acoss

Australia's Future Tax System

Australian Council of **Social Service**

10 THINGS TO WATCH IN THE HENRY TAX REVIEW

1. **Does the report propose to increase public revenue as the population ages to meet the growing cost of health and disability services?**

   ACOSS advocates a health care and disability levy.

2. **Would the taxation of superannuation be fairer?**

   ACOSS advocates replacing the flat 15% tax on contributions by a more equitable tax concession - a capped annual rebate on contributions from all sources. If super tax breaks were reformed in this way without altering their overall cost, the retirement savings of low and middle income earners could be substantially increased (e.g. by 2-3%) at no cost to Government.

3. **Would the tax treatment of housing be fairer?**

   People with substantial housing wealth benefit most from existing tax breaks for housing, while those with less income and assets entering the housing market (as first home owners or tenants) receive limited support and are disadvantaged by the effect of housing tax breaks on house prices.

   ACOSS advocates strengthening and extending the taxation of land, and replacing the system of unlimited deductions for losses on investment income (negative gearing) with improved tax breaks for investment in construction of low cost housing (e.g. the National Rental Affordability Scheme).

4. **Are opportunities for people to arrange their financial affairs to avoid income tax curbed?**

   ACOSS advocates this so that the majority who don't use tax shelters don't end up paying more tax, and services aren't reduced, to cover the growing gaps in public revenue.

   The main mass-marketed tax shelters include negatively geared investments, private trusts and companies, and company cars. If the tax base was 'broadened' by removing or reforming these tax shelters, the same revenue could be collected using lower tax rates, and equity would be improved.

5. **Would investment incomes (e.g. capital gains and interest) be taxed more consistently, and would this be achieved by raising or lowering overall taxes on investments?**

   Tax rates on different investment and savings options vary markedly. For example, tax rates on housing and capital gains are at the low end while tax rates on interest and dividends are at the high end.

ACOSS advocates more consistent tax rates for different investments to improve equity and reduce the role of tax in saving and investment decisions, but the overall share of revenue from this source should be maintained.

More consistent treatment could be achieved by either leveling existing tax rates up or down. ACOSS would oppose a leveling down of investment tax rates to the 'lowest common denominator'. If less revenue is collected from this source it would mainly benefit high income earners (who have the lion's share of investment income), at the expense of low and middle income earners (since the revenue gap would be filled by higher taxes on their earnings or fewer services). High income earners should generally pay at least as much tax on their investments as middle income earners pay on their wages (currently 30%).

6. **Would business pay more or less tax overall?**

ACOSS advocates that the business share of tax revenue should not be reduced. This depends on such factors as corporate tax rates, business tax concessions, the treatment of international transactions, and whether a national tax is introduced on resource rents (i.e. 'super-profits' from mining).

7. **Would the tax treatment of charities be placed on a fair and secure footing?**

Tax concessions for charities are inconsistent and unfair, relying on 16th century definitions and outdated distinctions between direct services and advocacy for disadvantaged people. Any changes in this area should recognise and support the role that charities play in assisting disadvantaged people including their ability to attract and sustain a skilled workforce.

8. **Would the proposed system be fair between generations?**

ACOSS advocates removal of special lower tax rates for mature age people (the Senior Australians Tax Offset) and the ability of people over 55 years to 'churn' their earnings through superannuation accounts where they are taxed at a flat rate of 15%. The cost of such special tax treatment will rise as the population ages, just as public expenditures on health and aged care will rise for the same reason. Most mature age people have a greater need for universal, high quality health and aged care services than for special tax breaks.

9. **Would the proposed system improve work incentives?**

This depends more on effective tax rates for the main carers of children in low and middle income families than it does on top marginal tax rates. ACOSS advocates reforms to social security income tests (especially Newstart Allowance and Youth Allowance) to achieve this. The effect of special tax breaks for mature age workers on work incentives is unclear.

10. **Would the proposed system be simpler?**

ACOSS advocates simplifying tax for investors by taxing different forms of income more consistently, for employees by rationalising work related deductions, and for pensioners by integrating income tax with pension income test.

This is the companion piece for '5 things for social security recipients to watch in the Henry Review' which deals with transfer reform proposals – see www.acoss.org.au > publications > economics & tax.