SUBMISSION TO THE TAX WHITE PAPER TASK FORCE ON TAXATION DISCUSSION PAPER ENTITLED *Re:Think*

Introduction.

The following submission concerns itself primarily with matters of equity, which seem to have been given only cursory coverage in the *Re:Think* document released by the Commonwealth Government. Indeed, the document prepared by Treasury treats many matters in a very superficial fashion and it is difficult to claim that it represents a balanced picture of Australia's taxation system and consequently, so are the questions it raises. For example, why do property taxes receive only a few lines in a two hundred page document when these taxes make up around 9% of all taxation revenues raised in Australia? And why are property taxes in Australia almost twice the average level of OECD countries? Similarly, why does the document lock us into a discussion that seems to take as given the number of income tax brackets that we currently have, and why are their current levels treated as being almost sacrosanct? There are other issues that bare scrutiny but what is illustrated above is surely enough to point out that the document itself tends to skim over many important taxation areas and treats some items as being changeable and others as being virtually "off limits"? Can it be said to really provide a balanced discussion of the country's taxation system?

Basic Equity Issues.

So why don't we start with the basic issue of which individuals pay what amounts of income tax? According to Table 3.2 on Page 41 of the Paper, 18.3% of those people who lodged income tax returns in 2011-2012 paid no income tax at all and some 45.6% of them contributed only 3.7% of the total income tax burden. That's almost half of the income-earning population paying virtually no income tax at all! Is this an equitable arrangement? Should 2.3% of individuals who lodged income tax returns pay 26.1% of the burden?

In the same vein, why are we treated to information in Table 3.2 that understates the real situation? Table 3.2 shows a minimum tax cut-off of $16,000 after including the low income tax offset, when in reality, with other allowances, the effective minimum tax rate is $20,542, some 28% more than the tabled cut-off. If Table 3.2 had been constructed with this situation in mind it would have included all of those people earning between $16,000 and $20,542 per annum. This would mean that the 2.3 million who are lodging income tax returns but paying no tax would be a significantly higher figure than shown in the Table. How does this, then, represent a balanced and equitable picture?

Another question that Table 3.2 begs is that, with a minimum 2.3 million income earners paying no income taxation whatsoever, how much is the annual processing of their taxation returns costing the remainder of we taxpayers? Shouldn't we, perhaps, ask that everyone who pays no income taxation at all and who is required to lodge a return, pay an annual administrative fee, say $500, to help cover the costs to the Australian Government of processing their returns and maintaining their records? It is good to see that, at last, the Government has decided in its latest budget to impose income tax on overseas residents who earn incomes in Australia.

Or again dealing with the underpinnings of the system, why shouldn't all income earners in the country be required to pay a minimum income tax rate of, say, 10% on all earnings? This base rate could serve as the foundational tax rate upon which the remaining (perhaps revised?) taxation brackets could be based. And it would mean that all income earners in Australia would make a contribution to the running of their country. However, the number of people affected by this change is relatively very small.

But, of course, this is only part of the picture on individuals' income tax equity. Why, for example, are the current brackets satisfactory when Table 3.2 shows us that 83.2% of the income tax payers paid only 36.5% of the burden? (Or in the reverse, 16.8% of persons who lodged income tax returns paid 63.5% of the burden.) Once again, these figures show a quite dramatic skew of the individual income tax burden falling on only a few tax payers. The question then becomes, has the community really considered these rate differentials? Does it support a system with such large disparities? Should it? What should a "fair" progressive tax system look like? On such matters, the debate would seem to be silent.

Instead of prattling on about superannuation and the GST, shouldn't the Treasurer give some airplay to the simple matter of the progressiveness of the existing system? And the Treasurer might also give some consideration to where the boundaries of what is equitable and what is inequitable might lie.

A Flat Rate Base Tax for Income Earned by All Individuals?

Rather than worry about bracket creep and such-like taxation matters, why can't all income earners in Australia pay a minimum flat rate of tax charged on every dollar of income earned in Australia, say 5% of the top level of the nominated bracket that currently pays no income tax, i.e., $16,000. This would mean that all individuals lodging an income tax return would pay a base rate of $800 a year or $15.40 per week, the latter being less than the cost of one packet of cigarettes. That would mean the 2.3 million people who earn incomes in Australia each year but currently pay no income tax would then make a contribution to running the country or at least covering the cost of processing their tax returns. From them this would yield some $1.84 billion in extra revenues annually. From the total of return lodgers (some 12.6 million) this would return over $10 billion annually. And, like now, only those earning above a certain level would be required to pay tax according to the progressive tax brackets. This would help overcome the confusion that currently exists caused by us not knowing whether the $0 to $16,000 part of the taxation system is a component of the welfare system or a bona fide part of the taxation system. There needs to be greater clarity here so that we know exactly what our tax objectives are and exactly what our welfare objectives are.

Land Tax.

There are currently four ways that people can “store” their material wealth. They can dig a hole and place it in the ground in their backyard; they can keep it as cash and place it in a bank where they receive a paltry rate of interest; they can purchase stocks, shares and bonds; and/or they can hold it in the form of property, art, etc.

In respect of the latter two options, both are subject to capital gains tax and a tax on the income generated from holding them - dividends and rent, respectively. Within the property tax regime lies land tax, which effectively is a wealth tax that is not levied on other asset holdings. Land tax is levied by state and territory governments and is based on the value of the property held, with the principal place of residence being excluded. While land tax is deductible from an income tax perspective, there is no equivalent payment of tax when it comes to holding stocks, shares and bonds. So one can purchase a property for, say, $1 million dollars and be levied with land tax every year by the state government. One can purchase $1 million in stocks, shares and bonds and there is no land tax equivalent payable annually on the holding. How is this equitable and how does the government, which itself claims to be in need of funds, allow such a revenue-raising opportunity to be missed?

Considering that property holders cannot avoid land tax, to recover a reasonable return on their investment, they are faced with hiking up the level of rents they charge and driving up property prices. In both situations, there is a negative effect on the provision and availability of housing.

So what might one conclude about land tax? Firstly, it distorts investment decisions in that an equivalent tax is not charged on the holding of other assets. Secondly, a similar tax on other “wealth” assets would net the government considerably extra tax revenue every year. Thirdly, land tax has negative effects on the property market and the availability of housing, which is a significant problem in a nation with a growing population like Australia. Finally, the rates of land tax vary from state to state and in the interests of equity should be equivalent in every state and territory.

A Levy to Fund New Taxation Developments.

One of the current problems facing the Australian Taxation Office is the lack of resources available to chase down and effectively tax those organisations which currently avoid tax through national and international arrangements. The revenues that the Australian Government is missing out on are substantial and this means that the remainder of the Australian taxpaying community has to make up the shortfall.

From time to time levies have been imposed on the Australian taxpayer to fund special needs that have arisen as a result of some calamity or other. It would seem to be feasible for the Government to explore the imposition of a levy of, say, 1% on all taxpayers for 5 years, to adequately resource the research, development and application of laws and operational matters that plug major existing loopholes in the taxation system. The current rate of progress in this area is woefully slow and such an arrangement, with an appropriate sunset clause, would speed up the gathering of very significant tax revenues for the nation.

Plugging the "Holes".

A number of potential "holes" in tax revenues have already been alluded to in the above discussions. These include there being no land tax equivalent imposed on holdings of stocks and shares. As well, there are massive holes in the levying (if it can be called that) of tax on multinationals and there are aspects of the individual income tax system that demand discussion. Collectively, these "holes" in Australia's taxation system amount to a huge amount of foregone revenue, either because the taxes are too difficult to impose or there is no political will to drive them along. Let's look at a few.

With respect to the excise on fuel, why has the Government sat upon its hands and not raised these taxes as the price of fuel has fallen? Not only is it receiving proportionally lower tax revenues but it has left consumers with a windfall of cheaper fuel and a government which is not swift enough to take some advantage of the situation by raising excise levels and annexing part of the windfall to itself.

In a similar vein to excise, the price of iron ore has fallen to approximately one third of what applied a couple of years ago. This should render significant savings in the cost of iron and steel. Once again, how might the Government take advantage of this situation, say, by working with Australia's iron ore producers to limit supply and drive up prices?

A luxury tax? There has been a tax placed upon luxury motor vehicles for some time but it has never been extended to other products such as clothing, holidays/tours, appliances, medical "beauty" treatment, etc. If the GST is to remain as it is, why can't there be a broadening of the base of the current luxury tax on motor vehicles so that it covers other products and services as well? Alternatively, if there is to be a change to the level and constituents of the GST, perhaps the Government could impose a base level GST that applied to most items and a higher level GST that applied to “luxury” items.

And perhaps the most contentious is the family home, which is currently exempted from many aspects of taxation. Once again, you can place your wealth into your family home and it is tax free but place it into an investment property and you attract a myriad of taxes. What sort of incentive does this provide to property investors? Why not place a cap upon what is claimable tax-wise for the upper value of a family home? And rather than try and implement it on a national value basis, this cap could be operated through the state governments’ valuer generals departments and relate to the median price level in each local community so that all property across the country is given consideration.

And finally there is the GST. If we are happy with over 2.3 million income earners paying no income tax at all every year and that it is equitable that over one quarter of the income tax burden falls upon just over 2% of income tax payers, then if we are going to raise more taxes for future government services, perhaps it is time that we looked at the GST and broadened its base and the rate at which it is charged. It seems that, with a very small number of taxpayers supporting a large number of non-payers, the cupboard will soon be bare if we continue to target the “rich”. It would seem time, therefore, that we dealt sensibly with the GST and like other advanced nations, gave it the revenue raising responsibility it deserves.

Conclusion.

Australia cannot continue to meet the ever growing demands placed upon government (see the Intergenerational Report) without substantial change to its current taxation system. So let’s make up our minds to deal with it effectively so that the revenue base grows with the demands placed upon it and we get some stability into the system for the longer term. In this respect, a broader based and higher level GST will help spread the load across Australian taxpayers and indeed, provide incentives for productivity and income earning (and taxpaying) behaviour. Let’s get on with it!

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