

Australian Libertarian Society Submission to the Henry Tax Review
1 May 2009

Dear Sir/Madam,

Thank you for this opportunity to contribute to the important debate about tax policy in Australia. The following submission is a collection of views from members of the Australian Libertarian Society (ALS).

The ALS promotes the idea of self-ownership and individual liberty. This includes a belief that, where possible, society should be coordinated through voluntary interaction and not through the coercive power of the state. Consequently, the ALS is a strong advocate for revenue-negative tax reform.

The last 100 years in Australia (and the western world) has seen a continued growth in the size of the state, and a consequent reduction in the scope for the voluntary sector (both the for-profit "market" and the not-for-profit "civil society"). This has not been reversed over the last 30 years of so-called "neoliberal" reform. In the past year, Commonwealth spending has increased by a massive 4% of GDP. As government spending must be paid for through current or future tax, government spending is the most accurate measure for the real tax burden from government action.

While the government claims that their current measures will be temporary, it is worth remembering that the income tax was also introduced as a temporary measure. To quote the famous libertarian economist Milton Friedman, "there is nothing so permanent as a temporary government measure".

The ALS is worried about this trend, and would like to see a reduction in both tax and government spending. As this review is concerned with tax policy only, this submission does not include suggestions for spending reform. However, we note that nearly \$100 billion of government spending comes from taxpayers and then goes back to the same taxpayers, and addressing this pointless churn offers significant scope for tax and spending reductions.

The argument for tax cuts is both moral (voluntary interaction is preferable to coerced interaction) and utilitarian (a free market works more effectively than government controlled spending). The efficiency costs of tax include deadweight loss (estimated at 20-40% for income tax), administration costs, compliance costs and rent-seeking costs. Reducing these costs would allow more resources to move to productive pursuits, improve allocative efficiency and foster dynamic efficiency leading to stronger economic growth and more opportunities for all segments of society.

The below suggestions are a summary of comments from the members of the ALS and do not represent an official position of the ALS. The various suggestions are independent from each other, and may not be consistent with each other. A more detailed list of suggestions are available at <http://blog.libertarian.org.au/2009/01/09/libertarian-tax-ideas/>.

Kind Regards,

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Tax policy reform suggestions:

- * No new taxes and no tax increases.
- * Increase the tax-free threshold (TFT) so that no low-income earners pay income tax.
- * Index the TFT to nominal GDP growth, to ensure that low-income earners do not get caught in the tax net.
- * Replace the Low-Income Tax Offset (LITO) with an increase in the TFT so that the withdrawal of the LITO does not increase the marginal tax rates. Currently, the withdrawal of LITO increases the marginal tax rates by 4% for people earning between \$30,000 and \$60,000.
- * Honestly report the marginal income tax scales. Currently, the marginal tax rates are hidden by not accurately showing the impact of the Medicare Levy and LITO on marginal tax rates. The Medicare Levy adds 10% to the marginal tax rates of some people, and LITO adds 4% for some people, but this isn't reported in the published marginal tax scales and so is not widely understood.
- * Consider the introduction of voluntary taxes, which can be added to the income tax at the discretion of the taxpayer and can be allocated to the government program of their choice.
- * Devolve income taxes to the States and allow income tax competition between different jurisdictions. Alternatively, devolve all taxes to the States and have the Commonwealth government funded by grants from the States.
- * Introduce a balanced budget rule.
- * Require government borrowing for investments to only be repaid from the proceeds from those investments, and not from general revenue.
- * Politicians entire income to be subject to the top marginal income tax rate.
- * Capital Gains Tax (CGT) exception for the sale of small businesses, so that successful small businesspeople aren't punished after a lifetime of building a successful business.
- * Remove income tax and penalty rates on all hours worked over 40 hours per week.
- * Give small businesses the opportunity to pay their GST as a percentage of their turnover.
- * Allow a GST discount to businesses based on their number of full-time equivalent employees per year.
- * Allow all GST to be paid in arrears.
- * Income tax to be paid in arrears, as is the case with Singapore. This can be paid as a lump sum at the end of the year, or with a payment plan that distributes tax payments over the following year (without interest) and into further years (with minimal interest).

- * Replace income tax with a compulsory savings account, with withdrawals only allowed after the savings account exceeds a set limit. Saved money under the limit could be used as superannuation savings (ie only usable after a certain age), or alternatively could be used for self-funding of certain approved purchases (education of children, health insurance, etc).
- * Remove company tax. The vast majority of company tax revenue will still be raised through the income tax. Effectively, the only difference would be to make re-invested company profits tax-free (encouraging business growth and avoiding problems of tax liability for variable-income businesses) and reducing the tax paid by foreign investors (thereby increasing foreign investment and economic growth to the benefit of all Australians).
- * If a price is added to carbon (through a tax or trading system), ensure that this is linked to offsetting cuts to income tax, fuel tax or other taxes. Ideally, these offsetting tax cuts should be larger than any carbon price.
- * Abolish as many taxes as possible, specifically including payroll tax and CGT.
- * Equalize alcohol tax down to the lowest rate of tax per alcohol.
- * Remove sin taxes. Taxes should aim to equitably and efficiently raise money for government programs and not social engineering.