



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

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### ORGANISATION

BMG Chartered Accountants (Wodonga, Victoria)

### STATEMENT OF PRIORITIES

#### What are your priority reform directions for the tax and transfer system?

My priority reforms for the tax and transfer system are broadly as follows:

- Reduction in marginal tax rate for individuals. Individuals who earn up to \$180,000 are not pay a higher marginal tax rate than the corporate tax rate;
- Abolish all state payroll taxes in Australia;
- Increase the rate of the GST (to cover some of the above revenue reduction);
- Reduce welfare payments as % of GDP (and generally reduce government spending as a % of GDP);
- Make individual tax returns simpler – remove all work related deductions, removal of all tax offsets;
- Remove taxation on passive income – interest, dividends, rental income etc (and also remove associated deductions like negative gearing);
- Allow employees to claim tax deductions for personal concession superannuation contributions, keep the superannuation guarantee rate at 9% and increase the concessional contributions cap to \$50,000 for all taxpayers.

#### Limiting marginal tax rate to Corporate Tax Rate for individual earnings up to \$180,000

We need to reduce the frustration that Australian businesses and workers have on the tax system that is predominantly due to:

- the disincentives that exist for people to work hard and increase their income (due to excessive marginal tax rate on incomes above \$80,000); and
- the inequity of differing tax rates between different legal entity structures.

Reducing the marginal tax rate to 30% (including medicare levy) for individuals earning up to \$180,000 would provide more incentive for individuals to be more productive and strive for higher incomes through improved skills, increased efficiency and working harder. Differences in effective tax rates between various structures currently creates a significant waste in Chartered Accounting and CPA resources due to their required inherent focus on minimising tax for clients rather than assisting their clients on matters such as improved business controls, improved information systems, improving profitability and business valuations etc. Reducing the marginal tax rate to keep most workers in line with the corporate tax rate would solve a lot of wasted resources on Division 7A issues, unpaid present entitlements, personal services



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income rules etc.

## **Remove all State Payroll Taxes in Australia**

In my experience as a practitioner, payroll taxes are by far the most unpopular in the business community. Taxing employers for hiring workers discourages employing workers at a time when unemployment is rising. Payroll taxes penalise businesses that have a high labour component in their cost structure (relative to capital intensive businesses) which creates inequity in the taxation system.

## **Increase the rate of GST**

The GST rate has unfortunately been deemed by political parties as too sensitive a political issue and off limits when tax reform is discussed. Increasing a tax on consumption seems to be much more appropriate than taxing income from labour (at such a high rate) and taxing employment (payroll taxes). Increasing the GST rate would offset some of the impacts of the continuing strength of Australian dollar (as imported consumed goods continue to get cheaper). Increasing the GST would make our exporters more competitive by reducing employment costs (no GST on exports).

## **Reduce welfare payments (and government spending) as % of GDP**

Over the years it seems that payments offered via the transfer system from government departments like Centrelink and Family Assistance Office have increased significantly. I believe this has created a culture (over the past generation) of many Australians coming to rely on welfare and unfortunately then not have the incentive to work and contribute to the prosperity of the nation. We need to find ways to get as many Australians as possible into the workforce to engender personal confidence and self-worth and also to allow people from under privileged backgrounds to be introduced to good role models in the workplace. Once individuals become accustomed to welfare payments they find it difficult (if not impossible) to break that dependency, which creates a long term costly problem for the nation (welfare recipient vs taxpayer). There needs to be a large overhaul and review of the transfer system to ensure that only the most needing members of our community receive financial support and that the system does not create artificial and unreasonable incentives for family payments and for people not to work. In addition to high transfer payments, there is a general dissatisfaction in the community of "big government" and a strong preference exists for governments to limit their role to core traditional functions like defence, health, education and law enforcement etc. A reduction in government spending as % of GDP would help fund marginal tax rate decreases and the abolition of payroll tax (as recommended above). One way the government could look to reduce costs is by reducing the generous employment entitlements of public servants such as high salary levels (relative to similarly skilled people in the private sector), superannuation payments of higher than 9% superannuation guarantee rate and generous paid parental leave policies etc. These entitlements offered to public sector employees make it difficult for private employers to survive and compete with government employers which is detrimental to our nations economy. Removing state governments could be another solution to reducing Government spending and should be pursued.

## **Make Individual Tax Returns Simpler**

A lot of wasted resources in Australia are devoted to the preparation of individual tax returns. Tax returns would be made simpler in Australia if sweeping changes were made such as removal of all work related deductions and tax offsets. The current initiatives to simplify tax



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returns are not enough to give confidence to taxpayers that they do not require a professional to assist them with their tax return. Removing work related expenses as allowable deductions would force employees to have conversations with their employers about reimbursement of work related costs and would also create large revenue savings for the government due to the current lax substantiation rules on cents per kilometre motor vehicle deductions and other work related deductions. Tax offsets (such as the education tax refund and the entrepreneurs tax offset) are difficult for many people to understand and are usually overlooked unless professional assistance is received. Making passive income (and associated deductions) exempt from tax would make tax returns even simpler (discussed further below).

### **Passive income (and associated expenses) exempt from tax return**

The administration, time and complexity of including passive income in tax returns such as interest on savings, dividends from shares, distributions from managed funds etc is costly to the economy. Excluding passive income from assessable income would encourage more investment and therefore allow for the proposed superannuation guarantee rate increase to be scrapped (if SG rate does increase from 1 July 2013 it will increase unemployment rate). Also excluding deductions associated with passive income (such as interest on negatively geared property) would encourage people to apply more consideration to investment decisions rather than going ahead with property investment purely on the basis of tax deductibility of negatively geared property. Removing tax benefit on negatively geared investments would create increased revenue for government to fund cuts mentioned above.

### **Superannuation - Personal Concessional Contributions, Concessional Contributions Cap, Superannuation Guarantee Rate**

Change the regulations to allow employees to claim personal concessional contributions. At present self employed people are able to claim, subject to the 10% superannuation support rule. This is inequitable, as many employees are not able to salary sacrifice, and many self employed people who supplement their income with part time employment are unable to benefit from this tax incentive. The system as it stands records concessional contributions and would not need any adjustment to administer the existing limits on these concessional contributions. The concessional contributions cap should also be increased to \$50,000 for all taxpayers regardless of age to encourage additional investment. The superannuation guarantee rate to remain at 9% to limit the "on-costs" Australian employers have relative to other countries (CEO's have made comments that we have Scandinavian like employment on-costs).

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

This is mostly answered above. In summary proposals are to be financed as follows:

- Creating higher productivity (from decreased marginal tax rates, less time devoted to tax compliance and less welfare entitlements) will increase tax revenue;
- Reducing transfer payments and government spending generally (as % of GDP);
- Increasing the GST rate;
- Removing work related tax deductions and tax offsets;
- No claims of imputation credits by taxpayers (as dividends will be exempt income);
- Removing deductibility of negatively geared investments.

## LIST OF ATTACHMENTS



Australian Government



A tax plan for our future

Stronger • Fairer • Simpler

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No attachments