"The Bottom Line"
SIMMONDS LE-FEVRE
Tax & Super Information that's Important to You
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Economic roundtable wash up

Thanks for all those great ideas – we'll take it from here.

That's pretty much how last month's economics/productivity roundtable wound up, with the government firmly in control of what tax policy measures might or might not be introduced down the track.

About this newsletter

Welcome to your tax and super update from Simmonds Le-Fevre. This newsletter is aimed at keeping you on top of the issues you need to know about and changes as they happen. If you have any queries don't hesitate to contact us.

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Apart from consulting with the States on a model for imposing road user charges on electric vehicles, which was already in the pipeline, there were no breakthrough tax ideas coming out of the roundtable process that are going to be implemented immediately (other than the two tiny personal tax cuts the government took to the May election and, of course, the 15% slug on large superannuation balances).

So far, at least, successive governments have been reluctant to make wealthier older Australians pay more tax, but could this be about to change?

continued overleaf

Economic roundtable wash up... cont

Both the PM and the Treasurer have been somewhat coy about this.

In spite of the slim policy pickings coming out of the roundtable, Treasurer Chalmers may have planted the seeds for perhaps taking some targeted tax changes to the next election, provided such changes are supported by the broader community. There seemed to be consensus among roundtable participants that the tax system needs to be re-examined through the lens of intergenerational equity. This will mean different things to different people, but without making politically risky changes to the GST or the tax treatment of the family home, younger working Australians can only be helped through the tax system by cutting back some of the concessions enjoyed by wealthier mainly older Australians or plunging the country even further into debt.

We would expect that between now and the next Federal election there will be continuous advocacy by civil society groups to cut back or eliminate certain tax benefits that are enjoyed disproportionately by higher income earners. This group would be the same people who already pay a disproportionate share of income taxes under our highly progressive personal income tax scales.

The wish list of changes you are likely to hear about include:

» negative gearing on rental properties;

» the CGT discount;

» the taxation of trusts;

» superannuation.

There could also be changes aimed at older Australians by way of the social security system, for example the deeming rate applied to financial assets for pension eligibility and the pension treatment of the family home.

This is a very cautious government (particularly the PM), in spite of the very substantial majority it enjoys in the Parliament. But who knows? With Millennials now slightly exceeding Boomers as a demographic, community sentiment could shift and the government might consider making some cautious moves in some of these contentious policy areas.

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There is also a proposal to implement responsible measures (probably meaning tax neutral) to help boost business investment. The two main policy levers in that area are some form of investment allowance or juicing up the Instant Asset Write Off (IAWO) rules. Investment allowances are very expensive in revenue terms as they are available in relation to capital investments businesses would have made anyway. They may act as an incentive at the margin and most businesses wouldn't knock one back, but they should probably only be resorted to in a recession. A substantial increase in the IAWO turnover and asset cost thresholds would be welcome and, unlike an investment allowance, only creates timing differences.

In the meantime, the Productivity Commission's (PC) controversial proposal to drop the corporate rate to 20% for entities with a turnover of less than $1 billion might have trouble getting off the ground. It is coupled with a 5% cashflow tax, which means you can only avoid it if you keep investing in capital equipment, and there are only so many utes a business will want to buy.

And the small print shows the PC is proposing to achieve neutrality as between debt and equity financing by not taxing interest income nor allowing interest deductions at the corporate level. This will have huge implications for financing, as most incorporated businesses are net borrowers.

Finally, the PC report fails to consider the flow-on effects on distributions. Under the dividend imputation system most resident shareholders receiving distributions from a 20% company will just pay more top-up tax, with the net result of collecting slightly less company tax but more personal tax.

So, no major surprises, but keep an eye on what happens in the lead up to the next election.