

Tax Reform Paper

WOW, taking taxation to the next level, and reinvigorating the country. What an opportunity.

Let us create a tax system that is easy to understand, simple to administer and police.

When the current system of taxation was introduced in the middle of last century, the average life expectancy was 3 score and ten. Current research predicts this to be much closer to 100 years by the middle of this century. With this enormous change there obviously needs systemic change to not only keep up, but actually be in front of the game.

In the middle of last century the concept of taxing income was appealing (and probably correct). The changing demographic and additional pressures society places on tax, substantially reduces the effectiveness of this tax on income regime.

To achieve a lower, simpler and fairer taxing of citizens, where all contribute to society, this proposal looks to go back to fundamental analysis.

We need a Government that can adequately provide for the citizens at all levels.

How to raise sufficient tax in the most cost effective, fair and responsible way? All that I have read to date has the same underlying theme: let's tinker around the edges of what we currently have and improve it. Wouldn't we be better off with a world leading approach to tax that places Australia at the forefront of competitive, innovative and constructive taxation, that the world could follow, rather than Australia trying to play catch-up?

The basics:

Every person/business spends money

Not every person/business earns taxable income

The current Tax system:

Over 100 taxes primarily focussed on a reducing number of people/businesses earning taxable income

Huge compliance issues and overhead costs in administering and policing all these taxes

The proposed Tax system:

Focus on just 3 Tax bases, Consumption, Personal income and Business income

Tax rate of (notionally) 10% on income for all, both people and businesses

Consumption Tax rate (notionally) 25% on everything purchased (no exceptions)

Concept expansion

Simplifying the Tax System

The macro picture of the economy is fairly simple when you break it down (refer Appendix "B")

Residents have income, expenses, pay tax and consume products and services. Essentially, it is a consumer pays model.

This paper does not suggest any change to the basic consumer pays model.

What it does however, is attempt to re-balance to money cycle to greatly improve the efficiency, therefore saving everyone money, time and angst.

There should be a focus on the 3 main tax bases, Consumption, Personal Income and Business Income.

There are over 100 others taxes, duties and levies currently in use, however the majority of these, if not all, should be removed.

I suspect that of these other taxes, where over 100 of them contribute approximately 10% to the total revenue, they cost as much to administer as they reap. Not to mention all the work required to keep them up to date. With so many taxes, the opportunity for the discovery of loopholes increases dramatically.

Apart from the enormous amount of work required from the population to try to adhere to all these taxes, it becomes an impossible task, as the goal posts keep moving. The population does not have the time to keep up with all the amendments and therefore has to employ others to perform this task for them (typically accountants and lawyers). No wonder it costs so much to do business in Australia?

With this current system, where the government sets up the population to fail, there can only be one outcome; failure. This results in people receiving convictions for the system failing. Is this system fair?

Focussing on just 3 tax bases, enables the tightening up of legislation where hopefully loopholes are a thing of the past. All the people involved in the formation, administration and policing of these other 100+ taxes can now focus on ensuring that the 3 tax bases are covered much more tightly.

This has the flow on effect of making tax returns for everybody much simpler, thereby affording the opportunity to work toward a much more automated approach to compliance.

Let's take a closer look at the 3 bases.

1. Personal Income

By working on a fair and equitable basis, if every person paid a flat percentage of everything they earned (notionally 10%) then there are several benefits associated with that, namely;

- a. More income to spend and/or invest
- b. No need for complex tax returns (could be largely automated)
- c. Opportunity to better oneself through self-improvement (education, health, lifestyle)
- d. Ability to plan retirement through participation in superannuation and/or investments
- e. The population would have a general feeling of being able to make headway
- f. By having the same tax rate as corporations, removes a key propensity to try to beat the system

2. Corporate Income

By working on a fair and equitable basis, if every corporate paid a flat percentage of everything they earned (notionally 10%) then there are several benefits associated with that, namely;

- a. More income to spend
- b. No need for complex tax returns (could be largely automated)
- c. Opportunity to employ more people
- d. Much more competitive on an international playing field
- e. Better able to be at the cutting edge of technology, innovation and equipment
- f. Enables much more efficient use of available resources
- g. By having the same tax rate as individuals, removes a key propensity to try to beat the system
- h. Trusts should be taxed the same as corporations in all respects – most utilise trusts for asset protection to try to save themselves from the overly litigious society we have become

3. Consumption

If every purchaser of any product or service paid a flat percentage (notionally 25%) then there are several benefits associated with that, namely;

- a. No need to think about if this item is exempt or not. Same rate applies to everything
- b. Truly a user pays system
- c. No exemptions for food, health, education, foreigners, etc.
- d. Input tax credits still apply, so there is no double tax
- e. As the old saying goes – if you want to save money, then don't spend it
- f. Substantially removes the cash market, as tax is paid on all purchases, living expenses, etc.

4. Other Considerations

Excises on community behaviour that negatively impact on all of us, could and should be considered as viable to retain. For example excise on tobacco and alcohol, where these funds are utilised to contribute toward the additional expense incurred by the community in supporting these individuals within the health care environment.

Taxes that are Lower, Simpler and Fairer.

By lowering the business tax rate, business expansion would result. This would lead to investment in plant and equipment, and may even grow our manufacturing base again. This would further lead to a reduction in the unemployment rate. Off shore business would look at Australia as a desirable country to operate within, being a low tax OECD country that supports innovation and has a great lifestyle to boot.

By having business and personal tax rate the same, there would be little perceived benefit in trying to find loopholes in the tax rate differential, therefore substantially reducing compliance (and policing) expenses.

These low tax rates for business and personal income will allow people to see tangible benefits for their toil.

These low tax rates will be offset against a higher consumption tax rate.

Some of the benefits of this structure include:

- a. Tax is automatically tied to inflation – no need to adjust in the future
- b. User pays for services, for example, Health care. Therefore encourages a healthier lifestyle
- c. Dramatically streamlines the tax system and allows everyone to understand it without the need for accountants and lawyers
- d. Completely removes the issue of bracket creep
- e. Not only will a low business tax rate be welcomed by all, it will place Australia very high on the global “place to do business” scale. It will show we are not waiting for anything to happen, we are making it happen
- f. Lead to population increase – more people spending money!
- g. Australia can be seen by the world with a competitive business tax regime that encourages investment, whilst also providing one of the best environments for employees
- h. Substantially reduces the reliance on the shrinking workforce in Australia to fund the tax regime
- i. Focus on achieving a higher participation rate in the workforce

With the Government saying that NO GST change will be forthcoming unless there is “agreement by all states and territory governments” is virtually admitting defeat before the starting gate.

Consumption tax is a Federal issue and should be administered centrally. The states and territories will need to discuss the distribution of funds, as this proposal abolishes all state based taxes.

When crafting tax reform recommendations, among the key factors that need to be taken into account by the government are:

- a tax mix that encourages investment and growth, allowing industry to be more competitive
- the need to raise enough revenue to sustain our vibrant evolving society
- a tax system that allows expenditure responsibilities across our federation to be more efficient
- a tax system to reduce costs to government and the community through simplification.

Costs and Other Considerations

Many societal groups may perceive change will disadvantage them. This is where detailed analysis (including financial modelling) will be required.

A very rough proof of concept budget has been attached in Appendix "A". The figures it is based on are old, however the percentage change as per this proposal are relevant. Yes more refinement is required.

There are other potential areas that could be included in the overall implementation package.

1. Substantially reduce (notionally \$2 for anyone per trip), if not remove completely, metropolitan public transport fares. This would require a serious re-think on how we currently provide these services. Refer Appendix "C".
2. Low income earners would need to be looked at with possibly a once off up front hand-out or increasing the tax free threshold from zero to something else and/or pension adjustment.
3. The most important expenses would be the marketing and the package rollout to sell this to the population. If it is not presented well, it will not be voted for.
4. This is another example of where enormous efficiency can be leveraged through existing technology. Refer Appendix "D".

Overall Summary

The tax system as it currently stands is totally inadequate, complex and outdated. It requires far too many people to administer, modify, evolve, police and interpret. Why not make it fundamentally simpler by getting back to basics?

By having just 3 bases for taxation, the legislation, administration, policing and interpretation would be largely removed, therefore substantially reducing the cost on society and freeing up more money for the welfare of all Australians.

We all know we have to pay tax. We all know the less tax we directly pay the better we feel. The best way to reduce tax is to make the whole system substantially more efficient.

Efficiency is not just cleaning up the processes, but equally importantly reducing (if not removing) leakages. With all the different taxes currently out there, the opportunity for leakage is very high. With this proposal everybody that purchases any item or service, be that food, health care, education, or anything else, contributes to the economy. All foreigners contribute, as they partake in services and purchase items whilst here. (No GST rebates when they leave).

This also reduces the viability for black market or cash economies, although even if they do exist, the participants still have to pay tax when they purchase anything, effectively nullifying the impact of a cash market, i.e. if they purchase anything to resell, they pay tax to buy it and if they choose not to charge tax when they sell it then that is their choice.

This proposal nullifies the problems associated with bracket creep and everyone pays the same percentage.

This proposal also nullifies the need to index any of the taxes. Any change in price and the tax mirrors that change.

There would also need to be a review of the responsibilities and funding arrangements between state and federal. Appears to be a lot of efficiencies to be gained in this area. The split of tax revenue between the states may need some serious discussion.

To round this discussion off, I have included Appendix "C" where a component of a more holistic approach has been discussed. This could possibly be a sweetener for use in the marketing of the whole reform package.

Some may say that raising the consumption tax is a lazy approach to reform tax, however this proposal involves a complete structural evolution.

There may even be a case for the eventual removal of income tax entirely.

The current basis for tax is heavily weighted toward taxing income.

If we think about this for a moment, tax is levied on an ever decreasing workforce and a reducing business presence in Australia (e.g. vehicle manufacturing).

Tax payers are always looking for ways to reduce their tax liability and with over 100 different taxes, loopholes will always be found.

Imagine if there were only 3 much tighter taxes, then tax leakage could be significantly reduced.

Superannuation also requires a re-think. Some of the challenges include:

How to get more into Super for the less well off.

Pay tax on Super earnings once in pension phase.

Reduce Super concessions.

Stop moving the goal posts.

Education is another arena that requires a major re-think, with potentially huge savings possible.

I welcome the opportunity for further comment, clarification or expansion on any of these (or other) discussion points.

All the best,
Greg Ayles

Let's get this great country moving!

Appendix "A"

28.9 TAXATION REVENUE, By level of government

| | 2006-07 | 2007-08 | 2008-09 | 2009-10 | Proposed |
|--|---------|---------|---------|---------|----------|
| | \$m | \$m | \$m | \$m | |
| COMMONWEALTH GOVERNMENT | | | | | |
| Taxes on income | 189 378 | 208 579 | 201 369 | 187 016 | 95,720 |
| Income taxes levied on individuals | | | | | |
| Personal income tax | 115 982 | 124 037 | 123 943 | 121 261 | 60,000 |
| Prescribed payments by individuals | — | — | — | — | - |
| Fringe benefits tax | 3 754 | 3 796 | 3 581 | 3 523 | - |
| Other income tax levied on individuals | — | — | — | — | - |
| Total | 119 735 | 127 833 | 127 524 | 124 784 | 60,000 |
| Income taxes levied on enterprises | | | | | |
| Company income tax | 60 131 | 66 661 | 62 784 | 54 490 | 30,000 |
| Income tax paid by superannuation funds | 7 577 | 11 916 | 9 201 | 6 164 | 4,000 |
| Prescribed payments by enterprises | — | — | — | — | - |
| Total | 67 708 | 78 577 | 71 986 | 60 654 | 34,000 |
| Income levied on non-residents | | | | | |
| Dividend withholding tax | 432 | 405 | 315 | 311 | 300 |
| Interest withholding tax | 1 133 | 1 355 | 1 107 | 840 | 1,000 |
| Other income taxes levied on non-residents | 370 | 410 | 438 | 426 | 420 |
| Total | 1 935 | 2 170 | 1 860 | 1 577 | 1,720 |
| Employers' payroll taxes | 350 | 381 | 377 | 507 | - |
| Taxes on property | 15 | 15 | 16 | 12 | - |
| Taxes on provision of goods and services | 71 452 | 75 863 | 75 141 | 78 865 | 240,000 |

| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Taxes on use of goods and performance of activities | 793 | 834 | 1 098 | 771 | - |
| <i>Total taxation revenue</i> | <i>261 988</i> | <i>285 672</i> | <i>278 002</i> | <i>267 171</i> | <i>335,720</i> |

STATE AND TERRITORY GOVERNMENTS

| | | | | | |
|---|---------------|---------------|---------------|---------------|---|
| Taxes on income | — | — | — | — | - |
| Employers' payroll taxes | 14 358 | 16 022 | 16 922 | 16 796 | - |
| Taxes on property | 19 865 | 20 967 | 16 986 | 20 277 | - |
| Taxes on provision of goods and services | 8 517 | 9 162 | 9 602 | 9 721 | - |
| Taxes on use of goods and performance of activities | 6 129 | 6 980 | 7 117 | 7 743 | - |
| <i>Total taxation revenue</i> | <i>48 870</i> | <i>53 130</i> | <i>50 626</i> | <i>54 536</i> | - |

LOCAL GOVERNMENTS

| | | | | | |
|---|--------------|---------------|---------------|---------------|---------------|
| Taxes on income | — | — | — | — | - |
| Employers' payroll taxes | — | — | — | — | - |
| Taxes on property | 9 405 | 10 129 | 10 866 | 11 566 | 12,000 |
| Taxes on provision of goods and services | — | — | — | — | - |
| Taxes on use of goods and performance of activities | — | — | — | — | - |
| <i>Total taxation revenue</i> | <i>9 405</i> | <i>10 129</i> | <i>10 866</i> | <i>11 566</i> | <i>12,000</i> |

ALL LEVELS OF GOVERNMENT

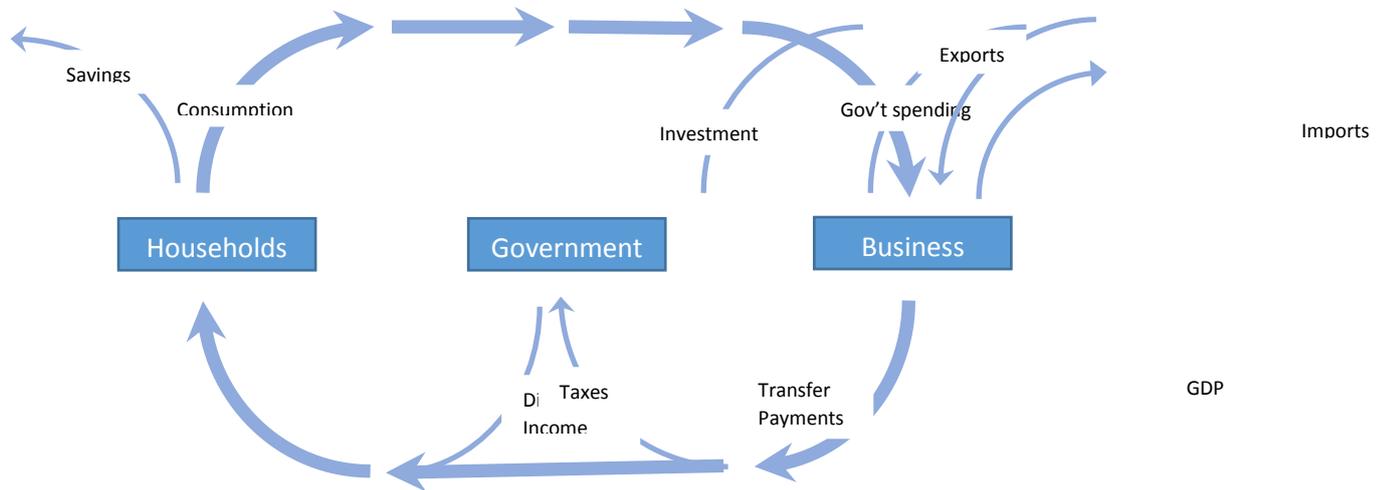
| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Taxes on income | 189 369 | 208 566 | 201 366 | 187 006 | 95,720 |
| Employers' payroll taxes | 14 253 | 15 905 | 16 779 | 16 744 | - |
| Taxes on property | 29 275 | 31 076 | 27 825 | 31 820 | 12,000 |
| Taxes on provision of goods and services | 79 969 | 85 025 | 84 743 | 88 586 | 240,000 |
| Taxes on use of goods and performance of activities | 6 887 | 7 759 | 8 156 | 8 447 | - |
| Total taxation revenue | 319 754 | 348 331 | 338 870 | 332 602 | 347,720 |

— nil or rounded to zero (including null cells)

[Source: Taxation Revenue, Australia \(5506.0\).](#)

Appendix “B”

The Circular Flow of Income (CFoI) ¹



Consumption – spending on goods and services for final use

Savings – only income that is not spent on goods and services for final use

Consumption – spending on goods and services for final use

Investment – Injection into CFoI i.e. purchase of equipment, skills training, intention to increase income

Gov't Spending – As per Consumption, i.e. wages, building maintenance, power, etc.

Exports – Consumption of our goods and services from off-shore (injection into CFoI)

Imports – Consumption of off-shore goods and services (withdrawal from CFoI)

GDP – Gross Domestic Product

Taxes – tax raised from anywhere in the circle

Transfer Payments – social, unemployment etc, which are not paid for actual services

Disposable Income – spent on Consumables or saved

¹ www.staff.ncl.ac.uk/david.harvey/AEF806/Macro.html

Appendix "C"

Public Transport

One of the growing problems within capital cities that have population growth, is that the roads become clogged. As a government what can we do to relieve some of the pressure on our congested road network? We can spend more money widening roads, creating new freeways, bypasses etc, or we can incentivise the population to take up an alternative.

This proposal has a few components to it and adopting a staged approach to implementation will be required. It takes time to put all the components into place.

Increase the number of services provided by public transport. Run rail (trams and trains) say every 5 minutes during peak and every 10 minutes otherwise. Buses would need to be re-scheduled as well.

This would mean that we could completely do away with time-tables as the longest anyone would wait would be 10 minutes.

The cost of providing this service would be; increased employment to build more rolling stock, drivers, maintenance staff, etc. The system managing the network would require upgrading to meet the increased frequency. Without knowing the current systems capacity, we may have to look overseas for a compatible system. Obviously we have learnt from projects like MYKI not to do that again? It is heartening to recently hear of the control system due to be trialled on the Sandringham line in Melbourne.

As many as possible level crossings should be replaced.

Fares could be simplified to a flat fare of \$2 per trip from anywhere metropolitan. This could possibly be reduced to free travel within metropolitan areas.

How do we fund this?

Again without knowing actual figures it is difficult for me to answer, however if the excise as discussed in item 4 above "Other Considerations" was raised by an appropriate amount, that may come close to offsetting the free public transport. Also by removing any exceptions to the GST base and increasing GST to 25 percent (as per some other OECD countries), changes how we look at the cost to provide services. I am sure treasury analysts could put some figures on all this.

The concept of free (or very cheap) public transport will be incentive enough for a fair percentage of the population to take advantage of.

Appendix "D"

Elections including local, state and federal.

Isn't about time we progressed into the 21st century and allowed (compelled) everyone to vote electronically? Include all early, absentee, etc voting, therefore we could know the election result 5 minutes after cut-off time. No need to kill a forest with all the paper, both the election ballot papers and all the hand-outs. Think of all the people involved being able to get their lives back.

The population can bank online so why not vote? For those that don't have access to a phone or the internet, there are free public libraries, etc that can accommodate them. Easy to restrict people to only allow them to vote once and also identify those that have not voted. No re-counts, yah!