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Correspondence Received
Office of the Deputy Prime Minister & Treasurer
Substantive response
Constituent response
Acknowledgment
To be signed by:
DPM
Chief of Staff
Adviser
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Refer to policy area for appropriate action
Refer to appropriate Minister
Refer to appropriate Tsy Minister
URGENT
No Further Action
Other ...

The Hon. Wayne Swan

PO Box 182

Nundah Qld 4012

30/8/11

Dear Sir,

Australia is not immune to the worsening "Global Financial Crisis" but the seriousness of this is clouded by an 86% foreign ownership of the resources sector and an influx of foreign capital with initial benefits but long term problems.

I am alarmed at the poor results in recent polling for the ALP government and for the prime minister personally. However this is to be expected when many voters are now experiencing great difficulty in meeting essential living costs and many have serious concerns regarding the adequacy of their superannuation. In these circumstances they turn to another political party in the hope for some improvement.

An election winning strategy would be for the reform of taxation and superannuation to put some purchasing power into the hands of most salary and wage earners and future retirees on an increasing and permanent basis. This can be achieved in a revenue positive way for the government.

There is a forum on taxation in October by invitation only. I have enclosed papers on the economy, taxation and superannuation for your perusal and submission to the forum for expert analysis.

Before I retired some time ago I was very well qualified with extensive practical experience in business, accounting and superannuation.

Please keep my authorship of the enclosed papers confidential. I look forward to your early reply.

Yours sincerely,

E.G. Fisher

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Notes on the Economy

Depressions occur when the division of wealth between the rich and the poor becomes extreme. One of the main influences is the magic of compound interest, which is demonstrated in the following example.

It is assumed that an amount of $10 million with an average return of dividend and capital gain of say 12% per annum is invested over 42 years. Under the "rule of 72" the investment will double every 6 years (ie. 72÷12 = 6). In (1) the investment accumulates tax free. In (2) the investment after deducting taxation of 50% accumulates at 6% per annum doubling every 12 years (ie. 72÷6 = 12).

Initial investment	After 6 years	After 12 years	After 18 years	After 24 years	After 30 years	After 36 years	After 42 years
(1)$10 million	$20m	$40m	$80m	$160m	$320m	$640m	$1280m
(2)$10 million		$20m		$40m		$80m	$120m (approx.)

Note the huge difference in the accumulated value of the initial investment over 42 years if no tax is payable and when tax is charged at 50%. Also note how the rate of accumulation increases so much over the last couple of periods in (1) above. This is why, in the past, depressions have occurred about 40 years apart until the great depression of the 1930s when the division of wealth became so great that business began to fail causing more unemployment and more business failures and our worst ever depression. Our forefathers brought in a range of regulations to ensure that such a calamity did not occur again including a tax rate of 60% on very high incomes and death duties on large estates. For about 40 years after the great depression, the economy, subject to small cycles, remained stable, with most of our population enjoying a good standard of living. Then wide ranging changes began with the very rich paying little if any taxation.

For about the last four decades the very wealthy have enjoyed legal tax avoidance, which, coupled with the magic of compound interest, has resulted in a great division of wealth within the nation.

During the period, the tax burden has been progressively passed down onto middle and low income earners by various means. This has resulted in constantly reducing purchasing power for the bulk of the population.

When new computer technology was being developed we were told that everyone would be better off with higher wages and living standards, shorter working weeks, earlier retirement, and that wealth would seep down through the system. The reverse has occurred, but economic

indicators have been clouded by the high level of immigration. The start of online purchasing from overseas countries could be a great threat to our small business sector and the level of unemployment. With the bulk of personal income tax in its many forms being paid by middle and lower wage earners, government revenue would collapse with high unemployment.

The new technology, with the introduction of new innovative financial products such as derivatives, has made the economies of many countries more dependent on each other and Australia would not be able to isolate itself as the global financial crisis worsens, which seems very likely.

The basic wage, introduced in 1907, provided an unskilled married man with a wage sufficient to provide a wife and five children with basic living standards. Currently, many two income families are having great difficulty in meeting essential living costs. Personal debt has reached record levels. Bankruptcies, mortgagee in possession sales, business liquidations and crime are escalating. Some nations are having great difficulty servicing their national debts. The solutions being proposed are for cuts to government expenditure in many areas including welfare, pensions, and the public service and increasing taxation on middle and low income earners. Governments in Australia have privatized or corporatized various utilities such as gas, electricity, water, and infrastructure, where there is limited or no effective competition already causing a spike in inflation. These initiatives would only further increase the division of wealth and hasten the looming depression. The need for increased spending power in the hands of much of the community has been revealed by the recent government stimulus package. However, it must be on a continuing basis, not a one off initiative, if permanent recovery in the economy is to be achieved for the benefit of both consumers and business generally.

Employer sponsored defined benefit superannuation plans, which provided employees with a satisfactory indexed pension for life, began to be phased out and replaced by mainly "for profit" retail accumulation funds, which have failed to provide most workers with anything like adequate benefits. The main beneficiaries have been the very wealthy, for whom tax deductibility was introduced during the Fraser government.

An ageing population of baby boomers and a flood of asset poor immigrants with low levels of superannuation will have a devastating effect on the economy in the near future and for decades thereafter.

For about 30 years the official "consumer price index" has hovered every year around the three percent mark. During that time, and also in the last few years, housing and rents and some other expenses have averaged annual increases of about 7% per annum. The Council of Social Service Cost of Living Report reveals that in the last five years electricity, gas and water costs have risen by 63%, rent 35%, public transport 48%, insurance 40%, food 23%. With "Enterprise Bargaining", some salaries and wages have not even risen by the low official CPI figures. Wages have also been kept low by maintaining a sizeable unemployment pool. The official

unemployment rate does not include those who work for only a few hours a week, those who have applied for a large number of jobs and given up in despair, and a large number of homeless living rough in our cities.

The resources boom has resulted in huge volumes of cash flowing into the country, which improves economic indicators such as "terms of trade" and our "gross domestic product", the latter also increased by an influx of immigrants. This is interpreted by some as a stronger economy with everyone better off. However, much of the inflow from the resources boom leaves the country by way of high capital costs and large dividends to overseas shareholders. This hits our "balance of payments". However, we offset this to a large extent by selling off our national assets, which will result in the long term in an impoverished nation.

An increase in savings and the paying off of mortgages has been interpreted by some as a recovery in the economy when there is little doubt that this is the result of an upsurge in foreign capital buying up Australian owned rural and urban property. The sellers pay out their mortgages and bank net proceeds. Economies around the world and in Australia are at crisis point which without doubt will continue to deepen unless significant changes are made without delay. There is no safe haven for wealth, which can disappear in a depression. Even gold, the value of which was once protected by the "gold standard", is now only worth what someone will pay for it.

In the past, when populations have become too deprived, they turn to riots, revolutions and the overthrow of governments, and in some cases turn to communism. Let us preserve our free enterprise system with plenty of fair competition and a sound small business sector sustaining near full employment.

The very wealthy have more to gain by making some sacrifice now to help stabilize the economy and preserve the value of their assets by wide ranging reforms to taxation and superannuation. This could restore more spending power for the general population across and throughout the economy. There is no other way to get the economy back on track.

Australians could set an example for the rest of the world.

Taxation

In any review of taxation it is necessary to have an understanding of the impact of the magic of compound interest and the "rule of 72" on the division of wealth in Australia and its effects on the economy.

Assume a rate of return on an investment in shares of 12% per annum. If you divide 72 by 12, the result of 6 is the number of years it would take for the investment to double. Should the initial investment be $10 million, the result over 42 years would accumulate as under, with (1) being the result if no taxation is payable and (2) the result if taxation at a rate of 50% is paid with the investment doubling every 12 years.

Initial investment	After 6 years	After 12 years	After 18 years	After 24 years	After 30 years	After 36 years	After 42 years
(1)$10 million	$20m	$40m	$80m	$160m	$320m	$640m	$1280m
(2)$10 million		$20m		$40m		$80m	

Note the greatly accelerating rate of compounding of wealth in the last couple of periods if no tax is paid.

Compounding works in reverse for inflation. For example, if real inflation averages only say 4.5% per annum, the purchasing power of an amount of $40 000 per annum would reduce by half every 16 years. After 32 years it would be equal to only $10 000 at today's prices. This is an important consideration when assessing the adequacy of a retirement income from superannuation.

After the great depression, with taxation on high incomes at 60% and death duties to reduce the ever increasing influence of compounding returns on investment, the division of wealth between the rich and the bulk of the community remained at a sustainable balance. For about the last 40 years, the very rich began to avoid taxation by way of successive legal tax avoidance schemes and in some cases illegal tax evasion. Since then the division of wealth in Australia and many overseas countries has become so extreme that we are poised on the brink of at least a severe recession.

This can only be reversed by putting more purchasing power back in the hands of most salary and wage earners and retirees on a permanent basis, especially through reform of taxation and superannuation.

Matters to be reviewed and possible solutions identified are:

(1) Personal Taxation Rates and "Bracket Creep"

"Bracket creep", where taxation rates were not regularly adjusted for the increase in inflation, has resulted in taxation on personal incomes somewhere near average being charged at the top rate once reserved for very high incomes.

Suggested rates are:

1 to 30 000	nil
30 000 to 60 000	15 %
60 000 to 100 000	25 %
100 000 to 300 000	35%
300 000 and above	50%

Tax offsets for low income earners and senior Australians could be reviewed. These new rates should prove to be revenue positive for the government if tax avoidance by the wealthy is eliminated, and should stimulate retail activity and the economy.

(2) Company Taxation

Public companies once paid tax at the rate of 46 cents in the dollar. This has been reduced in stages to 29 cents. When taxation is reduced a company has the ability to increase dividends which also increases the share price. With some of our largest companies, the first 20 shareholders out of one to two million now hold over 50 % of the shares. They therefore gain more than half the benefits of the reduction in tax, thus distorting the division of wealth. In some cases the top two or three largest shareholders have enough voting power to control the company. There seems to be some pressure for public company tax to be reduced further which should be resisted. Research has revealed that about 50 billion dollars in Australian mining profits is sent overseas each year because 83% of mines are foreign owned. With a considerable and increasing level of foreign ownership of shares listed on the Australian stock exchange, any reduction in company tax would also be a considerable drain on our national wealth. Public company tax should be adjusted up by small increases over a period of time to retain stability in the share market.

(3) Dividend Imputation

It was claimed that with a company paying tax and a shareholder paying tax on the dividend received it was double taxation and the shareholder should be entitled to a refund of the tax paid

by the company. This results in no tax being paid if the shares are held by an investment company paying the same rate of tax.

While this has some credence for a private trading company whose shares are not traded, it has little relevance to a public company whose shares are traded freely on the open market.

Many of the largest shareholders in public companies are nominee companies where the name of the beneficial owner of the shares is a tightly guarded secret. With the reinvestment of tax free dividends, in some cases well over one hundred million dollars, coupled with capital gains, compounding returns can result in the initial investment doubling every few years. This has, over time, resulted in a massive concentration of wealth in the hands of a few investors. With many small investors and retirees now relying on dividend imputation, this concept should be stopped for large investors but phased out slowly for those whose dividends total less than say $80 000 per annum. Where shares are held by a nominee company, the tax office should require that company to pay tax on the dividend on behalf of its client.

(4) The Goods and Services Tax (GST)

This tax set at a rate of 10% is paid even by some people with no income. It is inflationary since it adds to any price rises.

(5) Infrastructure Bonds

These bonds issued by the federal government are believed to be tax exempt with a minimum investment of $500 000. They are therefore a lucrative investment for those earning very high salaries. As they mature and are reinvested after each maturity date they can result in permanent tax avoidance for the wealthy.

The funds are on lent to public/private partnerships for the building by private enterprise of new infrastructure on a "user pays" basis by way of tolls, levies etc. Because of the tax foregone it would be a much cheaper way of providing infrastructure if this was undertaken by the government from tax revenue as it once was.

(6) Capital Gains tax

This is not paid by investment companies but has been reintroduced to be paid even by small investors when they sell, or it is deducted from estate distribution after death.

(7) Death Duties

Once charged on estates to prevent the compounding of wealth at ever increasing rates between generations. It was dropped during the time of the Bjelke-Petersen government. It should be reintroduced on individual bequests in excess of say $10 million to achieve its original purpose.

(8) Hidden Taxes

These include high stamp duty on the sale of houses contributing to housing unaffordability. Housing is an industry with a large effect on the economy stimulating a wide range of demand for building materials, furnishings, fittings, landscaping etc.

Other hidden taxes include duties, levies, tolls, fees, fines etc. paid by the general population already highly taxed by federal, state and local governments.

(9) Superannuation

Contributions to superannuation were once tax deductible for salary and wage earners, but this was taken away after being granted to the self employed. The only tax once payable on superannuation was at a low rate on lump sum benefits. Since then taxes have been levied on contributions by both employers and employees and on fund incomes and coupled with a previously discredited accumulation fund system has resulted in totally inadequate retirement incomes for most salary and wage earners.

(10) General

Without considerable reform of the taxation system the division of wealth can only continue to widen with further increasing damage to the economy. With low and middle income earners the main tax payers, a spike in unemployment would have a drastic effect on government revenue.

Proposed National Superannuation Fund

The existing "for profit" accumulation fund superannuation industry based on fundamentally flawed and empirically proven failure to provide anything approaching adequate retirement income has become one of the main reasons why our economy could plunge into deep and prolonged recession in the near future.

In the past pooled "defined benefit" not for profit superannuation funds, operated by employers to retain staff, could provide lifetime indexed pensions of up to 75 percent of the members final salary with contributions of about 5 percent of wages from employees and 10 to 12 percent from the employer. These funds with proven success over the long term began to be closed to new members about three decades ago. They are still providing satisfactory indexed pensions for many elderly retirees but their numbers are reducing rapidly now. Fund surpluses in some cases exceeding one billion dollars have already been returned to employer companies.

A similar level of contributions made to accumulation funds during the last three decades or so has resulted in most employees approaching retirement having pitifully low lump sums in their accumulation accounts. It has been reported that about two thirds of middle aged employees are worried about their retirement incomes.

Accumulation funds suffer from risky investments in such things as futures and derivatives, fluctuations in share and property markets, high profits by way of fees, high operating expenses including salaries and overheads, commissions including trailing commissions. Annual returns to fund members can often be low or in negative territory. Add to this the negative effect on purchasing power over time of the real level of inflation and the result can be abysmal.

With new technology reducing the need to retain skilled staff, employers have no incentive to again offer new defined benefit superannuation.

There is now only one way to restore dignity in retirement for all employees including the large number of baby boomers and immigrants nearing retirement age, and that is by establishing a national defined benefit pooled superannuation fund combined with the existing operations of Centrelink.

With a national pooled fund, instead of investments being held for long periods in members' accounts subject to the reverse compounding of inflation, the contributions from employees and employers of some billions of dollars each year are available for immediate payment of pensions. As the pensions are based on final salary and would be indexed for inflation, employees are protected against inflation during the whole of their working lives and again in retirement.

They are also protected during their working lives and in retirement against any sudden losses or falls in the values of investments which occurs with accumulation accounts during a recession. With much of the large volume of funds being contributed to a national pooled fund spread

throughout the economy immediately instead of being locked away for decades, it would provide a much needed early stimulus to the economy for the benefit of everyone at little if any cost to the government.

The cost of operating the fund by Centrelink would be most cost effective compared with the heavy overheads, salaries etc incurred by dozens of providers controlling hundreds of accounts. It would also avert the problems of hacking into accounts and lost superannuation.

With a pooled fund the very serious and impending problem of large numbers of baby boomers and ageing migrants retiring with paltry superannuation lump sums would be solved. Currently the policy of major political parties seems to be the long espoused solution that retirees will have to use all their savings and funds from a reverse mortgage on their homes before qualifying for any government aged pension. This could cause serious liquidity problems for banks and create massive poverty of an enduring nature. Centrelink pensions could continue as a base level for those qualifying under current criteria but be subsidized by the national fund to reach a level of benefit according to the rules based on final average salary.

Contributions could continue at 5 percent of employees' wages above a base wage of say $40 000 per annum with employers contributing at about 10 percent to 12 percent of their total wages bill. Benefits should be about 70 percent of final salary averaged over 3 years as an indexed pension only, with a cap of $100 000 per annum above which tax should be charged at the top income rate. The initial rate of pension could be decided upon after an actuarial assessment but could be adjusted as or when appropriate in the future.

Initially, provision should be made for the persons who have retired on inappropriate low benefits from accepting forced or voluntary redundancies or from changing jobs from one defined benefit provider to another to advance their careers. Some consideration could also be given to single women whose incomes have generally been below that of their male counterparts although their needs in retirement would be no less. Such benefits could be financed as required in the early years of a national plan from the very lucrative "Future Fund" created to provide superannuation for public sector retirees.

Consideration could also be given to the introduction of a separate optional defined benefit fund for the self employed. Contributions could be converted to units the value of which could be increased each year according to the level of inflation. The pension payable could be related to the number of units held at retirement. A tax free pension cap of $100 000 per annum should also apply.

An increase in taxation on excessively large lump sums or incomes above $100 000 per annum from retail or self managed funds should also be considered.