24APR15

Black Yoshi

[Address supplied]

[Contact details supplied]

To Whom It May Concern:

This is my submission to the Australian Government’s “Re:think: Better tax, better Australia” initiative. First I outline my thoughts on the overall tax system. Then I address a variety of taxes (mostly individual, state and indirect) in alphabetical order. For each tax, I note whether it should be **kept as is**, **kept and modified** or **scrapped**. In terms of my background, I have no formal tax expertise. I have an ongoing interest and have read widely on the subject (for example, joint committee reports, think tank articles, agency reports and government reports). I am otherwise a ‘random constituent’. I have supplied my demographic information but do not include it here lest it colour the interpretation of my submission.

**Overall Tax System**

***Preferred Ethos***

I want the tax system to be two things: efficient and fair. By efficient, I mean I want the lowest effective tax rate possible to achieve a given outcome. So, I will generally like land tax and generally dislike stamp duty. By fair, I mean that wealthier entities pay more tax than less wealthy entities. So, I will generally like progressive marginal income tax rates and generally dislike the Goods and Services Tax (GST).

Efficient and fair though says nothing about the *ethos* of the tax system. That is, what is the tax system for? A good economy is not an end in itself. Should there be high taxes and many government services, low taxes and fewer government services, or something else?[[1]](#footnote-1) I want the tax system to benefit society and be egalitarian. By benefit society, I mean use revenue to actively intervene in society for the public interest (rather than merely administer society at arm’s length). So, I will generally like public projects and centrally funded services such as the Snowy Hydro Scheme and universal healthcare and generally dislike privatisation and fee based services such as toll roads and the scrapped GP co-payment. By egalitarian, I mean try to ensure there is equal opportunity. So, I will generally like a tax system that deliberately promotes social mobility and relatively equal distribution of wealth and dislike a tax system that, intentionally or not, contributes to substantial income inequality and helps the poor remain poor.

***Commonwealth/State Interaction***

The answer to discussion question 62 is blunt: Yes there are benefits to integrating the federation’s tax systems. What is required to achieve this? Abolishing the states. Australia does not need states any more. There should not be Commonwealth and state interaction, because the states should not exist. The states should be replaced by local governments[[2]](#footnote-2) that do not have legislative, executive or judicial power independent of the Commonwealth. This might seem unlikely, but if the Commonwealth put in some effort a referendum would succeed. Nonetheless, this is a medium term (10-20 year) solution.

For the moment, the Commonwealth should continue stripping the states of as much power as possible, as it has been doing since federation. Further eliminating the states’ power to tax, as happened during WWII, would be ideal. Otherwise, the Commonwealth should harshly and gratuitously use s 96 grants to force the states to do what the Commonwealth wants. No revenue should be provided to states without conditions attached.

***Administration and Complexity***

Everyone agrees that a simpler tax system with less red tape would be good. But simple is not always efficient or fair. I want as complex a tax system as is required, but where money is spent to make it easy and user-friendly to interact with (compare the ease and user-friendliness of getting an online car insurance quote to figuring out, online, whether a tax applies to you and if so how). In response to discussion questions 56, 57 and 59, at a minimum the tax legislation needs to be rewritten. It is long and hard to follow – even if it were simply renumbered, it would make understanding it easier. The *Income Tax Assessment Act 1997* is written well, with relatively intact numbering and its use of the second person.[[3]](#footnote-3) Rewrite all tax legislation in this style.

**Specific Taxes**

***Alcohol Taxes***

I do not consider alcohol taxes an integral part of the broader tax system. Like all indirect taxes, they exist to achieve a specific outcome that benefits society (in this case, the reduction of alcohol-related harm). If they do not achieve that outcome or are not the most efficient method of achieving that outcome, they should be scrapped.[[4]](#footnote-4) If there was not an achievable outcome that benefited society, then there would be no alcohol tax – it would be absurd, like having a pomegranate tax.

Whether alcohol taxes do produce the desired change in behaviour is debatable. The best quality research I have read shows than an increase in the price of alcohol (for whatever reason) only decreases consumption for ‘moderate’ drinkers. ‘Problem’ drinkers simply drink as much as before, but it costs them more money. Consequently, the only effect of a general price increase is problem drinkers – often already poor – become poorer (which has other negative consequences). Far more effective is regulation – such as restricting store opening hours, locations alcohol is available, when/where/if it can be advertised, etc. This means alcohol taxes do not achieve their outcome and should be scrapped. However, the government is unlikely to scrap alcohol taxes. If that is the case, I suggest the alcohol tax system be simplified to reduce the burden on business. My preferred system is a flat rate tax on the pre-GST value per litre across all alcohol types.

**Verdict: Scrap**

***Capital Gains Tax***

Capital Gains Tax (CGT) is generally a fair tax. However, some exemptions/concessions disproportionately benefit the wealthy. In answer to discussion question 19, the 50% reduction in CGT on assets held for more than 12 months should be scrapped, as it is not efficient or fair. It should be replaced by a measure that ensures only real capital gain (and not inflationary gain) is taxed, similar to what applied from 1985-1999. Further, the exemption for the family home should be scrapped over a certain threshold,[[5]](#footnote-5) as the exemption is not fair if it is unlimited. Other exemptions/concessions should be maintained (notably that CGT is not applied upon inheritance or to personal assets such as private vehicles).

**Verdict:** **Keep and modify (or keep as is)**

***Corporate Taxes***

I know the least about corporate and business taxes, which is why I am commenting on them broadly as a group. I do not know whether they are efficient or not. However, I am concerned that some are not fair, predominantly for two reasons.

First, companies are able to shift profits overseas and avoid paying tax in Australia for profits derived in Australia. This is not fair, and strong regulations should be put in place to prevent it. It is particularly unfair when goods with low costs to market and sell (such as, multimedia via iTunes) are already overpriced compared to that exact product in another similar market. If Australian consumers are going to be gouged, at least those gougings should be taxed in Australia.

Second, company tax is regressive. Small businesses have to pay the same rate as large companies (and with less access to tax avoidance strategies); this despite having a much larger portion of their ‘profit’ needed to cover basic costs. I would support the introduction of a progressive company tax rates based on the amount of profit in a given financial year.

**Verdict: Keep and modify**

***Deductible Gift Recipients***

Eligibility for Deductible Gift Recipient (DGR) status should be expanded. There are many intangible benefits derived from community organisations that are not DGR eligible. For example, sport clubs and religious organisations. Humans are fundamentally social creatures, and participating in and being a part of communities of any sort is beneficial. There is lots of research that outlines the benefits such as better mental health, higher school achievement, lower delinquency rates and higher levels of contentment for people who are part of a community. Essentially, community involvement is ‘prevention’ that avoids needing a costly government ‘cure’ (mental health assistance, juvenile justice and so on). So, DGR status should be expanded to include community groups more broadly, rather than just charities. There would of course need to be appropriate regulation, for example, to prevent donations to a local team/church/mosque going to an international organisation and not being spent on that local group’s needs. Notwithstanding, such an expansion of DGR status would be efficient, given it would reduce the need for government services.

Further, in answer to discussion question 49, application for DGR status should be simplified. For organisations that are only based in Australia, the Commissioner of Taxation (or his delegate) should be delegated authority to approve DGR applications. For organisations that are the Australian arm of an international organisation, the relevant minister should have authority to approve. In addition, eligibility should be streamlined: a legislated set of guidelines that the Commissioner/Minister must consider when making their decision. Appropriate clarity will be developed over time through appeals the Administrative Appeals Tribunal and Federal Court.

**Verdict: Keep and modify**

***Fringe Benefits Tax***

Fringe Benefits Tax (FBT) is to ensure tax is paid on all parts of an employee’s salary package. This is an appropriate and laudable goal, and helps ensure the tax system is fair. However, it appears inefficient and complicated. There appear to be many FBT concessions – such as on salary-sacrificed vehicles – that are unfair. I would like the FBT to be simpler and fairer. In answer to discussion question 7, there are two ways this could be.

First, the FBT system could operate very simply. Items under $X would be excluded (covering the current exceptions for laptops, phones and similar) and everything over $X would have no concessions.

Second, FBT could be scrapped almost entirely. Any revenue problems could be compensated for by an increase in another tax. No FBT would also allow companies to compete more easily on the labour market, as they could offer attractive salary packages by including valuable benefits at a lower cost than a straight salary.[[6]](#footnote-6) A high cap on such benefits would be required to ensure the system does not disproportionately favour the wealthy.

Regardless, any FBT reporting obligations should be on the employer. This is because it can be complicated and placing the burden on the individual taxpayer is likely to result in disputes with the Australian Taxation Office (ATO) (when the individual suddenly discovers from the ATO a large FBT liability no-one had previously mentioned to them).

**Verdict: Keep and modify (or scrap)**

***Fuel Taxes***

As with alcohol taxes, fuel taxes exist to achieve a specific outcome that benefits society (in this case, the reduction of greenhouse gas emissions). If they do not achieve that outcome or are not the most efficient method of achieving that outcome, they should be scrapped.

As it happens, fuel taxes do modify behaviour and help reduce greenhouse gas emissions. Unlike alcohol – which for most is a ‘want’ – fuel is a ‘need’. This means consumers must modify their behaviour (or pay more) as they cannot decide not to use fuel. Increases in fuel tax then will generally result in lower fuel usage, unlike increases in alcohol tax that do not result in lower alcohol consumption. As lowering fuel usage benefits society by lowering greenhouse gas emissions, any modification should be an increase. Also, businesses will generally have more options compared to private individuals when it comes to reducing their fuel consumption.[[7]](#footnote-7) This means that it would be fairer and more efficient to target business fuel consumption over private fuel consumption where possible. Therefore, in answer to discussion question 55, fuel tax credits should be removed. It must be borne in mind though that fuel taxes are regressive – thus, any increase that affects private individuals should be offset for low income private individuals.

**Verdict: Keep and modify (or keep as is)**

***Gambling Taxes***

As with alcohol and fuel taxes, gambling taxes exist to achieve a specific outcome that benefits society (in this case, the reduction of problem gambling). If they do not achieve that outcome or are not the most efficient method of achieving that outcome, they should be scrapped.

As with alcohol, the people that need gambling intervention are those with a problem – not ‘moderate’ gamblers. Problem gamblers will generally continue to gamble unless they receive individual intervention. Further, gambling taxes are not levied on the actual gambler, so gambling taxes have even less effect on their behaviour than alcohol taxes do on alcoholics. This means that, as with alcohol, regulation is the answer. However, gambling taxes are state taxes and states are desperate for the revenue from gambling taxes given the Commonwealth has (justifiably) appropriated most other revenue raising measures from the states. This means that states are only interested in generating revenue, not helping problem gamblers – the actual purpose of the tax. So, the Commonwealth should intervene as much as possible to rectify this situation.

In answer to discussion question 55, gambling taxes would be collected and used to directly fund programs that assist problem gamblers. This would be at the same time as regulatory reform of gambling accessibility/availability in general. I would like the Commonwealth to ensure this happens by whatever means necessary – most likely s 96 grants that oblige states to legislate for the necessary reforms.

**Verdict: Keep and modify**

***Goods and Services Tax***

The GST is a much discussed tax. It is a regressive tax, meaning it is relatively unfair. However, it is generally an efficient tax. Two GST reforms are often suggested, increasing it or broadening its base (and if so by how much). I think there should be a precondition for any increase/expansion of the GST: the removal of stamp duty on vehicles and property. If the states will not agree to this, the GST should remain as is. Assuming the states do agree to remove those stamp duties, then (in answer to discussion question 51) I would support the GST being broadened. It should presumptively be broadened to everything, unless there is a benefit to society by providing an exemption (such as exempting fresh produce to help reduce obesity). The only exception is where the cost outweighs the gain, such as if GST were applied to residential rent or low-value digital goods (for example, iTunes or Netflix).

Whereas broadening the GST would happen once and can be offset once by eliminating stamp duty, increasing the GST could happen repeatedly but can only be offset by eliminating stamp duty once. Therefore, I do not support any increase in the GST, ever (due to its highly regressive and therefore unfair nature).

**Verdict: Keep and modify (or keep as is)**

***Income Tax***

Our income tax system is pretty good. It is very fair. The more you earn, the higher your marginal tax rate. In answer to discussion question six, our individual income tax system should look similar to how it does now (assuming rates are changed from time to time to avoid undue bracket creep).

In answer to discussion question eight, it is most important to provide tax cuts to lower levels of income. This will generally be fair and foster and egalitarian society with low income inequality. I understand that low-level tax cuts are expensive; a one cent drop in the lowest rate is probably equivalent in lost revenue to a five or more cent drop in the highest rate. Nonetheless, it is better for society as a whole if the lower income levels receive the majority of tax cuts. Along these lines, I think the LITO should be scrapped and replaced by the tax-free threshold being indexed.

Altogether, the individual income tax system is pretty good and should not be substantially altered.

**Verdict: Keep as is**

***Investment Properties (including Negative Gearing)***

There is one issue at the core of discussions about negative gearing as it applies to investment properties. That is the affordability of housing. Housing is not very affordable in Australia, especially in capital cities. Given the high place of owning your own home in Australian culture, it is unsurprising that those shut out of the housing market are unhappy. As the proportion of people that are shut out grows, so suggestions to increase the affordability of housing gain traction.

One such suggestion is the amendment or abolition of negative gearing for investment properties. This suggestion arises as amending or removing negative gearing would make investing in property less affordable, thereby reducing demand for property, thereby stabilising or slowing growth in house prices, thereby increasing affordability.

But, this suggestion is backward. The problem to be abolished is not negative gearing. The problem to be abolished is housing affordability. Few argue that amending or abolishing negative gearing on its own would significantly help the housing affordability crisis in the short or long term. It would only work as part of a reform package. But it is not a necessary part of the package; one does not need to trample on a fundamental principle of the tax system to fix the housing affordability crisis. Rather, there are other better options. These include incentives for investors to invest in newly built properties, incentives for developers to develop new properties, rezoning areas to allow for higher density dwellings, reintroducing the first home buyer savings scheme but making it more generous, regulating new developments to include affordable housing… There are many options.

In answer to discussion question 21,[[8]](#footnote-8) negative gearing does influence investment decisions by making property investment an attainable and tax-advantageous investment for those wealthy enough to afford investment properties. However, as it derives from a fundamental tax principle (costs incurred in earning all assessable income are deductible against all assessable income), it should not be scrapped or amended. Rather, the underlying issue of housing affordability should be addressed.

**Verdict: Keep as is**

***Local Rates***

Local rates are an efficient tax. I consider them different to land tax (discussed below) insofar as they are specifically raising revenue for local services, whereas land tax is for general revenue. This means rates would decrease if the local council decreased services, whereas land tax would not.[[9]](#footnote-9) The only problem with rates is the inconsistency across the country. This can only be solved by abolishing the states or bullying them into legislative reform through s 96 grants.

In answer to discussion question 52, the priority for local rates is funding local services. It is a lesser priority to make them consistent. Therefore, local rates should stay as is until such time as the states are abolished.

**Verdict: Keep as is**

***Luxury Car Tax***

As with alcohol, fuel and gambling taxes, LCT exists to achieve a specific outcome that benefits society. If it does not achieve that outcome or is not the most efficient method of achieving that outcome, it should be scrapped.

The LCT has no purpose or specific outcome. As best as I can tell, it is a hangover from the pre-GST tax system. All the LCT seems to be is a tax on wealthy people for being wealthy. One might argue that is what a higher marginal rate is, and therefore the tax is fair. However, wealthy people buying luxury cars have (usually) already paid their fair share of tax through income tax. So why should they be taxed again? Thus, the LCT is not fair. The LCT is also not efficient. It provides no benefit to society. It does not promote and egalitarian society. There is absolutely no justification for the LCT. It should be scrapped and any revenue shortfall made up for by increases in other taxes (such as a business focused increase in fuel tax). Alternatively, the revenue shortfall could be made up for by the introduction of a tax that does benefit society: an Environmentally Friendly Car Tax, whereby cars that do not meet a particular fuel efficiency standard are taxed and other cars are not.

**Verdict: Scrap**

***Owner-Occupied Housing***

Owner-occupied housing is not a tax, rather a topic of interest that affects several taxes. Owning a home is a central part of the ‘Australian dream’. Although other countries exist quite prosperously without home ownership being common, such as Germany, it is difficult to imagine such a cultural change occurring in Australia. Nor does there seem to be reason why the culture should change.

So, owning a home is something most Australians will aspire to. Further, owning the home is rarely for profit – any profit will generally be reinvested in another family home, rather than taken as income.

This means I am a strong supporter of the ‘family home’ being exempt from any taxes. It should remain and/or become exempt from CGT, land tax, stamp duty and any other taxes that may apply. The only things that should be paid by the owner(s) of the family home to any level of government in respect of that home are local rates.

**Verdict: N/A**

***Superannuation***

Superannuation, provided you entered the workforce young enough, is a good system. In answer to discussion question 22 though, the superannuation system needs some significant modifications to be efficient and fair.

First, the compulsory super contribution needs to increase to 12%. This is widely regarded as the figure necessary for there to be enough superannuation savings at retirement for an average person. Contrary to the views of some, people are not better off having more money in their pocket now.[[10]](#footnote-10) Second, it needs to be taxed consistently with few or no concessions. I would suggest making all contributions to super tax free, making all withdrawals taxed at the marginal rate applicable at the time and not taxing super earnings until withdrawal. This would ensure super contributions and super earnings were taxed and taxed fairly. Some might argue that tax free contributions unfairly benefit the wealthy, as their super income will often be less than their salary – hence they avoid tax. However, the more the wealthy ‘take advantage’ of tax free contributions, the higher their super income, and thus the higher their marginal tax rate upon withdrawal.

Alternatively, all contributions to super could be taxed at the marginal rate (or a lower super-specific set of marginal rates) and then have withdrawals be tax free.

Fundamentally, the way super is taxed at the moment is regressive and benefits the wealthy, making it unfair. This unfairness needs to be fixed, which it can be by taxing super at marginal rates (regardless of whether the tax is applied on superannuation input, earnings or output).

**Verdict: Keep and modify**

***Stamp Duty***

This is very simple. Stamp duty is extremely inefficient. It provides no benefit to society and is regressive (therefore unfair). All stamp duties should be abolished, most urgently on conveyances and motor vehicles. The Commonwealth should use its power to bully the states into doing this as soon as possible. The foregone revenue could be recouped more equitably by increasing marginal rates and/or broadening the GST and/or expanding land tax and/or increasing almost any other tax, given they are all more efficient and fair than stamp duties.

**Verdict: Scrap**

***Taxes on Land***

Land tax is efficient and, generally speaking, fair. Land tax should be unified, expanded and simplified. Unification ultimately requires the abolition of states so the Commonwealth can apply one system to all of Australia. In the meantime, the Commonwealth can encourage states to implement a standard land tax system through s 96 grants.

Expansion is straightforward – land tax should apply to all land, with the sole exception of owner-occupied dwellings (the ‘family home’) below a particular (reasonably high) value.[[11]](#footnote-11)

Simplification is easy to understand but hard to achieve without unification. Land tax should not apply to the family home and should be at a reduced rate for primary production land. Otherwise, land tax should be at the same rates regardless of whether the land is residential or commercial. The rates should be progressive.

Further, land tax should apply to the unimproved value of the land only, as this is fairer – taxing on the improved value would exclude less wealthy entities from investment opportunities that would otherwise be available to them. Land tax rates should be applied to an entity’s whole portfolio, as this provides small entities (‘mum and pop’ investors, small businesses and such) low barriers to investment (as the applicable tax rate would presumably be higher and/or have a lower threshold if it only applied to each property individually).

**Verdict: Keep and modify**

***Tobacco Tax***

As with alcohol, fuel, gambling and LCT taxes, tobacco tax exists to achieve a specific outcome that benefits society (reduce smoking rates). If it does not achieve that outcome or is not the most efficient method of achieving that outcome, it should be scrapped.

As it happens, tobacco tax does substantially contribute to the outcome of reduced smoking rates. Therefore, it should be kept as is – if not increased. Really, I would prefer an overhaul of the entire system of recreational drug laws in Australia (including licit and illicit substances). Ideally, a new system would see most substances legalised but heavily regulated (much more so than tobacco is now) and highly taxed. However, such a system is beyond the scope of this tax discussion.

**Verdict: Keep as is**

This submission commented on the overall nature of the tax system. First, it suggested the tax system should benefit society and be egalitarian, and do so by being efficient and fair. Second, it noted a prerequisite for efficiency and fairness being fully realised was the abolition of states. Third, it suggested rewriting tax legislation in the style of the *Income Tax Assessment Act 1997* would reduce complexity. Further, this submission reviewed 16 aspects of the tax system and determined whether they should be kept, modified or scrapped (see the table below). Overall, the tax system is pretty good, but it can be improved – some improvements obvious and simple (scrap stamp duties), others contested and hard (how to fairly tax superannuation).

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| --- | --- | --- |
| **Summary of Review of Taxes** | | |
| **Keep as is** | **Keep and modify** | **Scrap** |
| * Income tax * Investment properties (negative gearing) * Local rates * Tobacco tax | * CGT * Corporate taxes * DGR status * FBT * Fuel * Gambling * GST * Superannuation * Land tax | * Alcohol taxes * LCT * Stamp duties |

Kind Regards,

Black Yoshi

1. This assumes that government revenue is the major determinant of how much a government can spend, which is not at all the case (despite both major parties continually saying so explicitly and implicitly (for example, likening the national budget to a household budget, when the two are anything but similar)). [↑](#footnote-ref-1)
2. Think a cross between a local council and a territory government. [↑](#footnote-ref-2)
3. For example, s 40-45(5) “This Division does not apply to a depreciating asset if you or another taxpayer…”. [↑](#footnote-ref-3)
4. This broadly answers discussion questions 54 and 55. [↑](#footnote-ref-4)
5. I suggest a high threshold though, say $2million. It should also be appropriately indexed to avoid bracket creep. [↑](#footnote-ref-5)
6. For example, the cost to a parking company of offering $1 worth of free parking is less than $1, whereas the cost to that company of paying $1 in salary is $1. [↑](#footnote-ref-6)
7. For example, being able to afford newer vehicles and economies of scale making it worthwhile to spend capital increasing fuel efficiency in other ways. [↑](#footnote-ref-7)
8. Noting that the CGT concession is unfair regardless of its involvement in investment property decisions and should be scrapped as per above. [↑](#footnote-ref-8)
9. If the states were abolished and local councils ceased to exist, local services would be funded out of the Consolidated Revenue Fund, and the cost of local services would be reflected in the amount of tax collected across the entire tax system. [↑](#footnote-ref-9)
10. This is because the majority of such money will be spent imprudently – not because the people spending it are foolish, but because all people are psychologically wired to over-value short-term gain and under-value long-term gain. [↑](#footnote-ref-10)
11. For example, $2million. Land tax should only apply to the family home on dollars over this threshold, such that a $2.1million home pays land tax on only the last $100,000. [↑](#footnote-ref-11)