

The Great Australian Tax Discussion - 2015

My view is that there needs to be systemic, significant, structural changes in the way we raise, and use tax dollars, that are established and 'locked' in over the medium term horizon, of Australian economic forecasting.

The key areas needing structural change in my opinion are:

Revenue - Projected revenue shortfalls require the broadening of the tax base and incentivizing new industry investment.

Cost of Tax - there is over 3000 pages of tax legislation. There is no way an average person can possibly understand this complexity and indeed there are many unresolved tax areas that get litigated to determine the tax treatment because experts cannot not agree the intent or application of the legislation. We need to target simplification and remove the cost burden of tax system itself.

Use of Tax - The cost of of Government and an agreement on mandatory public services and service levels.

Current Concessions - Review where our current incentives in tax concessions and incentives lie and stop incentivizing areas of the economy that are unsustainable.

Raise the financial 'know-how' bar - Less conflicted affordable access to financial and economic information to let everyone manage their part of the overall economy better.

I do not believe in:

- Shock tactics, to drive through changes, at a faster pace than the economy can bear.
- Fear tactics, used to drive ideological outcomes, over good economic governance.
- Over-protecting parts of the Australian economy, due to excessive lobbying and the use powerful, conflicted political connections, and not sound economic principles.

Revenue

Broadening the Tax base – My recommendation is to remove all GST exemptions and increase the GST amount to 12.5% - 15%. There is a fear perpetuated in Australia that doing this will significantly negatively impact marginalized sectors in our community. This is not the experience in other countries, and the benefits to all, with the ability to sustainably service better social services, enables greater assistance to these marginalized sectors of the community.

Broadening the GST tax base will also simplify the GST administration and thus reduce costs for GST processing.

This one change will increase revenues by billions of dollars, sustainably into the future.

The other way to increase tax revenues is to provide an economic environment that generates greater income and thus increases revenue intake. It is no secret that the mining boom is over and Australia has done a particularly poor job at incentivizing new sector industries over this time, to offset the fallout on tax revenues from the mining sector. In addition the current government is over-incentivizing, old less sustainable economic industries, over new sectors that are growing internationally. This leaves us at a competitive disadvantage for future investment.

The seemingly ideological based view of the current government regarding the value of the renewable energy industry, and the future economic impacts of climate change on our economy, is hurting future investment opportunities and is shutting down new industry opportunities. The world-wide demand for fossil carbon fuels is expected to significantly decrease in the future. The reason for this is that much of the world economies believe the climate change economic projections and are actively altering their energy sources to alternative renewable energy. When there is a structural shift in economic industry it really doesn't matter if the science is right or not – the belief of the science is driving new and sustainable industries. It does not make sense for the Australian government to cut us out of this opportunity. In addition the government is setting us up for another 'boom / bust' scenario on the back of falling demand on fossil fuels, with no new industries created in Australia to fall back on, much like the current mining 'boom / bust' cycle. Mechanisms like the 'price on carbon' and the 'renewable energy target' (RET) allow economies to capitalize on the current 'dying' fossil fuel based industries economic strength, whilst providing incentives to create new industries, ready to perform when the old ones are no longer viable, in a managed and transitional way.

New industries Australia could look at establishing strength and international competitiveness in for the future include:

- Renewable energy
- Technology led Agriculture
- Medical science including nano-technology
- Technology

The Cost of the Tax System

I have just completed a post graduate subject on the Australian Tax law. I was astounded that there is over 3000 pages of tax law that requires compliance, management and administration. It is mind boggling!!!. There can be no feasible way that the average Australian could possibly understand how to comply with the law and indeed experts still disagree over the intent and application of many parts. This level of complexity is expensive and hard to enforce compliance.

In my mind the task of simplifying the volumes of tax legislation is huge, and I can imagine that it can only be achieved in sections and stages over time. My recommendation would be to start with Income tax. The cost and inability to comply with an overcomplicated income tax structure and legislation, impacts every individual and has created a non-value added industry in the economy called the tax consultant. My recommendation to start the simplification process, would be to remove all the deductions and concessions on income and adjust the overall tax rates to reflect this change. In this way a fair tax liability is easy to comply with, and creating tax returns become trivial to administer, reducing a significant cost burden on the economy. This has been achieved in other countries, including New Zealand, with great success. Overall, the process of simplifying the tax system structures and legislation must continue and the sooner the whole system is put onto a new and sustainable foundation, the better for everyone in the economy, including the government.

The Use of Tax

I am very tired of elected Governments trumpeting that they now have a 'mandate'. I think it is ridiculous that any government should regard this as a viable way to communicate with the electorate over the provision of essential public services. I personally don't know of many voters that vote on an ideological basis or with the intent of providing an elected government a 'mandate'. Most voters I know either vote because the overall policy mix resonates with them better, or only because they are forced to vote due to compulsory voting. Indeed, it would be a very good wake up call to any elected Australian government to understand how little of a 'mandate' they actually have, by holding one election without compulsory voting. They would then fully appreciate and understand that all governments are elected on a minority vote. This is a clear outcome from all other countries with voluntary voting, and it would be no different for Australia.

The point is that this strong belief of governments, that they have the nations interests at heart by 'mandate' when they diminish certain public services or over-invest in others is essentially, in my view,

incorrect. This behavior wastes many tax dollars on reducing public sector services, only for them to require greater investment at a later stage. I think it would be useful for Australians to agree with Government the minimum expected services that we believe we need, and the level of service that we would expect, and benchmark them. In this way we will protect against wastage on poor governmental judgement and it will also provide the government with better budgetary guidance from the community, as to the minimum expected level of public services required from them. In this way they will get a clearer view of the cost base to provide essential services and the level of discretionary investment left in the budget, to promote their policies. This will ensure that the public no longer need to live in fear of a 'mandated' elected government, and government will know what base level of public services they are expected to provide for.

I do not believe that cost-cutting for cost-cutting sake, is a sustainable way to grow anything, either a company's bottom line or an economy. The single minded focus of the current government, believing that they can balance the budget, just by indiscriminately reducing the cost of operation from the public service, is short-sighted and fanciful. Cost cutting alone does not create value, however it does diminish opportunities for growth. This has been long known in industry for many decades. Industry realizes that any benefits attributed to this type of cost cutting behavior are short term at best, and it generally leads to higher costs to increase growth later on. Governments in Australia would be well advised to learn this lesson, rather than wasting tax payer dollars by re-learning it on every term in office.

In the corporate world it is also well known that greater focus delivers better outcomes and reduces wastage. I am sure that an agreement mechanism of essential public service provision between Australians and the government will deliver the same result.

The other area that I think Australia needs to face is the cost of our three main layers of Federal, State and Local government. Even if the three layers need to be in place to run this very large country with a relatively small population, do we really need the current size of Government at all three layers?

- Do we really need that many MP's at State level?
- Do we really need 2 houses of parliament at State level? These questions cannot just be determined by the preferences of State electorates, as the funding of these governments are shared by all of us.
- Have we really considered which public services would be more efficient with greater beneficial outcomes at national level, rather than at local level, and vice versa?

I don't have any answers or recommendations on this, however I cannot understand why we need all this 'governance and government' to run an economy of our size. I would rather spend my tax dollar on better public services and infrastructure than continuing to support the overall size of the Government – I am using Government specifically in relation to MP's and number of houses, etc as opposed to

targeting the public sector. It is reasonable to assume that less MP's will require less public service support. I think there is more than enough attention currently, directly on the public service, I don't think there is enough attention on the number MP's and the operation of Government itself.

The Use of Concessions or Incentives

My view is that tax concessions and incentives are provided within an economy for very good reasons at the time they are implemented, mostly to strengthen poor performing, important areas of the economy for long term benefit, or to progress required structural change. I also believe that we don't do enough to monitor and remove concessions and incentives when their use is no longer viable, or no longer makes sense. This not only wastes tax payer dollars, it also has the unhelpful side-effect of continuing to support uneconomic areas and sectors of the economy. I also believe that we are doing a very poor job at providing the correct tax concessions and incentives to drive future outcomes in our economy.

I have personal beliefs on some of these:

- I think that Superannuation concessions should be targeted to encourage greater savings from individuals with lower balance projections (as opposed to current balance) and removed from individuals with higher balance projections.
- I personally don't mind reasonable negative gearing actively playing a role in long term investments, I do mind negative gearing playing a role in speculative investments, eg. Margin lending.
- I would prefer that the sciences were more greatly incentivized and supported as I believe this is an area where Australia can be world class leaders and will contribute a very large component of our national income (as it does today). I cannot understand the current government's policies of actively damaging the support for this sector.
- I would prefer that renewable energy and sustainability sectors were incentivized and supported in a much bigger way. These are the economy drivers of the future.

However, I think we need a complete review of what the current tax concessions and incentives are supporting, against where we need to provide them to drive better economic opportunities going forward.

Raising the Level of Financial and Economic 'Know-How'

At a micro level the ability for individuals to better manage their personal finances will create greater investment in the economy and will enable better choices for individuals to improve productivity and provide a higher level of sustainable investment participation. This should lead to improvement in income and thus greater tax yield. It should also lead to greater effective use of money for an individual, leading to less wastage.

Greater financial and economic understanding will also lead to building a better relationship between the individual Australian and the Finance industry. For example there is a lot of information in regards to the utilization of individual debt and how current finance structures are heavily skewed to maintaining margins by increasing lending to individuals and deriving those margins between the wholesale and retail price of money (Interest). There is less information on how to derive growth in a credit finance structure from savings, as there is less incentive for current financial institutions to promote these structures and product options. Thus there are investment opportunities that are difficult to understand and participate in for individuals that do not want to leverage debt. Tax incentives appear to be also more skewed to debt structures rather than credit structures, it is an unbalanced view of the overall financial landscape, which creates diversity risk and less yield opportunity to derive tax revenue from.

Several inquiries have clearly revealed the systemic nature of the financial advice industry conflict of interest with the financial industry product manufacturer. This is leading to poor investment choices for consumers and is also creating areas of underperformance in the finance industry, sometimes leading to massive corrections such as the Global Financial Crisis (GFC). Apart from these global corrections, advice problems have led to the Storm and Opes Prime type failures. To think that these failures have not had a detrimental impact on growth and wealth creation is at best naïve.

Better information, advice and financial education will enhance our overall ability to create sustainable wealth. I would fully support a Royal Commission into the financial advice sector, and I would also support a complete separation of the financial product manufacturers and the financial advice industry.

A higher level of financial literacy in the community would also enhance the ability for structural change policy to attract broader support, as the understanding of why policies proposing required change will be greater. It would require less politicizing (spin) from the Government of the day, and the focus could be more on the underlying issues trying to be solved. This would lead to greater participation and community discussion on policy areas like this current discussion on Tax reform.