Time For a Square Up on Taxes

A little over a decade ago, I set up a discretionary trust to hold most of my investment assets. The structure means that income can be taxed at the corporate tax rate (currently 30%), which is lower than my personal marginal tax rate. Because most of my capital gains are discounted, they can be effectively taxed the same as if I held the assets in my own name.

I hate the paperwork, organising the additional tax returns, and the unnecessary accounting and ASIC fees. I'd much rather not have to do it. But, to quote or paraphrase Kerry Packer:

'Anybody in this country who does not minimise his tax wants his head read. I can tell you as a government that you are not spending it so well that we should be donating extra.'

The problem with our tax system is that the investment income of the wealthy and super wealthy is being taxed at 30% or less, whereas someone saving a more modest nest egg (and likely unable to justify the expenses of a trust structure) might be taxed at higher rates. Aren't we supposed to have a progressive tax system?

Unsurprisingly, perhaps, the Germans have it all worked out. They have punishingly high taxes on wages (which I cannot condone). But earnings from savings—whether income or capital gain—are taxed at 26.5%, which is actually quite a bit lower than the German corporate tax rate of about 30%. There's no financial incentive to set up an unnecessary structure to legally minimise tax. The family with a nest egg of €100,000 is not paying a higher tax rate on savings than the fifth-generation multi-millionaire.

Australia should consider doing something similar. I'd settle for parity between corporate tax rates and taxes on personally-held savings. And it's only fair that those on lower marginal tax rates would pay tax on savings at their lower marginal rate rather than 30%.

There would be a huge push back from vested interests, accountants and tax advisors for starters. And one could certainly make the argument that it's unfair to tax savings at 30% when taxes on wages are up to 47%. But that argument would be almost irrelevant, because Gina Rinehart and Malcolm Turnbull are likely paying only 30% tax on their term deposit interest today.

Meanwhile, some young kid who's working hard, earning good money and putting it away for a house deposit might pay 40% or more (including Medicare levy) on his term deposit. Surely nobody can argue that this is right and proper.