

Taxpayers Australia Limited

Submission to the Australian Government:

***Re:think* tax discussion paper**

June 2015





ABOUT TAXPAYERS AUSTRALIA LIMITED

Taxpayers Australia Limited is a not-for-profit organisation committed to a fairer and more transparent taxation system for every Australian taxpayer.

Our aim is to provide taxation practitioners, superannuation professionals, small businesses and individuals with up-to-date, informative and above all understandable information about Australian taxation.

A trusted source of tax knowledge and expertise since 1919

As a community benefit organisation, Taxpayers Australia is independent and unaffiliated with any political or commercial groups, advertising or sponsoring organisations. We are a member-based organisation, and our loyalty is dedicated to our members.

Taxpayers Australia has been a trusted source of tax knowledge and expertise since 1919 – we are one of the original, if not the first, of such associations in the world.

Our membership and subscriber base comprises tax and superannuation professionals as well as individuals and small businesses. Our plain English approach means that information is not obscured by confusing jargon or heavy technical and overly academic language, while still ensuring that tax issues are comprehensively clarified.

Taxpayers Australia was a founding member of the “World Taxpayers Associations” – a federation of similar associations across the globe – as well as the Asia Pacific Taxpayers Union. We share ideas and experiences with like-minded organisations throughout the world, and share a global drive to achieve fairer taxes, less financial waste, and accountable government.



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EXECUTIVE SUMMARY

Taxpayers Australia Limited welcomes the opportunity to submit our recommendations and comments in relation to the Government's *Re:think: Tax discussion paper* released in March 2015.

As part of our submission process, we surveyed our membership base in relation to a broad range of taxation and superannuation issues. Our recommendations have been driven by the priorities, concerns and ideas of our members, while being premised on an overarching objective of achieving a suitable balance of fairness, efficiency and simplicity in the taxation system.

Accordingly, we have commented on select issues in relation to the following topics:

- the individuals taxation system (section A)
- the imputation system (section B)
- the small business taxation regime (section C)
- the Goods and Services Tax (section D)
- the Fringe Benefits Tax (section E)
- the taxation of savings and investments (section F); and
- the superannuation system (section G).

A full list of our recommendations follows.

List of recommendations

Note: Each recommendation has been numbered in accordance with the Discussion Paper question to which it relates.

Recommendation	Submission section
Section A: Individuals taxation system	
Recommendation 6.1: <i>The Government considers indexing personal tax thresholds to the ABS Wage Price Index.</i>	A.1.1
Recommendation 6.2: <i>The Government introduces a refundable tax offset for mature age workers that:</i> <ul style="list-style-type: none"> • <i>has the effect of reducing the effective tax rate that applies to the employment income</i> • <i>is, on its own, sufficient to incentivise targeted taxpayers to remain in the workforce; and</i> • <i>is simple to understand and apply.</i> 	A.1.2
Recommendation 6.3: <i>The Government undertakes a review of the advantages and disadvantages of introducing a family unit as an alternative unit of taxation to the individual, with a recommendation as to whether such should be introduced into Australia's tax system.</i>	A.1.3
Recommendation 15.1: <i>The Government introduces a legislated work-related expense standard deduction up to a statutory cap.</i>	A.2
Section B: The imputation system	
Recommendation 25.1: <i>That the Government leave the imputation system as is.</i>	B
Recommendation 26.1: <i>That mutual recognition of imputation credits between Australia and New Zealand should be entered into.</i>	B
Section C: The small business taxation regime	
Recommendation 41.1: <i>That the Government makes any future adjustments to the company tax rate or personal income tax scales with an objective of delivering parity in the taxation of different business/investment structures.</i>	C.1



Recommendation	Submission section
Recommendation 42.1: <i>That the Government commits to rewriting the laws pertaining to the taxation of trusts to establish a model which alleviates the current administrative burden.</i>	C.2.1
Recommendation 42.2: <i>That the Government should conduct a review of the advantages and disadvantages of introducing an ‘S-Corporation’ type structure as an alternative structure for small business in Australia.</i>	C.2.2
Recommendation 42.3: <i>That the Government commits to a process to reforming “Division 7A” in order to alleviate the complexity and costs to small businesses operated from private companies.</i>	C.2.3
Recommendation 42.4: <i>That the Government considers the merits of a statutory interest model as proposed by the Board of Taxation as a possible for Division 7A reform.</i>	C.2.3
Recommendation 42.5: <i>That, as part of the reform of Division 7A, the Government considers implementing a ‘tick the box’ option as proposed by the Board of Taxation so that a trust can retain as working capital funds relating to an unpaid present entitlement owing to a corporate beneficiary.</i>	C.2.3
Recommendation 42.6: <i>That the Government reviews the personal services income measures to ensure that they are appropriate for contemporary PSI businesses.</i>	C.2.4
Recommendation 42.7: <i>That the Government reviews whether the personal services income measures appropriately address income splitting arrangements or whether prescriptive integrity measures are necessary.</i>	C.2.4
Recommendation 45.1: <i>That there should not be a two-tier company tax system as this increases complexity and compliance for small business owners.</i>	C.3
Recommendation 45.2: <i>That any reduction to the company tax rate should be done uniformly so as to avoid a two-tier tax system.</i>	C.3
Recommendation 45.3: <i>That the Government seeks to improve the operation of the small business CGT concessions in general and the application of the maximum net asset value test in particular.</i>	C.3



Recommendation	Submission section
Recommendation 45.4: <i>That the Government considers a reintroduction of a loss carry-back regime specifically targeted at companies which are small business entities.</i>	C.3
Recommendation 46.1: <i>That the Government undertakes a holistic review to establish a uniform definition of “small business” for tax purposes that is simple and easily understood.</i>	C.3
Recommendation 46.2: <i>That, if the current definition of “small business entity” be maintained, the Government seeks:</i> <ul style="list-style-type: none">• <i>to simplify the definition of “annual turnover”, “connected with” and “affiliate”, and</i>• <i>increase the turnover threshold from \$2 million to \$5 million in accordance with Board of Taxation recommendations.</i>	C.3
Section D: The Goods and Services Tax	
Recommendation 51.1: <i>That the GST base should be broadened.</i>	D
Recommendation 51.2: <i>That the Government reviews the appropriateness of increasing the GST rate to supplement any broadening of the GST base to achieve an optimal total tax take.</i>	D
Recommendation 51.3: <i>That any increase to the GST rate or any broadening of the GST base must be accompanied by corresponding relief to low income and disadvantaged Australians.</i>	D
Recommendation 51.4: <i>That the Government reviews the feasibility of implementing a GST-free business to business transaction system to reduce GST compliance burdens (per Recommendation 56 of Australia’s Future Tax System).</i>	D
Section E: The Fringe Benefits Tax	
Recommendation 7.1: <i>That the Government considers a regime where non-cash employment benefits provided to an employee or associate of an employee is assessed in the hands of the employee.</i>	E
Recommendation 7.2: <i>That the Government commits to a rewrite of the FBT law to improve the application and administration of the law.</i>	E

Recommendation	Submission section
Recommendation 16.1: <i>That the Government reviews the role of salary sacrifice arrangements, including the interaction with the personal taxation regime, in effectively remunerating employees, with particular focus on the not-for-profit sector.</i>	E
Recommendation 17.1: <i>That the Government reviews each existing FBT concession and exemption with a view to simplification or removal.</i>	E
Recommendation 17.2: <i>That the Government reviews the LAFH allowance and benefits rules to ensure that they operate as intended and to determine whether the rules hinder employee mobility in regional and rural Australia.</i>	E
Section F: The taxation of savings and investments	
Recommendation 18.1: <i>we recommend that interest income from deposits and debt instruments be concessionally taxed to individuals.</i>	F.1
Recommendation 19.1: <i>The CGT discount should be better targeted such that investors are entitled to a larger discount percentage for long term asset holdings.</i>	F.2
Recommendation 21.1: <i>Maintain the current tax treatment of allowing taxpayers to apply revenue losses arising from negatively geared properties against income from other sources.</i>	F.2
Section G: The superannuation system	
Recommendation 22.1: <i>That the government consider imposing a concessional rate of tax on incomes over a certain threshold earned in retirement from superannuation pension products.</i>	G
Recommendation 22.2: <i>That the Government not introduce a progressive tax rate on concessional contributions.</i>	G
Recommendation 22.3: <i>That relevant superannuation rates, caps and limits be indexed for inflation either annually or every 5/10 years.</i>	G
Recommendation 22.4: <i>That the Government should introduce incentives, such as a 15% tax rate cut, for those aged 65 and above to stay in work rather than access their superannuation.</i>	G

Recommendation	Submission section
Recommendation 22.5: <i>That the Government consider limiting non-concessional contributions by either imposing a lifetime cap of six times the annual rate (not including small business CGT concessions) or banning non-concessional contributions after a set superannuation balance is achieved.</i>	G
Recommendation 22.6: <i>That limits be placed on the ability to take a lump sum on retirement such that:</i> <ul style="list-style-type: none">• <i>those under a minimum threshold should be able to take the full amount as a lump sum, and</i>• <i>those above the threshold should be able to take out a maximum percentage of their total superannuation balance as a lump sum.</i>	G

Where relevant, our proposals have been considered in light of recommendations, projections and commentary contained in key Commonwealth reports, including the *2015 Intergenerational Report: Australia in 2055* (March 2015), *Australia's Future Tax System* (December 2009), the *Review of Tax Impediments facing Small Business* (August 2014) and the *Financial System Inquiry* (December 2014). We have also taken into account recent data from external sources including the Australian Bureau of Statistics, the Australian Taxation Office and the Association of Superannuation Funds of Australia to ensure that our recommendations are appropriate in light of, and responsive to, current and expected trends.

In addition to the specific issues discussed in sections A to G of this submission, we have also included a summary of other key observations from our survey results (section H). We recommend that the Government considers these issues in formulating its Tax White Paper and as part of its broader tax reform agenda.



We look forward to providing comment on the forthcoming Tax White Paper, as well as any other policy documentation or draft legislation arising from the *Re:think* consultation process.

Yours sincerely

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INTRODUCTION

Taxpayers Australia Limited welcomes the opportunity on behalf of its members to lodge a formal submission to the Australian Government following the release of the *Re:think* tax discussion paper.

This submission outlines our ideas and recommendations on how the current taxation and superannuation systems can be reformed to meet the needs of the Australian community in the 21st century. We have based our submission on the discussion questions in *Re:think*.

We recently surveyed our members on a variety of taxation and superannuation issues covered in *Re:think*. The web-based survey comprised 37 multiple-choice and open-ended questions covering a broad range of topics which are of particular relevance to our membership base. This submission reflects the views, ideas and priorities of the survey respondents. We are grateful to our members for their contribution to this process.

Our values

In accordance with our organisation's values, Taxpayers Australia considers that reform-focused action is needed to deliver Australia a taxation system which is consistent with the following objectives:

- an equitable distribution of the taxation burden amongst taxpayers
- simplicity, so that taxpayers can ascertain their liability accurately with reasonable certainty
- costs of compliance which do not place an unfair burden on any taxpayer; and
- sufficient flexibility in the taxation law to deal with economic, social, environmental and technological changes which can occur rapidly in modern society.

REFERENCES

The following references, acronyms and abbreviations have been used in this submission:

Key legislation	
<i>Income Tax Assessment Act 1997</i>	ITAA97
<i>Income Tax Assessment Act 1936</i>	ITAA36
Key reports	
Australian Government, <i>Re:think: Tax discussion paper</i> (March 2015)	Discussion Paper
Commonwealth of Australia, <i>Australia's Future Tax System: Report to the Treasurer</i> (December 2009)	<i>Australia's Future Tax System</i>
Australian Government, <i>2015 Intergenerational Report: Australia in 2055</i> (March 2015)	<i>Intergenerational Report</i>
Board of Taxation, <i>Taxation of Discretionary Trusts: A Report to the Treasurer and the Minister for Revenue and Assistant Treasurer</i> (November 2002)	<i>Taxation of Discretionary Trusts</i>
Board of Taxation, <i>Review of Tax Impediments facing Small Business</i> (August 2014)	<i>Review of Tax Impediments facing Small Business</i>
Board of Taxation, <i>Post-Implementation Review of Division 7A of Part III of the Income Tax Assessment Act 1936 – Second Discussion Paper</i> (March 2014)	<i>Post-Implementation Review of Division 7A (Second Discussion Paper)</i>
Commonwealth of Australia, <i>Financial System Inquiry: Final Report</i> (December 2014)	FSI
Other terminology	
Taxpayers Australia Limited	Taxpayers Australia
Australian Taxation Office	ATO
Australian Bureau of Statistics	ABS
Commissioner of Taxation	Commissioner
Fringe Benefits Tax	FBT
Goods and Services Tax	GST
Living-Away-From-Home	LAFH
Pay As You Go	PAYG
Personal services income	PSI
Unpaid present entitlement	UPE

A. INDIVIDUALS TAXATION SYSTEM

A.1 Taxation of individual and household income

Discussion Paper question addressed

Q6. What should our individuals income tax system look like and why?

What our members say...

The results from our member survey indicate that the majority of respondents are eager for changes to be made in relation to the taxation of income derived by individuals.

In relation to the taxation of income, Taxpayers Australia makes recommendations specific to the following issues:

- bracket creep (see A.1.1)
- mature age workers (see A.1.2); and
- family unit taxation (see A.1.3).

Our survey results indicate that the abovelisted issues are key areas of concern amongst our membership base. Accordingly, we recommend that the Government give priority to these areas in its Tax White Paper process.

A.1.1 Bracket creep

What our members say...

Based on the results of our member survey, there is a strong sentiment that bracket creep is a problem that needs to be addressed:

- An overwhelming **84%** (strongly agree: 27%; agree: 57%) of respondents are of the view that the issue of bracket creep increases the incentives for tax planning and structuring.
- Bracket creep disincentivises workforce participation, according to **49%** (strongly agree: 12%; agree: 37%) of respondents.

Of our survey respondents, **86%** were of the view that something should be done to address bracket creep. The most popular approach, supported by **38%** of respondents, is to annually index the personal tax brackets to wages growth.

Recommendation

Recommendation 6.1: The Government considers indexing personal tax thresholds to the ABS Wage Price Index.

Comment

Bracket creep will lead to individuals paying increasing effective tax rates on their income over time. The negative impact of bracket creep on take-home pay can extend to a reduction of incentives to work at the lower end of the income scale, and to incentives for tax planning and structuring at higher incomes.

Taxpayers Australia recommends that the Government considers an annual indexation of the upcoming income year's tax bracket thresholds to the ABS Wage Price Index for the previous income year. Although this would create a time lag between the growth in wages and the time that the growth factor is applied to the taxation of wages, this lag is a trade-off for simplicity.

Indexation would improve fairness in the personal tax system by ensuring that individuals progress into a higher tax bracket due to increased reward for their skills and effort and not due to inflationary effects. This would remove disincentive to improve skills and increase workforce participation.

A.1.2 Mature age workers

What our members say...

The majority of our survey respondents see a need to reform the tax system to encourage mature age workforce participation. Specifically, **62%** (strongly agree: 21%; agree: 41%) were proponents of introducing concessional personal tax rates for older Australians to serve this purpose.

Recommendation

Recommendation 6.2: The Government introduces a refundable tax offset for mature age workers that:

- ***has the effect of reducing the effective tax rate that applies to employment income***
- ***is, on its own, sufficient to incentivise targeted taxpayers to remain in the workforce; and***
- ***is simple to understand and apply.***

Comment

The *Intergenerational Report* projects that the next 40 years will see an ageing population, attended by a decreasing proportion of the population that is of working age.

The *Intergenerational Report* expresses the view that encouraging and valuing greater workforce participation amongst older age groups presents an opportunity to lift GDP growth per person. Further, the *Intergenerational Report* identifies that public spending is highest for the over-65 age group.

Given the projected future demographic of Australia, now is the time for the Government to put in place incentives for mature age Australians to continue workforce participation.

Taxpayers Australia recommends that the Government introduces a refundable tax offset for mature age workers that:

- in effect reduces the effective tax rate that applies to their employment income
- is, on its own, sufficient to incentivise mature age workforce participation; and
- is simple to understand and apply.

To ensure simplicity for businesses, there would be no need for the employer to withhold PAYG at rates which are different to those that apply to other workers.

Our member survey results indicate a strong support base amongst tax professionals for concessional taxation of employment income earned by mature age workers. An

appropriately designed tax offset would achieve this objective without the complexity of introducing a specific set of concessional tax rates.

A.1.3 Family unit taxation

What our members say...

We surveyed our members on the issue of whether a family unit should be able to lodge a single tax return, with tax liabilities and entitlements determined on the basis of combined family income. Respondents were quite evenly split on the opinion spectrum: **41%** agree with family unit taxation (strongly agree: 17%; agree: 24%) and **45%** disagree (strongly disagree: 18%; disagree: 27%). Only 14% were indifferent. These results suggest that a robust debate on the issue is necessary.

Recommendation

Recommendation 6.3: The Government undertakes a review of the advantages and disadvantages of introducing a family unit as an alternative unit of taxation to the individual, with a recommendation as to whether such should be introduced into Australia's tax system.

Comment

Under the current individual unit of taxation system, the progressive tax rates and the tax-free threshold create disparity in the taxation of different family units that earn the total same amount of income. The anomalies arise when that given amount of total income is earned by family members in different proportions.

The inherent inequity (when viewed from a family unit basis) means that taxation becomes a consideration for families making decisions about workforce participation.

In our view, the primary benefit of implementing a family unit basis of taxation is improving fairness in the personal tax system. Family unit taxation should also improve long-term simplicity in the tax system.

We acknowledge that there are arguments against taking a family as the unit of taxation.

The divergence in our survey results indicates that a conversation about this issue is necessary. We recommend that the Government initiates a national discussion about whether a family should be a unit of taxation, as part of its Tax White Paper process.

A.2 Work-related expense deductions

Discussion Paper question addressed

Q15. To what extent do our arrangements for work-related expense deductions strike the right balance between simplicity and fairness? What could be done to improve this?

What our members say...

In our survey, **62%** perceived a need to change the work-related expense deductions system. The preferred mechanism for change (**26%** of respondents) is a standard deduction, up to a statutory threshold, that individual taxpayers may claim without substantiation. Few respondents considered it necessary to change the substantive law relating to work-related expenses to make it more prescriptive.

Recommendation

Recommendation 15.1: The Government introduces a legislated work-related expense standard deduction up to a statutory cap.

Comment

Statistical data indicates that work-related expenses are the most commonly claimed deductions for employees and that claims have been growing substantially over recent years.

Further, work-related expense deductions involve complex, time-consuming tasks with uncertain outcomes. They are also subject to stringent substantiation rules. These deductions are a key source of the compliance burden on individual taxpayers and tax professionals.

The legislation provides some compliance relief with two low-value *de minimis* exemptions from the substantiation rules.

From our survey, it appears that practitioners are not particularly aggrieved by perceived legislative *unfairness* in claiming work-related expenses, but rather, they are frustrated with administrative burden. A standard deduction would bring the much-desired simplicity and relieve taxpayers and their advisers of these concerns in many cases.

We recommend that the statutory cap for a statutory deduction should be at least \$2,000. ATO data shows that in 2012-13, work-related expense deductions equated to an average of \$2,265 per claimant. Under our suggested model, the statutory deduction would replace both of the existing substantiation exceptions. Further, a taxpayer whose total work-related expense deductions exceed the cap should be subject to the substantiation rules for the entire amount.

The ATO's recent and current compliance activities in relation to work-related expense deductions illustrate its concerns over the appropriateness of these claims. In particular, the ATO recently announced its intention to focus on "unusually high" claims for 2014-15. If a statutory deduction is implemented, any direct revenue loss from simplifying the lower end of the work-related expense deductions scale is likely to be substantially offset by compliance cost savings by the ATO. The ATO can rightfully focus its limited financial and human resources on the higher end of the deduction scale.

B. IMPUTATION SYSTEM

Discussion Paper questions addressed

25. Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?

26. To what extent would Australia benefit from the mutual recognition of imputation credits between Australia and New Zealand?

What our members say...

An overwhelming **80%** of our survey respondents believe that the imputation system exists purely to avoid double taxation of individuals.

Recommendations

Recommendation 25.1: That the Government leave the imputation system as is.

Recommendation 26.1: Mutual recognition of imputation credits between Australia and New Zealand should be entered into.

Comment

Imputation credits are seen by the majority of our members as a mechanism to prevent the double taxation of individuals.

Imputation credits are seen as an important factor in Self Managed Superannuation Fund investment in Australian equities and there would be concern by many retirees if the Government were to remove the imputation credit system or limit the refunding of excess imputation credits.

Taxpayers Australia is of the view that the positive attributes of the imputation system outweigh any potential detrimental attributes. In particular, we believe that the imputation system has the following positive attributes:

- it encourages investment in Australian equities supporting the local market
- it encourages companies to pay out profits to shareholders, and
- it discourage excessive debt burdens by companies

The support for reducing the tax rate on companies repudiates the argument that imputation credits reduces the pressure for company tax reforms. We also consider the existence of the imputation system has no bias against foreign investors.

C. SMALL BUSINESS TAXATION

C.1 Choice of structure

Discussion Paper question addressed

Q41. What effect is the tax system having on choice of business structure for small businesses?

What our members say...

An overwhelming **85%** (strongly agree: 35%; agree: 50%) of our survey respondents are of the view that taxation is a significant factor in the choice of business structure for small businesses.

Recommendation

Recommendation 41.1: That the Government makes any future adjustments to the company tax rate or personal income tax scales with an objective of delivering parity in the taxation of different business/investment structures.

Comment

From our survey results and our ongoing general interactions with our members, Taxpayers Australia is of the view that taxation is a significant factor in the choice of business or investment structure.

It is incontestable that the range of tax benefits available through these structures – including, for example, a lower tax rate and the ability to stream business income – is often one of the primary considerations when business owners and their tax advisers are choosing an appropriate structure.

In our view, this outcome is largely attributable to the tax arbitrage opportunities available as a consequence of the disparity between the top marginal tax rate (49% including Medicare levy in 2014-15) and the company tax rate (currently 30%). The Discussion Paper notes that this difference can incentivise individuals to undertake “tax planning”.

Therefore, any reduction to the company tax rate without appropriately considering and adjusting the personal income tax brackets would act as an incentive for individuals to engage in tax planning, using an alternative structure, in order to optimise their overall tax position.

It is reasonable to conclude that taxation outcomes would not be a primary consideration for an individual in structuring their business or investment affairs if there is no disparity or immaterial disparity between effective tax rates of different structures. The scope for tax planning would reduce. The choice of structure would be principally driven by commercial, legal and other non-tax considerations.

We therefore recommend that the Government makes any future adjustments to the company tax rate or personal income tax scales with an objective of delivering parity in the taxation of different business/investment structures.

C.2 Business structure issues

Discussion Paper question addressed

Q42. What other options, such as a flow-through entity (like an S-Corporation), would decrease the overall complexity and costs for small business involved with choosing a business structure? How would such an entity provide a net benefit to small businesses?

What our members say...

The results from our survey indicate that taxation issues relating to specific entity structures require urgent attention from the Government.

Accordingly, we make recommendations in relation to the following issues:

- the taxation of trusts (see C.2.1)
- implementing an S-Corporation type of structure (see C.2.2)
- the taxation of private companies (see C.2.3); and
- personal services income (see C.2.4).

C.2.1 Taxation of trusts

Recommendation

Recommendation 42.1: That the Government recommits to rewriting the laws pertaining to the taxation of trusts to establish a model which alleviates the current administrative burden.

Comment

Taxpayers Australia recommends that the Government commits to rewriting the laws pertaining to the taxation of trusts to establish a model which alleviates the excessive administrative burden that is currently experienced.

We consider that creating legislative certainty in relation to the taxation treatment of trusts and the taxation of income derived by trusts (Division 6 of the ITAA 1936) should be a priority for the Government.

The current laws, particularly for non-fixed trusts, are overly complex and are largely inadequate. This difficulty is attributable to the reality that tax outcomes inherently involve an interaction between general trust law, accounting principles and income tax law.

A majority of our members struggle with the taxation of trusts and trust income under current tax laws. These laws are overly complex and largely inadequate. The difficulties faced by practitioners are largely attributable to the fact that the determination of tax outcomes inherently requires the practitioner to comprehend the interaction between general trust law, accounting principles and income tax law.

We suggest that, as a starting point for trust taxation reform, the Government reviews the appropriateness of the models outlined in October 2012 options papers; ie. the “Economic Benefits Model” and the “Proportionate Assessment Model” for non-fixed trusts.

C.2.2 Introducing an ‘S-Corporation’ type structure

What our members say...

60% of our survey respondents are indifferent as to whether an ‘S-Corporation’ type structure should be introduced into Australian law. Just **under a quarter** of respondents are in favour of this proposal.

Recommendation

Recommendation 42.2: That the Government should conduct a review of the advantages and disadvantages of introducing an ‘S-Corporation’ type structure as an alternative structure for small business in Australia.

Comment

The Discussion Paper put forth the idea of whether an “S-Corporation” type structure would assist in reducing the complexity for small business.

Taxpayers Australia recommends that the Government conducts a review into the advantages and disadvantages of introducing an S-Corporation type structure as an alternative structure for small business. Of particular relevance in such a review is that such a structure would need to have attributes that are more appealing than those offered by existing business structures if it is to be commonplace in the Australia business landscape.

Given that this structure does not exist in Australia (it is however available in the United States), respondents to our survey were unfamiliar with its operation as a flow-through entity with regulatory requirements imposed. They were however open to the idea of having such a structure as an option.

In order for an S-Corporation type structure to be attractive proposition for businesses, business owners must be convinced that they will not be disadvantaged by adopting such a structure.

C.2.3 Taxation of private companies

Recommendations

Recommendation 42.3: That the Government commits to reforming the Division 7A rules in order to alleviate the complexity and costs to small businesses operated from private companies.

Recommendation 42.4: That the Government considers the advantages and disadvantages of a statutory interest model as proposed by the Board of Taxation as a possibility for Division 7A reform.

Recommendation 42.5: That, as part of the reform of Division 7A, the Government considers implementing a ‘tick the box’ option as proposed by the Board of Taxation so that a trust can retain as working capital funds relating to an unpaid present entitlement owing to a corporate beneficiary.

Comment

We understand from our ongoing interactions with our members that tax practitioners commonly encounter difficulties in applying Division 7A when advising their clients. The operation of Division 7A is also misunderstood by business owners, with unintended consequences often arising because they were unaware of the need to seek advice before undertaking trigger transactions. There is also a lot of uncertainty in the application of the rules to groups of entities.

We recognise that the Board of Taxation has undertaken considerable work by preparing two reports in relation to its post-implementation review of Division, of which the second discussion paper was released in March 2014. There has been minimal activity by the Government or public sector bodies on the Division 7A front since then.

We observe that submissions made to the Board generally support a “statutory interest model”.

Compared to the other models, Taxpayers Australia prefers a “statutory interest model” in reducing the complexity for businesses conducted from private companies and that the Government should consider this model part of the reform process.

Further, of current concern to our members are the issues in relation to unpaid present entitlements made to corporate beneficiaries – this is particularly so for trading trusts that intend on retaining such funds for working capital purposes.

These requirements are exceptionally onerous for trustees and advisers to comply with. The difficulties were acknowledged by the Board of Taxation in its *Post-Implementation Review of Division 7A (Second Discussion Paper)* and recommended that there be greater flexibility for trusts that reinvest unpaid present entitlements as working capital.

One of these methods is a ‘tick the box’ regime. This method will provide trading trusts with a simple option to retain funds that have been taxed at the corporate rate, providing important working capital. As a trade-off, trading trusts that make this election will be denied the CGT discount (like companies) except in relation to goodwill.

Taxpayers Australia considers that a ‘tick the box’ option would achieve the objective of allowing trading trusts retaining funds for working capital purposes – where a corporation beneficiary has a unpaid present entitlement.

C.2.4 Personal services income

What our members say...

75% (strongly agree: 36%; agree: 39%) of our survey respondents are of the view that the personal services income rules are too complicated and would be more effective if they were simpler to understand.

Recommendations

Recommendation 42.6: That the Government reviews the personal services income measures to ensure that they are appropriate for contemporary PSI businesses.

Recommendation 42.7: That the Government reviews whether the personal services income measures appropriately address income splitting arrangements or whether prescriptive integrity measures are necessary.

Comment

Taxpayers Australia agrees with the feedback from our survey respondents that the alienation of personal services income (PSI) measures contained in Part 2-42 of the ITAA97 (referred to herein as the PSI rules) are unduly complicated.

Our concerns about the operation of the PSI rules relate to the fact that the 15 year rules contain inherent flaws as an integrity measure and its application provides uncertainty to users. The rules were introduced 15 years ago (2000-01) when the nature of contract work performed was different to what it is today. In the current day, service providers operate in a global and digital economy and are oftentimes able to deliver service remotely from any location and/or from mobile devices.

In this regard, we recommend that the Government reviews the application of the personal services income alienation measures to ensure that they are appropriate for contemporary PSI businesses. The outcome of the review may necessitate a rewrite of the PSI rules.

Further, in our view, the PSI rules are inadequate as an integrity measure due to the fact that there is still scope for the residual operation of Part IVA to apply. This is particularly the case for certain income splitting arrangements – for example, a company distributing PSI income to a family member in preference to the principal of the business who performs the services.

There is therefore a necessity for policymakers to decide whether the income splitting arrangements undertaken by personal services business are appropriate. This is particularly so given that income derived from business and investments are not subject to such strict requirements.

We recommend that the Government reviews whether income splitting arrangements undertaken with respect to the alienation of personal service income measures are appropriate. If the Government however shares concerns that the income splitting arrangements in relation to PSI should not happen – then it would be necessary to legislate prescriptive rules against these practices as opposed to relying on the general anti-avoidance rules.

C.3 Tax concessions for small business

Discussion Paper questions addressed

Q45. How effective is the current range of tax concessions (such as CGT and industry specific concessions) at supporting small business engagement with the tax system? To what extent do the benefits they provide outweigh the compliance, complexity and revenue costs they introduce?

Q46. What other mechanisms (such as a single lower tax rate, improved technology deployment or other non-tax mechanisms) could assist small businesses to engage with the tax system while decreasing compliance and complexity costs?

What our members say...

About **half** of our survey respondents are open to the idea of reducing the company tax rate. Critically, however, **68%** (indifferent: 15%; disagree: 32%; strongly disagree: 21%) of the respondents are against or indifferent to Australia having a “two-tier company tax system”.

An overwhelming **63%** of our survey respondents say that the most significant driver of tax law compliance activities and costs for small business are administrative obligations. We queried our members as to the best option for improving the small business taxation regime, with the following results:

- **40%** of respondents want greater simplification of administrative requirements (such as tax returns and Business Activity Statements)
- **16%** of respondents prefer an increase to the existing \$1,000 threshold for the immediate write-off* and a reintroduction of the loss carry back regime
- **10%** of respondents would like to see a much lower tax rate for eligible businesses; and
- **10%** of respondents would prefer that the eligibility criteria to access the small business CGT concessions be relaxed.

** The survey was conducted prior to the 2015-16 Federal Budget announcement of a threshold increase to \$20,000.*

Recommendations

Recommendation 45.1: That there should not be a two-tier company tax system as this increases complexity and compliance for small business owners.

Recommendation 45.2: That any reduction to the company tax rate should be done uniformly so as to avoid a two-tier tax system.

Recommendation 45.3: That the Government seeks to improve the operation of the small business CGT concessions in general and the application of the maximum net asset value test in particular.

Recommendation 45.4: That the Government considers a reintroduction of a loss carry-back regime specifically targeted at companies which are small business entities.

Recommendation 46.1: That the Government undertakes a holistic review to establish a uniform definition of “small business” for tax purposes that is simple and easily understood.

Recommendation 46.2: That, if the current definition of “small business entity” be maintained, the Government seeks:

- to simplify the definition of “annual turnover”, “connected with” and “affiliate”, and***
- increase the turnover threshold from \$2 million to \$5 million in accordance with Board of Taxation recommendations.***

Comment

A significant proportion of our members advise small business owners. Further, many are also small business owners themselves. The taxation of small business and the ease of compliance are of particular interest to our membership base.

We note that whilst the majority of tax concessions available for small businesses are premised on the entity satisfying the meaning of a “small business entity”, there are some concessions where a different turnover threshold applies. The lack of consistency in the

definition of a “small business” and eligibility criteria is a source of confusion for small business owners and advisers.

Taxpayers Australia recommends that a holistic review be undertaken by the Government to establish a uniform definition of “small business” for tax and regulatory purposes that is simple and easily understood by businesses owners.

If the Government wishes to maintain the current definition of SBE in its current form, we recommend that it increase the turnover threshold from \$2 million to \$5 million in accordance with the Board of Taxation’s recent recommendation. We acknowledge that in introducing any increase, the Government will need to take into account its current Budget settings.

Further, we do not support a two-tier company tax system as this creates additional complexity and compliance on small business. Our preference is that there be a single company tax rate that applies to all companies. Reductions to the company tax rate should apply uniformly irrespective of the company’s size or turnover. Whilst there are advantages to having a single lower tax rate to replace multiple concessions, we are of the view that there would be additional complexity in meeting eligibility requirements, there will be increased incentive to abuse the system and tax benefits may only be a tax deferral (timing) benefit in many cases.

The small business CGT concessions are complex. However, this should be the case given that the concession are generous to small business owners who choose to exit from their business. Whilst the rules operate as intended, we note however that the maximum net asset value test (with a \$6 million threshold) continues to provide excessive difficulty for our members. In particular, the use of market valuations can be costly – further, valuations obtained for assets often provide a range and are not a precise value. We recommend that the Government review the operation of the small business CGT concession – in particular, the operation of the maximum net asset value test.

Lastly, we recommend that a loss carry-back measure be reintroduced. In the short term, the availability of the carry-back can be restricted to small companies to assist with their cash flow. This measure could be introduced to all companies over the medium to long term.

D. GOODS AND SERVICES TAX

Discussion Paper question addressed

Q51. To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?

What our members say...

As a general observation, survey respondents largely support changes to the GST providing that any adverse impacts are at least partly offset by corresponding relief for end consumers.

In this regard, **73%** (strongly agree: 39%; agree: 34%) of our survey respondents are of the view that the GST base should be broadened whilst **54%** (strongly agree: 35%; agree: 19%) are in favour of increasing the GST rate (currently 10%).

A vast majority of respondents, **84%**, support broadening the GST base. To achieve this, **41%** agree with reducing the number of concessions and exemptions and **43%** are in favour of eliminating all concessions and exemptions. Removing all exemptions for food is favoured by only **16%** of respondents.

Note that survey respondents could select more than one answer for this question.

Recommendations

Recommendation 51.1: That the GST base should be broadened.

Recommendation 51.2: That the Government reviews the appropriateness of increasing the GST rate to supplement any broadening of the GST base to achieve an optimal total tax take.

Recommendation 51.3: That any increase to the GST rate or any broadening of the GST base must be accompanied by corresponding relief to low income and disadvantaged Australians.

Recommendation 51.4: That the Government reviews the feasibility of implementing a GST-free business to business transaction system to reduce GST compliance burdens (per Recommendation 56 of Australia's Future Tax System).

Comment

Taxpayers Australia acknowledges that the Discussion Paper identifies that Australia relies heavily on income taxes compared to other developed countries and that, in the medium to long term with the current policy settings unchanged, the overall tax take would be skewed towards income taxes as the main revenue source. We agree that changes to the GST, whether that is an increase in GST rate or broadening of the GST base, or a combination of both options, would assist in the necessary rebalancing task.

Our survey respondents were open to a change to the GST provided that this was accompanied by relief for some or all end consumers (such as increasing the tax-free threshold for personal tax rates). In our view, it is critically important that such relief adequately compensate low income earners and other disadvantaged members of the Australian community.

Taxpayers Australia agrees in principle to a broadening of the GST base. In our view, a broadening of the Australian GST base, if targeted appropriately, can improve the efficiency of the GST system by reducing complexity and compliance burdens for business owners. For example, a broader base would reduce the need for businesses to undertake the often arduous task of determining whether a particular supply is subject to GST. In doing so, low income earners and the disadvantaged members of the Australian community must be compensated for the extra GST burden placed on them so that they do not become worse off.

We note however that our survey respondents were not overly supportive of removing all GST exemptions on food (only 15% of total respondents favoured this approach to broadening the GST base).

We are also open to an increase to the GST rate as an alternative means to rebalance the overall tax take. However, in our view, increasing the GST rate should be an option that is secondary to broadening the GST base. In practical terms, an increase to the GST rate that

applies to all taxable supplies and taxable importations should only be considered where efforts to broaden the GST base is inadequate to achieve the total GST take objectives.

If the Government implements measures to address “bracket creep” by way of changes to the personal tax brackets (eg. indexation to the Wages Price Index), a GST rate increase may then assist in rebalancing the composition of the overall tax revenue. Individuals who will be affected by such changes to the personal tax system will also be the end consumers who bear the cost of any increase to the GST. The Government will need to analyse the net impact to individuals and families of any GST increase in conjunction with any decrease in the personal tax burden. Certain groups in the community may require extra assistance if there is an adverse net impact.

To assist in reducing compliance costs to small business, we consider that it would be a worthwhile exercise for the Government to consider whether a GST-free business-to-business transaction system is viable. We recommend that the Government explores Recommendation 56 of the *Australia’s future tax system* report in determining whether GST compliance and complexity could be reduced for business owners.

E. FRINGE BENEFITS TAX

Discussion Paper questions addressed

Q7. What should our fringe benefits tax system look like and why?

Q16. To what extent does our fringe benefits tax system strike the right balance between simplicity and fairness? What could be done to improve this?

Q17. To what extent are the concessions and exemptions in the fringe benefits tax system appropriate?

What our members say...

64% (strongly agree: 36%; agree: 28%) of our survey respondents believe that FBT should be abolished and all employment-related non-cash benefits should be taxed within the personal income tax regime.

32% of our survey respondents would like to see the existing range of FBT concessions and exemptions reduced.

Recommendations

Recommendation 7.1: That the Government considers a regime where non-cash employment benefits provided to an employee or associate of an employee is assessed in the hands of the employee.

Recommendation 7.2: That the Government commits to a rewrite of the FBT law to improve the application and administration of the law.

Recommendation 16.1: That the Government reviews the role of salary sacrifice arrangements, including the interaction with the personal taxation regime, in effectively remunerating employees, with particular focus on the not-for-profit sector.

Recommendation 17.1: That the Government reviews each existing FBT concession and exemption with a view to simplification or removal.

Recommendation 17.2: That the Government reviews the LAFH allowance and benefits rules to ensure that they operate as intended and to determine whether the rules hinder employee mobility in regional and rural Australia.

Comment

Taxpayers Australia considers that the 30 year old FBT regime is unnecessarily complex and its administration is onerous for employers (particularly for small business owners). The FBT law is difficult to follow and interpret.

Therefore, we recommend the implementation of a regime where non-cash benefits which are provided to an employee (or their associate) in the course of their employment are assessed in the employee's hands at their personal marginal tax rate. However, FBT should still be levied on the employer in relation to certain types of benefits (such as meal entertainment). We consider this to be a more equitable approach than having non-cash benefits assessed at the top marginal tax rate and for employer to be liable to the assessment.

We consider this to be a more equitable approach than having non-cash benefits assessed at the top marginal tax rate and for employer to be liable to the assessment.

If the Government introduces changes to tax fringe benefits in the hands of employees, the current FBT law contained in the *Fringe Benefits Tax Assessment Act 1986* should to some extent be rewritten into the ITAA97.

Further, the operation of certain salary sacrifice arrangements can be complex and may not be well understood by employees and employers alike. Whilst salary sacrifice arrangements can be one way for employers to reward and retain their staff, consideration should be given to the role that the personal income taxation system plays in effectively remunerating employees.

Some of the concessions and exemptions contained in the current FBT law are difficult for employers to interpret and there is a lot of general uncertainty as to how they are to be applied in practice.

We recommend that reviews each existing FBT concession and exemption with a view to simplification or removal. The “minor benefits exemption” is a case in point. It could be simplified such that the value of each benefit remains less than \$500 in value but the total minor benefits provided does not exceed \$5,000 per employee per FBT year.

Lastly, we recommend that the Government revisits the living-away-from-home (LAFH) allowance and benefits rules to ensure that it applies as intended and whether the rules acts as a hindrance to employee mobility in regional and rural Australia. The current 12 month restriction for LAFH allowance concessions for FBT purposes places unnecessary constraints and costs on businesses that wish to expand their operations by relocating a current employee away from their normal place of residence.

F. TAXATION OF SAVINGS AND INVESTMENTS

F.1 Bank accounts and debt instruments

Discussion Paper question addressed

Q18. What tax arrangements should apply to bank accounts and debt instruments held by individuals?

What our members say...

In our member survey, 53% (strongly agree: 21.43%; agree: 31.43%) of respondents agreed with the proposition that a discount should apply to income derived from bank deposits that is taxed.

Recommendation

Recommendation 18.1: we recommend that interest income from deposits and debt instruments be concessionally taxed to individuals.

Comment

To foster increased household savings and to provide parity with the taxation of the returns on other forms of savings, Taxpayers Australia recommends that interest income from deposits and debt instruments be concessionally taxed to individuals.

We envisage this to be achieved by exemption for interest income derived by an individual taxpayer to the extent that their total interest income for the income year does not exceed a statutory cap. Any interest income exceeding the cap would be taxed at the individual's marginal tax rate.

If the Government implements this recommendation, we propose that the statutory cap should be at least \$2,000. ATO data for recent years indicates that the average amount of gross interest income returned as assessable income is a bit over \$2,000 per individual taxpayer who declares such income.

The *Intergenerational Report* projects that the next 40 years will see an ageing population and a decreasing proportion of the population that are of working age.

To ensure that Australia can maintain its standard of living in future years and decades, Taxpayers Australia recommends that the Government implements initiatives to encourage and enable personal savings (in addition to superannuation) to reduce future reliance on the publicly funded transfer and welfare systems.

In particular, the recommended concession will incentivise lower income individuals and households to save. For taxpayers with higher levels of disposable income, interest-bearing investments will become a more attractive and competitive savings vehicle relative to other forms of investment.

F.2 Negative gearing of investment properties

Discussion Paper questions addressed

Q21. Do CGT and negative gearing influence savings and investment decisions, and if so, how?

Q19. To what extent is the rationale for the CGT discount, and the size of the discount, still appropriate?

What our members say...

The Australian community is divided on the contentious issue of negative gearing in the context of real estate. The polarising effect of this issue is reflected in our survey results.

A significant **42%** of our survey respondents are of the view that “nothing” needs to be done in relation to the ability of investors to negatively gear an investment property.

In comparison, **24%** of respondents are of the opinion that negative geared losses from an investment property should be quarantined and only applied against future income derived from investment properties.

Only **2%** of our survey respondents supports the proposition that the CGT discount should not be available to offset a capital gain made upon the sale of a negatively geared property.

Recommendations

Recommendation 19.1: The CGT discount should be better targeted such that investors are entitled to a larger discount percentage for long term asset holdings.

Recommendation 21.1: Maintain the current tax treatment of allowing taxpayers to apply revenue losses arising from negatively geared properties against income from other sources.

Comment

Taxpayers Australia recognises that the tax treatment of investment properties and the economic impact that this has on housing supply and affordability are polarising issues in the Australian community.

We agree with the comments in the Discussion Paper that the tax advantages for individuals investing in an investment property do not necessarily come from borrowing (as this is determined by the extent of the gearing and the opportunity costs) but rather the potential tax advantage could come from benefit of the CGT general discount at the time that the asset is sold.

Consistent with the rationale for repealing the negative gearing measures in the late 1980's, we consider that there should be uniformity in the tax treatment of interest costs (and other deductible expenses) for all types of investments. Therefore, if "negative gearing" were to be disallowed for real estate investments, then as a general principle, it should be disallowed for all negatively geared investments in any asset type.

Further, considers that there is currently no need to remove the CGT discount on the sale of negatively geared investment properties. However, it could be better targeted such that investors receive a greater benefit the longer the asset is held. If the Government wishes to encourage long term investment and saving in capital appreciating assets, as an alternative measure, a time-based phased system of discounting capital gains should be considered.

G. SUPERANNUATION

Discussion Paper question addressed:

Q22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

What our members say...

Taxpayers Australia surveyed our members on: “What part of the superannuation system is in the greatest need of legislative change?”

The issue seen as most needing to be changed was “tax concessions accessed by higher income taxpayers” (**38%** of survey respondents said it was the most important issue).

Members were also asked which proposed changes they supported (they could support more than one). The results from our survey respondents were:

- tax superannuation income in retirement at 15% on income over \$75,000 (**41.5%**)
- introduce progressive taxation of concessional contributions (**30%**)
- introduce lifetime caps on non-concessional contributions (**26.5%**)
- extend the Low Income Superannuation Contribution beyond 2017 (**23%**), and
- no changes are necessary (**22.5%**).

When asked whether superannuation concessions for the wealthy should be curtailed **56%** were in agreement (21% strongly agree; 35% agree) while only **29%** disagreed (12% strongly disagree; 17% disagree). Only **16.55%** of survey respondents were indifferent to this question.

Recommendations

Recommendation 22.1: That the government consider imposing a concessional rate of tax on incomes over a certain threshold earned in retirement from superannuation pension products.

Recommendation 22.2: That the government not introduce a progressive tax rate on concessional contributions.

Recommendation 22.3: That relevant superannuation rates, caps and limits be indexed for inflation either annually or every 5/10 years.

Recommendation 22.4: The government should introduce incentives, such as a 15% tax rate cut, for those aged 65 and above to stay in work rather than access their superannuation.

Recommendation 22.5: That the government consider limiting non-concessional contributions by either imposing a lifetime cap of six times the annual rate (not including small business CGT concessions) or banning non-concessional contributions after a set superannuation balance is achieved.

Recommendation 22.6: That limits be placed on the ability to take a lump sum on retirement such that:

- ***those under a minimum threshold should be able to take the full amount as a lump sum, and***
- ***those above the threshold should be able to take out a maximum percentage of their total superannuation balance as a lump sum.***

Comment

Our survey of members indicates that there is support for changes to the superannuation system to address perceived equity issues. There is wide support for the superannuation system and the need for there to be tax concessions to encourage people to make additional contributions. However, the ability of a small subset of taxpayers to earn considerable income tax-free while accessing government services and benefits at the same time as others contribute to the tax system is seen as inequitable and needing to be addressed.

Taxpayers Australia does not support a progressive rate of taxation on concessional contributions as this would significantly reduce the superannuation balance of many taxpayers while acting as a disincentive to making additional contributions.

We consider that the current system encourages those aged 65 and over to retire and to access their superannuation tax-free rather than continue to be gainfully employed to the extent that they are able to do so. This disincentive to pursue gainful employment should be addressed as part of a whole-of-government initiative.

Further, lifetime caps on non-concessional contributions need to be considered to ensure that superannuation is not used as a wealth protection mechanism. Limits on access to superannuation as a lump sum may need to be introduced to encourage taxpayers to invest in pension products on retirement.

H. OTHER KEY OBSERVATIONS

In this submission, Taxpayers Australia has not discussed all of the topics covered in our member survey.

We summarise herein other key observations from the survey results.

H.1 Government assistance

We surveyed our members in relation to their view of what would be the most appropriate mechanism for the government to deliver assistance to specific groups.

Overwhelmingly, the most popular mechanism was the welfare system, with **47%** of respondents selecting this response. A further **25%** were proponents of the government providing assistance through direct funding of services or by way of industry subsidies (ie. bypassing the individual taxpayer).

Only **19%** of respondents were of the opinion that assistance would be most appropriately delivered through the tax system (eg. through rebates, offsets, deductions and exemptions).

The open-ended responses to the survey question indicate a general view that the optimal assistance delivery mechanism would entail a combination of the abovementioned options.

We recommend that the Government consider the channels through which various types of assistance are delivered, to ensure that assistance is received by the target group while maintaining the simplicity and integrity of the tax system, the welfare system and any other relevant government regimes.

H.2 Company tax rates

Almost half, **49%** (strongly agree: 14%; agree: 35%), of our survey respondents are of the view that Australia should lower its company tax rates

Only **30%** (strongly disagree: 9%; disagree: 21%) disagreed with the proposition. 21% were indifferent to the issue.

We note that this survey was completed prior to the Government's confirmation in its 2015-16 Federal Budget that it intends to reduce the tax rate for small companies. Further, our

survey question related to company taxation in general and therefore the responses are not specific to the taxation of companies which are small businesses.

We encourage the Government to consider the appropriateness, or otherwise, of reducing the corporate tax rate for all companies.

H.3 State, territorial and local taxes

Our survey included a question on state, territorial and local taxes (collectively referred to herein as “state taxes”). We queried whether state taxes should be reduced and the Commonwealth should instead increase federal tax revenues that are distributed to the states and territories.

A majority, **52%** (strongly agree: 24%; agree: 28%), of respondents agree with this proposition.

We encourage the all of the federal, state and territorial governments to consider the feasibility and efficiency of reducing particular state taxes in return for more Commonwealth revenues to be allocated to the states and territories. We note that this intergovernmental issue will be particularly relevant in national discussions regarding GST reform.

H.4 GST

If the GST rate is increased and/or the GST base is broadened, then some corresponding relief would have to be given, at least to low-income and other disadvantaged sectors of society. In our survey, we asked our members what form such relief should take.

Respondents were able to select more than one option.

Overwhelmingly, the two most popular forms of relief are: a reduction in state and territorial taxes (**42%**) and a reduction in personal income tax (**41%**).

In addition, **38%** are of the opinion that assistance payments should be made through the welfare system and **29%** supported the introduction of tax rebates to assist (compensate) low-income taxpayers.

Only **8%** are of the view that it would be unnecessary to give any relief.

CONCLUDING COMMENTS

Taxpayers Australia is grateful for the opportunity to lodge this submission in response to the *Re:think* discussion paper.

In preparing this submission, we surveyed our membership base in relation to various taxation and superannuation issues raised in *Re:think*. Accordingly, our submission represents the views, priorities and suggestions of our members. Further, our suggestions are premised on our organisation's objective of achieving a simple, equitable and flexible tax regime for Australia.

We trust that the Government and Treasury will find our recommendations and suggestions useful in their preparation for the forthcoming Tax White Paper and for their broader tax reform agenda.