

## **The musical chairs of tax reform!**

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Malcolm Turnbull is correct in seeing tax reform as a process to make taxes work more efficiently and effectively so Australians can “work, save and invest”. He also rightly wants to bring the community along in sensible debate of these issues.

He must therefore be disappointed at the self-serving nature of much of the commentary from ‘think tanks’ and other groups reflected in the media.

Little of such commentary has focused on economic or other benefits of particular tax reform ideas. So much of it focusses on who gains and who loses from tax changes.

Without any economic efficiency benefits, any tax change can be either criticised as penalising a particular group of tax payers; or criticised as costing the government revenue and increasing the deficit. Such an approach to tax reform is a zero-sum game. For every winner there is a loser.

So let us please have more focus on ideas that can improve tax efficiency. If such ideas are implemented thoughtfully they can be **win-win** solutions that benefit everyone.

The Prime Minister has criticised Labor’s proposal on negative gearing as reducing the value of most Australians’ biggest asset – their home.

Their second biggest asset is often their superannuation and so superannuation tax reform needs to be focused on making the system more efficient to give all Australians the best chance to maximise their retirement savings.

One example is the solution we proposed to the Government during the tax consultation process. SMSF Owners built on Dr Henry’s idea for the progressive taxation of contributions with a 20% flat rebate on contributions. We have considered the Henry idea in the context of the current income tax scales and taken his proposal to its logical conclusion by removing all taxation of super earnings, whilst reducing the rebate to 15% to compensate and keep the tax effect neutral.

### **Fair or unfair?**

Criticism of the ‘inequity’ of the current system is exaggerated. It is not ideal but not ‘unfair’ in the context of the current, highly progressive income tax scale.

It makes sense to introduce the 'Henry' idea if done concurrently with an improvement of income tax scales to make them less steep, noting that Australia already has a highly progressive income tax system compared with other countries.

It has appeared that the Government was seriously considering such a proposal but recent reports concern us that the idea may be dropped for the wrong reasons.

So that funds do not have to track contributors' incomes, our proposal envisages that contributions would be taxed at the individual rather than fund level, with the tax rebate claimed by the individual. Under such a proposal the same level of contribution would not be taxed in the fund and so would lead to a higher savings outcome if not reduced from its current level.

This is where we have concerns that people may not be comparing systems which have the same savings outcome. They are not comparing "apples" with "apples". The tax impact of the proposal should be considered with a contribution rate that provides the same savings as under the current tax structure.

There can – and should – then be debate about how such a proposal could be implemented instead of appearing to shut down discussion based on flawed analysis.

For example, we have suggested (in our Supplementary submission to Tax White Paper Taskforce) that maybe legislation could be amended to give the taxpayer the option to require his/her super fund to refund to them that part of the contribution that, under the current system, is applied by the fund to pay the current 15% contributions tax (say 1.5% out of the 9.5% SG).

If this – or some similar process - is assumed, then with modest improvements to the income tax scales, most Australians would be better off.

### **Tax efficiency**

Furthermore, the tax effectiveness of our proposal means that the component of SG that remains compulsory could be reduced even further – we suggest by another 0.5%.

In this way, to achieve the same level of superannuation savings, the take-home pay of most Australians could increase and the tax concessions by government reduced.

This is what we – and we believe Malcolm Turnbull – think is meant by tax efficiency. **A win-win outcome.**

So please let's have a debate about how to achieve such improvements rather than just take a simplistic, negative and 'zero-sum game' approach to tax reform.

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