TAX REFORM  AND BUDGET POLICIES

Australia's taxation system is in dire need of repair. If left on the present course then inequality and inequity will continue to increase.

Some perspective on the Budget before considering tax reform. Each budget expenditure item should be measured relative to the massive total cost of the JobKeeper and cash-flow boost pandemic related Government stimuli payments. The hope for a business-led recovery emanating from budget policies is tenuous. A business led recovery will however result from the effective elimination of Covid-19 in Australia.

The budget measure of an immediate asset tax write-off allowances may bring forward a few plans for further automation and job replacement. The vast majority of equipment will be imported. Enabling internally created software to be written-off makes sense. The line between such costs and normal operating costs is blurred anyway. Hopefully in-house software cost tax write-offs will become permanent for such costs incurred in Australia. The failure to face reality and not permanently increase JobSeeker/Newstart is disappointing. Subsidising wage payments creates issues and complexities. It is shallow thinking. Good luck to females over 35s looking for employment. Employment should be based on merit. Why is a Liberal Government interfering in employment decisions? It is far more sensible to subsidise training than it is to subsidise wage payments.

Tax reform is an issue that deserves our attention. There is no reason to delay the process or be diverted due to the recession caused by Covid 19 and the resultant blow out in Government debt. In fact planning to repay the debt enhances the need to have a responsible and equitable taxation system. Setting long-term permanent social security parameters and budgets should be part of tax reform thinking. Due to an ideological mindset the Government missed the opportunity. We are currently faced with resetting JobSeeker/Newstart.

Parameters for tax reform include what is good; what is not good; what is fair; what is unfair; to what extent is ideology balanced with deep thought; how are priorities determined; who is subsidising whom and for what reasons; who is not paying an adequate amount of tax; what is practical; how can matters be simplified and to what extent are tax increases required to repay Government debt.

There will never be agreement on tax reform. However the need for some basic changes is clear. Just as the opinions of US Supreme Court judges differ greatly on many issues so is the case with Australians on tax reform. I can only hope to put the picture into a better focus. A big picture approach emanating from tax and business work experience is combined with an injection of common sense. In the US there is an irrational separation between financial markets and Main Street. Joe Biden has stated that we need to start rewarding "work, not wealth". The same situation applies in Australia.

Most opinion articles on tax reform in Australia are written by theoretical or academic economists lacking a practical understanding of how the tax system works. There is the occasional article penned by a self-interested lobby group peddling propaganda. Then there is the rarer article from a compromised, blinkered and bogged-down tax boffin who cannot see the wood for the trees. The tax system is complicated. Working with it and interaction with a large cross-section of the community helps generate deep thought and perspective.

The push for tax reform in Australia involves an over-balance of influence by Conservative business lobbies. Their agenda is derived from ideology and self-interest rather than equity and rational priority setting. In the foreword to Dr Jordan B Peterson's book "12 Rules For Life" Dr Norman Doidge MD states " Ideologies are substitutes for true knowledge, and ideologues are always dangerous when they come to power, because a simple-minded I-know-it-all-approach is no match for the complexity of existence".

With some 280 registered lobby entities registered in Canberra  employing some 900 staff and other interest groups who conduct their own lobbying, the national interest and fairness are not getting the attention they deserve. Independence is compromised. That said the Government has to date sensibly rejected most of their self-centred tax claims. However businesses are being pandered to with temporary stimuli detailed in the Budget. To my mind the BCA is an impediment to good policy and should be dismantled. The BCA supported the totally unnecessary company tax rate cut for small businesses solely as a manipulative stepping stone to try and achieve a company tax rate for large companies.

Conservatives consider money in their pockets is more important than national financial integrity. Of course retirees are also always up for a good whinge to ensure their benefits remain in place. The tax reform agenda normally includes the following proposals:- cut the company tax rate; provide an investment allowance; cease dividend imputation; introduce a business cash-flow tax; cut personal marginal tax rates; increase the rate and scope of GST; abolish payroll tax; replace stamp duty with land tax; stop negative gearing; reduce or cease capital gains tax concessions and either abandon superannuation or reduce superannuation tax concessions.

The main objective of tax reform is to improve long-term economic and equity outcomes. It is about balance, balance, balance. Understanding the way people think is relevant. My perspective is derived from a working life involving taxation, superannuation, business investment and business development. Financial analytical skills are a pre-requisite for understanding. Maintaining a broad perspective is vital. Often economists and tax boffins have poor business and tax perspectives and their ideas for tax reform are simply not practical. Taxation does not rank  in the top 5 reasons to initiate investment. In reality taxation matters are afterthoughts. In the past 30 years manufacturing in Australia has declined from about 30 per cent to 5 per cent of GDP. The reasons are many. They include cheap manufacturing in countries to our north; high energy costs driven by poor Government policy; a growing population diverting resources to construction and riding the mining boom.

Ross Gittins reported some obvious traits in human behavior in relation to personal tax and work. He quotes Nobel prize winning economists Esther Duflo and Abhijit Banerjee as to the reasons why we work "Something we know in our guts: status, dignity, social connections. Chief executives are driven by the desire to win and be the best. The poor will walk away from social benefits if they come with being treated like a criminal. And among the middle class, the fear of losing their sense of who they are". Better life satisfaction is obtained through achievement. Money often comes as a by-product. However people do not like to feel that they are over-burdened by income tax.

Similar human traits are evident with investment. Often work and investment are intertwined. People want to create and see the results of their endeavors. Investment is driven by market opportunities; supporting infrastructure; competent, well educated and trained workforce; expertise; entrepreneurship; managerial drive; cost analysis; low energy costs; responsible governments; sustainable environment; stable legal and financial reporting systems. As noted above tax rates are an afterthought in the investment decision making process. A 30 per cent company tax rate will not stop any investment.

 Education and training are far more vital than taxation cuts to drive the economy. Expertise is a life-term investment. Nothing is more annoying than tax reform proposals based on ideology where perspective is blinkered and priorities are not able to be determined. Such a mindset is a hybrid of arrogance and a lack of intellectual rigor and knowledge.

Our Treasurer recently showed his hand with praise for Thatcher and Reagan policies. Trickle down economic thinking should have been buried years ago. However I do support our Treasurer in his quest to reduce personal marginal tax rates that apply to the working population. The reasoning is detailed later in this article.

Issues such as equity and intergenerational wealth require applied thought rather than ideology. As Rana Foroohar of the Financial Times has pointed out US Millennials make up close to 25 per cent of the population but hold only 3 per cent of US wealth. Boomers held 21 per cent of wealth at the same time in their lives. I suspect a similar trend is evident in Australia.

Australia no longer has a progressive taxation system. What are the components of a progressive taxation system? It is no longer appropriate to just think of a progressive taxation system in terms of taxable income. The structure of the economy has changed. A true progressive taxation system must be inclusive of wealth and superannuation considerations.

Australia's taxation and social systems are failing on numerous fronts. Older Australians have lived in fortunate times. Purchasing a home is no longer a relative low multiple of annual income. Free education and job security have disappeared. Oldies live the fortunate protected financial life. The tax concessions they currently enjoy are simply not sustainable. Retirees are unfairly financially propped up by the younger working population. The older generation is milking the taxation system. The chances of many younger Australians purchasing a home is becoming more family wealth and inheritance based.

One of the vital pre-conditions for tax policy change is an understanding of the relationships and workings between company tax, personal tax and superannuation. Creating a sensible balance between the three is essential. Equity, wealth, incentive and providing opportunity should all be inputs in taxation policy settings. Both nature and history teach us that any redistribution of wealth is a massive challenge.

Common sense and understanding in deciding taxation policy outweigh economic modelling which is generally narrowly applied to support a single concept without any prioritisation of alternate concepts. Economists thinking is regularly amiss and sometimes amusing. There have been some ludicrous statements by prominent economists during the past few years. A couple of my favourites are from the opinion pages of the Australian Financial Review - " a drop in the company tax rate and an increase in the GST is a perfect match". Sounds more like a failed marriage guidance counsellor than an economist. And another classic - "payroll tax and the GST are close cousins". It is vital that the integrity and independence of Treasury and the public service is not compromised through political instructions to churn out single concept economic modelling.

A prerequisite for taxation change is to gain an understanding of the opportunities currently in place for tax avoidance and the need to provide incentive and reward effort. The reduction of the personal marginal tax rate to be no higher than the company tax rate on personal incomes up to $300,000 per annum has many advantages. As mentioned above the Treasurer has an understanding of this issue and is heading in the right direction with personal marginal tax rates. However he left the final stage three of his moderate personal tax cuts to 2024 and missed the opportunity to bring them forward into the current budget. As a professional accountant, tax agent and sounding board for business people it is satisfying to observe people build and create and hopefully succeed. Success and ambition should not be distracted nor over-burdened by taxation. It is ludicrous that aspirational workers pay 47 cents in the dollar plus up to 10 cents in the dollar on repaying education debt when companies pay 30 per cent or less and well-off retirees pay nothing.

Savvy business people save up dividend imputation credits in their company until they retire. They then dribble the dividends out and receive tax refunds or pay no top-up tax. On top of achievable annual tax-free superannuation pensions of $160,000 a couple can receive franked dividend income of $260,000 per annum and pay no tax in addition to the imputation credits applied. Reducing the top personal marginal tax rate to 30 per cent on annual incomes up to $300,000 per year sets a level taxation playing field and stops much tax avoidance manipulation.

If the economy is to grow and advance the driving force will be middle Australia. Putting more money in their pockets will direct investment along sensible lines. Removing diversionary thoughts of negating high marginal tax rates will be a positive. Being small-minded is in no one's best interest. Reducing tax benefits generated from investment distorting tax saving investments via negative gearing and superannuation will be to the benefit of all Australians. A reduction in personal marginal rates will automatically reduce the taxation benefits of negative gearing and capital gains tax concessions. Unfortunately this fact is not generally recognised. Trying to directly remove negative gearing involves difficult classification issues and is not conducive to investment. Negative gearing is a conduit to pass wealth from one generation to the next generation.

Australians cheer on their football teams and highly paid sports stars. Those sports stars can take advantage of special taxation averaging provisions to reduce their taxation. If marginal tax settings were more appropriate then there would be no argument to favour taxation rate averaging. With an economy full of insecure jobs it could be argued that many people should be able to apply tax rate averaging. Australians should also cheer on their fellow successful non-sports stars. We need to abandon the tall poppy syndrome and apply sensible personal marginal tax rates. A lot of non-sports star individuals also have education debts to repay through the taxation system. Farmers have access to income averaging provisions and income movement from some years to others through the Farm Management Deposits scheme. Lets just provide all workers on an improved and simplified taxation setting.

People who work with the nuts and bolts of capital gains tax calculations realise that the general 50 per cent CGT concession is not nearly as generous as it sounds. Rewarding personal effort on annual incomes up to $300,000 so that the marginal tax rate does not exceed 30 per cent provides incentive and removes the main driver of tax avoidance for the vast majority of the working population. Many younger people defer having children due to financial insecurity. Reducing personal marginal tax rates will provide the opportunity to increase savings and create a positive picture going forward. Workers earning up to $300,000 per annum are the backbone of the economy. Their personal, investment and business decision making should not be distracted or driven by personal taxation considerations. A matter of balance.

Joe Biden has recognised the importance of balance in various tax rates. He intends to reverse the ineffective US company tax rate cut from 28 to 21 per cent. The company tax rate will then be much more in line with US personal marginal tax rates.

A minor increase in the rate of our regressive GST tax from 10 per cent to 12.5 per cent and some broadening may be appropriate at some point in the future. The introduction of GST some 20 years ago installed a financial discipline to many small businesses. A positive contribution to business management. Reporting GST liabilities at the end of each month or quarter ensures financial focus is never ignored. There are arguments from Conservative factions to further move taxation from income to consumption. Such thinking is primarily self-interest.

Before any change to GST is contemplated, there are firstly a number of standout basic changes needed to superannuation to create an overall fairer taxation system. Our company tax system is becoming increasingly corrupted by the growing amount of invested funds through superannuation. The dividend imputation system was created to avoid double taxation but not to eliminate tax. A ludicrous situation has arisen with the excessive tax concessions provided to the superannuation industry.

It is not possible to have sensible and equitable tax reform without significant change to superannuation and pension parameters. Australia has an ageing population. The level of generous tax concessions and hand-outs to retirees is not sustainable. Unnecessary generosity includes a full age pension paid to the owner of a million dollar home and zero tax applied to huge superannuation pensions of retirees who have more than $10 million dollars in assets.

Retirees have access to the tax-free personal income threshold in addition to their tax-free superannuation earnings and pensions. This anomaly can be easily corrected by including the superannuation pension in a retiree's tax return. Superannuation pensions remain tax-free but other income is then taxed at the correct marginal tax rate and personal dividend imputation credits are appropriately applied rather than refunded. It is incredible that this correction was not made many years ago. Superannuation concessions are effectively much higher than they appear to be.

The existence of the mass of free-loading retirees when relative poor working Australians try to fund non tax-deductible child care fees is not the way to run an economy or society. Prioritisation is essential. It is not uncommon for a retiree couple to receive annual tax-free income of $200,000. Obtaining annual taxpayer funded tax refunds of $50,000 from dividend imputation through basic planning of superannuation and person investments is easily achieved.

Quite incredibly retirees do not even pay the medicare levy. The biggest users and dependents of the medical system do not make a contribution! So much for the "user pays" philosophy for senior citizens. The ideological mindset of our Conservative Government is on display when this situation applies in contrast to the intention to remove the tax-free threshold for lowly paid backpacker workers. The Government's first intention was to apply a tax rate of 32.5 per cent to their first dollar earned. And superannuation pensioners live in financial nirvana!

Assume Mr Lucky retires on an annual superannuation pension of $100,000 (reflected by $70,000 dividends and $30,000 dividend imputation credits) and personal investment income of $100,000 (also $70,000 dividends and $30,000 imputation credits). Under our present tax system Mr Lucky has a tax and medicare levy assessment of $26,497 or 13.3% of his total annual $200,000 income. However he pays nothing. Due to dividend imputation credits he receives a $30,000 tax refund via his superannuation fund and a personal tax refund of $3,503.

Assume Mr Lucky is not quite as lucky and needs to include his superannuation pension in his personal tax return (the superannuation pension remains tax free) and the dividend imputation rate is halved in the superannuation fund. Under this scenario Mr Lucky would be assessed with a tax and medicare levy of $57,600 or 28.8% of his total annual $200,000 income. A normal worker pays tax and medicare levy of $67,097 or 33.5% on an annual income of $200,000 plus he/she would lose part or all of their private health insurance rebate. So under the proposed arrangements Mr Lucky is better of by a minimum of $9,497 per year than the younger worker who is further burdened with far higher living expenses. Of course Mr Lucky can also spit his income with his partner and further improve his tax position relative to the younger worker.

If Mr Lucky had no income apart from his superannuation pension then he would continue to pay no tax. However his tax refund via superannuation would be reduced from $30,000 to $13,000 ( dividend imputation rate halved and 2% medicare levy applied). His tax position is still $9,497 better than the younger worker on an equivalent $100,000 annual income. Mr Lucky effectively pays 17% tax compared to the younger worker's 26.5%.

The appropriateness and future of our superannuation system has recently been questioned with the large number of $20,000 cash withdrawals by young lowly paid workers with insecure employment. Some 500,000 workers under the age of 35 now have no superannuation savings. This reinforces the fact that the vast bulk of superannuation tax concessions are simply welfare for the middle class and wealthy. The well-off can make annual superannuation contributions of $125,000. Lowly paid workers struggle to survive and superannuation concessions and dividend imputation tax refunds roll on for the well-heeled. Superannuation has provided Australia with greatly enhanced national financial independence. However there need to be balance with the nuts and bolts settings.

The fact that at June 2018 there were 11,000 people with a super balance in excess of $5 million highlights the corruption of the superannuation system and destroys the integrity of the income tax system. To remedy the situation all member superannuation balances in excess of the pension limit of $1,600,000 should be withdrawn or taxed at a penalty rate. It is amazing this situation continues. Too many people are keeping quiet. All Federal politicians should reply to these three questions. Should superannuation tax concessions be provided to people with net wealth in excess of $3 million dollars? Is social support justified or necessary in such situations? What should the wealth cut-off threshold be to cease superannuation tax concessions?

Of course a number of people have a multiple of $5 million in their superannuation fund. Lets just assume that in the superannuation funds of these 11,000 people there is a total excess investment amount of some $50 billion ( I did the figures). With an investment return of 6% or $3 billion the government is missing out on annual tax revenue of some $1 billion annually ($3 billion x 32%) through tax avoidance for just these 11,000 people alone. The fact that excessive funds are allowed to be invested in superannuation is negligence by the Government. It is on par with money laundering through casinos. At one end of the superannuation scale we now have 500,000 workers with no superannuation and at the other end a wealthy minority milking  huge tax concessions. Policy stupidity!

I am occasionally asked by wealthy elderly people what to do with funds that are way in excess of their retirement needs. I am not against gifting or lending money at nil interest rate to children. Family circumstances can be complicated. However sensible plans can be made that do not depend on the death trigger. In some circumstances a partial distribution can be good for the beneficiary and good for investment and productivity. Money in the hands of active people creates jobs. Charities can also be considered.

The first African-American woman to obtain a PhD in economics was Dr Sadie Alexander in 1921. To maintain full employment in peacetime she argued that the government should tax idle profits (spending the money on public investment) and bolster the purchasing power of idled workers. I wonder if today she would consider excess retirement money in superannuation funds to be idle and require to be more appropriately taxed or receive lower levels of tax concessions.

Another issue for the future in relation to superannuation and national interest is the extent to which superannuation investments are applied to domestic investment in Australia. Should monies be sucked from the local economy to be invested overseas? Should limits apply on overseas investments through superannuation?

Far too many retirees get concerned when they see their superannuation balance decline. That is the way superannuation is supposed to work. We do not live forever. Far too many retirees fight against the reality of a finite life and diminishing wealth. A lot of planning goes into ensuring that unused superannuation funds at date of death are bequeathed to non-dependants tax-free rather than at the designated tax rate of 15 per cent. The reality of life is that a portion of the population is totally consumed with obtaining wealth. Of course there can be spin-offs for other people. However wealth can often turn into an unbalanced sense of entitlement. There are many people working diligently in service industries that will always financially live from week to week. The wealthy have their lives enhanced by these people. A holistic and balanced approach needs to apply to taxation.

If superannuation did not exist I suspect there would be a lot stronger and competitive reverse mortgage market. In fact the Government could provide such finance for people in retirement at an extremely competitive interest rate. The Government would then be making money out of people in retirement instead of providing over-the-top tax superannuation tax concessions. Another commentator suggested that if $10,000 was put into a retirement fund for each baby born then there would be no need for superannuation. There are a number of ways to fund retirement. It is a matter of balance, efficiency and equity.

Simply halving the rate of dividend imputation credits for all superannuation funds is a sensible primary balanced tax reform. Such a halving of the dividend imputation rate still offers very generous superannuation tax concessions. Effectively dividend imputation refunds will be eliminated in superannuation fund accumulation phase and halved in pension phase. This is a moderate and equitable reform to eliminate the excesses of the dividend imputation system as applied to superannuation. Taxation policy needs to be applied uniformly. If a change is made to the taxation of superannuation funds then the change should apply to all superannuation funds. The Labor Party selectively and irrationally targeted SMSFs at the last election - a totally unbalanced policy.

The Labor Party's lack of skill and knowledge of taxation policy matters was evident at the last Federal election. Nothing has changed or is likely to change in the near future. The Labor Party is without a rudder. It is in no man's land.

Paul Keating, the architect of modern superannuation policy, keeps his head in the sand when it comes to shortcomings in the superannuation system. His views are not balanced. He is far too interested in protecting his legacy. Prior to 1983 self-managed superannuation funds were able to lend. This was a helpful source of finance for numerous growing small businesses. He illogically turned things around and only allowed superannuation funds to borrow. For those wealthy and fortunate enough this created tremendous opportunities for tax avoidance. For the less well-off some totally irrational and poor superannuation fund property investments have been made due to the advice of commission seeking advisors. The Murray Financial System Inquiry recommendation to ban superannuation fund borrowing should have been legislated six years ago.

Allowing SMSFs to operate businesses and be involved in property development projects is inappropriate. The current complex regulations can be navigated. The more tax to be avoided the bigger the incentive to milk the system. The borrowings of SMSFs increased from $9 billion at 30 June, 2013 to $38 billion at 30 June, 2017. The abusers of the superannuation system love to hear the popular catch cry from the punters "Don't touch my super".

On the other side of politics our Prime Minister's poor judgement and innate urge to preach is resulting in a substantial decline in taxation and Government revenue. Stating what should have been the realm of the World Health Organisation has not been helpful to many export industries. Destroying the reputation of an effective CEO over a non-issue is unforgivable. The PM is not focused on sustainability. The proposed transition to a renewables future is tainted by favours to the fossil fuel industries at the expense of rational environmental concerns.

Our growing exports to China over the past 10 years has had many benefits but left the economy in a more unbalanced and vulnerable state. The value of future exports is difficult to predict. Politics, trade and foreign policy will have an increased impact on the state of the economy and thus on Government debt levels and taxation collections.

There are many reasons to encourage home ownership. Benefits are both tangible and non-tangible. It is far more important to own a home than have your superannuation fund pay for a few overseas trips in retirement years. There are no restrictions on superannuation withdrawals in retirement years. There is always the age pension as a back up. Allowing young people to match a 10 per cent house deposit with a superannuation withdrawal to the same amount is sensible. A 20 per cent house deposit provides a lot of financial security. The benefits are immeasurable. In a financial sense a 20 per cent increase in house values results in a 100 per cent financial return on a 20 per cent deposit. The superannuation industry is more concerned about the level of funds under investment than the true welfare of their members.

Property ownership is a major artery that enables business finance to flow. Home equity enables opportunities to be realised. That artery is becoming increasingly blocked for the aspirational younger generation. Finance is the lifeblood for small and medium sized businesses.

I support the transition from State stamp duties to annual land taxes. The ACT is leading the way. People should be supported rather than penalised for moving house as employment and opportunities necessitate. Annual land taxes provide State Governments with predicable and stable revenues. A no-brainer in many respects. Pensioners could be provided with the option of deferring payment of land tax and treat any accumulated taxes as a deceased estate liability. All States already have systems in place to apply wide-ranging land taxes. The NSW Treasurer's proposal to transition from stamp duty to land tax is a dog's breakfast. Robert Breunig of the ANU Tax and Transfer Policy Institute has proposed a sensible transition policy.

There is logic involved in the call to abolish payroll taxes. However all States provide relatively high tax-free thresholds and the vast majority of businesses are exempt. To what extent large businesses are deterred from employing people due to payroll tax is arguable. Abolishing payroll tax would present the States with a significant revenue problem.

Australia would be mad to reduce the company tax rate below 30 per cent. Many investors use company structures and the 30 per cent tax rate to avoid tax. Dropping the company tax rate would make the problem worse. Growing businesses that need to make new investments would much prefer to have low interest rates than a lower company tax rate. As a matter of self-interest static businesses with steady returns will always push for a lower company tax rate. The simple fact is that dividend imputation negates all reasoning to reduce the company tax rate for Australian shareholders. Many shareholders are delighted for companies to pay tax and then dividends with the tax imputation credit attached.

Australia is in no way any longer dependent on imported capital. We can comfortably stand on our own two feet. Australia will always welcome foreign investment on terms compliant with domestic determined criteria. With the growing superannuation kitty and future fund Australia is not reliant on foreign capital. There is no need to pander to overseas investors. The contention that our company tax rate is not globally competitive is poppycock. Our company tax rate is fair and reasonable. That is all that matters. Only fools would get involved in a company tax rate race to the bottom. The 30 per cent company tax rate is the sweet spot.

As previously stated in investment considerations taxation matters are an afterthought. Claims to the contrary are on the lying/delusional/naive spectrum. The company tax rate is simply a mechanism to share profits if and when they are realised. The CEO of Coca Cola Amatil constantly whinges about the company tax rate. Perhaps a coincidence the company has a high percentage of overseas shareholders. A take over bid is under consideration to further increase the overseas percentage shareholding. The CEO of Qantas stated that more planes would be purchased with a lower company tax rate. That was espoused when the company was paying no tax and using up tax losses from prior years. Qantas obviously dodged a bullet due to our company tax rate. Otherwise Qantas would have had more planes parked on the tarmac when Covid-19 hit.

The idea of a cash-flow tax is simply naïve. It is an attack on accounting principles and financial common sense. The life of "zombie companies" would be extended with reward provided to inefficient businesses with high inventory and debtor levels. A lot of financial year end manipulation by accountants would take place. Working capital is a finance rather than taxation issue. Sensible depreciation and capital allowance regimes are the only necessary tax parameters to ensure cash-flow issues are not tax related. Moving depreciation and capital allowance rate applications from "effective life" to "normal finance arrangements" has merit. The theory of a cash-flow tax fails the nuances of practicality.

The cash-flow tax concept proposed by Ross Garnaut and Craig Emerson is narrowly focused and not practical. Little thought was given to application to Australian owned businesses and the many variants of tax avoidance opportunities. Stephen Anthony of Industry Super Australia has joined the list of economists supporting a cash-flow tax. Feedback on the concept is coming from the wrong sources. Do the proponents of a cash-flow tax intend to legislate that profits must be paid out before loans and capital can be repaid? One ponders whether Craig Emerson's thinking is influenced by his close association with the fossil fuel industry.

A call for a cash-flow tax is reminiscent of the attempt to introduce current cost accounting and the associated trading stock valuation adjustment some 40 years ago. Both ideas were flushed away by rational argument. The cash-flow tax concept will also deservedly quickly finish up on the scrap heap.

I think it is fair to say that economists lack the in-depth knowledge to lead the tax reform agenda. My favourite "perspective economist" is Martin Wolf who writes for the Financial Times. Economists can put ideas and concepts into perspective. However they do not possess the skill set to design an effective and equitable taxation system. That need to be carried out by independent and fair minded professionals working in the field.

Over the past decade there has been occasional mention of taxing trusts the same as companies. There are arguments for and against. A sensible middle of the road compromise situation is for normal income to be taxed the same as companies and existing capital gains distribution options to be retained.

Our small business Capital Gains Tax (CGT) concessions are unnecessarily complex and could do with an injection of simplification. However the concessions do provide fair reward and retirement funding for hard working owners who often make many lifestyle sacrifices during their working lives. However there needs to be a cap on the maximum benefits an individual can obtain under the small business CGT concessions. The concessions need to be reasonable and sustainable. Significant funds can be rolled tax-free into superannuation. The earnings on such funds receiving continuous over-generous tax concessions in retirement years is also a step too far.

Some thoughts on investment allowances. Business lobby groups push for whatever they can get. After realising a company tax rate cut will not be delivered they have moved to another option that is somewhat easier to justify. Depending on the nature of the allowance and the structure of the entity, receiving an investment allowance can be either a timing or permanent tax benefit. Investment allowances are unnecessary sugar hits. They are not tax reform and make virtually zero difference to investment plans. The viability of investments is not materially altered by providing an investment allowance. In the interests of the economy and equity it is far more preferable to just improve the overall tax settings. Asset instant write-offs up to $30,000 per asset are relatively petty in the business world and should be permanent policy. Free child care will be a much bigger boost to the economy than any form of investment allowance or company tax concession.

Our Treasurer has just been conned by the Business Council of Australia. Instant asset write-offs are now available to international corporations with large overseas shareholdings. In an environment of low interest rates the tax concession will not make one iota of difference to investment plans. What in fact will happen is a reduction in taxation revenues, increase in Government debt and an increase in unfranked dividends to overseas shareholders. Not smart and not in the national interest!

Interestingly new business registrations in the US are up 18.5 per cent compared with 2019. Financial Times commentator Rana Foroohar suggests many of these new businesses will be highly digital and hold a large chunk of value in intangible assets. Such assets include research and development, brands, content, data, patents and human capital. These assets are the tools to fulfil demand and opportunity. As Foroohar notes over the past 20 years, the shift from a tangible to intangible economy has allowed businesses to do more with fewer workers. The higher the education level the better the adaption to the new landscape using new technologies with enhanced productivity and employability. The same situation will apply in Australia. Investment allowance benefits fall into the fiction category. Tax concessions do not drive investment.

People earning $300,000 per year should not be considered "rich". We should encourage people to do financially well in life. Being rich is a combination of wealth (including superannuation) and income. With a lack of wealth taxes the move away from stamp duty and towards annual land taxes (whether paid upfront or deferred) is equitable as well as efficient in economic terms. A good income does not necessarily make someone wealthy. However it does provide the opportunity to generate wealth. There are winners and losers in the investment stakes.

The best tax is a simple tax. Applying benchmark turnover taxes to the Australian generated revenues of multinational corporations avoids years of legal squabble. Collecting the tax upfront together with GST is the only viable way to go. Appropriate benchmark turnover taxes are easy to determine. Extracting a fair share of profits from multinational corporations via benchmark turnover taxes is an essential financial balance in addition to any negotiated payments for Australian media content. In order to create a level playing field for domestic companies the Australian generated revenues of multinational corporations must be taxed. It took the OECD policy research arm thousands of hours to complete their analysis of Multinational Enterprise taxation and come to the same bleeding obvious conclusion. They managed to limit their findings to a 280 page tome.

The EU sensibly wanted to apply turnover taxes to multinational corporations. The EU has delayed applying the tax due to the threat by the US to impose tariffs on EU exports to the US. This is blatant and inappropriate political bullying interference hindering the creation of a sensible global taxation system.

A standout example is the need to apply a benchmark turnover tax to the Australian generated income of Google. Many Australian companies have no real option than to use Google to advertise. Some companies have experienced a 300 per cent increase in advertising costs in the past 5 years. At the same time the standard of Australian media has declined due to declining advertising revenue. That declining adverting revenue is still subject to Australian tax. It is time to level the playing field. Recent trading figure for Google reveal a profit to turnover ratio of 24 per cent. Given Australia's 30 per cent company tax rate an equivalent turnover tax of 7.2 per cent should apply to Google's Australian generated revenues. The 7.2 per cent tax should be collected monthly together with an additional net GST payment of some 8 per cent of net turnover (10 per cent GST rate less estimated GST input tax credits of 2 per cent).

An essential ingredient of a balanced taxation is transparency. It is necessary to observe the business operations and taxation contributions of Australia's mega wealthy individuals and families. As Michael West and has team have noted a loophole based on ludicrous grandfathering provisions enables avoidance of annual audited financial accounts being lodged with ASIC. This is not acceptable. There is a case for the mega wealthy to pay a 1 per cent annual wealth tax and a further tax surcharge up to 1 per cent if there is a shortfall in annual income tax payments being below 2 per cent of wealth.

Some mega wealthy individuals and families are making enormous contributions to humanity and sustainability. Andrew Forrest and Mike Cannon-Brookes come to mind. Other mega wealthy individuals do not want to see past the end of their nose. Becoming wealthy is a combination of many factors :- hard work; vision; invention; political system; supporting infrastructure; luck; inheritance; intelligence; education; physical well-being; opportunity; personal attributes and the list goes on. However being wealthy is dependent upon living in a society. A fair annual contribution needs to be made by the mega wealthy to that society in order to keep underlying stability in place. This will not happen until political donations or protection money payments cease.

Economist David Bassanese recommends the introduction of a small tax impost on the billions of electronic transactions that take place every day. This broad tax concept would have the effect of being a sensible hybrid tax on both income and wealth.

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Providing tax incentives for genuine research and development and projects based on sustainability principles are sensible investments. The seeds of business opportunities need to be nourished. Australia significantly increased research and development tax incentives to big business in the last federal budget. Australian public support will hopefully be rewarded with an equitable financial return on investment through our 30 per cent company tax rate.

Australia has failed to obtain reasonable taxation from our resource industries. Australian-based mining operations are 83 per cent foreign owned. Conservative ideology and political spin led to the failure to introduce a Resource Super Profits Tax (RSPT).  A blunder in tax policy in Australia was also made with the design of the Petroleum Rent Resource Tax (PRRT). Effectively the uplift factors applied to carried forward losses has ensured little PRRT will ever be paid. There was simply no need for uplift factors. Uplift factors do not apply to normal company losses. The lucky country is not the clever country when designing tax collection.

The issue of death taxes cannot be ignored when considering tax reform. There is certainly an equity issue. There is also a lot of emotion around the issue and consideration of continuity of family businesses. Introducing death taxes would drive the establishment of a specialist tax avoidance industry within the accounting profession. On balance I do not support death taxes. However other sensible annual wealth related taxes should not be ignored. Land tax reform as detailed above is the obvious first solution. As Big Pharma continues to extend the lives of non-productive retirees which adds to Government expenditure there is an argument for taxing Big Pharma at a higher than normal tax rate. Should wealthy retirees have their pharmacy requirements subsidised by the working population?

Taxation is not always the best way to share or redistribute benefits and create opportunities. The failure to implement an east coast gas reservation policy was like shooting ourselves in the foot. Gas prices trebled instead of dropping. Manufacturing opportunities nose-dived and consumers got hit in the hip pocket. A similar situation applies to investment and savings choices. The decision to provide generous tax subsidised superannuation benefits rather than assist CGT-free home ownership for the young is poor intergenerational policy.

One would expect the Australian economy to become cashless within a decade. This will prima facie make life difficult in the black economy. The ATO presently focuses on business-to-business payments rather than where most tax avoidance occurs which is with private-to-business payments. The growth in the number of and utilisation of cryptocurrencies will become a major tool for tax evasion. It would be interesting to know what Taxation authorities are planning to meet the challenge. I ponder why the use of non-government controlled cryptocurrencies is legal.

The direction of tax reform in Australia will largely depend on the sources from which politicians take advice. Unfortunately lobbyists and political donations driving narrow interests are not helpful in shaping a balanced taxation system. Ensuring children grow up in a country that provides good education and opportunities should be the primary focus of an effective taxation and redistribution system. Additionally the money required for a growing defence budget does not grow on trees.

What is important to the economy and the well-being of people needs to be funded. Free childcare is a no-brainer on both counts. Freeing up parents for the workforce will be a great economic boost and all children will receive a good start in life. There needs to be a reversal of the oldies whinging and a better outcome in the intergenerational tax war. Is it reasonable that a single young person with multiple jobs earning $30,000 per annum pays $2,800 in tax and medicare levy while a retired couple earning $200,000 per year pay no tax nor the medicare levy and receive $30,000 in dividend imputation refunds from the Tax Office? Oldies do not need to pay weekly rent and run up balances on credit cards and pay an exorbitant interest rate. With the coronavirus the younger generation has made sacrifices to save the lives of older people which were at far greater risk. The older generation cannot reasonably expect the younger taxation to be disproportionately burdened to repay the associated Government debt through the taxation system.

Another generational financial issue is in respect to personal insurance cover. Retirees do not have to be concerned. However for the working population and parents appropriate personal insurance is a responsible payment to limit taxpayer contributions. Annual insurance cover premiums are becoming a great concern. The latest annual premium increase on most policies is some 20 per cent with income protection cover premiums rising up to 78 per cent. An average annual increase in premiums of 40 per cent is not uncommon. The cost of premiums for adequate cover can now approximate 10 per cent of pre-tax salaries and wages.

The Government debt arising as a result of JobKeeper is enormous. It can be strongly argued that some 40 per cent of JobKeeper payments have been poorly targeted and unnecessary. Money would have much better spent if ideology had been less of a determinant of Government stimuli payments. JobKeeper keeps zombie jobs alive and halts adjustment to new business realities. We are all aware of the record profits of listed companies and associated CEO bonuses due to taxpayer funded JobKeeper payments.  A  swathe of businesses have a big incentive to keep turnover low in order to comply with requirements to keep JobKeeper money pouring in. Innovation and efficiency are avoided. The Government has nothing to brag about with the application of JobKeeper.

A far more sensible and equitable policy would be to have a permanently higher JobSeeker/Newstart base. Payments could then apply for a longer period and the true unemployment situation is revealed. Paying nothing to temporary visa holders working in Australia who have lost their jobs is a national embarrassment. Why the $750 payments to well-off pensioners?

It was nonsensical to have JobKeeper entitlement for six months based on the business turnover figure for one month and also inappropriate to increase part-time employees wages to $750 per week. Extending JobKeeper past September on the basis of an all or nothing single figure calculation rather than some form of tapering depending on the percentage drop in turnover was also not savvy. The combination of business subsidies in the form of cash-flow boost payments, JobKeeper payments, instant asset write-offs, wage subsidies and a carry-back tax scheme is over the top. A lack of competent financial oversight. All add to Government debt.

As someone who is inclined to think with a financial analysis viewpoint, I am bemused by economists' perspective of expressing Government debt as a percentage of GDP. This is euphemistic and deceptive. Governments do not control GDP. They collect and control taxation. Accordingly Government debt should be expressed as a percentage of taxation revenue. With taxation around 25 per cent of GDP the pertinent percentage of Government debt to taxation revenue is 4 times higher than the soft sell GDP ratio. In simple terms a Government debt ratio of 40 percent of GDP is 160 percent of taxation revenue. If Government debt is to be repaid over 10 years then annual taxation revenues need to increase by 16 per cent. A clearer picture is painted. With the current structure of economies it is unlikely that inflation will solve the problem. In all likelihood economic growth will merely cover the compound interest bill and make no contribution to loan balance repayments. Accordingly the reasons for the creation of Government debt should have solid rationale. Government debt is presently predicted to peak at 220 per cent of taxation revenue.

How should tax reform be considered in the context of some modern economic theories? The jury seems to be out in deciding the appropriateness of "modern monetary theory (MMT)". At this stage the long-term effects of MMT are unknown. To what extent and for what purpose should the RBA buy Government bonds? The smaller the economy in global terms the bigger the risk of of harsh punishments by larger global players. Governments, like the private sector, should be responsible for their borrowing and spending. Balancing Government budgets should remain a long-term policy objective. Hence sensible and balanced tax policies should continue to be a priority. Indulging in MMT could have an adverse effect on our exchange rate and make our country a much riskier place to make investments. The quality of Government funding will always be vital. Funding productivity enhancing infrastructure can be sensible. However it should be borne in mind that high private debt is a multiplier to the economic instability created by government debt.

Loose monetary policy benefits asset holders and punishes savers. We are likely to have low interest rates for a long time. The future extent of quantitative easing is unknown. Speculative monetary gains may well exceed gains from work. Hence the need to not unfairly punish workers through income tax. Investors can take advantage of the relatively low company tax rate and superannuation tax concessions that expenditure committed PAYG workers can not do. Hence the need for balance between personal marginal tax rates and the company tax rate and superannuation tax concessions.

Under Trump the US economy has been run by a gambling addict. It is easy to cut taxes if federal debt soars. In a financial sense the bright stars have faded on the US banner. Irresponsibly running up federal debt in normal times restricts Government financial stimuli capabilities during and post a pandemic or other black swan event.

Due to the coronavirus driven Government stimuli expenditures Australians will need to manage a huge Government debt. Our economy faces ongoing challenges due to China's import and diversification policies and a more sustainability focused world. Are we doing enough to shape our economy to such realities?

Global responsibility, sustainability and future generations need to be considerations in tax reform. We have a world of limited resources and diminishing biodiversity. With the current world population of 7 billion expected to plateau at 11 billion the big picture needs to be front of mind. Improved living standards consume more resources and come at a significant environmental cost. Scaremongering politicians focusing on the hip pocket will lead the economy down the wrong path and leave our generation with a poor legacy. The people of Warringah on Sydney's northern beaches did the country a great favour at the last election. Unfortunately things in Australia seem to be one step forward and two steps back. The decision to turn on flashing amber lights for Santos to frack for gas at Narrabri is a disgrace. Placing sustainable and precious aquifers and prime agricultural land at risk is lunacy and unnecessary. Tax disincentives should apply to inappropriate investments.

There is no shortage of gas. There simply needs to be an east coast gas reservation policy that diverts gas from export via Gladstone. We need politicians with vision and intestinal fortitude. Unfortunately those with power presently pander to the fossil fuel industries. Political donations and industry lobbyists do not work in the national interest.

A tax on carbon is essential and urgent for the sake of humanity. It should apply globally. In the meantime Australia should not hesitate to lead. Julia Gillard was leading the way until thuggery intervened. A carbon tax should rapidly become an important component of our Government revenue. It should apply to the estimate that our exports will emit as well as to actual domestic emissions. Rather than wait for our overseas customers to apply a carbon border tax on our exports we should move early and bank the funds.

The tax system is lacking integrity. The situation continues to worsen. Substantial reform is essential.

Graeme Troy

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