



# TAX FORUM 4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

Jeff Lawrence, Secretary

This submission is also made on behalf of Ged Kearney (ACTU President); Tim Lyons (ACTU Assistant Secretary); and Michael Borowick (ACTU Assistant Secretary).

### ORGANISATION

Australian Council of Trade Unions (ACTU)

### STATEMENT OF PRIORITIES

**Around two or three pages, please. Please address both of these issues:**

**1. What are your priority reform directions for the tax and transfer system?**

The ACTU believes that tax reform should:

1. Ensure that the tax system raises sufficient revenue to fund the provision of high quality services to the Australian community;
2. Make the system more equitable and progressive, with taxes rising with individuals' ability to pay;
3. Reduce the opportunities for individuals and businesses to avoid their obligations, particularly by disguising their incomes through contracting arrangements, trusts, and private companies;
4. Not reduce the proportion of tax revenue that is paid by business;
5. Ensure that superannuation delivers adequate retirement incomes to working Australians while making sure that tax incentives associated with super are focused on low- and middle-income earners;
6. Further reduce the effective marginal tax rates (EMTRs) that make it hard for low-income Australians to get ahead, and undermine workforce participation;
7. Reduce the distortions in the tax system that reduce the availability of affordable housing;
8. Promote jobs and investment in socially and environmentally useful projects; and
9. Ensure that Australians receive a fair share of the profits obtained by extracting our collectively owned natural resources, including iron ore and petroleum.

The Labor Government has already announced a number of policy initiatives that improve the tax system in line with the above principles, including the Clean Energy Future package and the MRRT package. The ACTU supports these reforms, and believes that they are steps in the right direction. In particular, the Clean Energy Future package will reduce carbon emissions while delivering significant tax cuts for low and middle income earners, and reducing effective marginal tax rates (EMTRs) that can discourage people from entering the workforce. The introduction of a standard deduction for



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work-related expenses will also help to streamline the tax process for many working Australians.

There are a number of further reforms that could be pursued, some of which were explored by the Australia's Future Tax System (AFTS) review. The ACTU believes that the AFTS Review provides a useful starting point for debate and discussion.

Reforms that the ACTU has advocated for, and will support at the Tax Forum, include:

- Further reducing the inequities in the taxation of superannuation contributions.

The current system of superannuation contributions tax is effectively a 'flat tax' – taxpayers face the same 15% rate on contributions regardless of their income. This means that high-income earners receive a greater tax concession than low- or middle-income earners. The Government has announced the Low Income Earners Government Superannuation Contribution to partially address this problem, so that compulsory contributions for low-income earners will effectively be tax-free.

However, the broader inequities remain. Middle income earners receive an effective tax concession for super contributions of 16.5 percentage points, while high income earners receive a concession equivalent to 31.5 percentage points. The ACTU has supported a system in which contributions would be taxed at an individual's marginal rate, minus a fixed offset (eg. 15 percentage points). The AFTS review recommended a similar structure. This is a fruitful area for discussion at the Forum.

This proposal would be revenue-positive.

- Further reducing effective marginal tax rates for low income workers

The Government has done much to reduce EMTRs, including by its successive increases in the Low Income Tax Offset (LITO), proposed increases in the statutory tax-free threshold, and reductions in the withdrawal rates for some social security payments. However, this problem remains significant. High EMTRs can make it difficult for low income workers to make ends meet, and they also inhibit workforce participation.

The \$25 000 tax-free threshold in the indicative personal income tax structure in the AFTS review had substantial merit, as it would separate the personal income tax and social security systems, reducing EMTRs in the process. While the ACTU opposed the AFTS recommendation more broadly, due to its flattening of the tax system and large tax cuts for high income earners, further increases in the tax-free threshold are a worthy aspiration.

This proposal would come at a substantial cost, but could be offset with some of the other measures the ACTU advocates, including base-broadening exercises and more equitable tax treatment of super contributions.

- Reducing opportunities to avoid tax through company and trust structures

The ACTU has great concerns that the principle of horizontal equity in the tax system is at risk. This principle, which states that taxpayers in similar circumstances should face a similar tax liability, is



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threatened by the ability for some individuals to use arrangements like private companies and trusts to disguise their income and thereby reduce their tax liabilities. The alienation of personal services income was identified by both a recent Board of Taxation report and the AFTS review as an area of policy that should be addressed. The ACTU supports reform that would mean that income from work is treated equally, whether it is earned by working as an employee or as a contractor, or through some other form of arrangement.

This proposal would be revenue-positive.

- Removing or reducing tax deductions that undermine the vertical equity of the personal income tax system

There are a number of tax concessions that are principally available to high-income earners, the availability of which serves to reduce the progressivity and vertical equity of the personal income tax system. An example is the tax treatment of so-called 'golden handshakes' for high-paid executives. There is the potential to broaden the base of the personal income tax by reducing such concessions for high-income earners.

- Ensuring that business pays its fair share, while promoting jobs and growth

The ACTU does not believe that Australia should race to the bottom on the company income tax rate. The level of foreign investment in Australia has been high; there is no evidence that investment has been inhibited by our 30% statutory company income tax rate. The ACTU believes there should be no reduction in the proportion of tax revenue that is derived from business sources.

This, however, does leave open the possibility of tax changes that would assist particular industries. Base broadening may enable rate reductions in a way that is revenue-neutral in terms of the overall level of tax paid by business. The RSPT and MRRT packages each accorded with this principle, by increasing tax rates on firms earning resource rents while reducing tax rates for other firms.

The ACTU is willing to engage in debate at the Tax Forum on ways that jobs and growth can be promoted, while ensuring that business continues to pay its fair share.

- Addressing aspects of the tax system that reduce the availability of affordable housing

It has been widely noted that there are distortions in the tax system that reduce the availability of affordable housing. Negative gearing, in particular, appears to have net negative effects. Reform in this area is difficult and complex, but highly important. Reform proposals have included a broad-based, progressive land tax as a replacement for stamp duties and other taxes; this may be a fruitful long-term reform direction. The abolition or modification of negative gearing may be another. The ACTU will come to the Forum eager to engage in the debate about the promotion of affordable housing.

- Harmonising the tax treatment of income from savings

At the moment, capital gains are taxed at half an individual's marginal rate (a 50% discount), while



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some other forms of investment income receive different tax treatment. To reduce the distortions that arise from this differential treatment, the AFTS review recommended a 40 per cent savings income discount to individuals for non-business related net interest income; net residential rental income; capital gains; and interest expenses related to listed shares. The Government has announced its intention to introduce a capped 50% discount for interest income.

The AFTS proposal is worth exploring at the Tax Forum. It would reduce the concessionary treatment of capital gains, while increasing the concessions for other forms of savings income.

- Reducing, and ultimately eliminating, the gap in payment rates and indexation arrangements between pensions and allowances

Newstart Allowance recipients currently receive \$128 less than those on the Disability Support Pension. This gap is large, and will rise over time due to the different indexation arrangements in place for the different payment types. Newstart recipients are, almost by definition, in acute financial stress as a result of this low payment rate.

The OECD identified the low replacement rate of the unemployment benefit as a barrier to workforce participation. The large and growing gap between payments can discourage DSP recipients from seeking work, for fear that they may be moved to the Newstart Allowance and be unable to meet their living expenses. The AFTS review recommended moving towards a system with one common base payment for adult social security recipients, with supplements to meet particular additional costs. This is a worthwhile aspiration. In the meantime, the Newstart base rate should be increased.

## 2. How are your proposals financed over the short and longer term?

Many of the ACTU's proposals would be revenue-positive, including reducing the opportunities for tax avoidance through companies and trusts, reducing the inequities in the taxation of superannuation contributions, and reducing the tax concession for capital gains. Some would have budgetary cost, including reducing EMTRs (possibly by increasing the tax-free threshold) and increasing the rate of the Newstart allowance. The overall budgetary impact is unclear, but would likely be positive.

## LIST OF ATTACHMENTS

The first in a series of ACTU Working Australia Tax Papers regarding tax reform is attached.