Budget submission by Anthony Evans registered tax agent and managing director of Gustax Consulting Pty Ltd which is also a registered tax agent.

Contact details – tony@justtax.com.au

Mobile – [redacted]

Background experience – Gustax Consulting Pty Ltd operates a boutique tax training and tax consulting practice which specialises in providing continuing professional education and specialist tax consulting services to tax agents and their staff. I personally have worked in the profession for over 40 years and this includes some internmational experience. We specialise in providing advice on most Federal taxes to the SME market.

SUBMISSION

Introduction

The October budget will prove to be interesting reading in the current circumstances. The Covid-19 emergency will not have ended and it is unlikely that anyone will know at that time when the emergency will come to an end. The impact of the second close down in Victoria will not be fully known and there will be significant uncertainty as to when stimulus packages to keep businesses afloat and people employed will come to an end.

Sooner or later, the Government will need to find ways to raise tax collections to enable the burgeoning deficit to be repaid. They will need to do this in a way that does not cause the economy to go deeper into recession than is currently the case. We do not envy the job in front of the Treasurer and there will be lots of criticism no matter what he decides.

Irrespective, this is the very time that hard and logical decisions must be made. This is also not just a Federal issue and true tax reform at State and Federal level is required. We have an unusual situation where the States, Territories and Federal Governments have open communication and co-operation and there will never be a better chance for true practical tax reform to be made in Australia. The various States and Territories are facing similar problems with framing their budgets in the current environment. The recommendations made below are not necessarily new or original and gnerally only address the tax aspect of the budget. They cross borders and jurisdictions. They still do not stifle enterprise and wealth creation. Irrespective, we hope Treasury takes all or at least some of these suggestions on board.

Recommendations

Federal level

Some logical suggestions include: -

- Abolishing the 50% CGT General Discount and replacing it with a $10,000 individual annual exemption which is either used each year or lost.

- Making it compulsory to only access SGL entitlements out of your superannuation fund or funds in the form of a pension upon retirement. This was the biggest mistake made when SGL commenced in 1992 as it was designed to reduce the governments obligations to fund age pensions. Unfortunately many individuals access the monies, spend it and go on the age pension. This has to stop. If more individuals receive a pension from their funds this will relieve some of the burden on the age pension. The age pension should be reduced proportionally based on the SGL pension accessed. If lump sum access is still to be allowed it should only be accessable out of additional concessional and non-concessional contributions.

- Allowing those persons who accessed superannuation in the covid-19 emergency additional tax relief if they replenish those draw-downs within 10 years. This could be in the form of additional tax deductions over the current concessional contribution limit to the extent of and limited to those drawdowns.

- Capping the main residence exemption to a lifetime cap of $1 million indexed per person. This is $2 million per couple. It is still very generous and will stop cuurent abuses in this space.

- Capping franking credit refunds at say $25,000 per taxpayer per annum. Full offset against tax liabilities should still be allowed. This will protect existing pensioners as it is $50,000 per couple. It would be appropriate to make a transferrable cap between spouses.

- The Government currently allows charities and not for profits full refund of franking credits yet they do not pay tax. There are too many charities with duplicate administrations. They also receive government grants. Franking credits should also be restricted to refunds of $25,000 per charity and there shouild be more transparency concerning funding and administration costs. Incentives for charities to merge and combined administrations should also be offered.

- Altering Division 7A so that only tax deductible loans at commercial rates can be accessed (based on current recommendations) and all other monies can only be accessed by paying the top up tax. Effectively force the payment of dividends when funds are used for private purposes.

- Deeming all pre-CGT assets to be post-CGT with a market value cost base as at 1st July 2020. This happened for superannuation funds in 1988 and is not offensive. It also simplifies the tax law significantly.

- Requiring all superannuation fund members with balances over $1.6 million to progressively reduce their fund or combined funds balances to $1.6 million over the next ten years (10% of the excess to be withdrawn per year) and have income arising on excess funds taxed at top marginal rates where they do not comply.

- Require all pre-4th December 1997 company loans to be repaid by 30th June 2021 or be deemed dividends as of that date. They have had 24 years to repay those loans and have never had to pay interest on them. Time to close the books!

- Require all pre 16th December 2009 UPEs owed to companies to be converted into Division 7A compliant 10 year loans (under the new proposals previously announced) or Section 100A will be applied on the basis they were never intended to be paid to the company. This may require some amendments to Section 100A, but clearly where a beneficiary has not received their entitlement from a trust for over 10 years, there must be serious questions that the trustee ever intended to pay the distribution to them.

- Capping the main residence exemption value for your home at $2 million in respect of age pension and similar social security entitlements and extinguishing entitlements on a pro-rata basis for house values (council rateable value) in excess. Provide a five year transition for existing pensioners to downsize before these new rules apply.

One final recommendation is that all changes should be clear and precise. Exceptions should be avoided. Purposive drafting should be used to avoid tax specialists attacking changes via loopholes in prescriptive legislation.

Combined Federal, State and Territory reform

- Increasing the GST rate to 15% and abolishing many of the exemptions including those on food.

- Reforming the definition of salaries and wages so it is consistent for PAYG, SGL, workcover, payroll tax (if retained – see below) etc.

State and territory reform in co-operation for additional GST

- Abolishing payroll tax. It is an offensive anti-employment tax. It should have been phased out with thje introduction of GST as originally promised.

- Changing stamp duty to an annual land tax and applying it to all properties including main residences, properties owned by charities etc.

TRANSITIONAL RULES

Whilst there may be some equitable transitions in relation to some of the above proposals, we also need to get away from this concept of grandfathering protections when law changes occur. There will always be winners and losers when tax changes occur and its time to drop the political stance. Transitions should be considered in the following areas to avoid double dipping and double taxing: -

- Reducing the suggested main residence cap for those who have accessed the concession in the last 10 years.

- Reducing the annual land tax for those who paid stamp duty on the property in the last 10 years.

Effectively, a 5-10 year transition is recommended on the more imposing changes to allow those persons in or approaching retirement to arrange their affairs accordingly

CONCLUSION

I am sure there are many other suggestions that can be made to ensure more equity in the taxation system. We have only briefly looked at the tax system and have not considered other areas in serious need of reform such as industrial relations.

In addition many of the states will have significant deficits and it would be an opportune time to trade off payroll tax for extra GST and get all of the states to agree.

There are too many lobby groups who have had the ear of the government (regardless of political persuasion) for too long. Many of these changes are logical and fair but it will take a government with real guts to introduce them and an opposition with real guts to support them . We are also sick of this "all or nothing" approach by oppositions and trade offs with independents to get their vote. If it is good for the country, it should proceed and it should be sold to the voting public on that basis. The beauty about many of these proposals is that the ALP cannot argue against them as they were keen to introduce some of them in one form or another at the last election.

We are well aware that some of these suggestions will be very unpopular particularly amongst tax professionals but ultimately this will take a lot of inequities out of the current system whilst still protection past retirees.