channel built from the top of the Spencer Gulf to permanently have Lakes Torrens and Eyre filled with seawater again. Could this be the perfect site for an Australian Los Vegas? What effect would a big evaporative body of water like this have on our climate? Would it generate rain in areas that are marginal now and open up new opportunities in agriculture?

One of the most important assets Australia has is our isolation, we have a unique position in the world where we are not joined by other land to other countries

and hence have a much greater ability to maintain the integrity and safety of our produce. Agriculture is a renewable resource, provided the land is cared for it will continue to serve, unlike the extractive industries. Once mined resources are gone they aren't able to be re-sown. There should be much more focus on the agricultural industry as it is our great strength and can be for as far into the future as people will continue to eat and be clothed.

Finally, the idea of a voucher system has often been floated and always howled down by well meaning civil libertarians. Unfortunately, as is usually the case, the minority ruins things for the majority and this needs to be one of those cases. Currently there are children who are not receiving proper nourishment, schools are providing breakfast so that they will at least have a chance to concentrate and learn. How important is this? The only way to break the welfare cycle is through education and there are lots missing out. As a society we are failing to take care of children, arguable the most vulnerable people in any society.

Further to this, there are people who go to hospitals to be admitted because they know they will be fed. Admittedly some people are in bad situations but at least a voucher system would make it more difficult to not spend handouts on essential everyday needs – food, shelter and clothing. Let's not continue to fail children who didn't ask to be in the circumstances they were born in, this is just irresponsible.