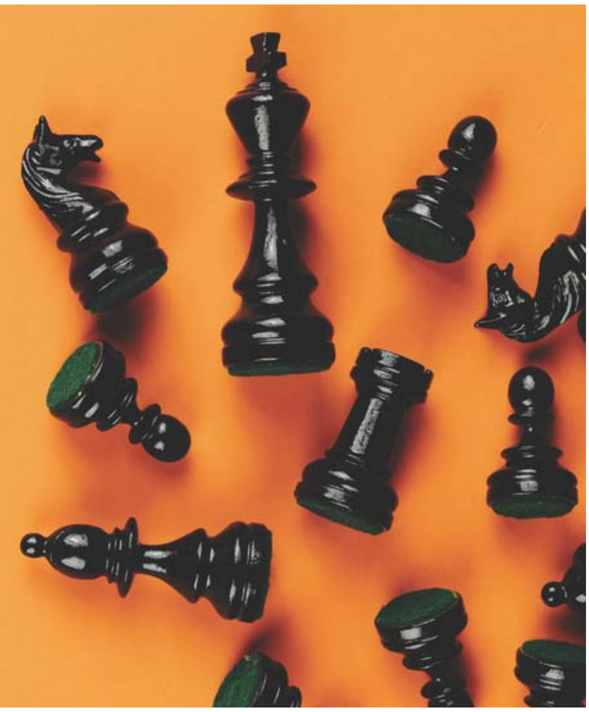
What to expect from tax reform

Given past history, not very much, unfortunately.



The Treasurer, Jim Chalmers, has convened a Productivity Roundtable for late August, with three main areas of focus – productivity, economic resilience and budget sustainability. He has sought ideas and proposals from stakeholders, which should be:

» in the national interest;

» fiscally responsible – ie, revenue positive or at least revenue neutral; and

» specific and practical.

Increasing Australia's productivity, which is the economic output produced by a given set of inputs, is a key factor in improving living standards. Australia's productivity performance has been lagging behind comparable economies for some years now.

The Treasurer has specifically called for tax reform ideas that are likely to boost our productivity. What sort of tax policy changes are likely to fit the bill, and what are the chances of them being adopted?

One of the many problems in tackling tax reform is that most people's idea of tax reform is for somebody else to pay more tax. And not everybody even agrees that we should raise more tax, saying we should curb our spending instead. Others think it should be a bit of both.

This turns tax reform into a political exercise and in spite of some people urging the government to use its strong Parliamentary majority to make brave decisions about tax, the government didn't run on a platform of major tax reform at the recent election and can't claim to have a mandate for tax reform.

You don't need to have a long memory to recall the unexpected federal election loss suffered by the ALP in 2019. Many political pundits attributed that loss to some unpopular tax policies in Labor's platform – restricting negative gearing, the capital gains tax discount and refundable franking credits. A highly effective scare campaign run by opponents of those policies was partly blamed for the election outcome.

Labor would be unlikely to serve up those specific policies again unless there was strong community and bi-partisan support for them, which seems unlikely. Instead, we are likely to see further scare campaigns from those with a vested interest in maintaining our existing policy settings.

Another candidate for major tax reform is already looking like being a non-starter.

Some are urging the government to consider reducing direct taxes such as personal and company income tax and increasing the GST (with appropriate compensation for low income families).

continued overleaf ⇨

What to expect from tax reform... cont

> Major tax reform has always been challenging because it invariably involves winners and losers.

All taxes have a negative impact on economic activity. Taxing something means there will be less of it, but the "dead-weight" cost of imposing a consumption tax is less than it is for income tax, resulting in increased economic activity, which boosts the tax base while improving living standards.

While the Treasurer has signaled he is not attracted to increasing the GST's base or rate, he wants to avoid ruling anything in or out at this early stage. The Prime Minister has no such qualms and has made it clear in recent comments that the GST will not be increased on his watch. The rule in/rule out game is off to an early start.

Major tax reform has always been challenging because it invariably involves winners and losers. The losers tend to be well represented and loud, while the winners tend to be more diffused and quieter. All these things are built up by the media, who love nothing better than public policy controversy around tax.

And the final obstacle to comprehensive tax reform is that, in the context of deficits stretching as far as the eye can see, there is no spare money with which to compensate the losers.

Whether the Roundtable can agree on other tax policy changes that can be fairly labeled as reform remains to be seen. We wish the Treasurer well in his endeavours, but we won't be expecting any miracles.

Self-managed super funds: A suitable path to retirement control?... cont

- **Establish an Australian Fund**: Set up the SMSF in Australia, with management and assets based locally, to meet Australian super fund requirements.
- **Register with the ATO**: Within 60 days, apply for an Australian Business Number (ABN) and Tax File Number (TFN) through the Australian Taxation Office (ATO).
- **Open a Bank Account**: Set up a dedicated SMSF bank account to manage contributions and investments, kept separate from personal finances.
- **Set Up SuperStream and Investment Strategy**: Obtain an Electronic Service Address (ESA) for SuperStream compliance and develop an investment strategy tailored to your retirement goals.

SMSFs require ongoing management which includes maintaining records, filing annual tax returns and conducting audits. An SMSF professional can help you stay compliant and make the most of your fund.

Costs involved

SMSFs can involve significant administrative work and be time-consuming to manage. Professional advice and administration can increase expenses but reduce workload. Keep in mind that insurance premiums, such as life or disability cover, are typically higher in SMSFs as they do not benefit from bulk discount arrangements. Trustees can lower costs by handling some administration, requiring time and expertise.

Is an SMSF right for you?

SMSFs offer control and flexibility, ideal for those with financial literacy, time, and larger balances, as lower balances may not justify the associated costs. However, they also come with responsibilities, including the risk of potential investment losses and the need to meet compliance obligations. If you're considering an SMSF and want to understand more about how they work, feel free to give us a call – we can help you explore whether it might be a suitable structure for your needs.