



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

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### ORGANISATION

Australian Council of Social Service

### STATEMENT OF PRIORITIES

#### Problems we have

- Fairness and simplicity in our personal income tax system are undermined by the inconsistent treatment of different forms of income from work and investment, respectively. This enables people with the ability to pay tax at the top marginal rates to choose a lower rate instead, and increases the rates of tax required to raise the same amount of revenue.
- The tax system distorts investment decisions in economically and socially harmful ways, especially by encouraging speculative investment in assets such as property and shares and contributing to our high housing costs.
- Inadequate public revenue to support future health and aged care services for an ageing population and an unfair and inefficient system of tax support for retirement incomes.
- The tax system does not encourage efficient use of natural resources and fails to discourage environmentally harmful expenditure.
- The gap in social security payments between ‘pensions’ for people classified as ‘unable to work’ and ‘allowances’ for unemployed people, sole parents and students entrenches poverty and discourages workforce participation. Workforce participation among low and middle income earners is also discouraged by high child care costs and the design of social security income tests.

#### Problems we *don't* have

- High overall tax levels:  
Australia is the sixth lowest taxing nation among 33 OECD member countries (including revenue for all levels of Government in 2008).



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- Top marginal rates as the major disincentive to workforce participation:  
The employment decisions of low income earners, especially mothers, are more sensitive to tax and social security income tests than those of people on the top tax rate.
- An overall shortage of investment because our tax system is not 'competitive':  
Foreign investment into Australia has risen dramatically over the last decade, especially into mining projects. The problem here is inconsistent tax treatment of different investments.
- An inefficient tax mix that relies too much on taxes on income (especially from investments) and too little on taxing consumption:  
Australia's share of public revenue from income tax is only marginally above the OECD average and our taxes on income are low by international standards because we raise less tax overall. Taxing consumption more and income less would increase taxes for people living in poverty (who usually don't pay income tax) and reduce them for the top 20% of households (because they save a large proportion of their income).

## Benchmarks for reform

- Tax reform to be at least revenue neutral in the short term and to strengthen public revenue as the population ages.
- The overall share of tax paid by those with the greatest ability to pay (people on high incomes) to increase or at least remain the same and that of low income earners to reduce or at least not increase.
- To ensure this, the share of revenue raised from taxes on income and investment to increase or remain the same and that from taxes on consumption to remain the same or fall.
- Reform of business taxes to at least maintain the level of public revenue from this source and to improve their consistency and efficiency, including by increasing the share of revenue from resource rents.

## Directions for reform

- Strengthen the personal income tax system and improve fairness by taxing different forms of income from employment and investment respectively, in a more consistent way.
- Remove harmful distortions in tax treatment of investments and encourage investment in low cost housing.
- Fairer and more sustainable support for retirement incomes and services.
- Modernise and simplify the social security system and public support for child care to reduce poverty and strengthen workforce participation.



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- Price carbon pollution and reform transport taxes and investment incentives to encourage more efficient use of natural resources and discourage environmentally harmful activity.
- Use the AFTS Report recommendations as the starting point.

## Some priorities for reform based on AFTS Report proposals<sup>1</sup>

### (1) Personal income tax fairness and simplicity

- Remove poorly targeted tax offsets (e.g. 'golden handshakes', medical expenses).
- Tighten tax treatment of private trusts, companies and personal service businesses.
- Introduce a standard deduction and tighten substantiation for large work related expenses claims.
- Use the savings to reduce personal income tax rates and/or improve services.
- Modernise the definition and tax treatment of charities.

### (2) Efficient investment and affordable housing

- Tax capital gains, interest and rents at a 40% discount from personal tax rates.
- The 40% discount to apply also to deductions for investment expenses and losses.
- Broaden Land Tax, reduce it for investment in low cost housing, and reduce Stamp Duties.
- Introduce a new means test for pensions based on 'deemed income' from investments.
- *Earmark part of the revenue from these measures to investment, and incentives to invest, in affordable housing and urban development.*

### (3) Fair and sustainable support for retirement incomes and services

- Tax employer super contributions at marginal rates before they are transferred to the fund and replace existing tax breaks for super contributions with a simpler and more equitable capped annual rebate.
- *Prevent erosion of public revenue as the population ages by removing anomalies in the taxation of people of mature age, and earmark the savings for expenditures on health and aged care services. This could include applying a consistent tax rate to super fund earnings in the contributions and benefits phases, limiting tax concessions for contributions to net*

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<sup>1</sup> Items in italics are suggested enhancements of the AFTS proposals.



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*increases in retirement savings, and abolition of the Senior Australians Tax Offset.*

#### **(4) Poverty reduction and workforce participation**

- Single allowance recipients to receive the increases paid to pensioners in 2009 (currently approximately \$50 per week) to narrow the gap between payments.
- Introduce consistent indexation of working age payments to wage movements to prevent the gap from widening.
- Integrate Child Care Rebate and Fringe Benefits Tax concessions for child care into a strengthened Child Care Benefit.
- More flexible transition arrangements for social security recipients entering employment including ease the 'allowance' income test for people required to seek part time employment and strengthening the working credit to encourage casual employment.
- *Over time, remove the pension/allowance divide between different working-age payments and replace with a core payment based on essential living costs and supplements for additional costs including rent, disability, caring and raising children alone. This to be done so that no group is financially worse off and the poorest households are better off.*

#### **LIST OF ATTACHMENTS**

Further material will be submitted in support of these priorities.



Australian Government



A tax plan for our future  
Stronger • Fairer • Simpler

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