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Tax White Paper Task Force  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir or Madam

In searching for extra revenue or to lower the company tax rate, some people would like to see the 50% concession on Capital Gains Tax (CGT) reduced or abolished.

Is the 50% concession on the rate of CGT a rort as some people say? Let’s look at some facts.

**Capital gains tax**

* CGT is calculated at the rate of 50% of the taxpayer’s marginal rate of tax. So, if the capital gain is $10,000 the tax payable by someone on the top marginal rate would be $10,000 x 49% x 50% = $2,450.

People advocating change would presumably like to see the 50% “concession” removed or they would like the 50% discount reduced to a lesser figure. Both changes will result in more tax on each transaction.

* The CGT was introduced by the Hawke Government in 1985 as part of a tax reform package. Capital gain was taxed at the taxpayer’s marginal rate but only after adjusting for inflation.
* In 1999 the Howard Government reduced the rate of tax applying to a capital gain by 50% of the taxpayers’ marginal rate but removed the adjustment for inflation.

Some people say that the Howard Government halved CGT. This is simply not correct because the taxpayer can no longer account for inflation in calculating a capital gain. In fact, a gain after 12 months of 5% with inflation at 2.5% taxed at pre-1999 and post 1999 rates will yield exactly the same amount of tax. If the capital gain is more than 5%, with inflation at 2.5%, the change by the Howard Government results in less tax.

* Saving and investment are made using after tax income. CGT is, therefore, a form of double taxation. Government should tax the yield on investment or the gain on an investment, but not both.
* If the Government increases CGT, some projects will no longer be viable. There will be a loss of employment, income and wealth and, incidentally, reduced GST, income tax and company tax revenue.
* If the Government wants more tax revenue, it should cut the rate of CGT. At present substantial numbers of taxpayers are reluctant to sell assets because their potential tax liability is so large. This is called the “lock in effect”. With a lower rate of tax, the tax liability is less important and taxpayers will turn their investments over more frequently. As a consequence tax revenue will increase.

This is no pipe dream. In Australia CGT has raised more revenue, on average, since it was eased in 1999 than before. ¹

Similar evidence is available from the United States where the maximum rate of CGT was reduced from 20% to 15% in 2003. Asset realizations which were US$269 billion in 2002 reached US$729 billion in 2006. Taxes paid on capital gains over the period increased from US$49 billion to US$110 billion.

The reverse was the case in 1986 when the US raised tax on capital gains from 20% to 28%, an increase of 40%. In 1990 the federal government took in 13% less tax at 28% than it did in 1985 at the 20% tax rate. ²

If you cut the rate of tax on capital gains, the cost of capital falls. Investment is stimulated, jobs created and more GST, income tax, company tax and CGT is the result.

* By comparison with other OECD countries Australia’s CGT is relatively high. Closer to home, New Zealand has no CGT and the rate in Singapore is 15%.
* CGT makes a relatively minor contribution to revenue. Since the mid-1990s it has raised 0.6% of GDP. It is dwarfed by other sources of tax revenue. ³
* The way forward is to increase revenue from CGT by cutting the rate of tax on capital gains.

Sincerely

R C Campbell