

Mrs Josephine Smyth
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March 26, 2003

The Secretary
Senate Economics Reference Committee
Room SG.64
Parliament House
CANBERRA ACT 2600



Dear Sir

Attached is my submission to the Inquiry into the structure and distribution effects of the Australian Taxation System.

In my opinion, taxation should distribute the burden of taxation more equitably and this will be vitally important as the number of retirees increases dramatically in the next five years.

The burden of taxation should be lessened on the lower and middle wage earners so that they will be able to enjoy a reasonable standard of living. I do not want to see my grandchildren burdened with providing the funds to sustain the present unfair system.

There must be some incentive for people to aim to be self-funding but the loopholes, which allow people to legally rot the system, must be closed.

I am 79 years old and am a member of the Association of Independent Retirees (A.I.R.) Limited, I am a member of the Ministerial Advisory Council of Older Persons to the Queensland Minister for Seniors and I have worked voluntarily in the Aged Care sector since retirement.

Yours sincerely

A handwritten signature in cursive script, appearing to read "J. Smyth".

Josephine Smyth.

SUBMISSION TO SENATE ECONOMICS REFERENCE COMMITTEE

INQUIRY INTO THE STRUCTURE AND DISTRIBUTIVE EFFECTS OF

THE AUSTRALIAN TAXATION SYSTEM

Executive Summary: Three areas are identified where the Taxation system could distribute the burden of taxation more equitably:

1. By raising the Tax Free Threshold for all taxpayers to reflect the increase in CPI.
2. By raising the Assets Test Limit for eligibility for the Age Pension so that there is comparability between the Income Test Limit and the Assets Test Limit.
3. By eliminating the discrimination against single persons under the Pharmaceutical Benefits Scheme by making the Threshold for singles 60% of that for a couple or a family.

Rationale

1. I consider that the burden of tax falls too heavily on the lower income sector of society because the Tax Free Threshold has not been adjusted to compensate for the increase in the cost of living brought about by the implementation of the Goods and Services Tax and the increase in the cost of staple foods..

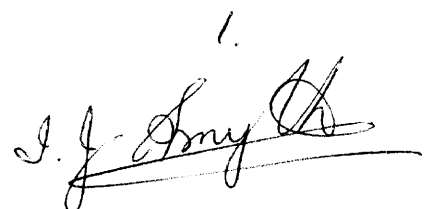
Some retirees qualified for the one-off bonus compensation but that has not compensated for the continued rise in CPI.

The government acknowledged a 15% rise when it justified the increase in patient contributions to Pharmaceutical Benefits Scheme from January 1, 2003. (The Courier-Mail, January 2, 2003.)

Age Pensioners benefit from regular adjustments to their pensions in line with the CPI but other low wage earners and self-funding retirees do not.

If the Tax Free Threshold were raised by 15% it would be \$6,900.00. But this would not compensate for the explosion of cost of such staple foods as potatoes, onions, bread, meat, milk etc. Therefore I would suggest that a Tax Free Threshold of \$7,000.00 would be reasonable.

All taxpayers would benefit but lower income earners would receive a larger take-home pay and low income retirees would benefit similarly.

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2. Another way in which the Government could be seen to be seeking equity in the distribution of wealth in Australia would be to review the Income and Assets Test Limits. The Assets Limit bears no relationship to the allowed Income Limit. There is no way a person with the allowed Assets Limit could generate an income equivalent to the allowed income limit.

The present income limit is \$52,273 while the Assets Limit is \$447,500. In the present investment climate it is difficult to generate more than 5% income on capital. Therefore the Asset limit would generate income of \$22,375.00. Even allowing for an 8% return on assets, the equivalent asset value would be \$653,412.50.

This shows that the relationship between income and Assets is not equitable. Retirees are being forced to sell assets in order to live. This means that they will soon become fully dependent. Surely it is in the government interest to help these individuals to remain part self-funded.

- 3 I would also like to draw attention to the inequity of the same Pharmaceutical threshold applying to a single person as to a couple or family. This is blatant discrimination against singles. To allow for certain administration costs, it would be more equitable to make the single Threshold 60% of the Family threshold.
4. The above reforms could be almost revenue neutral if the loopholes, which allow people with huge assets to access the pension when they could obviously be self-funding. The Media has highlighted these and one financial planner advertised that he can arrange your affairs so that you have \$X in income but still qualify for the pension. This ad has been withdrawn since the Courier Mail expose.

There should also be an upper limit on the value of the home, which is exempt from the assets test.

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