



10 October 2008

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Review Panelists

AUSTRALIA'S FUTURE TAX SYSTEM

Further to the review of Australia's tax system ("the Review") announced by the Australian Government on 13 May 2008, I herein submit several proposals for improving Australia's tax and transfer system.

1. GENERAL OBJECTIVES ADDRESSED

This submission addresses the following objectives set out the terms of reference for the Review:

- Item 3.2: Improvements to the tax and transfer payment system for individuals and working families;
- Item 3.5: Simplifying the tax system, including consideration of appropriate administrative arrangements across the Australian Federation;
- Item 4.4: Reducing tax system complexity and compliance costs; and
- Item 7: The relationships of the tax system with the transfer payments system and other social support payments, rules and concessions, with a view to improving incentives to work, reducing complexity and maintaining cohesion.

2. AIMS OF THE PROPOSALS SET FORTH IN THIS SUBMISSION

The proposals contained in this submission seek to address the following issues considered in the publication, *Architecture of Australia's tax and transfer system* published by the Commonwealth of Australia on 18 August 2008 ("the Paper"):

- Securing expanded opportunities for those who may be disadvantaged under the operation of the current system;

- Reducing the systematic administration costs arising from the currently high level of 'churning' within the system (e.g. families receiving transfer payments and paying tax in the same year); and
- Reducing the uncertainty and excessive compliance costs arising from the current complexity of Australia's current tax and transfer system.

3. PROPOSALS OF THIS SUBMISSION

I propose the introduction of a 'joint' filing status for married couples, with any child under the age of 7 at any time in an income tax year, whereby such couples could file one return covering both their net taxable incomes and be assessed at the progressive rates currently applicable to individuals but with double the thresholds to reflect the joint assessment. Furthermore, I propose allowing parents an automatic deduction of \$3,000.00 per each child who is under the age of 7 at any time in an income tax year.

4. WHY THESE PROPOSALS MAKE SENSE

4.1 Economic Rational

Table 2.1: Australian, state and local government taxes in the Paper shows that for the year ended 30 June 2007 approximately \$117.6 Billion in taxes were collected from individuals. *Table 2.8: Australian government transfers* in the Paper shows that approximately \$20 Billion was paid out to families in the form of Family Tax Benefits A & B and the Baby Bonus, only taking into account direct transfers and not the cost of administering the transfer system itself.

Although not having drilled down further into the above figures, it does not take a rocket scientist to realise that there is obviously a considerable amount of 'churning' going on with respect to taxes collected from and transfers paid to families.

Much of this 'churning' occurs due to the mismatch between Australia's current income tax assessment regime (focused on individuals) and its social security and welfare transfer regime (some aspects of which are focused on families). This mismatch is noted in *Box 3.6* on page 179 of the Paper although it is dismissed as being a deterrent to secondary earners.

Whilst it is acknowledged that a new 'joint' return filing status has the potential to serve as a disincentive to young mothers joining the work force, it is respectfully submitted that the social benefits such as the decreased demand for child care places and the fostering of a healthier environment to facilitate the cultivation of good Australian values in developing young minds, supersede any detriment to labor force participation.

The Paper notes that the current OECD trend is moving away from family based taxation. However, the world's largest economy, the United States, uses 'joint' returns as does Australia's regional neighbor Malaysia.

Additionally, the Australian Government is currently under pressure to pick up the tab for a proposed standard paid maternity leave package which would increase substantially the approximately \$20 Billion that was paid out to families in the year ended 30 June 2007. I contend that the enactment of the proposals contained in this submission may serve to alleviate some of the pressure currently being faced by the Australian Government with respect to the proposed standard paid maternity leave package.

4.2 Administrative Rational

Taxation Administration

Under Australia's current income tax system those that can afford proper taxation advice are usually able to achieve a similar outcome to that of filing a 'joint' status return through the use of service trusts and corporate beneficiaries. However, the integrity measures in place to prevent the misuse of such structures (e.g. Division 7A and the PSI regime) are enormously complex such that a large portion of the potential tax savings are consumed by fees paid to accountants and lawyers. Furthermore, the use of family/discretionary trusts is prone to inherent uncertainties with respect to the application of the income tax law as evidenced by the range of interpretational matters continuously seen before Australia's courts.

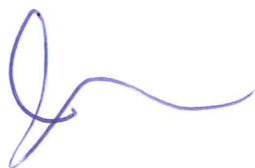
Though the introduction of a 'joint' return filing status, Australia could drastically reduce the demand for family and/or service trust arrangements as well as enabling those unable to afford proper taxation advice to access the benefits of spreading income across multiple entities effectively creating higher marginal thresholds which can only now be achieved through the use of the aforementioned trust structures.

Transfer Administration

It would be much simpler and more efficient to modify TFN declarations to incorporate the 'joint' filing status for single income families thereby reducing the rate of PAYG withholding required to be deducted from the primary income earner's wages rather than to continue with the rampant 'churning' taking place under the current transfer system.

Should you have any questions or require clarification on any aspect of the proposals contained herein, please do not hesitate to contact me on (08) 9380 8400.

Yours faithfully

A handwritten signature in blue ink, consisting of a large loop followed by a horizontal line that tapers off to the right.

Jake Meyer CPA
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