

My personal submission briefly addresses some of the issues raised in the discussion paper. Specifically:

2. How can the tax system work better for citizens and businesses and improve the economy for future generations.

Significant tax reform is needed in Australia. Primarily this a Commonwealth issue, but since you've asked I will outline my suggestions.

- The corporate tax rate in Australia needs to be reduced. Transfer pricing / thin capitalisation / profit shifting all occurs because our company tax rate is higher than other countries. Ireland cut their corporate tax rate and found that companies actually shifted operations (and shifted profits) to the country to take advantage of the competitive rates.

- Franking credits need to be abolished. No other country runs as elaborate a franking regime as Australia. If we reduce the corporate tax rate, then this will take some sting away from the fact we will tax distributions in the hands of the individual. This will also remove the distortion where Australian companies appear penalised from expanding overseas as foreign profits are unable to be passed on as franked dividends.

- States should resume taxing income - I have provided more thoughts on this in my response to Question 4 as it relates more to States reducing their dependence on the Commonwealth.

- States should also reduce exposure to taxes on gambling. Not by reducing the tax on gambling. In my opinion, if the State is to allow gambling we should tax it further. But that we should reduce the activity of gambling in the State. Gambling is a non-productive industry. Nothing additional is created than what goes in. The whole industry is funded by punters losses. Anytime Racing NSW tells you something you should immediately not trust it!! Reducing wagering taxes for instance, doesn't make a better race industry it just increases prize money which will make race horses more expensive. It is like a first home owner grant for folks wealthy enough to race thoroughbreds. We should significantly increase the taxes on all gambling activities. We should significantly reduce the amount of poker machines in the State. We should probably also start limiting the amount of horse, trot and dog races that they have in the State.

- If we are reducing gambling taxes we should consider taxing other vices. You should look to the US states that have legalised / decriminalised certain recreational drugs and see if it makes sense to tax them rather than treat them as a police matter.

4. How can the states reduce their dependence on the Commonwealth?

To me the issue is fairly straightforward. The States must begin taxing income directly, as they did before WWII. This can still be administered by the ATO, with the Commonwealth setting a lower % than currently exists (based on the fact they will not need to fund the States) and the individual States setting their own rates (which may diverge) on top of this base Commonwealth rate.

This is not a unique suggestion. As an Australian citizen I lived and worked in the USA for many years. Working in New York City I actually paid THREE levels of income tax - federal tax, State tax AND city tax. Even when you added all those 3 levels of taxation up my marginal rate was still lower than the tax take the ATO hits you with.

The current system makes the States dependent on the Feds. It doesn't work. The Commonwealth should only take enough taxation to meet its needs and then the States should work out what their needs are, and set an appropriate income tax rate for their State. This will re-introduce competitive federalism between States.

6. How can agreements between the Commonwealth and the States ensure accountability for how the money is spent but allow flexibility to deliver the best outcomes for citizens?

There should be no tied funds. Simple. We should eliminate duplication of departments where it exists. There should be clear demarcation of portfolio responsibilities. The federal department of education should be significantly reduced and those monies either reduced from Commonwealth taxes (as the States are now raising income taxes as per my suggestion in 4 above) or the money given directly to the States with no ties. If States are to run schools then they should get to run them with no questions asked by the Feds. The electors of the State should be the body that holds the State government to account for areas that they are constitutionally in charge of.

One item not covered in the discussion paper, but which I feel needs to be raised as an issue is how we look at the NSW economy, and what is an export. The Australian Bureau of Statistics (ABS) considers education an export. But this is based on an assumption. An assumption I consider, and real world proves, to be faulty. As background I did my Masters degree in the USA. I paid for it by borrowing from a US institution (for tuition and living expenses) and paid the loan off by working in the USA post graduation before returning to Australia. Not a jot of my tuition or living expenses was export earnings for the USA.

However, the ABS considers all tuition and living expenses by international students in Australia to be an export. This is a fiction on many levels. The first is that international students are entitled to work whilst studying (they shouldn't, but that is another matter). Not only do international students have a legal entitlement to 20 hours per week but any reading of the national media over the last 24 months will reveal that students are often working far in excess of their visa entitlements for below award wages (the media will say they are victims, even though they are breaching their visa conditions). Universities benefit from this incorrect assumption so they don't correct it but you will find that far from being an export industry, international education is just a pathway to migration opportunities which we choose to monetise via higher education. Nepal is the third biggest source of foreign students for Australia. It is also a much poorer country than Australia. If education was truly an export industry we would see massive inflows from Nepal to Australia. I haven't had the opportunity to see if this data is available from Austrac but my suspicion is that the currency flows go the other way. That is, international students work in excess of their living expenses in Australia

and send funds back to Nepal. There could be the case that some international education sectors are actually IMPORTS not EXPORTS. This is something Treasury should look into. The State subsidises student travel, and I think international student travel, which means NSW taxpayers are funding an industry that may be taking out of the economy more than it is putting in. International education is meant to be an export. Foreign students should pay full fares to travel on NSW public transport and not receive any concessions.

Thank you for the opportunity to make a submission.