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A NEW TAX STRATEGY

-- TRANSACTION TAXES

A New Tax Strategy --- Transaction Taxes.

Introduction: This proposal for a different tax strategy to that now in use in Australia is based on correspondence which I had with the Federal Treasurer in 2014, and in which he encouraged me to submit my suggestions to the Tax White Paper Task Force when that was established.

I regret that my submission has been delayed by travels overseas, from which I have only just returned. A brief outline of my career and experience is at the conclusion to this submission.

The Ideal Tax System.

The ideal for **fair, equitable, and adequate taxes** is a system whereby **every member** of, or those who use, the community **contributes in accordance with their financial activity** in that community. This embraces those who live in the community, using its facilities, as well as those who do not live in the community but have financial activity by way of investments or other use of financial systems.

It must be a ***SIMPLE*** system and ***EASILY UNDERSTOOD***.

To be totally effective, all must contribute, ***without any exceptions***. It should include all those who have been excepted under our old systems, e.g. religious institutions, old and the infirm, babies and their needs etc.. Where any of these people/institutions are supported by government welfare, that welfare can be simply adjusted to cover the tax contribution to achieve a neutral effect.

It should be easily and effectively auditable. Modern financial activity is mostly conducted using electronic technology, all of which can be audited. The very small volume of business transacted with cash without record somewhere in an IT system is now fairly incidental.

A system based on ***TRANSACTIONS* and *NOT ON INCOMES*** meets all of these criteria and this should be the system adopted for the modern Australia (and the world!).

It would establish the entire Australian financial/monetary system's activity as the tax base. It would include all financial instruments and transactions, such as shares, foreign currency, bank deposits for instance, as well as "goods and services".

High incomes or cash flow generate many and higher value transactions, low incomes have fewer and lower value transactions. A transaction tax, applied regardless of the financial structure within which it occurs, overcomes any attempted tax minimisation or avoidance by using, for example, trusts (including superannuation trusts), incorporation, etc. It is therefore all-embracing and thus fair and equitable

A uniform tax rate, applied to the value of each transaction, and for all transactions, therefore is perfectly simple and easily understood. It is progressive in that high earners pay high tax regardless of financial structures, low earners pay little

A summary of this can be stated as :

Whenever an A$ is exchanged for anything else, or when anything is exchanged for an A$, a transaction tax applies.
It should be noted that there are always two parties liable for tax in each transaction – the "buyer and the seller". Hence the tax take is twice the transactional tax rate applied.

Let us now examine a few of the outcomes of such a system.

A TRANSACTION TAX REGIME.

We already have some transaction taxes – GST and stamp duties for example, and we have had others , under various guises, from time to time, tax on banking deposits which we had some decades ago for example. To be properly effective however, transaction taxes must be all-embracing and must go much, much further than they currently do or have ever done in Australia, or anywhere in the world as far as I am aware.

I stress that this transaction tax regime at full development must cover *all transactions* which take place in our economy. By "*all*" I mean *all*, with absolutely no exceptions. Therefore they would embrace financial instruments of all kinds, as well as all goods, all services including medical and education , charities and religions, second-hand goods, even baby food, --- everything! . Whenever $A are exchanged for anything the transaction tax is applied, and vice versa, whenever anything is exchanged for $A the tax also applies. Whenever funds are transferred from one financial instrument to a different one, tax is applied to the transactions.

My rough calculations indicate that were we to have an all-embracing transaction tax applying to the quantum of transactions which exist currently in our economy , the rate will be surprisingly low to cover all taxes currently raised by the Commonwealth of Australia **and** our States. It would be expected that a low rate could be easily "sold" politically and would not be of concern to most of the population. Ultimately these transaction taxes would be the only taxes required for revenue, as all other taxes would be replaced .

Transaction taxes are a very "progressive" type of taxation. The more one receives as income and has to spend or invest the higher the tax to be paid – this should be welcomed by most Australian people, of all political persuasions. There would be many other advantages as well, such as negating many tax avoidance mechanisms, those "issues" which seem to be developing with current superannuation systems, "benefits for the rich" such as (it is often said) capital gains concessional rates of tax, imputation, etc.— there would be no need for them as they would fade away with the abolition of *income* taxes. We would not have to worry about whether this or that is a tax deduction – there will not be any!

EASE OF COLLECTION

If the transaction tax is at very low levels it is probable that the vast majority of people would not even be concerned about it. The vast majority of business conducted in Australia is now recorded electronically somewhere, and this should make tax collection almost automatic. Most of it would be collected by financial institutions or retailers., The computer record should also make tax audits easier. Yes there will be a cash economy still in existence, but at low levels of tax the incentive is greatly diminished to avoid tax by using cash.

CORPORATIONS.

All inputs – materials, labour, services would be taxed as they are purchased, and sales similarly so. Dividends paid from profits also attract the tax. A glance at the profit and loss account of a company would immediately show if there had been any attempt at tax avoidance. For manufacturing companies the tax paid would be a little less than twice the transaction tax rate; for each 1% transactional tax rate the tax paid would be <2% of turnover , or about one third of a profit surplus of say 6% of turnover. This is about the current tax rate for corporations.

PAY-ROLL TAX.

There would not be any, as transaction taxes would have replaced the need for other taxes. The purchase of labour directly attracts the transaction tax. This is a much better result than the current structure which penalises only the employers for fulfilling a primary aim of Governments to fully employ the population.

INTERNATIONAL CORPORATIONS

We are all aware of the conundrum for governments caused by profit shifting internationally. A transaction tax would correct this.

Attempts to avoid a transaction tax by conducting business in a different currency to A$ (Bitcoins as well as foreign exchange) could be easily fixed by legislation. The same with bartering.

SUPERANNUATION

There is no reason why the general structure of the current superannuation system should not stay in place under a general transaction tax system. Employers would still compulsorily contribute to a superannuation fund for each employee, and those funds will not be accessible until the legislated age had been reached. Many of the legislated draw-down rules could still apply.

The shift from income taxes towards transaction taxes would however greatly level the field for those who for various reasons have not or cannot participate in superannuation. We could all build up our own investments for retirement without the penalty we now have of additional taxes which do not apply to those building up a superannuation fund.

A general transaction tax would ensure that all investments and transactions by superannuation funds are subject to the same rules as for everyone. Therefore, there should be no concern about the future size of the superannuation industry and its effect on tax revenues and affordability for the government.

PENSIONS

There should be no need to make significant changes to the current system. Simply increase pensions by the same amount as the transaction tax and this will leave pensioners in exactly the same situation as currently.

FOREIGN EXCHANGE

The world has changed a great deal since the evolution of currencies and those changes have greatly affected currencies themselves.. Currencies are now freely traded in much of the developed world and at volumes far in excess of what would normally be required for international trading. They have become another of the speculative playthings of traders, and we need to rethink many of the assumptions which are accepted as intrinsic to currencies and automatically applied. Philosophically, now that currencies are traded like any other commodity, there should be no reason why they should be considered immune from rules which apply to those other commodities.

Yes!, there would need to be negotiation and agreement for many of these changes at the international level. An example would be a transaction tax on foreign currency exchanges.

I recall suggesting the concept of taxing Forex in a conversation with Minister John Button about 25 years ago – we both thought it was a great idea but neither of us could think how to implement it. However electronics have changed all that and tracking foreign currency transactions conducted electronically does now make this possible, even easy. Foreign exchange is all done through relatively large institutions and hence should be a secure tax stream even though volumes would no doubt reduce from current levels and exchange rates adjust accordingly. Even when Forex involving the $A is conducted away from our shores tax could still be applicable.

There are many A$ (hundreds)billions traded each day in various forms (spot, forward, swaps, options, etc, etc.) in foreign exchange trading rooms. A transactional tax, however small, might reduce this volume to that which is required only for our international trading. Would that not be a good thing? Would this not significantly reduce interest in the $A and hence lower its exchange rate ?

SHARES

The transaction tax would apply to all purchases and sales of shares, share options and similar instruments, as well as bonds and other stocks.. Let us consider a transactional tax of 1%, which is, after all, a not so unusual variation on the stock market prices which can occur each day. At a market turnover of several billion dollars per day the revenue from this is attractive. (Note that for transactions there is a buyer and a seller, each of whom would be levied the tax.)

Effect on share traders. What these new transaction taxes would do, however, is to virtually eliminate the short term speculators, and especially the high-speed traders – the non-genuine "investors". This is a practice which is of great concern to many of us, so we would applaud. (I hear those who are involved in this trading arguing that it does no harm because it improves the "efficiency" of the market, but I have yet to learn what that exactly means and I regard it as one of the finest pieces of sophistry.) It would encompass also the "dark pools" of trading, another practice which worries many.

Tax Imputation. By eventually replacing the taxation of incomes, transaction taxes would eliminate the concerns of some people about the "benefits" of dividend tax imputation. We see only the compelling logic of not taxing the same income stream twice as more than sufficient justification for dividend imputation and it matters not that Australia may be the only country to do it -- the only sensible one! Something to be proud of, rather than joining the pack. The payment of dividends would , of course , attract the normal transaction tax.

(If Treasury is currently contemplating changes to the treatment of tax imputation, could I suggest that it would make some sense to not credit superannuation funds , charities and so on with tax already paid by companies on their distributed dividends, as, those investors are not liable for further tax. By crediting those funds etc. with the tax paid by the corporation, means that that part of the company profit is not being taxed at all. However, for self-funded retirees such as I am and who pay full tax on investment income, it is a different story; for the likes of us as we are talking about not taxing the income stream twice , and the logic of not doing so still prevails.)

Short Selling. Whilst we are discussing the stock market, I recommend that the practice of short selling be banned. Shares are the only commodity which I know of and which can be legally sold without ownership. Any other commodity sold without ownership would be regarded as fraud. It is still fraud even if the commodity is on loan, even borrowed with an option to buy; these do not confer ownership and any right to sell. We should recognise the practice of short selling for what it is and simply ban it.

Capital Gains Tax. The transaction taxes would eventually replace all other taxes, and so in due course there would be no capital gains tax on the sale of shares for example. This should be readily accepted by genuine investors.(Capital gains tax is a stupid tax anyway, because without indexation it is, at least partially, a tax on inflation – totally illogical! It also inhibits the sale of shares which we know ought to be sold because of market or corporate conditions, and this certainly restricts the turnover of stocks.

FINANCIAL INSTRUMENTS

Bank account deposits, transfers, interest payments etc. would be subjected to transaction taxes.

Financial instruments such as mortgages would be subject to a transaction tax for the full value, but of course there would be no stamp duty, so probably very little difference for the average mortgage.

Insurance contracts would also be liable for tax, and could be taxed on the full value of the policy -- a form of wealth tax. However I do not suggest this: The tax should be based on the premium, not the policy value.

TRUSTS

Trusts would not be immune, and all transactions conducted under the umbrella of a trust would be subjected to the transactional tax. Trusts are established for many reasons , and occasionally probably for tax minimisation/avoidance. Be that as it may, a transaction tax system at least corrects the tax avoidance issue.

INTERNATIONAL INCOME.

International tax treaties would need to remain in place and Australians with international income would still need to fully declare their overseas activity and be taxed accordingly.

GAMBLING

The transaction tax applies to all gambling-- casinos, bookmakers, poker machines, etc

PRODUCTIVITY.

We all recognise the improvement possible to national productivity by simplifying tax rules. There would be an army of tax advisors, accountants, lawyers who would be redundant, and whose brilliant minds could be much better employed in adding real value to the community.

A FIRST STEP - A TRANSACTION TAX ON SHARES etc.

I am a realist and know that a complete switch in tax regimes cannot be achieved in one move, not even quickly. But what I do know is that when a strategy is firmly in focus and adopted, the ultimate goal can be achieved step by step, albeit over an extended time.

The ideal first step towards achieving the overall goal of a shift away from income taxes and towards transaction taxes is to apply a tax on share trading. This first step could be implemented quickly and would have many benefits in addition to the tax to be raised; which at the present time is obviously a priority to help in correcting deficits. This suggestion is not novel – it has already been implemented in some European countries. Any new tax, at least initially, upsets the current mix and volumes of business, but what I am suggesting to you should not be a long lasting effect – except perhaps for those who are not genuine investors.

There are many other and important issues on this tax regime to be discussed and they as well as all of those issues mentioned briefly here need to be elaborated, modelled and assessed in depth. However I hope that this outline will have at least initiated a proper consideration of transaction taxes. The advantages are overt and many.

You will see from the brief resume of my career and experience which is attached, that I have had some contact with Governments and their processes. I therefore know not to expect rapid changes, but, I do hope that I may have successfully "planted the seeds "of true and beneficial reform.

C.R.Berglund

Cedric Ross Berglund, AM, ASTC, BSc(Hons).

Ross Berglund has been in business for more than 64 years. He is still active , and is the chairman of Mortgageport, a privately owned mortgage broker and mortgage management group.

With qualifications in chemical engineering his business career soon became one of management in manufacturing and mining. This included:

*John Lysaght (sheet steel), and

*the Lysaght parent GKN (fasteners, vehicle wheels, building supplies, plastics)

* Australian Packaging Industries (steel and plastic containers)

*Gillespie Bros (flour, stockfeeds, bread, chickens)

*Steetley Industries (non-metallic minerals, chemicals) and which later became

* Australian Anglo American (non- metallic minerals and gold mining.)

*Then followed a long period in many other and diverse industries in non-executive director and/or chairman roles. These included:

*Chairman of WorkCover Authority of NSW.

*Chairman of Nationwide Realty franchise group

*Chairman of Manly Warringah Times Holdings (the Northern Beaches Weekender newspaper)

*There has also been an extensive involvement in charitable and not-for-profit organizations. These have included:

* more than 25 active years in the Committee for Economic Development of Australia culminating in Deputy Chairman, and Vice President for NSW. He is an Honorary Life Trustee of CEDA

*President of CAI, the Confederation of Australian Industry (now Australian Chamber of Commerce and Industry)

*President of the Employers Federation of NSW

*Chairman of Opera Foundation Australia

*Director of Burnside Homes for Children

*Member of the NSW State Development Council under both Labour and Coalition governments.

Ross was honoured as a Member of the Order of Australia in 1989 "for service to industry, commerce and community".

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