199 printed –

ON THE DRY SIDE OF TAXES AND SUPERANNUATION John Hyde

The United States Congress is allowing Americans a flatter tax with personal rates of 0, 16 and 28%. and a business rate of 34%. The legislation is revenue neutral; over five years, it will neither increase nor decrease total taxation. These relatively low rates will be achieved by plugging many of the loopholes which Americans call 'tax-breaks' and Mr Keating calls 'rorts'.

The measure has the support of the President: it will almost certainly become law.

The origional bills (Senate and House of Representitives) have run the gauntlet of interests who benefit from tax-breaks. Important among these were home owners, property developers, the arts bureaucracy, state and local governments, people with earnings from capital gains taxed at lower rates than earnings from income, and recipients of all sorts of fringe benefits. That people with an axe to grind should profess to support tax reform and insist that their tax-break be retained will not surprise anyone who remembers that fiasco, the tax summit.

It did surprise cynics like me that several practised US lobbies, which have in the past have raised merry hell, this time felt that they could not 'buck a winner'. The so called '15/27/33 coalition' was almost a winner. It retreated to '16/28/34'. A majority of legislators ignored most of the special pleading.

The majority of the public is about to have a victory. A Congressional staffer put it this way: 'The tax writing process had been democratised.'

It might actually be easier to put together a winning tax coalition in Australia than America. The United States Congressional system, is a bit like a half year long 'tax summit', offering privileged groups exceptional opportunities to defeat democratic majorities. New Zealand too has just succeeded where Australia failed.

The owners of Individual Retirement Accounts (IRAs), nearly a third of all American housholds, had some success in watering down the origonal bills. They raised a difficult philosophical and political issue: how far should a government, which cares for all indigent elderly, sick etc. in extremity, go toward helping those who are willing to help themselves?

IRAs allow a worker to deposit up to $2000 into an account of his own choosing and deduct the ammount from his taxable income. Interest earned in the account is not taxed until withdrawn on retirement.

Unlike Australians, Americans maintain a social security fund which is separate from the general revenues, but it is actuarially unsound and young Americans are little better placed in this regard than young Australians. IRAs were introduced in

1974 for persons without occupational superannuation, to encourage them to invest for their own retirement. However, take up was low until, in 1981, the tax-break was extended to all workers. Now, although only 13% of those without occupational pensions have IRAs, nearly one third of those with these pensions have them. IRAs transfer wealth from middle income people who pay most of the taxes to the middle income people who have most of the IRAs. Those too poor or too feckless to invest remain a burden on future taxpayers.

Australians too are demanding lower marginal income tax rates and the Australian aged persons welfare arrangements also are unsustainable. Either the retirement age must be raised, the real pension rate reduced or our children must pay higher taxes to support today's workers than they pay for the support of their parents.

No doubt these facts explain why the Hawke government has been prepared to get itself into political hot water blocking any tax loophole (rort) except superannuation, which is now the most favoured tax avoidance measure. And why it tried to stop people cashing up occupational superannuation upon retirement and living on an aged persons pension thus getting two bites at the tax/superannuation benefits. Middle income union hypocrites, with too much power, partly blocked the government.

Although tax breaks are inevitably conceded at the expense of lower tax rates, breaks for superannuation might make sense. Concern for the future cost of retirement has caused some people to look more kindly upon the ACTU backed superannuation thrust than they would otherwise have done, even though they know it adds to current costs and current unemployment.

Union managements are interested in superannuation because well run union funds encourage workers to join unions without the need for the more objectionable tactics they sometimes employ. And the centralised ACTU scheme is far from the only possible or best alternative.

A group of small right wing unions in WA, organised as the Association of Professional & Industrial Employee Organisations, in conjunction with National Mutual Life, have broken with the ACTU and bigger unions to offer their members a very comprehensive retirement package. So far as I can tell it has little scope for coercion of employers or employees; it will therefore be a genuinely voluntary association. It is small enough so that the investment decisions of the fund managers can have no untoward macro-economic or discriminatory consequences. If the trustees try to use the fund for ideological games, rates of return will fall and so will membership. That sort of super' should be welcomed.

These Australian and American episodes fall well short of proof but they indicate that:

* Issues the Western World over are similar,

* Democracies can slash marginal tax rates if they really try,
* Some people are unable or unwilling to provide for themselves even with generous tax-breaks,
* It is the demands of the middle income earners themselves which make tax reductions difficult and,
* Union organised superannuation can be a competitve and safe alternative to high welfare payments and taxes.