

Capital Gains Tax: Improve, Simplify and Restore Equity

Submission to Re:think – Better tax system, better Australia

Vaughan 29May15

Executive Summary

The existing Capital Gains Tax system delivers the complete opposite of the purpose for which the system was introduced. The system rewards short term speculators with generous tax concessions and penalises long term asset holders with onerous record keeping requirements and tax rates.

I intend to improve and simplify the Capital Gains Tax system and restore equity by:

1. Reducing the Capital Gains Tax linearly from 100% to 0% over an asset holding period of 10 years so that short term speculators responsible for asset price inflation booms are discouraged by higher tax rates.
2. The elimination of Capital Gains Tax for assets held over 10 years, greatly simplifying record keeping more in line with other tax affairs.
3. Providing equity to long term asset holders where the increase in asset value cannot be accurately predicted, has occurred progressively over many years and the ravages of inflation have impacted the real value of the asset. The improvements to the system would also stop long term asset holders from being highly taxed on a large single spike in income for one year which takes no account of the increase having occurred slowly.

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Problems with the Capital Gains Tax System

The Capital Gains Tax system introduced in 1985 was targeted at discouraging short term asset price speculation driving boom and bust cycles in asset prices and the severe destabilising impact on investors and the economy that these cycles create. This was later replaced with the current system which lost the original purpose by rewarding short term asset price speculators with a 50% tax discount for profits on assets held for over just 1 year.

A problem with both systems is that the tax is perpetual and receipts and records need to be kept indefinitely, with calculations getting more and more complex as time goes on.

Capital Gains Tax obligations at present extend out for ever. As the capital gain can be carried forward by the heirs of a deceased estate there is theoretically no limit to the amount of time an asset can be owned before it is sold and the CGT applied. Eventually we would reach and surpass the equivalent regulatory burden absurdity of trying to find the retained records and computing a cost base for assets acquired by your ancestors in 1788 when they arrived in Sydney cove on the first fleet.

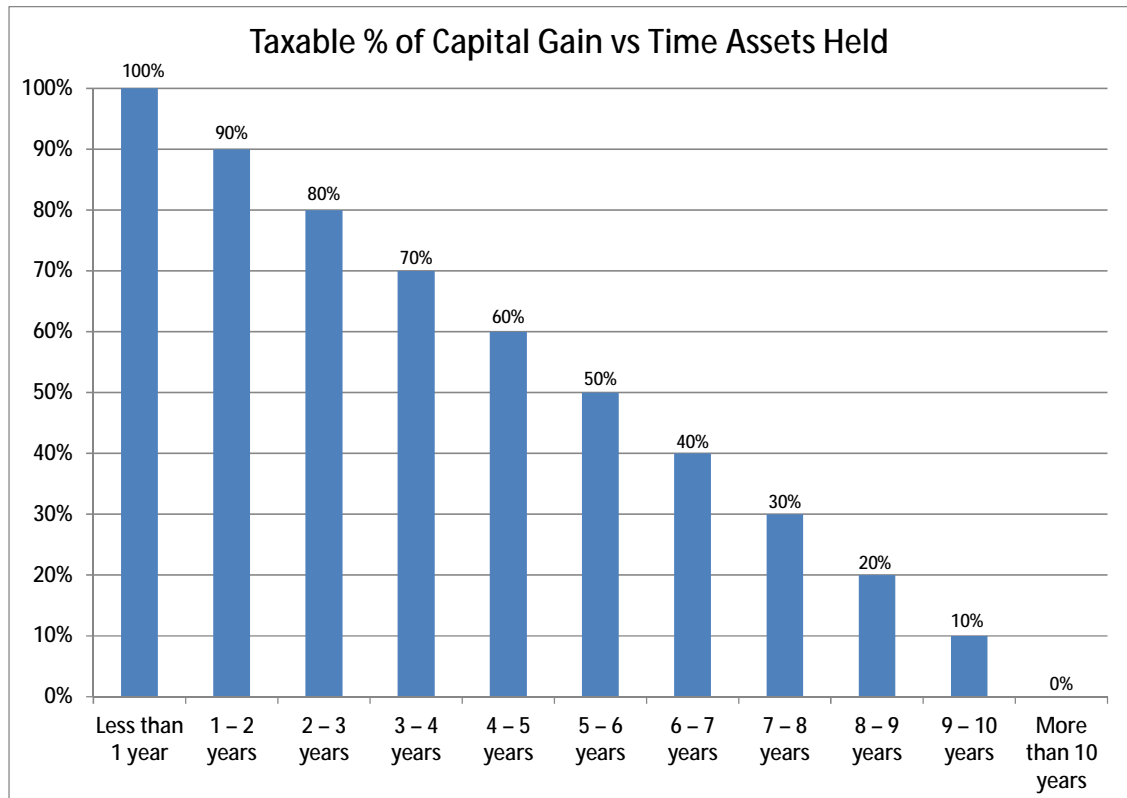
A further problem with the Capital Gains Tax system is the rewarding of short term asset price speculators with large tax concessions. My suggested improvements and simplification further discourage short term asset price speculation by linearly reducing the tax rate on capital gains from 100% to 0% over 10 years. For example, to obtain the current concessional Capital Gains Tax rate of 50% would require the holding of the asset for 5 years, instead of the present system 1 year. This change would both discourage short term asset speculation and raise higher tax revenue from short term asset speculation.

A further problem with the Capital Gains Tax system is the taxing of asset capital gain which has occurred over many years as if it was all made in one financial year, taking no account of inflation or the one off nature of this capital gain. My improvements and simplification address this inherent unfairness by reducing and eliminating Capital Gains Tax for long held assets.

My Improvements and Simplification Changes

1. Linear Reduction of Capital Gains Tax Rate Over 10 Years

Reduce the Capital Gains Tax linearly from 100% to 0% over an asset holding period of 10 years so that short term speculators responsible for asset price inflation booms are discouraged by higher tax rates.



This linear scale of reduced GST liability with time the asset is held would be revenue neutral, would be more appropriate for taxing short term asset speculation and would eliminate the onerous long term CGT record keeping burden for long held assets.

2. Eliminate Capital Gains Tax for Assets Held Over 10 Years

This simplification eliminates the perpetual, onerous record keeping obligation and brings Capital Gains Tax records more in line with other tax affairs.