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**Submission on Australia's Future Tax System**

Attached are short form responses to the Review Panel's Focusing Questions numbered 1.1 - 1.2, 3.1 - 3.5, 4.1 and 8.1 in the Review Panel's Consultation Papers released on 10 December 2008.

Yours faithfully

Joanne C Seve

## Consultation questions

Q1.1 In considering the community's aspirations for the type of society that Australia should become over the next two decades and beyond, which key features should inform or drive the future design of the Australian tax-transfer system?

### R1.1 - Equity, Simplicity, Certainty and Efficiency.

Q1.2 Assuming that the absolute size of government will not fall, should (and can) Australia nonetheless aim to reduce the burden of taxation over time by promoting faster economic growth than public spending growth? Can it be demonstrated that alternative tax policies could help deliver that outcome?

**R1.2 - Yes. Yes. It has been demonstrated that abolition of stamp duties can increase transaction turnover. According to IRESS Statistics\*, the number of ASX trades in 2001-2002 almost doubled (1.94 x 2000-2001) and the total value of ASX trades in 2001-2002 more than doubled (2.25 x 2000-2001) when listed marketable securities duty was abolished, compared to 2000-2001 when listed marketable securities duty applied. Removal of indirect taxes can free-up and stimulate economic growth, increasing potential for revenue from direct income tax and consumption tax.**

\* IRESS Statistics:

For the financial Year 30<sup>th</sup> June 2000 – 30<sup>th</sup> June 2001: 14,578,198 buys & sells  
= Total 29,156,394 Trades with Total Val \$915Billion

For the financial year 30<sup>th</sup> June 2001 – 30<sup>th</sup> June 2002: 28,291, 201 buys & sells  
= Total 56,582,402 Trades with Total Val \$2,053Billion

Q3.1 What problems, if any, are generated by the overall mix of taxes in Australia on business and labour income, consumption, transactions and assets, and what changes, if any, should be made?

**R3.1 - Uncertainty, delay and cost are problems for business in Australia generated from State and Territory stamp duties. The disparate stamp duty provisions of the 8 States and Territories, coupled with their individual and combined complexity result in uncertainty and delay in commercial transactions, particularly where multi-States and/or Territories are involved. These factors contribute to increased advisory and time costs, over and above the cost of the stamp duties themselves which are high, given the un-indexed stamp duty rates applicable and the cascading effect of stamp duty on stamp duty and stamp duty on GST.**

Q3.2 Does Australia's tax system penalise (or favour) the returns to savings relative to other activities and should this lead to changes in the structure of taxes and means tests?

**R3.2 - Yes, State and Territory stamp duties and State land taxes and ACT land tax (NT does not impose land tax) prejudicially penalize savings that are invested in land as compared to other asset investments. It is inequitable for tax to be imposed in respect to a particular asset investment type (i.e. land) to the exclusion of others (e.g. listed securities, bank savings accounts etc.). The abolition of transfer duties on certain classes of assets to the exclusion of real property (residential but effectively also non-residential) under the 1999 Intergovernmental Agreement ("IGA") has exacerbated discrimination against the activity of investment in real property as distinct from investment in other assets.**

Q3.3 Does Australia's tax-transfer system appropriately deal with property and wealth, or should new approaches be introduced? What, if any, implications would any changes have for the taxation (or means testing) of capital income flowing from property and wealth?

**R3.3 - Property and wealth in and of themselves do not appear to be justifiable or equitable bases for taxation, in the context of a capitalist economy. Income tax and broad based but selective consumption tax (i.e. GST) would appear to better serve such an economy.**

Q3.4 Assuming no increase in the rate or base of the GST, what principles should guide the future development of other consumption taxes in Australia, and is there a need to change the role and structure of such taxes?

**R3.4 - As Australia already has a GST query the necessity or appropriateness for "future development of other consumption taxes in Australia"?**

Q3.5 Could greater application of user charges, rather than general taxes, in the funding of government services or infrastructure bring social, environmental or economic benefits?

**R3.5 - Increasing user charges for public infrastructure and public services appears to be in conflict with the philosophy of the purpose of general taxes. Rather than greater application of user charges, this indirect form of taxation should be reduced.**

Q4.1 How might the personal tax system be changed to better achieve the goals of greater simplicity, transparency, equity and efficiency?

**R4.1 - The goals must be balanced. Equity at the expense of simplicity (i.e. at great complexity) not only defeats simplicity but also, efficiency. Balancing the goals is the on-going responsibility of Government and must be evolutionary. An example of how the present personal tax system might be changed to better achieve the goals of greater simplicity, transparency, equity and efficiency might be to allow taxpayers to elect (at least once in every few financial years) to pay a fixed percentage of their gross assessable income as income tax, in lieu of claiming deductions and calculating income tax on the actual taxable income. This option would enable taxpayers to choose not to invest in unproductive hours and hours of time every financial year, collecting and recording receipts for deductions and also, to reduce the cost of tax agents. This measure would satisfy the goals of simplicity and efficiency and, so long as the percentage were to be reasonable and controlled, the goals of transparency and equity should also be able to be satisfied.**

Q8.1 Which taxes or transfers are the most complex and impose the greatest costs? How should these costs be reduced (by abolishing the taxes or transfers or by making the rules applying to them simpler)?

**R8.1 - Many State and Territory stamp duties are complex in themselves and in the differences between them.**

**Land-rich or landholder stamp duties are particularly complex and as such, can involve high costs of compliance, particularly due to the artificial basis for calculation of the duties (i.e. deemed landholdings, disregarding company or unit trust liabilities, when what is acquired are shares or units and not landholdings at all). The differences between the land-rich or landholder stamp duty provisions of the 8 States and Territories add to the compliance costs. Land-rich or landholder stamp duties were introduced in each of the States and Territories, 20 or 21 years ago, originally, as an anti-avoidance measure. However, in most jurisdictions, land-rich or landholder stamp duties have changed their character in recent years, to become revenue raising duties, seemingly (at least in part), as a response to otherwise narrowing State and Territory stamp duty bases, pursuant to the IGA. Although stamp duty on unquoted marketable securities was agreed to be reviewed for abolition under the IGA, land-rich or landholder stamp duties remain and have been expanded in most jurisdictions (and NSW announced further expansion in its 11 November 2008 Mini Budget) as stamp duties on dealings with shares or units in certain unquoted marketable securities. Land transfer rates of duty apply under the land-rich or landholder provisions as distinct from the lower unquoted marketable securities rate and as already mentioned, company or unit trust liabilities are disregarded unlike the position with unquoted marketable securities duty. Land-rich and landholder duties should preferably be abolished.**

Although not necessarily complex, State and Territory transfer duties generally impose a great cost to transactions due to the combined effect of:

1. the high percentage rates of ad valorem transfer duties applicable;
2. the absence of indexation of transfer duty rate thresholds; and
3. the (non-transparent) cascaded and ever cascading effect of stamp duty on stamp duty and also, since 1 July 2000, stamp duty on GST.

Whilst abolition of transfer duties might be an ideal, the above factors should be more urgently addressed through measures such as the following:

1. the Commonwealth encouraging the States and Territories to significantly reduce transfer duty rates (at least by half);
2. the Commonwealth encouraging the States and Territories to implement annual indexation of transfer duty rate thresholds; and
3. whilst the non-transparent cascaded effect of stamp duty on stamp duty can not be reversed, continued cascading could at least be alleviated through the above measures, as well as through such means as the Commonwealth prohibiting stamp duty on GST and the Commonwealth allowing income tax deductions for stamp duty on investment property acquisitions (along the lines already available in the ACT due to most land titles being leasehold: see Section [25.20](#) of the ITAA 1997).

Counter intuitively, the foregoing measures might be revenue neutral or even revenue positive for the States and Territories. This is because of the potential impact that a reduction in transfer duty rates and fair indexation could have, to stimulate turnover. As aforementioned, statistics on turnover following the abolition of quoted marketable securities duty support this.