



Summary of ACOSS proposals, Henry Review recommendations and the Government's response: tax reform

This brief summary of the Henry Review's key tax reform proposals compares them with those advanced by ACOSS, and the Government's response. Where there is no Government response to a proposal, the last column is left blank.

The report provides a robust framework for future reform of the tax system. It is clear from that many of our proposals were adopted by the Review, though it is not yet clear whether they will be adopted by the Government and some key proposals have been ruled out. Our proposal to reform the tax treatment of superannuation contributions was adopted by the Review panel, along with more consistent tax treatment of investment income generally, restrictions on negative gearing, a broadening of Land Tax, the removal of inequitable tax offsets (such as the Senior Australians Tax Offset and the tax break on 'golden handshakes'), a standard deduction for work expenses, and the extension of the pension income test 'deeming' arrangements. The review's proposals to rely more on taxes on land and resources would also strengthen the tax base for the future.¹

In the tables below:

- ✓ means the proposal is consistent with ACOSS position
- ✓✓ means the proposal is close to or the same as ACOSS proposals
- X means the proposal is not consistent with ACOSS position
- ? means impact of the proposal is difficult to assess at this stage

Issue	ACOSS proposals	Henry	Govt
Revenue adequacy			
Revenue to provide services for an ageing population	1. Overall tax revenues to rise (in proportion to GDP) as the population ages: - introduce a health and disability levy	✓ Acknowledges need to sustain revenue levels to fund services as the population ages; X But removes Medicare Levy	✓ Govt's initial proposals modestly increase overall revenue; ✓ Medicare Levy to stay

¹ See ACOSS: Paper 158, Progressive tax reform; ACOSS Paper, Reform of retirement incomes and ACOSS Paper, Reform of family payments, at www.acoss.org.au.

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Taxation of long term saving and retirement incomes			
Tax breaks for superannuation contributions	2. Increase tax support for saving by low and middle income earners and reduce it for high income earners: - Replace all tax breaks for super contributions with a simple annual rebate that provides the same benefit per dollar saved for all contributions up to an annual limit	✓✓ Same contributions tax reform as ACOSS proposal, except that super contributions would be taxed in the employee's hands (reducing disposable income); [ACOSS proposal is to deduct tax on employer contributions from the amounts they deposit in the super fund, partly or fully offset by the rebate] ? Leave super guarantee at 9% and use the above tax reform and a reduction in the tax on fund earnings from 15% to 7.5% to boost super accounts of low and middle income earners	? Progressively raise super guarantee to 12%; ✓ 15% rebate for up to \$500 of contributions from employers, to eliminate contributions tax for those earning less than \$37,000; X Partial reversal of last year's reduction in max. annual contribution attracting tax breaks to \$25,000 – increase to \$50,000 for people 50 and over with less than \$500,000 in super
Taxation of incomes of retirees	3. Improve fairness of tax across the generations by removing special lower tax rates for mature age people: - abolish the Senior Australians Tax Offset - reduce opportunities for people over 55 years to 'churn' their earnings through superannuation accounts where they are taxed at a flat rate of 15%	✓✓ Abolish special tax offsets for mature age people; ? Encourage but don't compel retirees to use annuities rather than lump sums; ✓ Reform of contributions tax (see above) would reduce the tax benefits of churning, as would a proposed increase in taxes on fund earnings in super accounts paying benefits to retirees from 0% to 7.5%	

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Taxation of housing			
Tax breaks for land and housing investment	<p>4. Improve fairness and efficiency of taxation of housing by shifting tax support from those with substantial housing wealth towards low and middle income people entering the market and renting privately:</p> <ul style="list-style-type: none"> - replace the system of unlimited deductions for losses on investment income (negative gearing) with improved tax breaks for investment in construction of low cost housing (e.g. the National Rental Affordability Scheme) - strengthen taxes on Land (Land Taxes and Council Rates) and use the proceeds to finance local public infrastructure for new housing developments 	<ul style="list-style-type: none"> ✓ Increase in capital gains tax; ✓✓ restrictions on negative gearing for property investments (see below); ✓✓ Extend Land Tax to owner occupied property, ultimately to replace Stamp Duty; ✓ COAG to review infrastructure charges 	<ul style="list-style-type: none"> ✗ Rules out increases in tax rates for capital gains and restrictions on negative gearing; ? Land tax is an issue for States

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Tax mix			
Investment incomes	<p>5. Tax investment incomes (e.g. capital gains and interest) more consistently, without lowering overall taxes on investments:</p> <ul style="list-style-type: none"> - top rate on investment incomes should not be less than the tax rate for average earner (now 30%) - this requires an increase in tax rates on capital gains and removal of recent small business concessions - and, subject to the above tax rate increases, a reduction in tax rates on interest income; <p>Restrict allowable deductions for 'negatively geared' investments in low-taxed assets such as investment property and shares</p>	<ul style="list-style-type: none"> ✓ Existing tax breaks for various investments (excluding super, owner occupied housing and dividends) would be replaced by a 40% discount off the individual's marginal tax rate; [This means slightly higher tax rates on capital gains and reduced tax rates on interest income]; ✓✓ Deductions for investment expenses (e.g. interest on loans) would be limited to 60% of their cost, which restricts 'negative gearing'; ✓✓ Some Capital Gains Tax concessions for small business removed; ✓ Removal of 'grandfathering' of assets purchased before introduction of CGT 	<ul style="list-style-type: none"> ✗ Rules out increases in tax rates for capital gains and restrictions on negative gearing
Business incomes	<p>6. Maintain tax revenues from business incomes:</p> <ul style="list-style-type: none"> - any reduction in company taxes to be offset by other increases in business taxes such as taxes on resource rents 	<ul style="list-style-type: none"> ? Reduction in company tax rate to 25%, ✓ funded by a new Resource Rent Tax; ? Consideration of future shift to a business expenditure tax; ✓ Proposals to prevent leakage of revenue from personal income tax if contractors switch to private companies 	<ul style="list-style-type: none"> ✓ Introduce a Resource Rent Tax ? reduce company tax rate to 28%
Assets		<ul style="list-style-type: none"> ✓ Consider a tax on bequests 	<ul style="list-style-type: none"> ✗ Rules this out

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Fairness and efficiency			
Tax avoidance opportunities	7 (a) Reduce opportunities for people to arrange their financial affairs to avoid income tax through: <ul style="list-style-type: none"> - negatively geared investments (e.g. property & shares), - private trusts and companies, - capital gains - company cars - golden handshakes 	<ul style="list-style-type: none"> √√ Restrict negative gearing (annual deductions limited to 60% of investment expenses); √ Some tightening of the rules for contractors using private companies; √ A higher tax rate on capital gains and removal of some small business concessions; √√ A reduction in FBT concessions for company cars; √√ Removal of termination payments tax offset 	X Rules out increases in tax rates for capital gains and restrictions in negative gearing
Changes to personal income tax rates	7 (b) No flattening of the tax scales (e.g. reductions in top marginal tax rates) unless paid for by removing tax shelters and loopholes	<ul style="list-style-type: none"> X A two tier tax scale with a high tax free threshold that replaces existing low-income tax offsets; no detailed proposal; ? Social security payments to be tax free, but tax offsets for recipients to be abolished 	
Charities			
Tax treatment of charities	8. Place the tax treatment of charities on a fair and secure footing: <ul style="list-style-type: none"> - adopt a modern definition of charity; - establish a Charities Commission; - maintain support for charities to assist disadvantaged people including their ability to attract a skilled workforce 	<ul style="list-style-type: none"> √√ Establish a Charities Commission to regulate charities and update the definition of charity X Progressively remove FBT concessions over 10 years, to be replaced by increases in direct funding √ Retain income tax and GST concessions 	√ No removal of tax concessions for charities

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Work incentives			
	9. Improve incentives for jobless people and low income families to seek part time and casual employment: <ul style="list-style-type: none"> - ease Newstart/Youth Allowance income tests - remove overlaps between various income tests applying to families - there is no evidence that lowering top marginal tax rates has a major impact on work incentives 	<ul style="list-style-type: none"> X Flatter tax scale (see above) could weaken incentives to work part time; ✓✓ Removal of overlaps in income tests (e.g. FTB and Youth Allowance) would reduce the highest effective tax rates; ✓ Ease Newstart income test for people with partial work capacity (disabilities) 	
A simpler tax system			
	10. Simplify the system: <ul style="list-style-type: none"> - for investors by taxing different forms of income more consistently - for employees by rationalising work related deductions - for pensioners by allowing them to pay income tax through the pension system, including wider use of 'deeming' arrangements 	<ul style="list-style-type: none"> ✓ Standard 40% deduction for taxes on many investments (see above); ✓✓ A standard deduction for work expenses, with more evidence required to claim additional deductions; ✓✓ 'Deeming' system for pensioner income test to be extended (eg to superannuation annuities) 	