



Advocating
Common Sense
Taxation Reform

Australia's Future Tax System Review

SUBMISSION – MAY 2009



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Imagine...

- Most taxpayers not having to lodge an annual tax return;
- Making investment decisions based on their merit rather than the tax ramifications;
- Not having to pay a higher rate of tax on overtime earnings;
- Not paying a higher rate of tax on your next pay rise;
- The Treasurer setting the income tax rate each year on budget night along with the indexation of all tax thresholds, pensions and family benefits according to CPI;
- High-income earners paying the same rate of tax as the ordinary person;
- Interest earned on your bank account not being taxed until CPI is exceeded.
- Retiring on \$600,000 instead of \$400,000;
- Family benefits increasing proportionally to the size of your family;
- Imagine a landlord lodging single event claim for his negatively geared property;
- An Australian company paying a reduced tax rate on the revenue it earns on exports;
- The efficiency & cost savings that would occur with the integration of some Commonwealth and State departments;
- The roads and public transport system that we would now enjoy had fuel taxes been spent on roads & transport infrastructure;
- The 7,000 page Tax Act reduced to 700 pages or less;
- If Capital Gains Tax was abolished and all shares and property were taxed by a small capital exit tax on sale;

- Industry assistance being administered by appropriate Government Departments rather than convoluting the tax system for everybody;
- A small-business owner being able to choose to pay a turnover tax instead of keeping onerous compliance records;
- An unemployed person being able to re-enter the workforce progressively without losing more than 40% of their earnings;
- A pensioner earning extra income without losing more than 40c in the dollar in benefits & tax;
- A self-funded retiree not having to keep track of dividend imputation and bank interest;
- A commission salesman being pre-allowed his deductions without incorporating or keeping onerous records.
- Not having to keep track of deductions, such as medical, educational and work-related expenses, having already been paid an allowance through an increased threshold or increased social security entitlement;
- A pensioner receiving a dividend and paying just 10% extra as a single assessment with Centrelink;

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1.0 Introduction

“ He who rejects change is the architect of decay ”

- Former British Prime Minister, Harold Wilson

Our proposals for reform centre on three concepts: uniformity, simplicity and fairness, with the centrepiece of our proposal being a uniform tax system.

Our advocacy is guided by a desire to eliminate arbitrage and to shutdown tax avoidance opportunities for taxpayers.

Revenue Review's advocates:

- A uniform rate of income tax for all individuals, partnerships, trusts and corporations;
- Multiple tax free thresholds for taxpayers based on the number of dependants;
- Personal annual tax returns for most tax payers rendered unnecessary;
- Simultaneous social security reform, removing disincentives for the under-employed;
- Superannuation reform to tax accounts only when earnings reach a point beyond a reasonable retirement benefit;
- Replacement of capital gains tax with a small capital exit tax;
- Examination of a 'turnover tax' as an alternative for some business sectors;

Revenue Review is hopeful that the Australian Government will use this unique opportunity to produce a fairer, simpler and better tax system for all Australians.

2.0 Uniform Taxation System

Revenue Review supports the establishment of a system of uniform taxation – which would see every Australian individual, business, partnership, trust and company taxed at a uniform rate. Individuals would be given a generous tax-free threshold.

For individuals, no tax would be payable up to certain threshold where after tax would be payable at a single, uniform rate.

We propose the adoption of a uniform tax rate of tax up-to but not exceeding 30%.

Additionally, we propose that the 'concessional' 15% marginal rate should be exchanged for a generous individual tax-free threshold of \$20,000 with the loss of very little revenue.

Currently, excess revenue raised from high-income earners above the 30% bracket contributes between \$10.8 billion to \$12 billion. This is the equivalent of around 3.5% of all revenue.

This 3.5% of revenue is the principal cause of a Taxation Act running to over seven thousand pages. It also causes avoidance and evasion that amounts to more than twice the revenue gained.

By eliminating the opportunity for these taxpayers to engage in avoidance and evasion (arbitrage), the loss of revenue caused by the abolition of the top marginal rates would be more than totally compensated for.

2.1 Single Personal and Corporate Rate

This proposal would also bring the personal rate for income taxation into line with the existing Company Tax rate of 30%.

As companies are essentially made up of shareholders, whom individually pay personal income tax, we believe it makes sense to have the same rate of tax for both companies and individuals.

It would also essentially render the dividend imputation system obsolete, as both Companies and Individuals would pay tax at the same uniform rate.

The abolition of the dividend imputation system would remove another layer of complexity from our tax system, without disadvantaging shareholders or companies.

2.2 Revenue Review's initial approach

Revenue Review's initial approach was that every man, woman and child be given a uniform threshold claimable by the breadwinner and marginally loaded in lieu of deductible expenditure to eliminate most annual tax returns.

However, this perfectly uniform approach would have disadvantaged single people. The current dependant spouse offset of \$2,100 is the equivalent of a \$7,000 threshold.

By loading a single taxpayer by 50% and adding a further 50% for the dependant spouse brings a similar result to the current system. The average family benefit is around \$3,600 per child which correlates to a \$12,000 threshold on the basis factored at 30%.

2.3 The \$6,000 threshold myth

We advocate the abolition of the 15% rate of personal taxation, in exchange for an equivalent increase in the tax-free threshold from \$6,000 to \$20,000.

This would mean that taxpayers currently in the 15% bracket would be no worse off under a uniform tax system, as the uniform threshold would apply to every resident taxpayer in Australia regardless of income.

By eliminating the 15% marginal rate, opportunities for tax avoidance and arbitrage will also be greatly reduced, as the 15% rate is the first port of call for higher income earners to arbitrage into.

Our proposal would also eliminate the need for the current \$1,200 Low Income Tax Offset entirely.

The review may consider the total withdrawal of the \$20,000 threshold for very high-income earners. The withdrawal of the \$20,000 threshold could occur over a \$50,000 range. The point at which the threshold could be withdrawn may occur when the taxpayer earns between \$250,000 and \$300,000. However, this should not be considered unless it provides a reduction in the uniform personal and corporate rate of at least 0.25%.

2.4 Threshold Conversion

The threshold conversion rate of a cash payment and the cash conversion rate of a threshold should continue to be factored at the 30% rebate rate even where the tax rate itself changes.

2.5 Transparency in how revenue is spent

The adoption of uniform taxation would also allow the Government to make simple adjustments to the uniform personal and corporate tax rate in the budget each year according to the amount of revenue needed for Government services.

It logically follows that a decrease in the uniform rate by a certain percentage would reduce the total revenue take by an easy to determine amount.

This makes Government policy decisions absolutely transparent in that taxpayers would know exactly how their tax dollars are being spent and why they are paying a certain amount of tax. It also makes fiscal policy makers aware of the tax ramifications of their decision-making.

2.6 Tax returns for most Australians un-necessary

This proposal would also allow for the abolition of tax returns for the majority of Australians.

If we were to provide a generous 'loading' on the tax-free threshold in exchange for current deductions we could even further reduce the necessity for the submission of tax returns.

For example, a \$3,600 family benefit could be loaded by 20% (\$720) which equates to a threshold increase of \$2,400 factored at 30%.

Similarly, individuals who earn commission could be given the option of receiving a pre-determined threshold as a percentage of their gross income in lieu of claiming deductions. The percentage payable could be determined by the ATO based upon the historic record of commission agents in particular industries.

2.7 Income Splitting

Income splitting for the purpose of avoidance and evasion (arbitrage) will be significantly reduced under a uniform tax system.

2.8 Fringe Benefits Tax

Revenue Review's proposal for a uniform personal and corporate rate renders the need for a separate Fringe Benefits Tax obsolete in many situations, as there would be no tax advantage in providing fringe benefits in lieu of income.

However, where Fringe Benefits continue to be given in lieu of income, we advocate that they be taxed in the hands of the employee as ordinary income at the uniform rate. There should not be a separate 'Fringe Benefits' tax.

3.0 Turnover Tax

Revenue Review supports the examination and further analysis of a 'turnover tax', whereby companies would be given the option of paying a fixed percentage of their gross revenue in tax instead of paying normal company tax.

The rate at which the turnover tax is paid could be determined by the ATO based upon what particular industries have historically paid in income tax as a percentage of their gross revenue. Such information is already readily available to the ATO.

This measure would relieve many businesses of the onerous compliance measures associated with normal income tax

arrangements. These traders would be delighted to never have to worry about submitting an annual tax return for their business activities ever again.

Revenue Review is not proposing that a 'turnover tax' be considered to replace income taxation. It should be examined and debated as an alternative means of paying income tax on monies earned from carrying on a business. The practicality of its application amongst certain trades and industries should be specifically examined and the Commissioner of Taxation should have discretionary power to impose such taxes where compliance is an issue.

3.1 Unprofitable companies

Revenue Review also advocates the examination of applying a turnover tax to unprofitable companies, to ensure that companies make a contribution to revenue.

If a consumer purchases a \$1000 refrigerator from an honest and profitable supplier and the supplier made a \$100 profit, the supplier would pay \$30 in company tax.

If the consumer happened to deal with an inefficient or dishonest supplier, the \$30 would not find its way into revenue.

Whilst this proposal may collaterally damage genuine fledgling businesses, its purpose is to catch the evader.

The turnover tax paid by unprofitable companies would naturally be a credit against any other tax liabilities, however should not be carried forward on account of loss.

4.0 Social Security Reform

The welfare and tax systems have evolved separately, with little coherent thought about how they should interact. The tax system as it now operates penalizes hard working people and frustrates attempts by the under-employed from seeking financial self-reliance.

There must be greater transparency, better co-operation and proper accountability between the taxpayer, the paymaster, the ATO and Centrelink.

4.1 Withdrawal Rates of Benefits

We need a social security system that encourages people to work, not discourages them.

Revenue Review believes that people receiving Government benefits should retain 60% of their earnings after tax and withdrawals.

Essentially, the total withdrawal of benefit and taxation should not exceed 40c in the dollar earned.

This 'seamless withdrawal' principle should apply to all Government social security benefits, including pensions, youth allowances and family benefits.

For example – if the tax rate was 30%, an additional 10c in the dollar should be withdrawn. Thus, a \$3,600 family benefit would be completely withdrawn after \$36,000 was earned above the threshold.

If the tax rate was 25%, then the \$3,600 benefit would be completely withdrawn after \$24,000 was earned above the threshold.

Obviously, larger families may not have their benefit completely withdrawn until they earn \$100,000 above the withdrawal threshold.

The same situation applies to unemployment benefits. Currently, some people lose more than two thirds of their income in trying to get back to full employment.

Under this proposal social security recipients would still be in receipt of some benefit up until they've earned 2.5 times their benefit. Whilst this may seem very generous such people are already in receipt of other assistances, which could be downwardly modified.

This would effectively mean that a social security benefit of \$10,000 would not be completely withdrawn until the taxpayer earned \$25,000.

This proposal would provide the seamless transition between unemployment, underemployment and full employment that the Government should be striving for.

4.2 Threshold cash value for dependants in lieu of benefits

Currently, the Government redistributes 80% of all personal income tax in social security and welfare.

Revenue Review believes a fairer approach to taxation would be to give each citizen a threshold and the breadwinner being credited with multiple thresholds, depending on the size of the family unit.

This would in most cases eliminate the need for separate Family Benefits A and B.

For example,

Taxpayers eligible for the current dependant spouse tax offset of \$2,100 would be given a threshold increase of \$7,000 – meaning the

wage-earner would pay \$0 tax until the first \$27,000 of income earned.

The average Family Tax Benefit A payment is approximately \$3,600 per annum, per child – derived by averaging the different levels of payment based on the age of a child. This is equivalent to an increased threshold of \$12,000 factored at 30%.

Therefore, under a uniform tax system a single-wage earner with dependant spouse and two dependant children would have a tax-free threshold of \$51,000 (\$20,000 tax-free threshold + \$7,000 dependant spouse + \$12,000 per dependant child).

4.3 Single Tax and Social Security Office (“TASSO”)

Revenue Review proposes that the affairs of average and low-income earners be administered through a single office – the Tax and Social Security Office (“TASSO”).

This change in itself would deliver significant improvements in terms of efficiency.

4.4 Administration efficiency

The administration of family benefits and the dependant spouse offset can be dealt with either by the paymaster, through an employee's declaration or by Centrelink depending on what is practical in the particular circumstance.

For example – a \$3,600 family benefit could be dispersed by Centrelink or a \$12,000 threshold increase could be facilitated by the paymaster.

In the case of a fully self-funded retiree, receiving dividend income which is already taxed could claim the imputed value of their \$20,000 threshold (\$6,000) as a payment from Centrelink.

5.0 Indexation

Revenue Review proposes that all tax-free thresholds and welfare and social security benefits, including family benefits, be indexed according to CPI at each successive budget.

6.0 Superannuation Reform

Revenue Review advocates the abolition of the 15% tax on Superannuation contributions and the 15% tax on Superannuation earnings to accelerate the growth of each superannuant's account and to reduce the burden on the social security system.

Under our proposal, a superannuation account would only be taxed once it produces a reasonable retirement benefit, at which point it would be taxed as ordinary income (at the uniform rate).

For example, tax may be applied when the fund's earnings exceed three to five times annual average adult earnings.

The following tables, on *Page 13*, illustrate the affect that the taxes on earnings and contributions have on the accumulation of a superannuant's fund.

Table A reflects a situation where there is no tax on either contributions or earnings, Table B where only earnings are taxed, Table C where only contributions are taxed while Table D represents the current situation with tax on both contributions and earnings.

The tables demonstrate that the current taxes on earnings and contributions (Table D) reduce a fund's accumulation by 35%.

For example, if the superannuant at retirement was earning \$100,000, under current arrangements they would have just eight years of full salary compared with thirteen-years under our proposal.

The Government would make significant welfare and social security savings by adopting such a policy.

For more information refer to Appendix 2 – Submission to the AFTS Retirement Income Review of this submission.

9,000 Contribution (1.5% growth)
8.2% Earnings
11.7% on net after tax contribution

A

YR	CONTRIB	TOTALS	EARNINGS
1	9,000	9,000	9,738
5	9,552	46,370	58,966
10	10,291	96,324	150,968
15	11,086	150,139	292,315
20	11,943	208,113	507,219
25	12,866	270,567	831,616
30	13,860	337,848	1,318,829
35	14,931	410,329	2,047,969

Optimum: No Taxation

This represents 13.65 years of salary at retirement.

9,000 Contribution (1.5% growth)
7% Earnings
10% on net after tax contribution

B

YR	CONTRIB	TOTALS	EARNINGS
1	9,000	9,000	9,630
5	9,552	46,370	56,951
10	10,291	96,324	141,230
15	11,086	150,139	264,177
20	11,943	208,113	441,725
25	12,866	270,567	696,247
30	13,860	337,848	1,059,156
35	14,931	410,329	1,574,540

77% of Optimum

This represents 10.50 years of salary at retirement.

7,650 Contribution (1.5% growth)
8.2% Earnings
11.7% on net after tax contribution

C

YR	CONTRIB	TOTALS	EARNINGS
1	7,650	7,650	8,277
5	8,119	39,415	50,121
10	8,747	81,876	128,323
15	9,423	127,618	248,468
20	10,151	176,896	431,136
25	10,936	229,982	706,873
30	11,781	287,171	1,121,004
35	12,691	348,779	1,740,774

85% of Optimum

This represents 11.61 years of salary at retirement.

7,650 Contribution (1.5% growth)
7% Earnings
10% on net after tax contribution

D

YR	CONTRIB	TOTALS	EARNINGS
1	7,650	7,650	8,186
5	8,119	39,415	48,409
10	8,747	81,876	120,046
15	9,423	127,618	224,551
20	10,151	176,896	375,466
25	10,936	229,982	591,810
30	11,781	287,171	900,282
35	12,691	348,779	1,338,359

ONLY 65% of Optimum

This represents 8.92 years of salary at retirement.

These two tiers of taxation reduce the accumulation of a superannuant's account by 35%.

Therefore, a worker needing \$500,000 to retire,
will only have \$325,000 in their Superannuation account.

7.0 Capital Exit Tax replacing Capital Gains Tax

We believe that revenue raised in a manner that distorts or inhibits employment, business or investment activity should be taxed differently, where practicable, so that such distortion is eliminated.

The appreciation of assets is legitimate and worthwhile and many argue that a person should not have to pay tax on an investment created with money that has already been taxed.

In many cases long-term capital gains are only a reflection of the change in money supply (inflation). People who are lucky or astute should not have to be levied with what amounts to being a substitute for death duties.

Revenue Review proposes the introduction of a small capital exit tax of between 0.5% & 0.7% on the sale of all property and shares regardless of profitability and time held. There should be no exemptions, such as that for principal place of residences, Superannuation funds or for not-for-profit organisations.

This would be a much simpler solution and would raise a similar amount of revenue as that generated by the current system.

We have not proposed a definitive rate of capital exit tax, because we were unable to collate a precise figure on annual real estate turnover. Obviously, the Government is better able to determine the appropriate rate based on information from the years 2005-2008. Revenue Review is confident that our proposal is within range.

This proposal will also make the management and administration of assets much simpler for individuals as well as fund managers.

8.0 Fuel Tax Reforms

Transparent use of tax revenue is critical. Fuel tax is one such example, with only 10 cents per litre of the 38.14 cents per litre excise raised being spent on roads.

Revenue Review proposes that fuel tax revenue be redirected towards road and transport infrastructure.

The revenue gained would be more than enough to pay for new road projects, upgrades and public transport improvements.

Current revenue raised by fuel excise is sufficient to provide approximately the equivalent of 26 Tugun Bypasses per year.

Had these monies been spent on transport infrastructure over the last decade, we would have a transport system that would be the envy of the world.

9.0 Industry Assistance separate from tax system

Revenue Review believes it is a "mistake" to have industry assistance measures implemented directly through the tax system.

The Australian Taxation Office has enough work on its plate without having to arbitrate the legitimacy of different forms of industry assistance.

Revenue Review proposes that industry assistance measures be administered by the relevant Government departments, rather than by the ATO through the tax system.

Determinations as to government industry assistance are best made by the relevant departments, which have the detailed knowledge and required information to administer these programs on an on-going basis.

Many of these industry assistance measures, which were established to assist long-term investments, such as forestry plantations, have been also utilized by short-term investments, such as tomato crops.

Upon profitability being achieved, provision should be made for the return of any monies provided where fair and practicable.

These principles should also be applied to Managed Investment Schemes, Research and Development grants as well as any other taxation incentives.

If industry concessions were reduced by \$10-\$15 billion, a reduction in the uniform personal and corporate rate to between 28.5%-27.75% would be achieved under a uniform tax system.

If a specific industry group receives preferential treatment, all other taxpayers obviously have to contribute.

At the end of the day most shareholders, particularly investment trusts and superannuation funds, own a diversified portfolio covering many industries.

Accordingly, the tax benefits given to a particular industry group have to be funded by less preferred industry groups. Therefore, the bottom line of an investor's portfolio gains little or no benefit unless the investor is solely invested in an assisted industry group.

History has shown repeatedly that tax-preferred investments have often been sold purely on their tax advantages. Fund managers and investment advisors have often lost sight of the real investment fundamentals.

10.0 Interest Income

Revenue Review advocates that the CPI-component of interest be tax-free to take into account the real value of interest earned on investments.

It is unfair to tax interest earned on low-interest deposits which earn less than CPI.

Such a measure would provide an added incentive for people to save.

For example – using an interest rate of 10% and CPI of 3% on an investment of \$100,000:

- Interest paid to the taxpayer	\$10,000
- Tax-free CPI component	\$3,000
- Interest for tax purposes	\$7,000

The tax on interest earnings would be collected by the financial institution on a monthly basis and remitted directly to the ATO, requiring no further accountability by the individual taxpayer.

Revenue Review believes that this proposal would be well received by the community.

11.0 Export Income Arrangements

We are currently at a great disadvantage in respect to international trade due to the more competitive tax regimes of other developed (and developing) countries.

Even at the height of the commodities boom, we have continually posted large trade deficits.

Revenue Review proposes that company taxation on export income should be reduced to 10% in order to simulate industrial growth in export industries.

If Australia constitutes 2% of the developed world and obtains an extra 1% of markets due to this tax incentive, then productive output should theoretically increase by up to 50%, dependant upon workforce capacity and water.

This should not only eliminate differential pricing by multi-national companies but should also increase the amount of their global

production that takes place in Australia. This will be enormously beneficial to Australia's economy both now and into the future.

A company with 50% of its earnings derived from overseas under these initiatives would pay company tax at the rate of 10% on the overseas earnings and 30% on the local earnings - 20% instead of the current 30%.

12.0 Not for profit Organisations

12.1 Deductibility of charitable donations

As part of our proposals for a uniform tax system, Revenue Review proposes that charities directly claim the value of the tax deduction that a taxpayer would have claimed under the current system as a tax credit directly from the ATO.

Under our proposal taxpayers would no longer directly claim a deduction for the value of donations.

For example, under a uniform tax system with a rate of 30%, a charity could claim a credit of \$300 off a net donation from a taxpayer of \$700.

12.2 Tax concessions

Revenue Review proposes that current FBT concessions be removed for not-for-profit organisations.

We also propose that not-for-profit organisations be subject to pay the capital exit tax (see Section 7.0), despite the current CGT exemption.

12.3 Business Ventures

Where a not-for-profit organisation operates a successful business venture that competes with similar businesses, it should be taxed ordinarily to avoid loss of revenue.

13.0 Black Economy

Compliance issues continue to cost the Government a significant amount each year in lost revenue.

Documentation should be created whereby works exceeding \$1,000 are substantiated, with copies given to the customer and the ATO.

We also advocate higher penalties for these businesses, which fail to comply with these requirements.

It is highly probable that at least \$2 billion is lost each year in undeclared and unrecorded income. This equates to 1% of the total personal and corporate tax take which means that every other taxpayer has to pay 1% more in their personal income tax.

14.0 Luxury Car Tax

Revenue Review does not accept that the Luxury Car Tax (LCT) is ethically justifiable. We advocate the abolition of LCT.

This tax should be phased out at the rate of 5% per annum, because to remove the tax immediately would have a negative effect on current asset values.

Many people have suggested that in the current eco-friendly environment that this tax should be substituted with a tax on either the size of a car's engine or its fuel consumption rating. Naturally LPG and hybrid cars would be exempt.

The recent increase of this tax is nothing more than a case of the politics of envy. There is no space for such politics in a socially competitive global economy.

15.0 Carbon Taxes

This review should be primarily concerned with streamlining a complicated and outmoded personal and corporate system and should not attempt to deal directly with environmental issues.

However, there is much consternation in the community about the creation of third party securities with a licence over land and vegetation that produces no more photosynthesis than that which occurred at the time of the First Fleet.

Revenue Review supports the concept of transfers from inefficient to efficient technologies and from inefficient products to efficient products. These transfers can occur without third party securities being created.

Australia has a small population, relative to its large landmass and has several times more photosynthesis per capita than Europe or North America. The time-honoured law of Comparative Advantage, or of Least Comparative Disadvantage is being ignored in the debate about the Emissions Trading Scheme. We should fully exploit our natural advantages, such as gas reserves and sunlight. The objective should be to achieve a target not to create ambiguous securities.

16.0 Federal-State Reform

Revenue Review appreciates that this matter is probably outside the

scope of the AFTS review, but none-the-less deems it important to mention in the context of the submission.

Currently, \$10.5 billion per year is wasted in duplication between State and Commonwealth departments.

Federal reform is essential to avoid expensive duplication of government services. Departments such as Defence and Foreign Affairs have a national focus and are vastly different to departments like Health and Education, which have a state or regional focus as well as a national focus.

We propose that departments such as Health, Education and Primary Industries should be regarded as 'Federal' departments encompassing their state counterparts. These Federal departments should be staffed by state public servants so that there is a uniform and immediate relationship between public servants locally and nationally, leading to prompt understanding of best practices and procedures throughout the entire nation.

Total Commonwealth transfers to the States, including GST payments already exceed total State Government expenditures on State public servants.

Remember the Colonial Office and different gauge railways and the cost it has had for our country. Continuing duplication of government services continues to cost our country dearly.

17.0 Offshore Tax Havens

If the principle that Corporations pay taxes in the jurisdiction where their revenues are earned was applied, there would be very little use for tax havens by Corporations or for international double taxation treaties.

Revenue Review believes that overseas earned profits should flow back into Australia, without being subject to further taxation, for the long-term benefit of all Australians.

If our proposals for a lower rate of Corporate tax for export earnings was implemented then Australia would have much enhanced balance of trade.

18.0 Answers to Consultation Questions

Challenges and opportunities for reform

Q1.1 In considering the community's aspirations for the type of society that Australia should become over the next two

decades and beyond, which key features should inform or drive the future design of the Australian tax-transfer system?

The tax system should operate regardless of Government economic planning. The actual framework of the tax system should be setup to weather the changing economic circumstances over time – the only thing that should change should be the tax rate itself.

Q1.2 Assuming that the absolute size of government will not fall, should (and can) Australia nonetheless aim to reduce the burden of taxation over time by promoting faster economic growth than public spending growth? Can it be demonstrated that alternative tax policies could help deliver that outcome?

Under a Uniform Tax System, the Treasurer would be responsible for adjusting the tax rate each year at budget time, in line with the economic goals of the Government.

Given a tax take of approximately \$200 billion per annum (personal and corporate income), it is not difficult to see that a change in the tax rate could have significant affect on the economy.

The revenue mix

Q3.1 What problems, if any, are generated by the overall mix of taxes in Australia on business and labour income, consumption, transactions and assets, and what changes, if any, should be made?

The Government is too heavily dependant on a certain few taxes. The review should consider scrapping minor taxes, such as those that raise less than \$500 million each year.

A small capital exit tax should replace Capital Gains Tax.

Q3.2 Does Australia's tax system penalise (or favour) the returns to savings relative to other activities and should this lead to changes in the structure of taxes and means tests?

Income derived from savings should be taxed as Ordinary Income. This would be straightforward and simple under a Uniform Tax System.

However, the CPI component of income derived from savings should not be taxed. For example, if there was an interest bearing deposit of 7% and CPI was 3%, tax should only be payable only on the 4%.

Q3.3 Does Australia's tax-transfer system appropriately deal with property and wealth, or should new approaches be introduced? What, if any, implications would any changes

have for the taxation (or means testing) of capital income flowing from property and wealth?

Revenue Review advocates the abolition of Capital Gains Tax altogether and replacing with a small Capital Exit Tax on all transactions. It would make the taxation of capital transactions much simpler.

Income flowing from property should be treated as ordinary income.

Q3.4 Assuming no increase in the rate or base of the GST, what principles should guide the future development of other consumption taxes in Australia, and is there a need to change the role and structure of such taxes?

Revenue Review's advocacy is principally focused on the efficiency of transfers rather than philosophical considerations.

However, Revenue Review supports the current 10% rate of GST. We would not support any increase in the rate of GST.

Q3.5 Could greater application of user charges, rather than general taxes, in the funding of government services or infrastructure bring social, environmental or economic benefits?

The integrity of the tax system would be well served if funding for Government Services was more clearly linked to tax paid. It makes things more open and accountable for the taxpayer.

Fuel Taxes should be directly linked to spending on roads. If even 2/3 of fuel tax revenue was spent on our road system consistently, our country would enjoy much superior infrastructure.

Personal tax and transfers

Q4.1 How might the personal tax system be changed to better achieve the goals of greater simplicity, transparency, equity and efficiency?

Through the introduction of a Uniform Tax System – where there is one, uniform rate of tax for all individuals, partnerships, corporations and trusts.

This is the central basis of our advocacy.

Most Australian taxpayers are currently in the 30% bracket for their personal income. Revenue Review supports a uniform rate of taxation, of up to 30% with a generous tax-free threshold to compensate for the loss of the 15% concessional rate.

Revenue Review supports the notion of progressive taxation. Uniform Tax is not flat tax.

Q4.2 What is the appropriate distribution of income tax across income levels and how should it differ from the current distribution? Should governments seek to maintain a similar distribution over time, or should they fix the value of current tax thresholds through indexation?

Tax-free thresholds should be indexed on an annual basis at budget time each year along with all Government benefits – like pensions and family benefits.

Q4.3 Is the personal income tax base appropriately defined? Should reforms such as changes to the scope of deductions or other measures be considered?

Revenue Review advocates that individual taxpayers be given a pre-allowed loading on their tax-free threshold or family benefit to negate the need for most taxpayers to file a tax return.

We believe that the current tax base is appropriately defined and that the base should be determined fairly and uniformly.

Q4.4 Should the tax treatment of transfer payments be reconsidered? Should transfer payments be taxed at the same rate or a lower rate than earned income?

Government welfare benefits should be taxed as Ordinary Income, above normal thresholds, according to the same rate as any other income.

However, withdrawal rates for Government benefits should be no more than 40c in the \$1. After tax and withdrawal, the taxpayer should retain 60c for every \$1 earned.

Q4.5 Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?

Under Uniform Taxation there is no need for any differential taxation. The Uniform system will apply to every Australian man, woman and child.

Q4.6 How can fringe benefits tax be simplified while maintaining tax integrity? Would it be better to adopt the general OECD practice of taxing fringe benefits in the hands of employees, rather than employers?

A separate Fringe Benefits Tax would be largely unnecessary under a system of Uniform Taxation as there would be no incentive to arbitrage between rates.

However, benefits given in lieu of salary should be taxed in the same way as any other income and not through a separate Fringe Benefits Tax system.

Q4.7 Are the current categorical distinctions for income support, including rates of payment and income tests, still relevant? If not, would other categories be better? What goals or principles should guide categorical distinctions and associated payment rates?

The Tax Act itself should be kept simple and straightforward and should not concern itself with Social Security outcomes.

Revenue Review's advocacy is not concerned with the fine details of social security support payments. This is a matter, which should be dealt with separately from this review by Government.

However, under a uniform system the fairness, equity and withdrawal of benefits is more easily administered.

Q4.8 What priority should be given to the different objectives associated with family assistance, such as poverty alleviation, recognising the social value of child rearing, facilitating workforce participation of parents, and early childhood education? Would it be better to provide less family assistance to higher income earners?

The taxation system should not be specifically altered for the sake of any particular welfare objective. A robust and efficient taxation system will be flexible enough to accommodate the provision of Government benefits and to facilitate the seamless withdrawal of these benefits as incomes rise.

These are matters that the Government should deal with outside the taxation system on a year-by-year basis.

Q4.9 What are the key factors that should affect rates of transfer payments? What should be the relative importance of duration on income support, costs of work and job search, costs of children, value of home production and the level of the federal minimum wage?

Revenue Review is not in a position to make a conclusive judgment on these sorts of matters – we are not the Government.

Minimum Wage is not a tax issue and we do not propose to pass comment.

We do however support a fair withdrawal rate of social security payments of no more than 40c in the dollar for additional monies earned.

Q4.10 Should transfer payments have a common benchmark? If so, should it be a proportion of a wage measure, and if so, which one? Or is there a better benchmark? Should there be a common indexation arrangement?

All Government benefits should be indexed each year at budget time. Many of the points raised in this question would be automatically dealt with by the adoption of a uniform tax system.

Q4.11 Should payments for retired people remain linked to payments for people of working age?

Yes they should.

Q4.12 In a targeted system there is a trade-off between the level of income support and workforce incentives. Given this, what priority should be given to reducing the disincentives to work?

This matter would not be an issue under a Uniform Tax System. By ensuring that withdrawal rates are no more than 40c in the dollar, disincentives will be removed.

Q4.13 What structure of income tests and taxes would best support the increasing diversity of work and the need to increase workforce participation, and where should improved incentives be targeted?

As above.

Q4.14 Does the tax-transfer system create disincentives for individuals seeking to acquire new skills or upgrade existing skills? If so, what sort of tax or transfer changes would provide better incentives?

As above.

Q4.15 Given the competing demands of targeting assistance to people when they need it and minimising unnecessary transactions, what changes could be made to existing tax and transfer policies?

People with specific needs will be dealt with by the Social Security system. The tax system should not be complicated by trying to provide specific assistances to needy people.

Under a uniform tax system a broad spectrum of social initiatives can be dealt with.

Q4.16 Should the different bases of assessment for tax and transfers be reconsidered (including the unit of assessment, income definitions, period of assessment and assets treatment)?

There should be a merger of parts of the Tax Office and Centrelink – Tax and Social Security Office – “TASSO”.

Assessment for tax and social security purposes should be unified in the interests of efficiency and simplicity.

The retirement income system

Q5.1 In considering the future of Australia's retirement income system, which objectives are relevant in setting retirement income policy? Does the current system of the Age Pension and compulsory and voluntary savings meet these objectives? If not, how should the system be changed to meet these objectives?

There is no system of Superannuation that will satisfy the needs of every Australian.

The Age Pension is essential in ensuring that those people who have insufficient Superannuation are taken care of in retirement – safety net.

Obviously, there are many people who will need no assistance from the Government in retirement.

Q5.2 As the SG system matures, it will become a greater part of an employee's retirement income. What are the implications for individuals partially or fully excluded from the mature SG system (the self-employed, individuals with broken work patterns such as carers, women and migrants), and how can the retirement income system best accommodate these groups?

The Government should not delineate between different people in this way – uniformity must drive policy.

As stated above, many people will continue to be fully or partly dependent of Government assistance in retirement for many of the reasons stated and other factors.

Q5.3 Noting that the adequacy of the Age Pension is being considered by the Pension Review, what is an appropriate concept of adequacy for the retirement income system? Should it be to ensure there is a minimum level of income in retirement, to replace a proportion of income earned prior to retirement, or some another alternative?

This is not a matter which Revenue Review wishes to pass comment on in any great detail.

Clearly, there should be safety net, but specific rates of this assistance are a matter for the Government of the day and are not a structural tax matter.

Q5.4 What should the role of the government be in assisting individuals to meet their retirement income expectations in relation to the support provided by the Age Pension, the level of compulsory savings and incentives to make additional savings? Should the role of government change as an individual's income increases over their working life?

In the long-term, the current Compulsory Superannuation provisions will ensure that most individuals have a sufficient income to retire on.

Obviously, the system has come twenty years too late for some people. These people will often still be at least partly dependant on the Government for assistance in retirement.

Q5.5 Do the settings of the retirement income system, such as the level of SG and access to concessions, adequately consider the needs and preferences of individuals both before and after retirement?

The 15% contribution tax + 15% earnings tax greatly inhibits the accumulation of a member's Superannuation fund.

There should be no tax at all on accumulation until earnings reach a reasonable retirement level.

5.6 Is the current level of superannuation income tax concessions appropriate and sustainable into the future? Are the current concessions properly targeted and, if not, how should they be reformed?

As discussed in Q5.5, the contributions and earnings concessions are inadequate.

There should be no concession when people withdraw their money at retirement age – it should be taxed as any other type of income.

However, current schemes which have already been subject to the contributions and earnings tax should not be liable to any additional tax whatsoever upon withdrawal.

Q5.7 At what age should an individual be able to access their superannuation and at what age should they become eligible for the Age Pension?

A 35 year working life seems fair – given most people enter the workforce between the age of 20 and 25 they should have the option of leaving the workforce in their late 50s. Even if they continue working, they should be able to withdraw it out of their superannuation if they so wish provided they leave sufficient reserves to be independent from social security.

Q5.8 What is the role of individuals in dealing with investment and longevity risk in accumulating and drawing down their retirement income? Do financial markets provide the means to deal with these risks? If not, is there a role for government to address these shortcomings?

The risk factor can be dealt with by Government regulation only. The Government should not bail out individual's retirement funds because they have failed to accumulate to expectations.

Market forces mean that funds which over perform will be similarly numbered to those that underperform.

Most people only aim for a single digit yield, although more ambitious members may take more risky investment options for greater yield.

Q5.9 In what ways does the retirement income system impose undue complexity and cost on retirees and workers? How could this complexity be reduced?

Revenue Review's proposals inherently serve to reduce complexity. By removing the 15% earnings tax and only taxing funds when they reach a certain threshold, will clearly reduce complexity.

Q5.10 The Age Pension serves two roles, as a safety-net for individuals who are unable to sufficiently save for their retirement and as an income supplement for many individuals

who do save. What should be the role for the Age Pension and means testing in a future retirement income system and what impact does this have on its sustainability into the future?

Means testing is rendered obsolete by a uniform rate of withdrawal is adopted for all social security entitlement including pensions.

Q5.11 In what ways does retirement income policy affect workforce participation decisions and what, if any, changes might reduce disincentives to work? Does the sustainability and cost of the retirement income system affect the workforce decisions of younger generations of workers?

Clearly, someone can continue to contribute to their Superannuation fund even after a 35 year working life.

Monies withdrawn from the fund should be taxed at the normal marginal rate (uniform rate) and should not be free of tax as they currently are, with the previously stated exception on Q5.6 This will reduce incentives to work.

Q5.12 What impact could financial intermediation have on the effectiveness of retirement income policy?

The impact of a Uniform Tax System and the Capital Exit Tax will be beneficial to the management of all institutional funds, including retirement funds.

Q5.13 The cost of providing health and aged care to older Australians is currently met by government through the health sector. Should retirement income policy take into account projected increases in health costs for older Australians? If so, what would be the most effective mechanism and how might the transition to such a system be achieved?

Superannuation and Tax Policy should be kept entirely separate from health policy and related health concerns.

There is no benefit in trying to achieve these sorts of goals through Tax legislation – it is a matter for Government.

Taxing business and investment

Q6.1 Can the tax system be structured to better attract investment to Australia in a way that increases national income, and if so how? For any given revenue outcome, what are the relative merits of broader base/lower rate (comprehensive income tax) or narrower base/higher rate (a narrow income tax or an expenditure tax) approaches?

Revenue Review believes that revenue earned from exports should be taxed at a concessional 10% company rate to encourage development and support of Australian industry.

Anything which will promote exports will increase national income.

Q6.2 What changes, if any, to the tax system would improve the ability of Australian companies to operate internationally orientated businesses? How should the tax treatment of companies and shareholders be integrated in an open economy?

See above – proposal to reduce export taxation to 10%.

By reducing corporate taxation in these circumstances we will encourage multinational business to shift a larger amount of their business to Australia.

The abolition of the dividend imputation system through a Uniform Tax System will be greatly assist shareholders in Australian companies.

Q6.3 Can the tax system be restructured to improve resource allocation within the economy and minimise operating costs, and if so, how? What changes would reduce distortions to risk taking and encourage entrepreneurial activity?

Revenue Review believes that the tax system should not be used to effect resource allocation within the economy.

However, by taking industry assistance measures out of the tax system, distortion will be greatly reduced as Government Departments are better placed to manage these things. The tax system itself should be completely objective and shouldn't favour one industry over another.

Q6.4 What principal goals should inform the taxation of capital gains in Australia, and what, if any, changes should be made to capital gains tax as a result?

Revenue Review believes that Capital Gains should be subject to taxation and that current revenues need to be retained.

However, in the interests of simplicity and uniformity we advocate the abolition of current capital gains tax arrangements and the introduction of a small capital exit tax on all transactions.

People should not be making investment decisions based on capital gains consequences – all decisions should be based upon their own merit.

Q6.5 Should the tax system provide a more neutral treatment of different financing arrangements (debt, equity and retained earnings), and if so, how? What principles should inform approaches to entity taxation?

There should be no preference given to retained earnings. All entities should be taxed uniformly based on their current level of earnings.

Where a private equity entity takes over an existing profitable business, they should not be able to offset revenues on interest expenses.

Q6.6 Should the tax system be structured to cater for the specific circumstances of small business, and if so, how?

There should be no particular arrangements put into place to assist certain "small" businesses.

As previously stated, the Tax Act should not be used to achieve the specific policy outcomes of the Government of the day.

The Tax Act should merely stipulate the rules. These rules should be uniformly applied to all "businesses" irrespective of the industry they are in or the size of that business.

External industry assistance measures to assist 'small businesses' can be dealt with separately from the Tax Act.

Q6.7 Should the tax system be restructured to deliver a more neutral tax treatment for the different forms of return on household savings and investments, and if so, how?

Neutrality is a necessity of any fair tax system – all types of income should be treated in a similar matter.

Revenue Review does however believe that the CPI component of interest income should be tax-free.

Not-for-profit organisations

Q7.1 What is the appropriate tax treatment for NFP organisations, including compliance obligations?

Under a uniform taxation system, where most people will not have to file a tax return, the value of the charitable deductions and gifts should be claimed by the charitable organisation directly.

The charity itself should be given an offset for the tax value of the amount donated by an individual.

Where a charity embarks on a business enterprise that competes directly with the business community it should be taxed ordinarily.

Q7.2 Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

As Above

Complexity — cost, risk and transparency

Q8.1 Which taxes or transfers are the most complex and impose the greatest costs? How should these costs be reduced (by abolishing the taxes or transfers or by making the rules applying to them simpler)?

There is clearly a cost in taking money and then giving money back again.

There is also a significant cost and additional level of complexity caused by the multiple rates of taxation that currently exist.

A uniform tax system will be simpler, more transparent and more cost efficient to administer. Under such a system, social security benefits can be paid either by Centrelink or by the employer's paymaster through an increase in their tax-free threshold.

Q8.2 In what ways might the administration of Australia's tax-transfer system be changed to better meet the needs of individuals and businesses? How might the process of personal income tax returns be simplified, including by removing the requirement for some taxpayers to lodge returns? Should the administration of the system be more integrated (across taxes and transfers and between jurisdictions)? How might advances in technology assist?

As above – by introducing a system of Uniform Taxation, whereby tax returns are abolished for most taxpayers.

Q8.3 To what extent might policy objectives be traded off to achieve a simpler system? In what areas should efficiency, equity or choice be traded off for simplicity?

There is no particular policy objective that needs to be traded off under our proposal.

The amount of money lost in the 40% and 45% will be easily recovered by a reduction in the amount of avoidance and arbitrage.

Q8.4 How could the governance of the tax-transfer system be reformed to reduce complexity, uncertainty and cost, and to improve transparency, understanding and support for the system?

As previously stated, there should be some marriage of the tax and social security offices – into a merged Tax and Social Security Office (“TASSO”).

State and local taxes and transfers in the Australian federation

Q9.1 Noting the overall structure of Australia’s federal financial arrangements, what changes, if any, should be made to the assignment of revenue raising powers and intergovernmental transfers in Australia?

There is a massive cost in overlap between State and Federal services – costing between \$10 and \$12 billion each year through duplication.

See commentary on Federal Reform.

Q9.2 Given the widely held view in submissions that the current state tax arrangements need to be reformed, what changes should be made to state and local government own source revenue instruments? What scope is there for greater use of user charging to bring social, environmental or economic benefits?

Revenue Review does not propose to comment on State tax measures as part of our submission to this review.

Q9.3 What is the appropriate allocation of the roles of the Australian and state governments in income redistribution?

See commentary on Federal Reform

Q9.4 What opportunities could be pursued to deliver more seamless administrative arrangements of the tax-transfer system across the federation?

See commentary on Federal Reform

Tax and transfer impacts on housing

Q10.1 What should be the objective of the tax-transfer system in respect of housing? Should there be assistance for housing over other assets or services? Should assistance be based on housing tenures? Should assistance be focused on people on

low incomes? Should assistance differ between public and private tenants?

A house should be treated in the same way as any other asset that people may acquire in the course of life.

Housing is not an issue that should be dealt with through the Tax Act or the tax-transfer system at all.

As Revenue Review has repeatedly stated the Tax Act is not the means by which Government should attempt to implement its policy agenda, etc.

Revenue Review believes that the first home buyers grant should be used as an incentive for the construction of large stockpile of small, affordable houses.

Q10.2 What role, if any, should the tax-transfer system play in respect of housing affordability? Should the tax-transfer system be used to influence housing supply and/or demand to improve housing affordability? What changes, if any, should be made to housing-related transfers that assist disadvantaged households to find housing?

As stated succinctly above – this is not a matter which should be dealt with by the tax-transfer system.

However, the need for future public housing will be alleviated if the first home buyers grant is used to increase the availability of small, affordable housing.

Q10.3 Recognising the influence that some taxes and transfers have on the use of housing and residential land, what changes, if any, should be made to ensure the housing stock and residential land are used efficiently?

As above.

Taxes on specific goods and services

Q11.1 Is it appropriate to use taxes on specific goods or services to influence individual consumption choices, and if so, what principles can be applied in designing the structure and rates of such taxes?

It is very unlikely that we will ever be able to get rid of these sort of 'sin taxes'. If they are going to be a part of our tax system, we should ensure that revenues collected are directed appropriately.

For example – tobacco and alcohol tax to health related programs.

These sort of taxes should not be levied merely to raise additional revenue for the Government.

Q11.2 Can the competing potential objectives of alcohol taxation, including revenue raising, health policy and industry assistance, be resolved? What does this mean for the decision to tax alcohol more than other commodities?

As stated above, if the Government is going to insist on taxing these activities – the revenue should be appropriately directed.

Q11.3 What is the appropriate specific goal of taxing tobacco? Is it necessary to change the structure or rate of tobacco taxes?

It just greed on the part of Governments. There is no specific goal in taxing tobacco, except as a revenue raising measure.

An additional tax or levy does nothing to stop smoking, or drinking or gambling for that matter.

As stated above revenue collected should be appropriately directed.

Q11.4 If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?

The small amount of revenue foregone by allowing people a 'duty-free' concession is fair enough. Why not allow such concessions?

Q11.5 Are taxes on specific 'luxury' goods an effective way of making the tax system more progressive? If so, what principles should apply to the design and coverage of these taxes?

Revenue Review advocates the abolition of the Luxury Car Tax and other "luxury" good taxes.

These sort of imposts are part of the politics of envy and should be avoided.

Q11.6 Should the tax system have a role in influencing the relative prices of different types of cars, including luxury cars and higher polluting cars, and if so, on what basis? What does this mean for taxes on the purchase price of motor vehicles?

No it shouldn't not. The tax system should have nothing to do with influencing people's lifestyle choices. The principle of uniformity should be absolutely central.

Obviously a more expensive car will contribute more tax inherently – 10% GST – the tax system should not influence relativity.

However, the revenues gained from Luxury Car Tax could easily be gained by taxing engine size or fuel consumption rating regardless of purchase price.

Such revenues gained could be expended as subsidies for people purchasing hybrid and LPG cars.

Fuel, roads and transport

Q12.1 How can motor vehicle related taxes and road funding arrangements be designed to improve the efficiency of transport of people and goods in Australia?

Revenue Review believes that fuel taxes should be linked to road expenditures. For example if the Government raises \$13 billion of fuel tax - \$13 billion should be spent on transport and transport-related expenditures.

Q12.2 What should be the role, if any, of fuel taxes? What does this mean for how fuels and their uses are taxed and the rates of tax applied?

As stated above, the role of fuel taxes should be used to support road and transport infrastructure, not to serve as another means of Government revenue collection.

Q12.3 Do the existing tax arrangements lead people to make economically inefficient transport choices, and if so, how might they be improved?

No they do not. If people want to drive, rather than catch public transport they will continue to do so.

It is essential that fuel taxes be linked to road and transport infrastructure.

Tax-transfer impacts on the environment

Q13.1 Bearing in mind that tax is one of several possible instruments that can address environmental externalities, what opportunities exist to use specific environmental taxes to address Australia's environmental challenges?

Revenue Review favours the levying/taxing of obsolete and

inefficient products and production methods in favour of subsidising efficient, new products and production methods.

However, we believe that these sorts of issues should not be considered as part of this review. The complicated taxation system should not be further complicated by these sort of environmental considerations.

Q13.2 Noting that many submissions raise concerns over unintended environmental consequences of taxes and transfers, such as the fringe benefits tax concession for cars, are there features of the tax-transfer system which encourage poor environmental outcomes and how might such outcomes be addressed?

These issues should be dealt with by the relevant Government departments and should not be matter for the ATO.

Q13.3 Given the environmental challenges confronting Australian society, are there opportunities to shape tax-transfer policies which do not currently affect the environment in ways which could deliver better environmental outcomes?

The current subsidies for solar power and solar heating on domestic dwellings is a perfect example of a WRONG transfer. The end result could have been achieved without the net expenditure of any taxpayer money at all. For example - if a suburban home buyer with roof space was required to install roof-mounted energy panels and given a generous subsidy, their subsidy could be funded by levying high-rise developers, without the space for roof panels. The ends result would still be achievable without very little net outlay from the Government.

Natural resource charging

Q14.1 When considering the appropriate return to the Australian community for the use of its non-renewable resources, what relative weight should be given to the determinants of that return?

Revenue Review does not propose to pass comment on this issue. We are concerned with simplifying our complicated and inefficient taxation system.

Q14.2 What is the most appropriate method of charging for Australia's non-renewable resources, given they are immobile but that Australia needs to compete globally for mining investment?

As above.

Q14.3 What is the role of the tax system in ensuring that renewable resources are used both sustainably and efficiently?

As above.

19.0 Appendix 1: AFTS Submission – October 2008



Revenue Review Foundation
PO BOX 1075
TOOWONG QLD 4066

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

via email: AFTSubmissions@treasury.gov.au

Dear Sir,

I thank the Government for the opportunity to contribute ideas for your consideration. Please find below my submission to Australia's Future Tax System Review in my role as founder of the Revenue Review Foundation.

You will also shortly receive by post a short DVD-video presentation discussing Revenue Review's tax reform proposals.

Submission to the AFTS
Revenue Review Founder – Richard Hackett-Jones

My advocacy is centred around the following key points:

- a uniform rate of income tax for all
- multiple tax free thresholds for taxpayers based on the number of dependants
- personal annual tax returns for most tax payers rendered unnecessary
- simultaneous social security reform, removing disincentives for the under-employed
- a once only tax on dividends with interest taxed directly
- replacement of capital gains tax with a *small capital exit tax*.
- more appropriate spending of fuel tax revenue
- a comprehensive review of local government funding

My criticism of the current tax and social welfare systems has always been based upon the fact that human endeavour is discouraged.

I have come to my convictions as a layman economist rather than a "tax expert".

A taxation system that encourages arbitrage should be abolished. Any new proposals that either allow arbitrage or are predisposed to sectional interests should not be entertained. The new tax system should be as streamline as possible. Specific interests should be dealt with outside of the administration of the Tax Act itself.

The basis of my submission is my website: <http://www.revenuereview.com.au>. Please read and include this as part of my submission.

You would be well aware that:

- 80% of personal income tax is redistributed as social security and family benefits.
- Around 40% of tax payers are in receipt of benefits that either equal or exceed the amount of tax paid. The flow to and fro is costly to administer, hard to understand and has some unfairness regardless of the best intentions of the Government of the day.
- Barely 10% of personal income tax is acquired in the range above 30%.
- 30% is the main rate of tax which 80% of tax payers do not exceed. 30% is also the corporate rate as well as a time honoured rebate rate.
- The 40% and 45% rates encourage arbitrage. The 15% rate gives an avenue for arbitrage.

I propose that there be one income tax rate for all persons and corporations.

The corporate rate and personal rates should be the same despite advocacy favouring a lower corporate rate. In the end a shareholder of a Corporation is an individual.

For ease of calculation we will assume that the current levels of personal and corporate income tax are \$200 billion per annum. For example the typical surplus proposals in current budgets are around \$7 billion. If this surplus was distributed as a reduction to the 30% rate then the 30% rate would float downwards to 28.95% on individuals and companies. If a further reduction in Commonwealth expenditure was achieved, by following my suggestions regarding the elimination of overlap between State and Commonwealth Departments, of \$12 billion per annum this would be a bonus of 6% which would reduce the tax rate by a further 1.8% to 27.15%.

The uniform rate for the forthcoming year would be matter of declaration at each May Budget.

It easy to see that the current Family Benefits A & B could be overlapped by 'family-sized' tax-free thresholds for people with dependants. Perhaps then only a very small number of people would need any supplementary benefits. These would be administered outside the taxation system anyway.

My proposal would see every member of a family given a \$15,000 threshold. Consider the example of a family of five – a breadwinner, dependant spouse and three children. This would result in a tax-free threshold of \$75,000, which at 30% equates to a tax credit of \$22,500.

Deductions should assumed within this \$15,000 threshold at a rate of \$2,500 per person. This would result in this taxpayer not making claims for work expenses, educational expenses or medical and dental expenses of himself or any of the members of his family until the total expenditure of the whole family exceeds \$12,500.

It may seem that my system would unfairly disadvantage a single person. However, the current threshold level should be increased to around \$18,000. (We are essentially exchanging the 'discounted' 15% rate of taxation for an increased threshold.)

I will post on my website in the next couple of weeks some examples of different family structures and comparisons with the current system.

No social security recipient entering the workforce should end up retaining less than 60c of every dollar earned after withdrawals and tax. Please refer to my website for further commentary on this issue.

The overlapping of State and Commonwealth departments should be eliminated as a very early priority of reform. This costs Australia \$1 billion per month. Please refer to my website for further commentary.

Too many people today are using Superannuation purely as a tax shelter and not as a retirement savings plan. For example, someone who retires without superannuation, but with \$1 million in spare cash, can currently shift their money into a 15% tax shelter.

I propose that there be no tax on any superannuation account until the earnings on the account reach twice average earning. Thereafter the tax rate should be the uniform rate of 30% or less.

The same principle should apply to employee superannuation funds. The 15% contribution tax should be scrapped as this combined with the 15% tax on earnings retards a retiree's cash benefits by at least one third.

Investors should not look at superannuation specifically because of tax benefits.

Luxury Car Tax is a product of the politics of envy and should be substituted with a tax that is more in line with current aspirations, such as upon fuel consumption.

Capital Gains Tax should be replaced with a capital exit tax of between 0.5% and 0.7%. This should achieve similar revenues to the current system.

Should an activity not be profitable, it should not be encouraged with non refundable tax payer funds. Creating jobs or export income can also be achieved by properly planned enterprises. 10% company tax on export earned profit should be sufficient to negate a number of existing tax concessions.

Fuel excise should be ear-marked in growth corridors and the necessary upgrades should be facilitated immediately.

Turnover Tax of 2% should be charged on all companies, profitability notwithstanding, with a credit against other tax liabilities but with no negative credit against carried forward losses.

Please refer to the website as part of my submission. See: www.revenueview.com.au.

Feel free to contact me on 3012 7010, 0405 405 110 or email info@revenueview.com.au.

Yours sincerely,

Richard Hackett-Jones
Revenue Review Foundation

20.0 Appendix 2: AFTS Superannuation Review Submission

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

27 February 2009

Submission to AFTS Retirement Income Review

Dear Sir,

I am 63-year-old Baby Boomer. I entered the workforce in January 1963 as a white-collar worker in the Adelaide CBD where my weekly salary was £10-10-00 (\$21.00).

My employer provided a staff provident fund, which required a contribution of 5% of my salary, which they matched with a further 5%, making a total provision of 10% of salary.

It defies logic that neither side of politics has universally adopted a system, such that Banking, Trustee, Insurance and Pastoral company workers enjoyed over forty-years ago.

The current system of compulsory superannuation was adopted by the Hawke-Keating Government and was initially based on a 3% contribution, before increasing to the present rate of 9% in 2002.

At the time, many industry groups vented their anger about the new system, arguing that it would constitute a major cost to industry.

However, I disagree with this assertion. I am firmly of the belief that the cost of Superannuation, whilst being paid by the employer, effectively falls on the employee. For example, somebody on a \$100,000 package would be paid \$91,000 after provision for superannuation. This applies equally to all workers, even to lower income earners as their awards are set on the capacity of industry to pay.

I have given much thought to the often repeated proposal to increase the compulsory contribution for superannuants to 12% or even 15%, as is suggested by a small-number of advocates.

Due to my above stated belief that the employee bears the real cost of the 9% compulsory Superannuation contribution, it is my belief that a significant increase (beyond 10%) in Superannuation could result in an unacceptable reduction in real take-home salary.

It stands to reason that a 9% contribution, un-taxed, would be equivalent to a taxed contribution of 13.8%. The removal of the tax on contributions would significantly increase the accumulation of every superannuant's account. If the compulsory contribution were raised to 10% it would be equivalent to a 15.38% contribution taxed under current arrangements.

At the moment there are two taxes upon superannuation – a 15% contribution tax and a 15% tax on fund earnings. **The combined effect of these taxes reduces a superannuant's accumulation by 35% over a 35-year working life.** These taxes virtually negate the tax benefit gained on contributions. *Table A and D shows this comparison.*

It is my proposal that there should be no taxation on Superannuation accounts, until the account's earnings are equal to 2.5 times AWOTE. Thereafter the earnings would be taxed ordinarily on the amount they exceed 2.5 times AWOTE. Obviously, many high-income earners would reach this point well before retirement. In which case, I propose, that the member be allowed to take salary in-lieu of Superannuation.

You would be aware that the Government currently raises around \$9.2 billion in taxes on Superannuation. *(2008-09 MYFEO)*

Much of this \$9.2 billion is raised at a concessional 15% rate on Superannuants who would otherwise have to pay a higher marginal rate, had the funds not been in their Superannuation fund. Therefore, any loss of revenue from my proposals would be more than compensated for by the revenues gained at normal rates outside of superannuation.

While the top 15-20% of the workforce may not be singularly dependant on their superannuation during retirement, lower income earners will often be entirely or partly dependent upon Government assistance for their retirement.

In my recent submission to the AFTS tax review, I have advocated the introduction of a uniform rate of personal and corporate tax for all Australians. I have also advocated strongly that any social security benefit be withdrawn by only 40c (tax and withdrawal) in each dollar earned by the taxpayer. Some of my assertions in this submission are based on these premises.

In the transition to a new system it is important that accounts held under current arrangements are kept separate from monies invested under a new system. This will avoid the future necessity for exhaustive and complicated actuarial calculations.

As I have pointed out the **front-end taxes** on superannuation severely inhibit the growth of all superannuation accounts. I propose that under a new system, which is accumulated free of tax, that earnings be taxed as income once the superannuant reaches retirement age. However, I also propose that members should be able to withdraw up to 50% of their fund, but no more than 10% per in any one year, provided they can demonstrate that the residue in the fund can produce 2.5 times the married pension. These withdrawals, which are deemed to be capital, should not be taxed. It is important that a future system prevents people from using superannuation as a tax shelter and for bankruptcy protection.

Do not hesitate to get in contact with me further to discuss my proposal in greater detail. More information can be found at www.revenueview.com.au.

Best Regards,

Richard Hackett-Jones
Revenue Review

9,000 Contribution (1.5% growth)

8.2% Earnings

11.7% on net after tax contribution

YR	CONTRIB	TOTALS	EARNINGS
1	9,000	9,000	9,738
5	9,552	46,370	58,966
10	10,291	96,324	150,968
15	11,086	150,139	292,315
20	11,943	208,113	507,219
25	12,866	270,567	831,616
30	13,860	337,848	1,318,829
35	14,931	410,329	2,047,969

Optimum: No Taxation

This represents 13.65 years of salary at retirement.

9,000 Contribution (1.5% growth)

7% Earnings

10% on net after tax contribution

YR	CONTRIB	TOTALS	EARNINGS
1	9,000	9,000	9,630
5	9,552	46,370	56,951
10	10,291	96,324	141,230
15	11,086	150,139	264,177
20	11,943	208,113	441,725
25	12,866	270,567	696,247
30	13,860	337,848	1,059,156
35	14,931	410,329	1,574,540

77% of Optimum

This represents 10.50 years of salary at retirement.

7,650 Contribution (1.5% growth)

8.2% Earnings

11.7% on net after tax contribution

YR	CONTRIB	TOTALS	EARNINGS
1	7,650	7,650	8,277
5	8,119	39,415	50,121
10	8,747	81,876	128,323
15	9,423	127,618	248,468
20	10,151	176,896	431,136
25	10,936	229,982	706,873
30	11,781	287,171	1,121,004
35	12,691	348,779	1,740,774

85% of Optimum

This represents 11.61 years of salary at retirement.

7,650 Contribution (1.5% growth)

7% Earnings

10% on net after tax contribution

YR	CONTRIB	TOTALS	EARNINGS
1	7,650	7,650	8,186
5	8,119	39,415	48,409
10	8,747	81,876	120,046
15	9,423	127,618	224,551
20	10,151	176,896	375,466
25	10,936	229,982	591,810
30	11,781	287,171	900,282
35	12,691	348,779	1,338,359

ONLY 65% of Optimum

This represents 8.92 years of salary at retirement.

These two tiers of taxation reduce the accumulation of a superannuant's account by 35%.

**Therefore, a worker needing \$500,000 to retire,
will only have \$325,000 in their Superannuation account.**

21.0 Appendix 3: Revenue Statements

2008-09 Mid Year Fiscal Review

TAXATION REVENUE	2008-09	2009-10	2010-11	2011-12	AVERAGE
	\$m	\$m	\$m	\$m	\$m
<u>Income Taxation</u>					
<u>Individuals and other withholding taxes:</u>					
Gross income tax withholding	119,680	125,996	133,427	143,710	130,703
Gross other individuals	31,620	31,060	32,160	33,410	32,063
less Refunds	22,600	24,080	25,420	26,260	24,590
Total individuals and other withholding taxation	128,700	138,976	140,167	150,860	139,676
Fringe benefits tax	3,870	4,110	4,290	4,440	4,178
Superannuation funds:	9,270	9,210	9,950	11,350	9,945
Company tax	68,990	72,900	74,320	77,380	73,398
Petroleum resource rent tax	2,400	2,660	2,420	2,420	2,475
Total income taxation revenue	213,230	221,856	231,147	246,450	228,171
<u>Indirect Taxation</u>					
<u>Sales taxes:</u>					
Goods and services tax	45,490	48,090	50,670	53,180	49,358
Wine equalization tax	690	710	740	770	728
Luxury car tax	560	590	610	630	598
Other	0	0	0	0	0
Total sales taxes	46,470	49,390	52,020	54,580	50,615
<u>Excise duty:</u>					
Petrol	6,630	6,520	6,410	6,310	6,468
Diesel	6,950	7,230	7,540	7,850	7,393
Other fuel products	1,340	1,520	1,770	1,950	1,645
Crude oil	820	770	750	760	775
Beer	1,960	2,030	2,100	2,160	2,063
Potable Spirits	210	220	220	230	220
Other excisable beverages	990	1,100	1,260	1,440	1,198
Tobacco	5,660	5,710	5,760	5,790	5,730
Total excise duty revenue	24,560	25,100	25,810	26,490	25,490
<u>Customs duty:</u>					
Textiles, clothing and footwear	990	730	480	510	678
Passenger motor vehicles	1,410	1,110	740	770	1,008
Excise-like goods	2,660	2,800	2,960	3,120	2,885
Other imports	1,562	1,622	1,682	1,742	1,652
less Refunds and drawbacks	240	240	240	240	240
Total customs duty revenue	6,382	6,022	5,622	5,902	5,982
<u>Other indirect taxation:</u>					
Agricultural levies	590	356	360	364	418
Other taxes	2,123	2,192	2,258	2,320	2,223
Total other indirect taxation revenue	2,716	2,547	2,618	2,684	2,641
Total indirect taxation revenue	80,397	83,059	86,070	89,655	84,795
Total taxation revenue	293,627	304,914	317,217	336,105	312,966

REVENUE REVIEW FOUNDATION