SNOWGUM
Financial Services

Tax Reform Ideas (22/11/2022)

Values: Equity & Simplicity

Superannuation

Key proposal

- From age 67, superannuation member balances which remain in accumulation phase are taxed at the passive company tax rate (i.e. 30%)

Advantages

- This aligns excess accumulation benefits to an equivalent tax outcome if capital, above Pension Rollover Cap limits, was withdrawn from superannuation into personal entity structures.
- This avoids complexity of managing ongoing superannuation member balance capital cap/limit, something that is currently being discussed, but would be messy to implement and manage.
- Longer term, the pension transfer balance cap largely prevents excessive accumulation of capital in superannuation. Contribution limits and limits on balance transfer into a tax-free pension threshold will see lower superannuation balances for the next generation of retirees.
- This change *could* prompt superannuation members to elect to draw-down capital from superannuation as there would be negligible benefit to investments held personally. Existing superannuation death benefit taxation rules remain an incentive to exit capital from superannuation prior to death.

GST

- Phase in of a higher GST rate from 10% to c.15%. No broadening of GST. i.e. Fresh food, medical and hygiene products and services should continue to be exempt from the GST.
- Consider a sugar surcharge tax (akin to an excise tax on tobacco, gambling and alcohol)

Advantages

- The regressive nature of GST can be partially offset if important non-discretionary consumption activities remain exempt.
- Consumption activity is generally a less economically productive form of capital deployment. This makes it relatively more efficient to tax.
- It is more challenging for corporations to avoid paying a goods and services tax on revenue. Corporate tax can be minimised through cost base augmentation like balance transfer payments to foreign jurisdictions and offshore 'royalty' and service payment arrangements.
- This is a simple tax to implement and regulate
- Consumption spending is higher for higher income households, seeing more GST revenue raised from higher income households.

Individual income tax

- Continue implementation of phase 3 personal income tax reforms.

Advantages

- The slated legislation simplifies marginal tax application
- Lowers burden on employment, human capital exertion being productive for the economy
- Legislation tackles bracket creep
- The legislation could be tied to the above phase-in of GST increases

Property Taxes

- Stamp Duty to be removed on all residential owner-occupier property transactions up to $2,000,000. Existing Stamp Duty rates apply on all property transaction values above $2,000,000 and investment property at existing rates. No change to commercial or industrial property.
- Land tax on investment property, above the general threshold to increase to a flat rate of 2%. The premium 2% penalty rate to be retained above a 'premium' threshold. Existing exemptions for primary production.
- Negative gearing on residential investment properties abolished. Negative gearing remains in all other investment classes (i.e. commercial/industrial etc.)
- No 'general threshold' value for land tax exemptions is available for residential properties which are vacant for > 50% of the year.

Key challenges/themes

- Velocity of housing, being the rate of turnover in housing stock, falls as house prices increase. This likely reflects increased transaction costs. This has led to the poor utilisation of existing housing stock.
- House prices to household income ratios are at record highs. Accumulating capital to acquire a first home is a challenge that is exacerbated by stamp duty.
- Improving housing affordability is likely to ease other challenges, like a suitable mix of workers and community cohesion.
- Break the unproductive focus of capital allocation into residential property investment. Reposition residential property as a community need, not an investment class.
- Other non-tax based initiatives are required, like centralising planning codes into a singular national framework, albeit still administered by state and local councils.

Advantages

- Removing stamp duty on residential properties up to $2,000,000 is likely to dramatically improve the velocity of housing. Downsizers could more frequently 'right size' their living arrangements, and young families would more expediently afford housing (without having to save the extra c.5% of home value required for Stamp Duty, which equates to an additional 25% of lump sum savings for a 20% deposit purchase)
- SD revenue is retained at higher thresholds
- Revenue loss is partially offset by higher land tax income on investment properties
- Avoids levying a broad-based land tax on low-income home-owning residents that happen to live in an expensive house.
- Negative gearing can encourage capital investment in future productive assets. Residential housing investment has minimal economic multiplying outcomes. Housing investment is generally a singularly rent seeking activity. The lack of economic multiplier impacts, but concentrated focus of capital allocation is a drag on productivity. This is different to commercial and industrial property or designated affordable housing, thus can validate a differentiated approach. To be negatively geared in an unproductive rent seeking investment is not sensible. But that it is done so widely has contributed to disproportionate residential property values. Thus, ending negative gearing into investment property would be good for longer term community outcomes and broader economic productivity.
- CGT discounts remain for investment assets held over 12months. This corrects for the erosion of inflation and remains appropriate.

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