Submission 2 to Tax Review

I have sent in a previous submission to the Tax Review suggesting some ways to simplify the system for individual taxpayers and two submissions to the Review of Retirement Incomes, both of which covered some issues which also relate to the Tax Review.

This submission contains a few more suggestions that would make the current tax system less complex and more equitable, some responses to suggestions made in other submissions to the review as published on the tax review website, and finally my suggestion for a new income tax system.

I have only summarised issues here that I have dealt with in previous submissions, so this submission should be considered in conjunction with the preceding ones.

My submission mainly covers my areas of experience which are tax on investment income, rental property income, running a SMSF, and tax issues that affect my Tax Help clients. I have not covered any aspect of business tax, not-for-profit, alcohol taxes or carbon reduction.

Summary

Complexity and Inequity

My main areas of concern with the current tax system are as follows

1. The (often needless) complexity relating to deductions, rebates and Medicare and some rather pointless tax rules

2. The tax treatment of income from listed property trusts and unlisted managed funds

3. The perpetual nature of Capital Gains Tax resulting in the necessity for people to keep records for decades. This is beyond the capability of most households.

4. I have also suggested replacing the often very difficult calculation of CGT on a deceased estate with a low rate inheritance tax.

5. The very high effective marginal tax rates faced by some pensioners as Centrelink payments are reduced and three different tax rebates phase out

6. The inequities in the current treatment of the income of retirees, with huge differences in the tax consequences depending on whether the income is from a taxed or untaxed super fund or is outside the super system.

7. The self-education deduction which is needlessly complex to calculate and which subsidises education for high income earners but not for low or nil income earners trying to gain job skills.

8. Employee Share Plans can have very complex tax consequences for employees with otherwise simple tax affairs. The system needs a review to make compliance easier for employees.

Response to issues from other submissions

I have also submitted some comments on concerns raised in other submissions to the Tax Review that have been published on the website and I have made some suggestions for changes. These cover

1. Negative gearing of residential property – this has some good effects (making rental housing available) and some bad effects (pushing up the price of real estate). I have some suggestions on changes to the current system.

2. Capital gains tax on the family home (perish the thought) – this would result in householders having to keep ludicrously detailed records of expenditure and would result in a lowering of housing standards every time a family needed to move house.

3. Tax on land – I do not think it is practical to have this replace all other taxes, but a small tax on land could replace some inefficient state taxes.

4. Tax on foreign currency trading – I find the arguments for this being the answer to the world's ills a trifle flawed.

5. Tax on financial transactions – I am okay with this if it can be done without the inefficient cost and effort that resulted from a previous attempt to do this (the long dead and happily buried FID and BAD taxes).

6. Fringe benefits tax – this needs an overhaul.

Lorraine's New Tax System

I have put forward a possible new tax system that lines up the top tax rate with the business tax rate to give a simpler system that would be less subject to tax avoidance.

I have also suggested a couple of possible ways to fund any shortfall created by changes to the existing system.

Lorraine's Wish List

In my final section I have briefly listed the changes I would like to see in their order of importance. These are the main issues that affect me as an individual taxpayer and the clients that I assist in my capacity as a Tax Help Volunteer.

Reducing Complexity and Inequity

Deductions, Rebates, Medicare and Complex Rules

Some of the current complexity is totally superfluous as it is due to *ad hoc* historical changes and band-aid fixes that did not adequately address the underlying issues.

The deduction system could easily be simplified if travel and clothing allowances were made tax free and the corresponding deductions no longer allowed. Businesses would still be able to claim travel but not employees.

The deduction for tax agents fees benefits high income earners more than it benefits people who pay no tax but still need to lodge a tax return or a baby bonus claim. This could be converted to a refundable rebate of 30% thus benefiting everyone equally. If we simplify the system properly, then all low income earners can fill out the returns themselves or use Tax Help and will not have to pay a tax agent.

I have covered some other problems in detail in my first submission to the Tax Review, and suggested changes to areas where I find the complexity to be needless.

Some things I covered before and that I would like to be considered in the Tax Review are as follows.

The 45 day rule for franking credits applies unnecessarily to small investors. Individual investors with franking credit less than $50k should be exempt.

The capital gain on stapled securities is calculated in a needlessly complex way.

The current limit of $300 in deductions for which a receipt is not required should exclude union and registration fees.

The confusing and inconsistent rules for who is and who is not a dependant should be reviewed.

Zone offset calculations need to be totally overhauled.

The new education offset favours well organised families who can keep receipts over lower socio-economic families with less developed record-keeping skills.

The Medicare M1 and M2 questions are unnecessarily confusing and could be replaced by simply asking how many children, the income of the spouse, and whether the taxpayer has private health insurance. The ATO computer can then make the decision whether the surcharge or the reduction applies.

I also previously put forward a suggestion that the Medicare Levy is simply incorporated into the tax rates. Please see my first submission for more details of this.

The rebate for health insurance premiums should only apply to basic hospital cover, and basic ancillary cover. This would allow the percentage rebate to be increased.

The current rules for tax deductibility of super contributions discriminate against taxpayers who have some income from employment and some from self-employment. This could easily be fixed.

Please refer to my first submission for more detail on these issues.

Tax Treatment of Listed Property trusts

I dealt with this in some detail in my first submission to the review but I will deal briefly with this again as I think it should be a **top priority** for any review of personal income tax.

Listed Property Trust income needs to be broken down into about fourteen different components and the components of some payments are taxed in separate years. The tax statements from most property trusts are sent up to three months after the end of the financial year that the income applies to, leaving some investors not knowing their taxable income until long after the end of the tax year, and unable to lodge their returns until October.

A further complication occurs when property trusts do not distribute the concessional component of the capital gain. Small investors then never actually get the benefit of the discount as they pay tax on the whole amount of capital gain actually received and SMSF's pay tax on income that they never receive.

These problems also apply to unlisted managed funds which have similar distributions. Mum-and-dad and retiree investors should not have to face anything anywhere near this complex to file a tax return.

My preferred solution to this situation would be to have these trusts taxed in the same way as Listed Investment Companies, with the discount capital gain component passed on to individual investors as a deduction similar to an LIC deduction form a listed investment company and any tax deferred income passed on as a capital return.

If this approach is not possible then it would be nice if some way could be found to treat all the income in the year it is received, so that taxpayers know exactly where they stand at the end of the year and do not have to wait for three months before they know their income and can lodge a return.

And also close the loophole that allows property trusts to distribute the taxable component of a discount capital gain while retaining the concessional component.

Please read my first submission to the Tax Review for more detail on the effects of this problem.

Capital gains tax

I also covered this in detail in my first submission to the Tax Review. I think the system needs to be changed as the perpetual nature of Capital Gains Tax results in the necessity for people to keep records for decades. This is beyond the capability of most households and is not efficient.

CGT currently covers assets bought since 1985, now twenty four years ago, and under current rules this will extend out perpetually as years go on. For share market investments you need to keep original contract notes and, for reinvested dividends and property trusts, every dividend statement.

For real property you need to keep every receipt for capital improvements. For assets purchased after 1991 you can also claim some running costs on properties and records for this also need to be kept.

It is difficult for small investors to keep accurate records for this length of time, and the calculations can be daunting for share market investments, particularly listed property trusts.

There is provision for individuals to have their receipts verified by an accountant and entered into an asset register, but this is costly for small taxpayers and I do not see this as a solution.

The different rules for deductions allowed for properties bought after 1991 actually discriminates against anyone who owns a second property, particularly a holiday home, bought between 1985 and 1991. These taxpayers pay a lot more CGT than those who bought later.

I would like to suggest that CGT does not apply to assets held for more than ten years for individuals and also for SMSF's as both the record keeping and the calculations can become onerous after this length of time. This would ensure that taxpayers had to keep records for a maximum of sixteen years (ie five years after the tax return following the sale of the asset) and this would also simplify calculations to only ten years of data.

In my previous submission I suggested a new method to calculate capital gains that I think would be fair to everyone. I have also included this near the end of this submission.

Replace CGT on deceased estate with a small Inheritance tax

I am also suggesting here that capital gains tax on deceased estates, which can be very difficult for an executor to calculate, is replaced by a 15% inheritance tax on estates valued at more than $500k.

The tax would not apply to the first $500k and no inheritance tax or CGT would apply to estates below this value. The tax would also not apply to estates where the sole beneficiary was the spouse of the deceased, a dependant child of the deceased or an adult relative whose normal home was with the deceased.

The family home could be excluded and also family business assets, including farms, where the business was not sold but continued to be operated by the beneficiary.

This tax would be easy to administer as the executor would need to calculate the value of the estate anyway and it would be an extremely efficient tax to collect. It would also save the work involved in calculating the CGT liability of a deceased estate.

This tax would replace the current 15% tax levied on the residual balance of a super fund when a retiree dies.

The amount of tax would not normally be high compared to the value of the estate ($75k on an estate worth $1m), so it would be unlikely to be bypassed with complex avoidance schemes.

The tax would be levied on the value of the estate at the date of decease and the executor would be given a reasonable time in which to assess the value of the assets and pay the tax. This would allow assets to be sold in an orderly manner then valued at the selling price. The estate would lodge ongoing income tax returns for the estate in the normal way to cover any investment income until the proceeds were distributed to the heirs.

Tax on Age Pension Income

The tax treatment of pension income is quite complex, with SATO and other rebates making it difficult for pensioners to assess what the real rate of tax will be on their earned income.

The interaction of the Centrelink payment system and the tax system can result in high marginal tax rates. For every dollar earned by a pensioner they may be subject to loss of pension income at 40c, tax at 30c, Medicare levy, and the cumulative reduction of low income rebate, SATO and mature age worker rebate. Each of these rebates is reduced at 4c per dollar earned. This could in theory give a marginal rate of 83.5c on some income earned by pensioners.

I would like to see all Centrelink pension income tax exempt and the SATO replaced by a higher mature age worker offset for those workers over 65 who are not in receipt of a government pension.

In addition any rebates retained in the new system (low income, mature age) could be added together then the total phased out at 4c.

Income of Retirees

In my first submission to the Review of Retirement Incomes I pointed out some problems with the current system of taxing super. As I covered all of these in some detail, I will only summarise them here.

There are differences in the treatment of the super contributions of employees and self-employed people, with self-employed people who have some employment income prevented from contributing

their full $50k amount to super at concessional tax rates. Also not all employers allow their employees to make salary sacrifice contributions to super.

I would like to see an amendment to the rules so all taxpayers are allowed a tax deduction for an amount they contribute themselves that takes their total employer and personal contributions up to the $50k limit, regardless of how they are employed and whether their employer allows salary sacrifice.

Retirees with super income streams from an untaxed source often pay a lot more tax than those with income from a taxed source due to the extra Medicare levy and the loss of SATO. This could easily be fixed by taxing the income as it leaves the super fund, rather than in the hands of the retiree. The first $10k per year would be tax free.

If the current tax free status of the income of a super fund paying an income stream or allocated pension (called here an AP fund) is retained, more and more retirees will arrange their retirement income to make use of them, resulting in a situation where very little tax is paid on the income from the assets held by retirees.

As the population ages, and considering that most people's assets would be highest at around the age they retire, we could have a situation where a large proportion of the income from assets owned in Australia was tax free.

I would like to suggest that we phase out the tax-free status of AP funds, so existing tax free AP funds retain their status but no new ones are created. New income streams could then be paid by a super fund out of their normal assets and income. The income stream would have minimum limits as currently, and would still be tax free to the recipient.

There is currently a huge difference is the tax treatment of retirees with similar incomes but who have their affairs arranged differently with regard to whether the income is from a super income stream or is outside of super. As well as the above change to the tax treatment of super income streams, I would like to suggest a further change to the tax system for self-funded retirees whose income is from investments outside of the super system

I would like to suggest that all taxpayers over the age of 65 are taxed at a maximum marginal rate of 15% on all their non-super income.

These measures together would then line up the tax treatment of income for all retirees.

Those with a taxed super income stream would pay 15% tax within the AP fund but would not pay tax on the payment they receive.

Those with an untaxed super income stream would have tax taken out by the fund at 15% on all income above $10k per year and the income would then be tax free to the recipient.

Those with an income generated by assets held outside of the super system would pay tax at a maximum marginal rate of 15%.

Anyone over 65 who was still in the workforce would be taxed at a maximum rate of 15%. This would encourage retirees to continue doing paid work.

The self-education deduction

The calculation for the self-education expenses deduction is needlessly complex. I have suggested in my first submission abolishing the requirement to reduce the claim by $250. This eliminates the complexity entirely.

However I also think the whole deduction should be reviewed. In its present form it results in a system where the higher your income, the lower your education costs, and where different groups have totally different rules applying to them, and different levels of rebate depending on their tax bracket.

Apprentices, for example can claim all their costs as they normally receive a small wage. University students training for a profession, however, are unable to claim any of their much more expensive education costs.

An engineer or scientist working full or part time while studying part time for a master's degree can claim the cost of the course as a deduction. However someone with the same qualifications who was out of the workforce, either because they were unemployed or because they wanted to return to the workforce after raising a family would have to pay the full cost of the course with no deduction.

Suppose we consider an example of a course that would be suitable for everyone and relevant to everyone's work, such as a first aid course or a computer software course. We have a system where a high income earning professional gets a deduction worth 46.5% of the course cost, a receptionist might get 31.5% back, an apprentice might get a rebate of 15% and someone who is not employed and is training to get a job or to return to the workforce gets no rebate at all.

It would be more equitable for all if the self-education deduction was simply abolished and the saved revenue used to give everyone an up front rebate on their course fees and a subsidy for their text books. This would apply to every vocational and work related course offered in Australia, regardless of whether it related to the current employment of the person or not.

This would encourage everyone to participate in courses that would improve their work skills in areas outside of their normal employment and this in turn would increase the flexibility of our workforce and lead to lower unemployment.

Employee Share Plans

I have had a few issues with Tax Help clients who have been part of an employee share plan, often without any choice on their part. The rules can be quite complex, particularly where mergers and takeovers occur in the employing companies. The employee is left with no option but to pay for a tax agent to cope with the tax issues involved with the winding up of the share plan when their normal tax affairs would otherwise be quite simple. (Tax Help is unable to process these clients).

I don't have any expertise in this rather complex area so I can't offer any suggestions, but I do think that this is an area where simplification of the rules so they can be more easily understood by the employees would be of benefit. Even a requirement that the company or the share registry provide a detailed individual tax statement to these people would help.

Response to issues from other submissions

Negative Gearing of Residential Property and Shares

Some of the submissions have suggested that negative gearing of residential property is phased out. The rules would also need to apply to negative gearing of shares and any other investment class.

My suggestion is as follows

Owners of residential property and negatively geared shares would be given two options. They could choose to be treated either as an investor or as a business and their election would then apply for the duration of the investment.

Those electing to be treated as investors would be allowed to deduct costs up to the total income from the property or shares, but would not be allowed to deduct any excess losses against their other income. The losses would be carried forward and deducted in later years or from the selling cost when the investment was sold. Capital gains tax would then be paid at concessional rates.

Those taxpayers who choose to treat their house or shares as a business would be allowed to deduct losses from their normal income as currently, but would pay capital gains tax at full rate regardless of how long they own the asset.

While current policy is to encourage individuals to own rental properties in Australia, it is difficult for an individual to actually make a reasonable return on their assets from renting out a house. If you borrow the money then the rent is unlikely to cover the cost of the interest and the running costs of the home. If you own the house outright, then you would probably get a better return with the money invested in other asset types than you would get from renting the house out. Most property investors rely on eventual capital gain to make any profit.

This is because the cost of capital is normally greater than the rent received for the property. If this was not the case, then it would be cheaper for people to borrow the money and buy a house themselves than to rent the same house. Most tenants are renting because they cannot afford to buy.

The only exception would be for up-market private rentals, where a tenant is prepared to pay a rent slightly higher than the true cost of owning a home because they only want a place to live on a temporary basis, eg while working in an area or while another house was being built for them.

It may be better for the community if rentals at the lower end of the market were mainly owned and managed by government, community organisations or specialist companies, leaving only top end rentals for private individuals.

This would increase overall efficiency as rents are currently effectively subsidised by private individuals with the hope of eventual capital appreciation. This raises price expectations and flows on to real price increases as investors ask higher selling prices to make a profit. It also ties up capital in investment housing that could be invested in more productive ways. And last but not least this inefficient current system decreases government revenue with the losses reducing the tax that the owners would otherwise pay on their employment income.

Rentals at the lower end of the market could be run much more efficiently on a larger scale basis than individuals owning a few houses. The homes would be grouped and probably smaller, which would save land area and energy use, and the management and maintenance would be much more efficient.

Capital Gains Tax on family home

Taxing the family home in the same way as other assets would result in onerous record keeping for families and would increase the cost of moving house. In addition, the current capital gains tax

regime gives no allowance for inflation on the value of property which has been held for many years. The current 50% discount would not cover the inflation rate over more than ten to fifteen years.

If householders are to be charged CGT when the family home is sold, then they would be entitled to the same deductions for capital improvements and ongoing expenses as rental property owners. This would mean that every time the householder put up a picture hook or changed a light globe records and receipts would need to be kept. This is just not practical for households. Anyone who stayed in their house for forty years would have reams of records and this would constitute a storage problem and a fire hazard and would be an accounting nightmare for heirs to an estate.

Charging CGT on the family home would add to the already considerable costs of moving house (stamp duty and estate agents fees here in WA currently add to around $30k on a home worth $400k). If CGT was paid as well then every time a family moved, their housing capital would be even more eroded and they would need to move to a less expensive house. This would erode housing standards for families who needed to move for work purposes, or for changes in family numbers.

Those who chose to stay in the same house for decades would be up for a huge tax cost on moving, compounding this effect and seriously reducing their capital.

Since housing is a major portion of the costs for most families, then house prices become a de facto inflation measure from a householder point of view, making any capital gain more or less automatically the same as the housing inflation rate. Selling costs and stamp duty already erode the purchasing power of the proceeds of sale, CGT would compound this.

Tax on land

Some submissions have suggested that all revenue is raised via a tax on land. I personally do not like this as use of land does not reflect the capacity of people to pay the tax. A good tax system taxes people according to what they can afford to pay, not on where or how they choose to live.

Some negative aspects of raising all taxes as a tax on land are as follows.

Households would no longer be taxed at different rates depending on their ability to pay – instead people would be taxed on where they choose to live. While family income does currently have an influence on choice of suburb and house and land size, people do still have a lot of choice on how much of their income and assets they want to spend on housing.

Anyone losing their job would probably also need to sell their house, which would compound the stress of unemployment.

The lowest cost housing would be high density, and those with the lowest disposable income would be families and retirees. Although retirees living in high density housing would be quite acceptable, families with children living in small high density units would not.

Retirees would be forced to downsize their home when they no longer had an income to support the high levels of land tax that would be required. While on a community wide basis this may have benefits, on an individual basis it would not be supported by most people. People like to be able to choose whether and when they downsize their home on retirement.

The long term outcome would be suburbs where all residents were on approximately the same income to support the lifestyle in that particular area, resulting in communities where there was little or no demographic diversity. As well as a huge loss of social and cultural interaction this could also be a town planning nightmare with regards to locating schools, aged care facilities and community infrastructure as demographic boundaries would initially be redefined and would continue to be shifting over time.

For business, relying solely on land tax would increase tax costs for retail, warehousing and manufacturing businesses but reduce it for businesses requiring only a small amount of office space, eg consulting, IT, financial services, outdoor maintenance and most trades.

We do currently have state land taxes, which I believe vary from state to state but are not normally levied on households. A small additional tax on all land, capped at say $500 per annum per household but higher for commercial property, could be levied by the states to replace some of the many small complex taxes such as stamp duty on leases and insurance. This tax would be waived for pensioners and retirees and the Centrelink rent assistance payment would need to be increased to cover any rent increase due to the additional cost to landlords.

Stamp duty on land transfers would be retained, although I would support stamp duty being abolished on first home purchases and for age pensioners downsizing once, eg from a house to a home unit.

Tax on International Currency Traders

Some submissions to the review have suggested that taxing international currency traders would result in so much revenue that all other taxes could be abolished. I believe this overlooks the fact that although a lot of money is shifted around the world, these traders normally work on very small margins and even a 1% tax could halt the trade entirely. While this may not in itself be a bad thing, it would result in no revenue at all. Foreign currency trading is also more or less a zero sum game, where every trader who gains must be offset somewhere by a trader who loses. Hence every tax dollar paid would somewhere be balanced by a deduction claimed for losses.

Tax on Financial transactions

A small tax on financial transactions does appear to be a good way to make up a shortfall in other taxes, provided it could be implemented in an efficient way.

This idea was tried once before with FID and BAD taxes and the result was a lot of wasted cost and effort over the whole community in accounting and collecting miniscule amounts of money. While modern computing systems may make the tax easier to collect, there would still be the extra work for individuals and companies needing to account it.

However I do not think it would be difficult to design something that would work efficiently and not cause onerous book-keeping issues. Stamp duty was once levied on share market transactions and this was never a problem, so it can be done.

Fringe Benefits Tax

Tax all fringe benefits as income to the individual taxpayer. The tax would be paid with the usual PAYG by the employer.

Current fringe benefits tax rules encourages fly-in-fly-out employment arrangements rather than companies housing employees in local communities where rent subsidies attract fringe benefits tax. Allowing companies to provide housing in remote and country areas with no fringe benefits tax payable by either employer or employee would support rural and outback communities.

There are some charities and NFP organisations that currently take advantage of the fringe benefit tax rules to pay their employees at a low rate and compensate for this by paying high fringe benefits. This results in the employee paying less tax and receiving higher Centrelink benefits.

These people would need to be considered. My suggestion here is that any employee of a NFP or charitable organisation would be paid at least the basic wage in the normal way and the employer would get a government subsidy to cover a proportion of their wages, eg one third or one half of a basic wage amount.

This would also simplify the rules for Centrelink as they would then be treating these people the same way as everyone else.

The subsidy would be funded by the correct amount of tax being paid by these people, and the correct amount of Centrelink benefits being paid to them.

It would also encourage NFP and charitable organisations to employ more staff.

Church groups and clubs would only be eligible for the grant where the employees were involved in charitable works. I realise that this would result in some grey areas, but there are already rules in place defining charities and I feel sure these rules would cope with this.

Lorraine's New Tax System

On the one hand we want to line up the rate of company tax with the top rate of income tax, but on the other hand we want to reduce company tax to encourage overseas investment and discourage Australian companies going off shore.

Any reduction in tax paid by overseas investors must be balanced with an increase in domestic taxation to retain the current level of taxes raised. If we are to decrease company tax without a corresponding increase in income tax (not politically popular) or GST (outside the scope of the review) then we must raise the additional revenue some other way.

A reduction in company tax may increase revenue losses from tax avoidance, as company accounts are generally much more formalised and open to scrutiny than the income of individuals.

It is only practical to raise taxes in a way that people can afford. Income tax does this very well and GST does to a lesser extent as it taxes what people spend and those with higher incomes would usually spend more. A financial transactions tax would also do this well, although it may be difficult to make this really efficient. A tax that wastes people's time and effort in the collection of small amounts is not an efficient way to raise revenue.

A low rate inheritance tax would also be workable, I have suggested in a previous section how this might be implemented.

However taxing land does this only in a very, very limited way. Wealthier people may live in larger houses and better suburbs, but this does not necessarily mean they are better able to afford to pay taxes. They may no longer be working to fund the tax payments, and could afford the tax only by selling their home.

Suggested new tax system

This system will only work effectively where the top tax rate is equal to the company tax rate, currently 30%.

All businesses whether companies, partnerships or trusts based on a business activity, would pay tax at the 30% company tax rate. All bank interest would also be taxed at the company rate before being paid to investors, except for accounts held by children and those over 65.

Sole traders and contract workers could choose whether they were taxed as a business or as an individual. Investors owning rental properties or shares would also have this choice.

The income from business and investment would then be tax-paid income to the recipient and would not need to be declared in a tax return. This would be optional. Anyone with income from a business or investment could declare all their income and receive a tax credit for the business tax already paid.

The personal income tax system would have three tiers.

Anyone earning less than $15k would pay no tax and would not need to lodge a tax return unless they wanted to apply for a rebate of any business tax pre-paid on their income.

Anyone earning between $15k and $30k, and all those over 65, would pay tax at 15% on the portion of their income above $15k.

Above $30k the marginal rate would be 30%. There would be no Medicare levy and no low income rebate.

All Centrelink payments would become tax exempt eliminating the need for the SATO and the pensioner tax offset. Any offsets retained in the system would be added together and the total reduced by 4c in the dollar, rather than reducing each rebate concurrently as now.

All retirees over 65 would pay tax at a rate of 15% on all taxable income above $15k. All super funds would pay tax at 15% as now, as would all funds paying allocated pensions. Please see my section on retirement income earlier in this submission for more details of how this would work.

This establishes equity in the tax treatment of income of everyone over 65, whether they are government pensioners, part-pensioners or self-funded retirees and regardless of whether their funds are in super or not. It also encourages this group to stay in the workforce.

Couples could choose whether they put in two individual forms or one combined form. For couples choosing the combined form their income would be added together and their tax brackets would be zero up to $30k, 15% from $30k up to 60k and 30% thereafter. This system would eliminate the spouse rebate and some family tax benefits.

Capital gains would be taxed as per my suggestion in my first submission, which I have repeated below, with the taxable component of the gain being reduced by 10% per year and the tax phasing out totally for assets held for ten years or more.

In addition to this, it would be great if all investment income was taxed at a maximum rate of 15% for all individual taxpayers. This would encourage people to save and would give people the same tax treatment for income from investments whether they are in a super fund or not in super. In this case bank interest would be taxed at 15% before being distributed to individual investors who would then not need to declare it on their tax return at all.

I put forward this suggestion in my second submission to the Retirement Income Review where I dealt with it in much more detail.

Funding the shortfall

Some additional revenue may need to be raised to make up for that lost from individuals currently earning over $80k and for the loss of the revenue from the Medicare levy.

My preferred way to raise this would be an increase in GST, however as this is not allowed, I would suggest a financial transaction tax as the best way to do this.

Alternatively a fourth tax bracket of 45c could be added for high income earners, eg above $200k, but this would then negate the benefits of lining up the top tax rate with the business tax rate.

Another option would be to disallow a tax deduction for companies on any amount of salary package or bonus paid over $500k per annum. This would result in very high income earners paying tax at 60% on income above this level, with the company paying 30% and the individual a further 30%.

To extend this concept, if the portion of salaries between $200k and $500k were only 50% deductible, this would effectively increase the tax on this bracket to 45% without affecting the line-up of the top individual tax rate and the company tax rate.

A 15% death duty on deceased estates valued at over $500k (but with the first $500k tax free) could be introduced to help fund the shortfall. I have covered this earlier in this submission.

Lorraine's new capital gains tax

Here is my suggestion for a new way to calculate capital gains tax.

It is slightly more complex that the current system but quite easy to understand. It would apply to all

individuals and super funds and would automatically phase out all previous CGT calculation methods after five years.

It would not apply to businesses, where tax would be paid on the full gain at the business tax rate.

Assets held for less than one year would be taxed at normal rates on the full capital gain as currently.
Assets held from one to two years would be taxed on 90% of the capital gain.
Assets held from two to three years would be taxed on 80% of the capital gain.
Assets held from three to four years would be taxed on 70% of the capital gain.
Assets held from four to five years would be taxed on 60% of the capital gain.
Assets held from five to six years would be taxed on 50% of the capital gain.
Assets held from six to seven years would be taxed on 40% of the capital gain.
Assets held from seven to eight years would be taxed on 30% of the capital gain.
Assets held from eight to nine years would be taxed on 20% of the capital gain.
Assets held from nine to ten years would be taxed on 10% of the capital gain.
Assets held for more than ten years would be CGT free

The current system would stay in place for assets bought before the implementation date, with taxpayers given a choice of either system for these assets. The current system would then naturally phase out after five years when the new system would give a lower taxable capital gain amount. From this point only the new system would be used.

Capital losses could be carried forward and would be applied as now to the pre-discounted amount of capital gain. Capital losses would expire after ten years, but could be applied so that older losses were used up before more recent ones.

Deceased estates would be exempt from CGT. Instead estates valued at more than $500k would pay a 15% inheritance tax of the portion over $500k. This would vastly simplify the calculations involved in winding up an estate.

My Wish List

The issues I think are the most important from a personal income tax point of view.

1. Simplifying the tax treatment of income from listed property trusts
2. The elimination of capital gains tax on assets held for more than ten years
3. Addressing the inequities in tax treatment of self-funded retirees
4. Eliminating the high marginal tax rates faced by pensioners
5. Reducing the pointless complexity of some deductions, some rebates and Medicare

I hope that the panel will consider some of the issues I have raised in this submission and my previous ones. Thank you for the opportunity to contribute.

Lorraine Graham B.Sc.

Tax Help Volunteer

Working Your Money Wrightbooks 2000
Fast Track Your Mortgage Allen and Unwin 2002