

Review Panel

Parkes, ACT.

Retirement Income System Submission. Re-Consultation Paper Summary.

Dear Ken Henry and Panel,

Thank you for the copy of Australia's Future Tax System Consultation Summary with accompanying letter. Much appreciated. It is encouraging to see such a positive move to revise and upgrade Australia's Tax system by the Rudd government. I definitely would like to offer a further overview of the ethics and principles relating to some of the effects of taxation on the wider community.

RESPONSE: From my perspective it is amazing to read such a complex document, which highlights the complexities in the existing Tax system, and the complexity of trying to please all sectors of the Australian community.

BIG BUSINESS: While I don't profess to understand all of the complexities involved for the business community operating in a globalized world, but it seems obvious that big business will always be arguing for lower taxes. What is clear in my mind is that the drive by big business around the world to maximize profits for shareholders and to reward corporate executives does not always translate into best practices in maintaining employment or providing good service to the public.

EQUITY: On the question of Equity, I would define equity as *opportunity for the community to move forward collectively*, in both prosperity and development. I do not agree with the "Trickle down" theory, where all the wealth is skewed to the top of the pile while those at the bottom of the food chain scramble for the crumbs. While most people don't want intrusive government, I'm sure most would be in favour of an interventionist government that is willing to work with business, unions and the wider community, a policy stated by Kevin Rudd.

We have seen from the global financial crisis that free market forces and some at the top levels of high finance simply can't always be trusted with financial wealth, or the responsible administration of it. I would now like to comment on Retirement Income Systems, and certain sections of the Consultation Summary Document.

Q.5 RETIREMENT INCOME SYSTEM - INVESTMENT OPTIONS:

RETIREMENT INCOME: It has been proven that in a deregulated globalized market place, there now exists a particular risk factor for Superannuation investments. This is particularly so where it involves Super Funds playing the Stock Market to derive income/returns for investors. In these modern times a deregulated Stock Market now resembles a casino more than a forum for stocks trading and investment transactions.

REAL ESTATE: Real estate in a properly regulated market place such as occurs in Australia surely has to be a safer long term investment option as a retirement provider than virtually any other form of investment with perhaps the exception of gold.

Taxation incentives on real estate investments especially in regards to retirement income should be part of the Taxation Review with a view to offering some positive incentives not only for first home buyers, but also retirement income investors.

This is distinctly different from property investors who just buy and sell houses and properties purely for turnover profit without contributing any value added features. I refer here to landscaping and environmental improvements, and/or renovations. There is a wise philosophy that “*Life is about earning an income*” as opposed to just “using” commodities (or other people’s money) simply to accumulate wealth.

In my own experience, the fact of owning one’s home serves many positive goals.

1. As a buffer against rising rents and the potential for homelessness.
2. A provider of equity cash borrowings if required in emergencies.
3. An asset for resale at an older age, especially in retirement. (down sizing).
4. Providing an inheritance for the kids.

STABILITY: Owning a home provides a sense of stability, personal pride and an opportunity for innovative creativity in value adding to the property. Owning a home also represents the assurance of an asset into the future, which can be of value as an inheritance for a person’s children, thereby making them less dependent on governments to provide housing into the future.

I also am strongly in favour of GST being excluded from pre-owned houses.

Therefore may I suggest that home ownership is treated as a valid means of providing for one’s retirement, and that taxation policy on home ownership be reviewed to offer positive incentives in this regard.

AGE PENSION: I agree with the provision of an age pension for people who fall through the cracks during their working lives. I think the Age pension should be set at a reasonable percentage of minimum income.

COMPULSORY SAVINGS: *This concept could be extended to people putting their savings into a Home Buyers account, with a pre-condition being that the funds can be spent only on investing in a residential home which has to retained as a place of residence, or rental investment (not buying and selling for profit taking).*

IN-HOME SERVICES: The Tax system could allow rebates or subsidies for Home services such as Blue-Care, Meals on Wheels etc. that provide in-house services for retirees, allowing them to live out their days in their own homes.

GST EXCLUSION FROM THE TAX DEBATE: I agree with the government that the GST should remain unchanged. The 10% GST rate is quite sufficient for it’s purpose. A GST impacts most on those least able to afford it. I also agree with no GST on fresh foods. This encourages people to prepare more affordable healthier meals and keeps down the costs of fresh produce to affordable levels for both consumers, and ensures sustainable levels of returns for producers.

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Q.3. THE REVENUE MIX: I have felt for a long time that there is a disincentive for savings derived from earnings. This only encourages the “get-rich-quick” practices, which result in many people being burnt by scams and risks with dodgy operators.

ABOLISH BANK INTEREST TAX: Surely if governments want people to save, then taxes on Bank interest should not be imposed. After all this is a classic example of “double dipping” by governments through the tax system. This only fuels the belief that governments always have their hand in one’s pocket, giving with one hand while taking with the other.

Double Taxation is essentially unethical because it is a tax on a tax. People are already taxed on earnings as well as paying GST. It is unfair to then impose a tax on savings as well, when governments are pushing people to provide for their own retirement.

ABOLISH FIRST HOME OWNERS TAXES: To encourage people to buy their own homes, the State Stamp Duty Taxes should be abolished for first home buyers.

Home ownership should be encouraged and assisted with tax incentives. This should occur uniformly right across Australia through the COAG process. State governments could be compensated in some way for their revenue losses.

TAX REVENUE RISES: I am in favour of any required increases in taxation to be directed at gambling, alcohol and tobacco. These products contribute to ill health and impose huge costs on the medical system. Higher taxes may or may not discourage over-indulgence, but they will at least help pay for the national Health funding.

I oppose an increase in taxes on consumption overall, as this will only discourage spending and not assist in national economic growth at this critical time. Overall tax policy should be aimed at simplification rather than increased complexity.

CONCESSIONAL REBATES & MIDDLE CLASS WELFARE: It was a feature of the Howard government to introduce “middle class welfare” thinly disguised as choice (in my opinion). At the current rate of incomes, I would suggest that anyone with an income above \$75,000 annually does not need any government handouts in the form of rebates, subsidies or allowances. I believe that “welfare” should cut out at an appropriate income level. Perhaps this figure could be set statistically at an income cap. Supplementary tax incentives can still be given for specific purposes in the national interest, such as the first Home Buyers Grants, or for Solar power rebates to encourage people to contribute to the Grid. In the interests of the national power grid,

A suitable (attractive) Buy Back Tariff should be uniformly in place nationally.

Submitted by Edward Romano.

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