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A MODEST MEMBER

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Once more unto the (tax) breach

It is with a feeling of intense resentment that I reluctantly pick up my pen and write about taxation again.

Only Eccles could have got me into this mess.

Two weeks ago, I admitted that, because there were so many legal and illegal ways of avoiding paying our proper share of income tax, there has to be some kind of capital tax, to gather up those who get away from the income tax collector.

Last week we discussed death taxes and agreed that these were about the worst kind of capital tax.

But if a capital tax is necessary and if death taxes are the wrong answer, what do we put in their place?

Eccles says there are two answers, a capital gains tax and a net worth tax.

I admit I am really a bit hazy about the difference between these two taxes, and most of what I say hereafter is really regurgitated by me from Eccles.

He says the big disadvantage of a capital gains tax is that it is levied on capital gains only when these gains actually take place.

For instance, if you buy shares at $1 a share and sell them 20 years later at $10 a share, you pay capital gains tax only when you sell the shares 20 years later.

This means you get a great big slug of tax all at once, which often is excessively awkward.

Eccles says a tax on net worth would avoid this pitfall. Each year the tax would be collected on your networth.

If your land or your shares have increased in value, this change would be set against the change in your debts position, and you would pay your tax that year and that would be that.

If you suffered a capital loss, you would either get a refund (which would not be easy) or you could carry the losses forward for, say, seven years, to be put against the gains of other years.

After Eccles had got this far in the lecture, I had to tell him I was not so interested in the principles as he was.

What I was really interested in was what it would cost me and, what was even more important, what it would cost my most worthy constituents?

So then Eccles started to do his arithmetic.

He started off by saying that, between them, the State and Federal Governments collected $207.5 million last financial year in death duties.

If you accept that we should replace these death duties with a net worth tax, what rate of tax would you need to impose?

Eccles has been as busy as a bee in a bottle trying to work out the figures.

He thinks there is a total pile of wealth owned by persons in Australia of somewhere between $70,000 million and $100,000 million.

A net worth tax of one quarter of 1 per cent would bring in between $175 million and $250 million.

To collect the equivalent of the $207 million collected in death duties, it then looks as if you would need a 0.25 per cent net worth tax.

That doesn't sound much if you say it quickly, but it would, after all, mean an annual tax of $125 if you have assets worth $50,000, and $250 on assets worth $100,000.

But if you were 40, and were leaving your estate split three ways at your death, you would have to allow about $150 a year to cover probate (State and Federal) on an estate of $50,000, and $520 on an estate of $100,000.

Summing it all up, a net worth tax would be geared to bring in the same amount of money as death duties, but would have two advantages — it would not be so easily avoided by clever rich people, and you would at least know where you were from year to year, instead of being terrified that you might "do the dirty" on your family by dying on them at the wrong time.