Review Panel

1. As per the invitation below, I confirm that I would like my original email to be treated as a formal submission relating to the review of Australia's Future Tax System, however, the following additional points need to be made (and included as part of my submission) having regard to the clear bias against a family unit of taxation evidenced by the Australian Treasury department paper entitled 'Architecture of Australia's tax and transfer system' (see page 179), including its failure to show that such systems work effectively in other OECD countries (like the United States of America).

2. The statement in the Treasury paper that a family unit of taxation is a disincentive for workforce participation by secondary earners has no probative value if a family unit taxation system is elective rather than compulsory. In any event, that statement is a gross exaggeration of the true effect because families (in general) are not so naïve as to focus on each individual's after-tax situation rather than their combined net after-tax position. That is, the suggestion that a focus on the individual as the unit of taxation encourages participation in the workforce by a secondary earner (if their circumstances permit) is fallacious. Participation is either voluntary (in which case the disincentive noted above is irrelevant) or forced upon them by economic circumstances regardless of the taxation system. In the situation where a secondary earner is not forced into the workforce by economic circumstances and chooses to stay at home, the individual unit of taxation is instead a form of compulsion to reflect a policy aim of a labour government to have 100% workforce participation regardless of circumstances.

3. Further, the family unit of taxation is not a disincentive to workforce participation for those already participating because they can access the benefits of that system in the same way as present. In the unusual situation where the secondary earner and primary earner do not pool family resources they do not need to elect into the family unit of taxation and can instead retain their individual taxation status, thereby ensuring the secondary earner pays a lower level of tax than the primary earner.

4. It could also be contended that a taxation system based on individuals actually discourages workforce participation in the sense that the primary earner is discouraged from engaging in more productive work (or more highly skilled and higher paying work) if their partner is forced to work (or to have increased working hours) because the primary earner has a higher tax burden and/or less transfer payments are received by that family. In other words, if the primary earner is required to work less (or work in a less productive capacity), because they need to increase the time they spend at home in doing activities that the secondary earner was previously engaged in before being forced to increase their work hours, this achieves the exact opposite of the aims stated in the Treasury paper of increasing work productivity.

5. Importantly, the fact that the transfer system itself is based upon the family unit, as well as other aspects of the taxation system, means it is erroneous and baseless to suggest that complexity in the tax system will be increased by including an elective family unit for taxation purposes. It simply changes the calculation of tax. Additionally, the suggestion in the Treasury paper that a focus on the individual as the unit of taxation avoids specifying a family structure that is preferred for tax purposes completely misses the point. There has been a huge focus in recent times on enhancing the rights of de facto and same sex couples so that they are treated in a like way to married couples. That same focus should be equally applicable to whether a family unit of taxation is viable, that is, the family unit for taxation should simply accord those types of couple relationships (ie, it is not being

suggested that income of those couples should be able to be split along any greater family lines or to their dependents).

6. The transfer system is itself an example of a flawed mechanism when combined with taxation policy because the family unit itself best knows how to provide for their individual circumstances. The government should not operate a transfer system other than in relation to that part of society which truly needs it - the remainder should be left to determine for themselves how to utilise family wealth. In other words, tax the family unit in such a way that it is unnecessary for the transfer system to return money to that family which was effectively taxed from the primary earner in the first place and thereby avoid (or at least reduce) the 'churn' involved with the current transfer system and the unnecessary cost of administering it. This will also assist in reducing the highly redistributive nature of Australia's tax and transfer system compared with other OECD countries (as recognised in the Treasury paper).

7. A family unit of taxation could actually be seen to reduce the complexity inherent in the current tax and transfer system in terms of a family working out how many hours of work a secondary earner can or should be engaged in to maximise that family's after-tax position. That is, the current system encourages difficult comparative calculations to be performed by a family to determine whether they will be better off if the secondary earner commences work (or increases their hours of work) due to the 'effective tax rate' issues outlined in heading 7.4 of the Treasury paper. This undesirable aspect of the current system is able to be better managed with a family unit of taxation that places less emphasis on the transfer system in order to achieve an equitable distribution between families.

8. It is obviously difficult to evaluate the positive and negative impacts non-parental day care has on children, however, there is certainly evidence to suggest that it can have a negative outcome on the cognitive, social and behavioural development of children (for instance, see the results from various studies conducted in the United States by the National Institute of Child Health and Human Development). As such, a labour government policy of 100% workforce participation should not drive a review of Australia's optimal tax structure for the future, especially when regard is had to that structure along with the optimum transfer system for Australia (as well as all of the other relevant social or non-economic factors, the most important of which is the right for a family unit to be free to choose the best way of raising their children without feeling compelled to make a choice one way or the other by the way in which Australia's tax and transfer system operates). **I cannot state strongly enough that Australian families should be given the choice as to whether children are raised at home or in childcare unconstrained by taxation implications and a family unit of taxation is the optimum way of ensuring that this occurs. The transfer system should be a safety net only for those families that truly require it - the remainder of families should be left to determine for themselves the time (if any) that a secondary earner spends in the workforce.**

9. Finally, and by means of summary of my previous submission, the following points clearly show why a family unit of taxation should be adopted in Australia as an equality measure and in order to introduce some fairness into a tax system biased against salary and wage earners (and, in particular, single income families):

(a) Australia's tax system should reflect the economic and social reality of today's society and treat 'working families' such as married couples as a single unit rather than as two separate taxpayers for some purposes but then combining their income for other purposes where it suits the labour government;

(b) the current system effectively allows most business people to split their income even though that might not accord with the day-to-day working reality of the business and allows income producing assets to be accumulated in the hands of those best placed to take advantage of the tax benefits; and

(c) single income families are currently discriminated against by the failure of the tax system to recognise that the non-working spouse/partner is providing a number of significant social and economic benefits to the country, not the least of which is that they free up jobs and childcare places for other people who might have a greater need for a job that would otherwise be taken by the non-working spouse/partner.

Thankyou for your time.
Regards

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Dear Mr Henry
In order to ensure the interests of dual and single income salary and wage earning 'working families' (to use the existing government's catch-cry), are taken into account in Australia's Future Tax System review, I think it is vital your committee fully consider recommending a taxation system that focuses on family units (such as something similar to the United States model). There are various reasons justifying such a model of which I am sure you and your committee are aware, however, it is important to reiterate some of those reasons:

- **First and foremost it is an equality measure** - Australia's tax system should reflect the economic and social reality of today's society and treat 'working families' such as married couples as a single unit rather than as two separate taxpayers for some purposes but then combining their income for other purposes where it suits the government (such as various education, family benefits payments and the like) - to the extent there are any privacy concerns, the model could be at the election of the taxpayers involved (also, the concept of 'working families' could be extended to cover de facto couples and/or such same sex relationships as is considered necessary to accord with the measures being proposed by this government at the moment);
- Second, **it will introduce some fairness into a tax system biased against salary and wage earners** - the current system effectively allows most business people to split their income even though that might not accord with the day-to-day working reality of the business (ie, a partnership for a business where one spouse/partner does nothing other than minor administrative tasks but still shares half the profits) as well as allowing income producing assets to be accumulated in the hands of those best placed to take advantage of the tax benefits (such as negative gearing or ownership in the hands of a spouse/partner or other family member with minimal or no other income) - this latter issue reinforces the inequality that exists because it allows wealthy individuals to acquire income producing assets in tax effective ways whereas ordinary working family are less likely to be able to do so);
- Third, it will partly obviate the need and desire for some taxpayers to utilise legitimate means (and potentially some less legitimate means) of splitting their taxable income between family members (although this might be dealt with in part by the proposal your committee is considering to tax some small business entities like partnerships, it is not the sole panacea) - in other words, in some respects it can be seen as a **tax-avoidance measure**; and
- Fourth, **single income families are currently discriminated against** by the failure of the tax system to recognise that the non-working spouse/partner is providing a number of social and economic benefits to the country, not the least of which is that they free up jobs and childcare places for other people who might have a greater need for a job that would otherwise be taken by the non-working spouse/partner (and this is in addition to the many benefits provided by the non-working spouse having responsibility for raising their children, at least if we ignore any 'dysfunctional' family units and focus on ordinary families which anecdotal evidence would suggest is the norm in this country) - these principles apply equally to a dual income family where one spouse/partner earns significantly less than the

other for whatever reason (such as if they work part-time and look after their children for the balance of the week).

I trust that your committee will consider this proposal notwithstanding the presumed negative impact on tax collections it will have by enabling the two spouses/partners to combine their income so that, for instance, each is taxed on half of that total amount (although the mechanics of such a system are not something which the committee should get bogged down on at this early stage of the review). For example, it may be necessary to consider this proposal in conjunction with revenue positive options such as not allowing any work-related deductions if taxpayers opt into this 'family unit' tax system, excluding investment income (ie, such income remains taxed on an individual by individual basis) and/or that welfare-type payments can be more appropriately directed to those most in need (ie, removing 'middle-class' welfare and avoiding the related 'churning' that occurs in this regard). Thankyou for your time.

Regards

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