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26 September 2016

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By e-mail - economics.sen@aph.gov.au

Dear Sir

Treasury Laws Amendment (Income Tax Relief) Bill 2016

Thank you for the opportunity to participate in the inquiry by the Senate into Treasury Laws Amendment (Income Tax Relief) Bill 2016 (the Bill).

Chartered Accountants Australia and New Zealand

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Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

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Increasing the 37% tax threshold for individuals

CA ANZ supports the proposal to increase the tax threshold for the 37% personal income tax rate from \$80,000 to \$87,000.

Much needs to be done in relation to the taxation of individuals.

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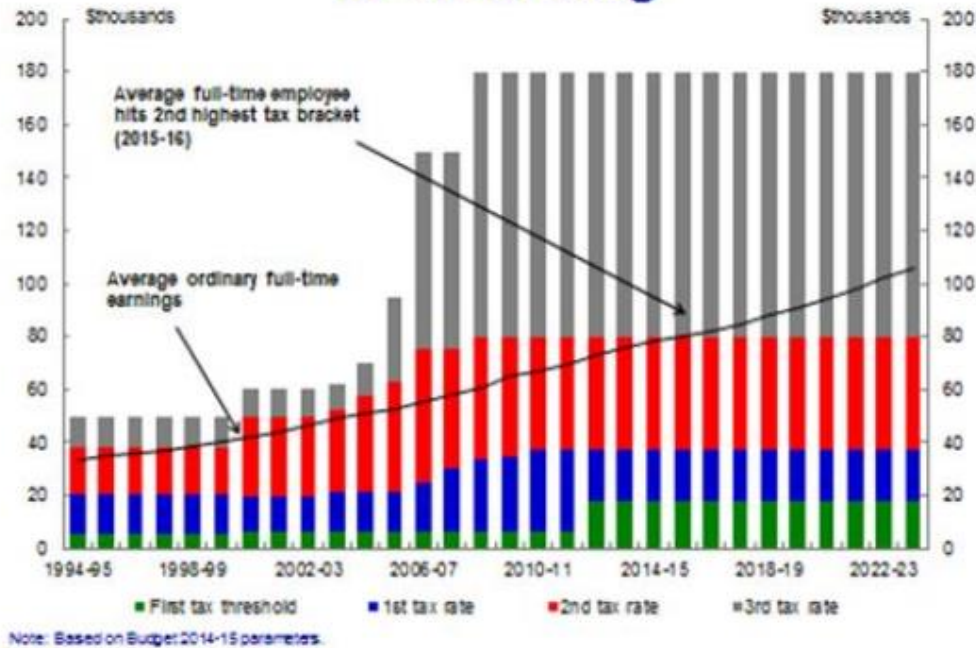
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Australian revenue forecasts are relying heavily on bracket creep to generate revenue. Treasury has repeatedly warned that this “fiscal drag will pull someone on average full time earnings into the 37% tax bracket from 2015-16, and will increase the average tax rate faced by a taxpayer earning the projected average from 23% to 28% by 2023-24 — an increase in their tax burden of around a fifth”¹ This is illustrated by the chart below.

Personal income tax rates and the effects of fiscal drag



The current proposal will keep the average wage earner in the 32.5% bracket – but only just.

Our review of a number of comparable nations indicates that Australia’s taxation of individuals is relatively high. For example, Australia’s tax rate and tax collected as a percentage of the average wage is the highest out of the following countries.

Country	Top tax rate on average wage	Tax as a % of average wage
Australia	32.5%	21.81%
Canada	20.5%	16.57%
France	30.0%	14.41%
Germany	14.0%	10.78%
New Zealand	30.0%	18.47%
United Kingdom	20.0%	13.35%
United States	25.0%	17.84%

In addition, the highest income tax bracket applies to a relatively low multiple of average wages, yet has one of the highest tax rates.

¹ The 2014-15 Budget and Sustaining Broad Based Growth in Living Standards, Speech to the Australian Business Economists, Dr Martin Parkinson, 20 May 2014

Country	Top tax rate	Multiple of average wage
Australia	45.0%	2.28
Canada	33.0%	3.15
France	45.0%	4.17
Germany	45.0%	6.76
New Zealand	33.0%	1.16
United Kingdom	45.0%	4.53
United States	39.6%	7.04

The increasing discrepancy between the proposed corporate tax rate and the higher individual tax rates encourages people to participate in tax planning. This increases complexity and to some extent discourages compliance with the tax system (e.g. through the alienation of personal services income to personal service entities).

Higher marginal tax rates also discourages some people from participating in the economy. Given that Australia has a highly trained female workforce and an aging population, this is concerning.

Future personal tax cuts should be focussed on providing a high tax free threshold with a simple progressive tax rate structure that incorporates (if applicable) levies and offsets. A constant marginal rate for the vast majority of individuals should apply to provide greater transparency and simplicity (especially to combat the effects of bracket creep). Ideally, this rate should match the general corporate tax rate but that now seems an unachievable outcome given the general trend worldwide to lower the rate of company tax.

On a related topic, CA ANZ notes the House of Representatives Standing Committee on Tax and Revenue 2015 hearings on work-related deductions. We made a submission on this topic and were represented at the hearing. All stakeholders would appreciate an update on this Committee's deliberations. In the context of the Bill, new policy decisions on work related deductions could impact personal tax rates.

I would be happy to discuss any aspects of our submission with you.

Yours sincerely,

Michael Croker
Australian Tax Leader
Chartered Accountants Australia and New Zealand