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DUAL INCOME TAX SYSTEM SHOULD BE ON TAX REFORM AGENDA, SAYS PITCHER PARTNERS

A Dual Income Tax System is one option of tax reform that should be on the table for discussion, said Pitcher Partners tax partner Stuart Dall.

Mr Dall said a feature of this system would involve a reduction in personal tax rates and follows Treasurer Joe Hockey's comments on personal tax cuts which, he said, appear to be a catalyst for getting the wider electorate to participate in the Treasurer's "national conversation" on tax reform.

"Funding tax cuts purely with expenditure reductions when there has already been action on this front will be challenging, so it's inevitable that the proposal will ultimately need to be considered as part of other tax reform initiatives.

"Rather than personal tax cuts solely being a circuit-breaker for the negative impact of bracket creep, Mr Hockey's undoubtedly hoping this will be the circuit-breaker for getting some greater engagement, from the community and from the States, on Tax Reform," he said.

Mr Dall said *Pitcher Partners' Tax White paper submission* identifies that the primary cause of complexity in Australia's tax system is the different treatment of legal structures and types of income. To address the complexity, a Dual Income Tax system is one option that should be on the table for discussion.

"A feature of this would involve a reduction in personal tax rates. A Dual Income Tax system involves applying a flatter income tax rate of, for example, 30% to all structures and income earners thus eliminating the problem of different tax rates for different types of legal structures and income.

"This measure would help to reduce the complexity associated with choosing a different tax structure and potentially removes the need for complex provisions such as Division 7A and the small business CGT concession. In fact, a Dual Income Tax system would be a substitute for the benefits provided by the small business concessions. For example, the active asset CGT concession would be replaced by the ability for all entities to apply a capital gains tax rate of 30%, irrespective of the structure chosen.

"In many cases, this would result in a lower tax rate than the application of the current small business concessions, whereby the CGT discount rate is currently diluted where a company derives a capital gain subject to the active asset CGT concession.

"It would also be possible to lower the corporate tax rate under a Dual Income Tax system and limit this corporate tax rate reduction to private companies. For example, if the corporate tax rate were reduced to 27% for private companies, this would be accompanied by a top marginal tax rate of 45% (i.e. assuming a discount of 40%) and a capital tax rate of 27%.

"A simple reduction in the marginal tax rates to 30% could cost between $13 billion to $22 billion. This amount would further increase to the extent that both the corporate tax rate and the marginal tax rate were also reduced to a lower rate (say to 27%, applicable only to private companies).

"However, moving to a Dual Income Tax system is likely to result in a decrease in income tax collections. Therefore, funding these changes would need to be by an increase in revenue from more efficient taxes, such as the GST. Assuming the GST base is kept constant, this could give rise to additional revenue of around $27 billion if the rate were to be increased to 15%.

"This would simplify the tax system for millions of taxpayers and individuals who are currently penalised with disproportionately high complexity and compliance costs," Mr Dall said.

For copies of the Pitcher Partners Tax White paper submission go to www.pitcher.com.au

Pitcher Partners is an association of independent firms located in Melbourne, Sydney, Perth, Adelaide, Brisbane and Newcastle. Pitcher Partners are independent members of Baker Tilly International.

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