

To:
The Secretary,
Senate Economic References Committee
Room SG.64
Parliament House
Canberra
2600



Email: economics.scn@gov.au

From:
Gary Jackson
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24-Jan-2003

Dear Sir/Madam,

Re: Submission to Senate Economic References Committee Re The Tax System

I am prompted to write a submission to the economic committee re the tax system due to my gross dissatisfaction with the current tax system. Not that the Australian tax system is necessarily any worse than those elsewhere in the world, but that is not saying much. Having lived in Canada and England previously, I came to the conclusion a long time ago that they are all pretty well the same, all pretty bad. What I think distinguishes the Australian system is the apparent higher taxation rate.

I usually end up each year when I have filled in my tax form and have read the associated documentation thinking "who would invent a tax form like this". The conclusion I had come to is that it is probably people at the tax office aiming to ensure they stay in work, helping people try to figure it all out. After I have done my tax form each year the next thing that strikes me is how I went through all of those questions, and virtually none of the deductions apply to me! I think the tax system is crying out for radical reform. The best approach would probably be to do away completely with personal taxation, and collect all the tax you need from GST and petrol tax. This would give people an incentive to save, as they would be saving money before tax, and only be taxed when they spend.

Being a middle income earner I find myself in the tax bracket where I am paying the tax for the lower and upper income earners. Now to compound this I have a wife who does not work outside the home. Being a single income family we are far worse off than a two income family earning the same overall income. My wife is worth more of a tax credit, only \$1,400, which I find a bit ridiculous. At least both in Canada and the UK I could claim the same as my tax free limit for my wife, which is at least better than you can do in Australia.

From my point of view the following is a summary of the main changes I think need to be made to the tax system. Please also see Attachment A, that details my thoughts on what should be done about tax relief on interest for people buying investment properties. This is the content of an E-Mail I have previously sent to the Prime Ministers office.

My main suggestions are:

1. Give the tax system/tax form a major overhaul, better still do away with personal income tax, and collect all tax on GST, cigarette and fuel taxes and the like. If you do away with personal tax, then you can probably save money by doing away with jobs in the tax office.
2. Allow married single wage earner families to split their income between the husband and wife, so they are not disadvantaged against a two wage family with the same income.

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3. Do away with giving tax relief on interest for investment properties, to level the playing field for people who need to buy a house to live in in the same market as investors.
4. Tighten up the collection of capital gains tax from property sales, by having properties registered with the tax office as part of buying and selling the property, with a declaration at that time as to whether the property is for investment purposes. This would stop the avoidance of capital gains on properties that currently takes place.
5. If the current tax system is not abolished, make it fairer, in that everyone should be able to get the same benefits, no exceptions. All the benefits that are applicable to low income earners and businesses should be either done away with or should be claimable by all. For example, I have to pay for petrol to get to work, \$32 per week. How come a business can claim fuel expenses and I cannot. Most of the tax handouts should be abolished. The reason I am paying so much tax is because other people are avoiding it.
6. Everyone should pay the same percentage of their income in tax, no exceptions, and the tax rates should not increase as you earn more.
7. Some experimentation should take place to try reducing tax, which would encourage people to spend their increased wealth, and in doing so this would stimulate the economy and put more people into jobs and hence the shortfall in tax would be made up from tax on the new jobs. How, about a tax cut of 50% for a trial period, to see what affect this has on the economy. It could be adjusted in subsequent years once the effect of such a cut is made.
8. Remove the tax from contributions to pension funds. Tax the money when it comes out of the fund. This is the approach taken in Canada for retirement savings accounts.
9. The government pension scheme should be a scheme that you have to contribute to the scheme through your working life to get money out, unlike the current scheme. This is the way it is in the UK. There are currently too many people getting money out of the system and not putting money in, so of course there is a problem funding pensions.
10. Do away with any special tax concessions to aboriginal people. We are all Australians, and they should not get preferential treatment over anyone else from the tax system viewpoint. Enough money is wasted on schemes for aboriginal people as it is, which is unfair to everyone else who works for a living.
11. Tax thresholds for personal income before tax should be raised if this tax is not abolished. In addition, the tax thresholds should be raised where the rate changes take place, and they should be linked to the cost of living index.
12. Stamp duty on buying a house should be abolished, as it is already an expensive time.
13. You should get a tax allowance for children until they leave school, regardless of whether they work part-time or not.
14. All visits to doctors should be free, no gap payments, no Medicare offices.
15. If government held assets make a profit (e.g. Telstra?) don't sell them off to put money in the coffers to be frittered away, instead use the profit on a continuous basis to reduce our tax burden.

Tax should also be reduced by making government live within budget, and not take on major capital projects which end up with the tax payers paying the interest and the overspend. If a project is worth doing, i.e. is a good business idea, then private business will take it on. If they will not take it on this should tell the government that they should not be taking it on. I have yet to see figures of how much profit was made by the coffers from staging the Olympic games. Likely it was a money sink, and should not have been paid for out of taxpayers money. If projects cannot be shown to be profitable up-front (e.g. a proper business plan) government has no right to waste taxpayers' money on them. Politicians should be made accountable for their actions, then we can all pay less tax.

The current tax system is a gross disincentive to work. If I go to work for someone, my employer says hires me out to a customer, and gives me 30% of what he charges the customer. The taxman then takes

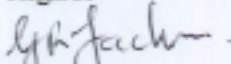
his 48.5% cut, leaving me with about 15% of what the customer pays for my skills. This seems all a bit wrong.

One of the biggest problems with government is that taxes are high as they waste taxpayers money in the first place. This also is an area that should be seriously addressed. A classic example here is the manner in which MPs get gold plated pension schemes early, and the tax payer has to foot the bill. I wish I had a pension like their's! Such schemes should be abolished to save money. Let them have the same pension deal as the rest of us, and reduce our taxes into the bargain.

I wish you luck in sorting the tax system out, it is in dire need of it.

The current tax system defies one of the best guiding principles for something to work well, i.e. "keep it simple"!!

Regards



Gary Jackson

Attachment A Copy of Email Previously sent to the Prime Ministers Office

Ref: Tax Issues Related to Housing

I am writing to you as it concerns me that people who invest in property are getting tax relief on the interest payments on their mortgages. This means that there are more investors around looking to make money on property, and it means that people who just want to buy a house to live in are at a disadvantage, as they are buying in an investors market, at investor prices, without the benefit of tax relief on their interest payments. I don't think the argument that you need to give investors relief on interest to encourage people to invest so that there are properties for low income earners to rent holds water. If people were not buying houses to invest in this would reduce the buyers in the market and then house prices would fall and people, especially young people, would be able to afford to buy a house of their own. The current tax setup means that young people are likely never going to be able to afford a place of their own, so the investors get richer, but society as a whole gets poorer.

I think the tax system needs to be changed to at least level the playing field, or even to tilt it in favour of the home owner buying to live in. Any type of subsidy like tax incentives, actually pushes prices up to soak up the subsidy anyway, so it is better probably not to give such incentives. It is a bit like the governments \$7000 new home owners grant. If you give the lower end of the market all \$7000 it means that the price of houses rises on average to soak up this additional money, so first time buyers are no better off. I think the tax problem should be fixed on house purchases. My suggestions in order preferred solution would be:

1. Remove all tax concessions for everyone on housing, so that there is a level playing field. (preferred solution)
2. If there is a need to give someone tax concessions on housing, then they should be given to people buying houses to live in, and not to people buying multiple houses to make money on.
3. If the tax concessions are not removed from house purchase for investors then the same concessions should be given to people buying houses to live in, again to make a level playing field. (least preferred option)

Whilst on the subject of people having investment properties, the process associated with people paying capital gains on 2nd and other houses should be tightened up. People should have to declare whether a house is an investment purchase when it is bought, and this fact should be registered with the tax office as part of the sale process. When they sell the house (even if they are living in it at the time) they should

then have the capital gains tax taken from the profit from the sale at the time of the sale. It appears to me that the way things are currently set up there is currently a lot of capital gains payment avoidance on housing sales, and it is left to the honesty of the individual, which should not be the case. It should be very easy to modify the housing sale/buying and tax processes so that no one slips through the capital gains net.

I would be interested to here what you plans are to deal with the above issues. On a financial front, I think the price of housing is one of the biggest issues that faces society today, and in particular is a big issue for young people today. A caring government should be prepared to take on such issues and bring about change, even in the face of likely pressures of business interests that would likely fight measures to reduce the price of housing to make it affordable to all. When I first came to Adelaide in 1992, housing was affordable, and it was one of the good things about Adelaide at that time. The way people are making fortunes out of housing now, while people still do not have a house of their own disgusts me, and I think this is a sign that there is something wrong with such a society. Being in government it is within your power to do something about such issues, and help us move in the future towards a healthier society, where greed is not such a dominant factor.

Regards

Gary Jackson

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