

SUBMISSION- Australian Parliament Taxation Inquiry.

Taxation serves a multitude of roles within our economy and society. It is vital for providing revenue to fund important services and programs. These include defence, foreign affairs, trade, infrastructure, age care and income support.

A secondary function is economic through fiscal policy. Fiscal policy impacts directly economic activity through, stimulus or contraction and affects aggregate demand. Higher tax can take funds from taxpayers reducing expenditure, but it also funds services, which could influence aggregate demand.

A third function relates to addressing issues of equity, social justice, equality and increasing opportunities for all. It contributes to a fairer society. The funds aid our most vulnerable through transfer payments. This can pay a future economic dividend. Income support paid to a tertiary student, will result in educational opportunity. That student may go on to become a high achiever and contributor to the nation.

On most of these measures we are failing.

Taxes on labour are more onerous than on capital. Individuals in the income range of \$45001-\$135000 pay a marginal tax rate of 30%.

An individual of high net worth realising a substantial capital gain pays a lower rate of tax. For example, a person in the highest tax bracket would pay a marginal tax rate of 45% plus Medicare. On capital gains only half, is assessed, meaning that a maximum tax rate of 22.5%. Thus a millionaire pays a lower rate of tax than their gardener, or cleaner. One example of inequity.

Upon the death of an individual, with shares, real estate or other assets, a capital gains event, is triggered. A wealthy individual can structure their affairs to use a trust. A trustee would not incur a capital gains event upon the death.

Negative gearing should be examined and reformed. Individuals with it currently should be grandfathered. They had made arrangements, which were legitimate at the time. It is rewarding people to lose money. Then the double whammy affect, of the capital gains discount means they lose money from the negative gearing then pay reduced tax on the gain. It's clearly unfair.

Negative gearing should only be available for new properties. This would add to housing supply and provide stimulus for builders and trades. The existing concessions are resulting in investors keen to obtain tax advantage bidding up properties and excluding first home buyers.

Negative gearing is utilised by a few average Australians, such as tradesmen, teachers, and nurses. The majority of these own one or two properties. They do not have three, four, five or six properties. The majority of the tax cuts accrue to the wealthiest.

Australia is not a highly taxed country ranking 30th out of 38th in the OECD.

Our income support payments for Jobseeker, Youth Allowances and Pensions relative to wages are the lowest in the OECD. Our most vulnerable are carrying the cost of tax concessions.

Bracket creep is often referred to as a major issue. It is easily rectified by the use of indexation. Government charges are frequently indexed, fines are indexed, pensions, Jobseeker, Centrelink thresholds such as Assets tests, Income tests and benefits are regularly indexed. It should not be a stretch to index tax brackets.

The tax-free threshold could be increased, giving a greater benefit to low income households.

The Albanese Government in many statements in public claimed all taxpayers received a tax cut. This claim is incredulous and blatantly dishonest. Those on low incomes, such as pensions or Jobseeker pay tax. It's paid through the Goods and Services Tax which is a regressive tax, which has a higher proportional effect on lower income earners.

Many Australians may access their superannuation on hardship grounds and obtain an early release. If accessed before the preservation age, then a penalty tax applies. This is 22%.

Addressing the equity issues here, a minimum wage worker, unemployed person, casual or part time worker accessing their super on hardship grounds pays 22%. An individual claiming a capital gains discount would pay 22.5% excluding Medicare even if they were in the highest tax bracket.

Gina Rhinehart selling personal assets would pay 22.5%, a part time worker on \$30000 accessing super pays 22%. Is this fair?

The tax system favours the rich.

Transfer payments are a major issue. The wealthy and large corporates can strike arrangements claiming maximum expenditures in higher tax economies whilst booking revenue in low tax countries.

Hypothetically ABC Ltd could borrow money at 2% to fund expansion in Australia or operations here. ABC lends to ABC Australia Ltd at 8%. That is deductible here.

Resources are not adequately taxed. Norway and Qatar levy higher taxes and have built substantial sovereign wealth funds. Resources such as oil and gas are finite. Australia has future funds not established for the benefit of all, but to originally meet unfunded superannuation liabilities. These were largely funded from the sale of assets and Australian Government privatisations.

The Norwegian fund is currently about \$1.7 Trillion. It is for a country of about 5.6 million people.

Australia is a nation of about 27 million citizens. As at 2023 the Australian Future Funds are around \$273 Billion.

Qatar had at October 2023 about \$475Billion under management. This is for a nation of 3 million citizens. Two smaller nations both with substantially more investments under management providing a dividend to their citizens.

Clearly, we are giving away our resources. Our resources are finite and will eventually be exhausted. Qatar charges a minimum tax of 35% on petrochemical industries and petroleum. According to the Australia Institute Norway taxes 78% on the profits of its oil and gas sector, this includes 22% corporate rate and a 56% special tax.

Inequality is rising in this country. The AFR publishes the Rich 200 list each year. The top ten richest people in Australia own collectively \$222 Billion. There should perhaps be a tax on death of large wealthy estates. A threshold should be applied, to protect farmers and small business owners.

Summary

1. Restrict negative gearing to new properties only.
2. Limit the number of properties for negative gearing purposes to say two or three. This should be analysed linking to average wage.
3. Phase out capital gains discounts.
4. Examine and restrict the use of transfer pricing.

5. Consider indexation of tax brackets.

Peter William Sutton

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