Australian Wall Street Incorporated

Tax Discussion Paper

Submission to the Department of Treasury

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Introduction

The Australian Wall Street Incorporated (AWS) welcomes the opportunity to provide feedback on the tax discussion paper released by the Australian Government on 30 March 2015. This paper sets out AWS's submission in response to the Government's request for community opinions on the issues raised in the tax discussion paper.

AWS is a not-for-profit elite association formed by a group of young professionals from the finance, economics, accounting and law fields in both private and public sectors. Our members consist of investment bankers, risk managers, fund managers, accountants, actuaries, and lawyers. AWS is a community where young professionals can share their experience and provide assistance to international university students looking to settle into Australia and better equip them with the skills and knowledge that are demanded by employers in the financial sector. We are committed to providing our subscribers with timely and quality financial market news and analysis via our online platform. We are also dedicated to serving the community by leveraging our resources and networks to share job listings and referrals with our subscribers.

AWS strongly supports the government's move in launching an agenda to reform Australia's tax system. As the tax discussion paper has rightly pointed out, Australia is increasingly facing the challenges brought by the digital economy, global competition of investment and capital, and an ageing population. There is an urgent need for the Australian government to redesign a more sustainable and competitive tax system in order to better support a changing economic and demographical society in the long-run and achieve a fairer and more equitable tax outcome for majority of Australian people, especially for the working middle-class.

The tax discussion paper comprehensively covers a wide range of topics. For the purpose of this submission, our discussion is limited to a number of prevailing tax issues that are of the most relevance to our member's interest.

Overview of the submission

AWS has conducted extensive consultations with our members from the finance, accounting, tax and law professions. This submission highlights the following critical tax issues and presents our recommendations in respect of each of the issues:

- Apply annual Consumer Price Indexation (CPI) to the individual tax thresholds to address the impact of bracket-creeping.
- Abolish the current Medicare levy on taxable income and replace it with a Medicare consumptions tax on goods and services.
- Restructure the tax mix in order to shift Australia's reliance on income tax to consumptions tax.
- Retain the dividend imputation system but limit the access to imputation credits by superannuation funds with significant account balances.

Submission 1 – Adjusting CPI for individual tax thresholds to avoid bracket creeping

It is acknowledged in the tax discussion paper that individual income tax represents a major source of the government's total tax revenue. This trend is partly driven by the fact that the current individual tax thresholds are not automatically adjusted for Consumer Price Index (CPI). An individual taxpayer is likely to pay more tax as a proportion of his/her taxable income if an increase in personal income results in the taxpayer being subject to a higher marginal tax rate. Even if an individual's personal income remains unchanged, the impact of inflation will also nibble away his/her purchasing power. This effect is commonly known as 'bracket creeping'.

The tax system should consider a mechanism to preserve the purchasing power of individuals. This is likely to deliver a fairer overall outcome for Australian working families and provide the right incentive for individuals pursuing higher earnings as a result of increased productivity. The preservation of the purchasing power will also contribute to the growth in consumer spending to stimulate the economy, and delivering long term benefits for the economy in the long-run.

AWS strongly recommends that a policy be introduced to adjust individual tax thresholds by the CPI to ensure taxpayers' purchasing power is not eroded over time due to 'bracket creeping' and a fairer outcome can be achieved for all individual taxpayers.

Submission 2 – Replace Medicare Levy with Medicare Consumption Tax on goods and services

Australia is renowned for its sophisticated Medicare system which provides a safety net for the basic medical needs to all Australians. This system is supported by collecting Medicare Levy and Medicare Levy Surcharge through the individual income tax system. In general, higher income earners tend to contribute more toward the Medicare Levy pool. Low income earners and families pay a reduced Medicare levy or no Medicare levy at all, in certain circumstances. However, as the Australian population continues to age, there appears to be a disconnection between people who bear the burden of Medicare levy and people who consume the Medicare resources. Lower income earners and retirees are typically paying very little or not liable for any Medicare levy and high income earners often accumulate wealth through other intermediated structures (such as companies, superannuation funds and other kind of trustee entities they own or control) that normally do not pay Medicare Levy. This consequently led to a significant portion of the levy currently being borne by middle class Australians.

Another major factor adding pressure to our Medicare system is people's unhealthy lifestyle. There is no doubt that people with a less healthier lifestyle (e.g. those who addict to smoking, alcohol, and consume food which cause obesity) are more likely to suffer health problems and therefore consume more medical resources. Another factor posing potential threat to our health is the manufacturing and consumption of industrial goods such as cars, petrol, coal, gas, and chemical products. It can be argued that the people's lifestyle choice is highly correlated to how frequently medical resources are consumed.

Based on the above discussion, AWS proposes that the current Medicare Levy system to be abolished and be replaced with a GST-like Medicare Consumption Tax (MCT) on goods and services on top of GST. The idea is that a 2% tax is imposed on general goods and services that are subject to GST. Goods and services that are GST free or input taxed will not attract this additional tax. Higher rates of tax are imposed on goods and services that are considered less healthy. For example, a 10% MCT should be imposed on tobacco and alcoholic spirits; a 5% tax is imposed on processed food containing more than 2.3% saturated fat (tax on sugary products could also be considered); and a 5% tax is imposed on fuel products that are subject to fuel excise tax. The tax rates are to be structured to ensure the revenue lost from abolishing Medicare levy is sufficiently replaced by the MCT collected.

The 1% Medicare levy surcharge on high income earners should be retained to encourage high income earners to take up private health insurance policies.

AWS considers that this approach would achieve a fairer distribution of contributions to the Medicare system and promote healthy lifestyles as well as mitigating the funding reliance on the individual income tax system.

Submission 3 - Shift Australia's reliance on income tax to consumptions tax

According to the tax discussion paper and the OECD statistics, Australia relies on personal income tax and company tax more heavily than other developed countries. Australia's overall tax mix has not changed much over the last few decades. While this was the case for most other developed countries in the past, since 1980s many OECD member nations, especially those in the European Union, have undertaken major tax reforms resulting in a shift of tax burden from income tax to consumption tax. For example, the current corporate tax rate is 12.5% in Ireland and 20% in the UK, and most European countries have corporate tax rates lower than 30%. In the meantime, most European countries have much higher standard value added tax (VAT) rates than Australia. Taking Ireland and the UK for example, the standard VAT rate is 23% and 20% respectively.

This trend of shifting tax burden to consumption tax, to a large extent, can be explained as a result of globalisation. With an increased level of economic cooperation among different countries, corporate income tax has more significant impact on the choice of headquarters, factories and offices, and personal income taxes can influence workers in their choice of countries for tax residency.

AWS has a strong view that as a result of the intense global competition of capital, investment and labour, there is an urgent need for Australia to restructure its tax mix so that corporate and individual income tax rates are lowered by shifting part of the revenue base to consumption tax, i.e. GST. In our opinion, high income tax rates are hampering Australia's ability to attract investment and capital. Furthermore, a number of studies have found that high income taxes discourage innovation and result in fewer savings, less investment and reduced purchasing power. On the other hand, consumption tax is considered a less distortive tax compared with income tax and is more likely to result in a fairer distribution of tax burden among taxpayers. The consumption tax will also be more sustainable in the long run as Australia cannot expect that revenue raised from corporate and personal income will continue to be sufficient to support our ageing population.

AWS recommends gradually increasing the GST rate from 10% to 15% over a period of five years and a proportionate cut to the corporate income tax rate and personal income tax rates. The increased GST rate would result in an immediate inflation of the prices of some goods and services for end consumers. This should be compensated by reducing income taxes and introducing upward adjustments to welfare payments to ensure consumer purchasing powers are preserved.

AWS does not support broadening the current GST tax base.

Submission 4 - Limit the access to imputation credits by superannuation accounts with a significant balance

The dividend imputation system plays an important role in relieving double taxation of company profits and maintains the attractiveness of investing in Australian companies. AWS disagrees with any proposals involving a significant change from the current imputation system.

However, AWS is aware of the fact that around $19 billion imputation credits are claimed by individuals, superannuation funds and charities each year. Entitlement to imputation credits by superannuation funds contributes to the accumulation of retirement savings for individuals. However, it is acknowledged that some taxpayers use the superannuation funds, especially self-managed superannuation funds, as a low tax vehicle for aggressive tax planning to achieve an overall lower tax outcome. In general, wealthy people are likely to benefit more from superannuation tax concessions.

Therefore, AWS recommends limiting the access to importation credits for superannuation accounts with a significant account balance. If an individual’s total superannuation benefit exceeds the threshold, e.g. $2 million, it will only be entitled to claim the imputation credits as tax offsets rather than tax rebates. The intention of this recommendation is not to crack down superannuation concessions for the wealthy, but is to achieve a fairer outcome for taxpayers who do not have the privilege of accumulating significant wealth in superannuation funds.