A Structural Tax Reform Initiative

Background

The majority of Australians now understand that:

- We have a budget deficit problem, which will progressively worsen over time without drastic action to reduce costs, increase taxes, or both.
- Our growing population, with an exploding proportion of the aged within it, will inevitably require more expenditure, not less, particularly on Health, Welfare, Education, Public Transport, Roads, Infrastructure etc.
- The Government therefore has no alternative but to increase tax revenue, one way or another, in order to repair the budget, and provide the services demanded by the public – but what is the least unacceptable option?

GST

Our 10% GST is ridiculously low in comparison to all other OECD countries.

The facts are:

- Approximately $53 billion is collected from our population of almost 24 million people, equivalent to an average cost per person of $2200 per year.
- 53% of our total Goods and Services are exempt from GST, compared with an OECD average of 45%
- GST collected, as a percentage of Total Goods and Services is therefore only 4.7%
- If GST was increased to 15% and existing exemptions retained, tax revenue would increase by $27.5 billion to $80.5 billion, but it would cost each person, on average, an extra $1145 per year
- If GST was increased to 15%, and exemptions were also reduced from 53% to the OECD average of 45%, tax revenue would increase by $41 billion to $94 billion, but it would cost each person, on average, an extra $1716 per year.

Although the governments of other countries have managed to progressively raise their GST/VAT levies, some to greater than 20%, our politicians seem petrified of even debating the possibility. Most Australians have either travelled abroad, or have friends or relatives overseas, and are in principle resigned to the fact that it has to happen one day soon to get us out of the mess we're in. But the lack of political will to make it happen leaves us with no confidence that such an obvious and expected solution for our economic success will ever be implemented.

So we have to find an alternative solution……………..

Proposed 'Transaction Levy'

Instead of increasing GST on less than half of our total Goods and Services, this proposal is for the Federal Government to collect a new tax further up the chain, on all Cash and Non-cash payments made through the Australian Banking System.

The total Cash and Non-cash payments drawn by individuals and businesses are:

• Cash withdrawals from ATMs	$144 billion per annum
• Credit card purchases	$266 billion per annum
• Debit card purchases	$218 billion per annum
• Cheque payments	$1,211 billion per annum
• Electronic transfers including Direct Debits, Bpay, Domestic and International transfers	$5,267 billion.
Total:	$7,106 billion

It is proposed that our Financial Institutions debit each account associated with the above payments with a charge of 1% of each transaction. This would result in additional tax revenue of $71 billion, compared with a maximum of $41 billion from the harshest GST scenario.

Impact

1. Individuals would pay much less in Transaction Levies than if GST was raised to 15%.
It is fair, the less you earn and spend, the less your Transaction Levy
    - Spend $20,000/yr, you pay $200/yr instead of $500/yr
    - Spend $30,000/yr, you pay $300/yr instead of $750/yr
    - Spend $50,000/yr, you pay $500/yr instead of $1250/yr
    - Spend $100,000/yr, you pay $1000/yr instead of $2500/yr

2. Companies transferring funds to any domestic or overseas bank accounts would automatically have a 1% Transaction Levy deducted for all payments.

3. The 1% Transaction Levy on transactions transferred to offshore tax havens to avoid tax on profits in Australia, would partly offset the tax avoided.

4. Australian credit cards used overseas, would automatically have a 1% Transaction Levy deducted when purchases are debited back to the Australian account.

5. Internet purchases are always paid by credit card, and all such purchases, whatever the value, would automatically incur the 1% Transaction Levy.

6. Overseas credit cards used in Australia for purchases or ATM withdrawals would automatically have a 1% Transaction Levy deducted when passed through the Australian clearing system

7. Financial institutions would be responsible for administrating the collection and return to Government of the Transfer Levy collected

Benefits

1. The Federal Government can use the $71 billion Transaction Levy to eliminate the budget deficit each year, until the budget is in balance. The deficit will be eliminated with this one initiative.

2. What is left over should be returned to the States in exchange for the elimination of Stamp Duty. This year the deficit is $40.4 million, so there would be $30.6 billion remaining that can be used to buy out the total Australian Stamp Duty of $22 billion, with a balance still remaining of $8.6 billion

3. The States should share the remaining $8.6 billion to supplement their Health and Education budgets to compensate for cuts in Federal funding in these areas

4. As the deficit reduces each year, progressively more funds will become available to:

    - Reduce company tax, in part to offset the Transaction Levy
    - Adjust personal income tax brackets to reduce personal income tax
    - Reduce tax on Superannuation contributions and earnings to assist lower and middle income earners to maximise their growing superannuation balances. It will be 2040 before the first employees reach age 65 having received employer super contributions all of their working lives. Superannuation Policy should be to ensure that most of the population have sufficient super to support themselves in retirement to age 95, without having to, or being entitled to, fall back on the Aged Pension.
    - Increase funding for the States to improve State services and infrastructure
    - Etc., etc.

5. For individuals the cost of this new levy is insignificant compared with the cost to them of increasing GST, but the benefits are higher:

    - The elimination of Stamp Duty will reduce the cost of purchasing property, and other services currently attracting Stamp Duty
    - Health, Education, Public transport and other services will improve as a result of the increased funding to the States

6. Politically:
    - All of society will contribute, but until the budget is in balance, and reductions in company tax can be considered, companies are initially the major contributors, followed by ultra wealthy high earners. Middle and low-income individuals are hardly penalised at all. Providing this proposal is sold and communicated well, it should be seen as fair, which should hopefully make it easier to get bi-partisan support in the Parliament
    - I see no reason for objection from any of the States, as their overall contribution from the Federal government will increase, and they will no longer have the burden of administering Stamp Duty

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