



Australian Council of Social Service

20 January 2016
Committee Secretary
House of Representatives Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretariat,

Re: Inquiry into Tax Deductibility

Thank you for the opportunity to participate in this inquiry. ACOSS is a national voice in support of people affected by poverty, disadvantage and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities have the opportunities and resources they need to participate fully in social and economic life.

We welcome this Inquiry, referred by the Treasurer to the Committee, “to examine options to simplify the personal and company tax income system, with a particular focus on options to broaden the base of these taxes in order to fund reductions in marginal rates, including by examining:

- the personal income tax system as it applies to individual non-business income, with particular reference to the deductibility of expenditure of individuals in earning assessable income, including but not limited to an examination of comparable jurisdictions such as the United Kingdom and New Zealand and;
- the company tax system, with a particular reference to the deductibility of interest incurred by business in deriving their business income.”

ACOSS has consistently called for the base of the personal and company income taxes to be broadened by closing tax shelters that have no justifiable public purpose and are inefficient and inequitable. We believe that reform of this nature would improve economic efficiency and equity and restore revenue to levels adequate to meet the public interest needs of the country.

ACOSS has previously set out its recommendations about the outcomes that should be pursued through tax reform, as well as proposals for reform regarding a range of current tax deductions. We refer the Committee to the ACOSS submission to the Government’s Tax Discussion Paper 2015, which we incorporate as part of our Submission to this present Inquiry.

The Submission identifies three main priorities for reform to close the loopholes in the personal income tax base, including poorly targeted superannuation tax concessions; negative gearing and capital gains concessions; and private trusts.



1. Superannuation tax concessions are the single largest area of tax expenditure that reduces the base of the personal income tax system. Superannuation tax concessions cost the federal budget close to \$30 billion per year in foregone revenue. With about 50% the value of superannuation tax concessions accruing to the top 20% of tax payers, current settings are both inefficient and inequitable. Our recommendations to simplify and improve this area of the personal income tax system are laid in chapter 4 of the attached submission to the Tax Discussion Paper, and separately in our submission to the Government's Retirement Income Review 2015 (also attached).
2. Tax deductions for housing, including the 50% capital gains tax discount for investors combined with negative gearing arrangements, have raised housing prices without driving new, affordable supply. These concessional arrangements for private investors come at an estimated cost of around \$7 billion per annum.¹ Over 90% of housing investment lending is for existing housing stock, which does little to stimulate supply, and half the value of tax deductions for rental property investment losses accrues to the top 20% of taxpayers earning \$80,000 or more in gross income. ACOSS recommends that deductions for expenses relating to passive investments in housing, shares, collectable and similar assets purchased after 1 January 2017 should be quarantined to offset income received from those assets, including capital gains realised on their subsequent sale. Further information on negative gearing is provided in chapter 4 of the attached Submission to the Tax Discussion Paper, and in our publication 'Fuel on the Fire' (also attached).²
3. Relatively well-off individuals can avoid personal income tax by diverting and 'sheltering' their income or income producing assets in structures such as discretionary trusts or private companies or a combination of the two. These trusts can be used to avoid income tax by splitting income between family members, avoiding payment of Capital Gains Tax or passing on the benefits of investment tax breaks from the trust to its beneficiaries. ACOSS proposes that the tax treatment of private and discretionary trusts and companies be tightened to reduce the tax avoidance opportunities. Further information is available in chapter 2 of the attached 'Tax Discussion Paper' Submission, and in our Submission to the federal Government budget 2015-16 (also attached).³

ACOSS also points to the need to address poorly designed tax deductions targeted to specific groups for example, the Senior Australians and Pensioners Tax Offset (SAPTO), and inequitable work-related tax deductions, for example, the self-education deduction, which is disproportionately used by

¹ ACOSS (2015) 'Fuel on the Fire: negative gearing, capital gains tax and housing affordability

² And available at: http://www.acoss.org.au/images/uploads/Fuel_on_the_fire.pdf

³ And available at:

http://acoss.org.au/images/uploads/ACOSS_2015_Budget_Priorities_Statement_FINAL.pdf



people who already hold professional qualifications (see our submission to the federal Government budget 2015-16, [attached](#)).

We further consider there is a need for reform of current inequitable and inconsistent treatment of tax deductions relating to the charities sector, including by extending Deductible Gift Recipient Status to all charities to enable equal access to arrangements that provide incentives for public donations. Tax concessions, including Fringe Benefit Tax arrangements that were originally intended to supplement low incomes in the charities sector, are poorly targeted and now disproportionately benefit higher income earners. Any reform of tax concessions for charities must be undertaken in the context of broader reforms, for example by incorporating transitional arrangements over time or financial adjustment where reform would otherwise leave community services worse off. Further information is available in our [attached](#) submission to the House of Representatives Standing Committee on the Environment Inquiry into the register of environmental organisations.

Company income tax mainly affects investment from overseas, since the dividend imputation system compensates domestic investors for any company tax paid. Foreign investment is sensitive to tax to the extent that capital is internationally mobile. For this reason, Australian governments have generally kept our company income tax rate towards the lower end of tax rates levied in comparable (medium to large) wealthy countries. However, investment decisions are affected by many factors other than tax including the quality of public infrastructure, political and economic stability, and the skills of the workforce

Business tax concessions distort investment decisions between different industries or activities in economically harmful ways and, their removal should make room for lower company tax rates and an improvement in economic efficiency, without loss of public revenue. Reforms along those lines have been pursued in the past, including the business tax reform of the late 1980s and the 'Ralph Review' reforms in the late 1990s.

We note that at the National Reform Summit held in 2014, it was common ground amongst the signatories to the Communique that review of tax concessions to ensure that they are fit for purpose should be a priority of the tax reform process. We refer the Committee to the Summit Communique ([attached](#))⁴.

Our view is that tax expenditures, including those discussed above, should be subject to the same rigorous scrutiny as direct expenditures. Tax expenditures were predicted by Federal Treasury in 2014 to reach \$120 billion in that year, or 7.6% of GDP (compared to direct expenditures of \$402 billion in the same year).

The reforms suggested above would ensure that members of our community contribute to the task of Budget repair according to their capacity to pay and would provide for appropriate investment in critical social and economic infrastructure.

⁴ <http://www.acoss.org.au/wp-content/uploads/2015/08/National-Reform-Statement-full.pdf>



Yours sincerely,

A handwritten signature in black ink that reads "Cassandra Goldie".

Cassandra Goldie
ACOSS CEO