

Taxation Review Submission 2009 ... *Australia's* future tax system

By

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Objective

The substitution of a transaction based **electronic transfer tax (ETT)** for the entire array of income taxes, property taxes, product taxes, license fees and other government charges to both simplify taxation collection, provide increased revenue by diverting money currently wasted on accounting, compliance or avoidance mechanisms into the tax stream thus allowing lower real rates of taxation.

To achieve this requires acknowledgement that the real cost of taxation is not the amount of money actually paid to government bodies but is far greater and includes the cost of borrowing funds to meet partial or periodic payment of taxation due, the cost of complex and often artificial accounting practises to reduce nett taxable profits and the costs of exotic tax schemes employed by wealthy individuals and companies.

If these activities are rendered unnecessary with part of the savings being left in the hands of citizens and part swelling the taxation revenue the benefits will include reduced government and citizen expenditure on lawyers, courts, and insolvency experts, redeployment of tens of thousands of taxation staff to other parts of the government to provide needed services then a new system can truly benefit all sectors of the community, in fact being the closest to the legendary win, win, win situation that can be achieved.

The System

The electronic transfer tax (**ETT**) operates through the banking computers of both the banks and the non-bank financial institutions by deducting an additional 1% of the nominal payment shown on all transactions and transferring the funds direct to the government at the completion of the transaction.

Cancellation of a transaction would result in automatic refund of the taxation deduction.

Based on the detailed calculations of Fulbright Scholar economist Professor Feiger in the United States, and research by eminent mathematical physicist Dr. Frank Coningham in Australia, a 1% deduction would produce approximately double the revenue of all the current taxes at any given time even if government accounts are not taxed. Taxation of the government accounts would be revenue neutral on any given day but would allow very precise control and monitoring of the bank computers by the designated security service.

As his attached paper shows, in his calculations Professor Feiger sought to split the taxation deduction in two, allowing .5% deduction from the payee's account and .5% from the receivers account. Superficially this appears to provide greater social equity but if the payment is made in cash by withdrawing the amount required from an account the second .5% can escape the revenue cycle.

A full 1% deduction means each transaction is taxed only once and taxed fully.

The so-called “cash economy” may partially escape the system in the short term but since cash must be drawn from a bank at some stage the tax is collected. Periodic replacement of large denomination notes with new designs and the recall of all old notes by the Reserve Bank will defeat any system of cash hoarding without affecting normal cash usage.

Paradoxically the detailed investigations show that major product prices will be substantially reduced for locally produced product. It will in fact provide benefits to Australian manufacturers allowing them to compete better with imported products.

Part I Principles.

This submission is based upon the following guiding principles:

1. That taxation be based on the need to raise adequate funds for government services and not for social engineering purposes. Adequacy is defined as the funding necessary to provide services at a more comprehensive level than currently exists and recognises that changing circumstances has imposed higher demands on government funds. The level suggested is approximately double current government receipts.
2. That any new taxation system must not allow exemptions or immunity for any reason for either persons or organisations, including charities.
3. That all persons and organisations be taxed on exactly the same basis.
4. That a transparent system of government subsidies or payments be substituted for any system of tax deductions.
5. That any capacity to bankrupt individuals or liquidate businesses be legally removed from any government taxation authorities.

Part 2 Current Shortfalls

- a). Conflict between a government and the people is both destructive and self defeating. The current taxation system is based upon the need to force citizens to report earnings and to pay tax accordingly. No provision is made for recognition of incapacity to pay.
- b) The system is predicated upon the assumption that there will be a widespread aversion to payment of taxes resulting in dishonesty that requires substantial punitive powers to be exercised at the unfettered discretion of relatively junior officers. The result is that the Australian Taxation Office is the most distrusted and disliked government authority in existence. Even the agreed necessity for the collection of taxation cannot ameliorate the negative image.
- c) The court systems of the states and the Commonwealth are clogged with thousands of cases initiated by the Australian Taxation Office. This has two effects: (1) the guaranteed expansion of any taxation debt to levels which produce either sustained hardship or bankruptcy (2) the diversion of large amounts of funds into the pockets of the legal profession even though the law is currently couched in terms (reversed burden of proof requirements) which prevent decisions in favour of the taxpayer in all but rare cases. It is normally a legal impossibility to prove what you have NOT done. Even if you can prove what you did do the legal provision for “deeming” in multiple circumstances ensures that the courts find in favour of the Commissioner for Taxation.

d) Large amounts of money are wasted by individuals and businesses generating records and returns to satisfy taxation office demands. There are more productive uses for this wasted money.

e) The current system includes bonus payments for taxation officers providing motivation for those officers to artificially inflate taxation assessment for personal benefit. The ATO denies the existence of these bonus payments but copies of the schedules were obtained some years ago and can be produced in a forum capable of terminating the practise.

Part 3 Taxation Returns.

a) It has already been proven in countries such as New Zealand and Brazil that taxation returns are unnecessary for most of the population, e.g. 80% of the Brazilian population is not required to file taxation returns.

b). Adoption of this practise would allow reduction of the number of taxation office staff by 10-15,000 with a concurrent reduction in the cost of compliance enforcement.

c) However the retention of tax returns in any form requires the retention of the current philosophy and corporate culture which will inhibit future development.

Part 4 21st. Century Taxation

a) The fundamental requirement for a new taxation system is the adoption of a system which operates seamlessly with current technology, eliminates the need for thousands of pages of almost indecipherable taxation law, automatically sets, checks, and collects the right amount of taxation, eliminates the need for decades of document retention, simplifies record keeping yet delivers sufficient revenue for government purposes.

b) The question is whether we need to continue a complex system of multiple taxes targeted for different social purposes and acting as part of the government control mechanics or whether that set of functions can be abandoned.

c) An essential part of this discussion is whether we are prepared to be honest about separating and abandoning control of the population via taxation.

d) At the minimum this involves being brutally honest about the efficacy of taxes as a control mechanism. Long experience shows taxes have done little to reduce the use of tobacco or alcohol and where there is a demand for a given product or item are more likely to give rise to alternative tax-free methods of delivery e.g. the "moonshine" distilling industry which arose in the US during the prohibition era and which continued to flourish as a tax-free liquor delivery system after prohibition was abandoned .

e) A major negative feature of the current taxation system is the complex array of taxation deductions or part deductions available to different members of the population or groups within it. With the exception of few highly trained persons there is no universal principle applied.

f) The preferable system is one which allows no confusion or anomalies. The only method which guarantees this is a system which allows no deductions for any reason. This has the additional attraction of forcing questionable deduction practises into public awareness, such as the existence of quasi-charities which are little more than vehicles to allow tax deductible funding of everything from politics to personal sporting interests.

g) Along with this elimination of deductability is the second and most controversial feature of electronic transfer taxation (**ETT**) operation – its application to all accounts in bank and non bank financial institutions including government accounts.

h) In short all account transactions both government and private would be taxed and no deductions allowed. The taxation system would become a revenue delivery system which provided funds to the government on a daily basis eliminating the need for government to borrow to maintain funding of day to day operations and expenditure. The potential revenue figures indicate that even major projects will be fundable without borrowing. The long term benefits of this escape from government debt cannot be overestimated.

Part 5 Actual operation

a) The Australian banking system relies upon modern computer technology to administer and protect the funds in their possession. Despite a continuing increase in both total volume of transactions and the individual number of transaction the banks have been able to achieve record profits with ever smaller numbers of staff. This is a direct reflection of the continuing shift from cash transactions to electronic transactions.

b) Australian citizens have adopted electronic techniques such as telephone and online bill paying, widespread and almost universal use of credit and debit card facilities, and even the law courts have introduced electronic financial transfer provisions for fees, fines etc.

c) However technological development of taxation collection systems have only moved from manually produced forms to electronic versions of the same forms and electronic models of various industries to allow detection of businesses whose accounts appear to be at variance from the common models. The basic procedures remain unchanged because the system is based upon universal distrust between citizens and the taxation authorities. Fundamentally the system is designed around the need to provide for voluminous records of income, expenses, legitimate deductions and the need to understand incredibly complex tax laws and regulations.

d) The system is designed to add specially written elements to the banks' computer operating programs to allow identification of transactions, the automatic deduction of the extra 1% and the automatic transmission of all collected taxes to the government on a daily basis. Given that the banks are government supervised and guaranteed there is probably no higher level of security possible for the collection of tax.

Part 6 Business Reaction

a) In previous discussions with government the question has been raised of the probability of company restructure to create vertically integrated businesses thus avoiding the taxation of internal company transfers.

b) This reintegration would be a reversal of the policies which have arisen from the current taxation system where many companies found major tax benefits by splitting into separate companies dealing with different aspects of the overall business. The classic example in Australia was the aluminium business which originally was integrated from bauxite mining through alumina production to finally smelting but split into component units about 25 years ago. The split cost the Victorian government about \$2 billion in subsidies to the component which no longer had artificial price support from the vertically integrated company.

c) On the other hand major manufacturing companies consulted about the potential effects on their businesses were able to identify significant savings in production costs by the elimination of current cost penalties resulting from the taxation system.

7. Transition

a) A great deal of thought has gone into the transition from the current system to the **ETT**. Revenue benefits are greatest the faster the system is introduced. It is therefore suggested that a changeover date be set similar to that involving the transition to decimal currency in February 1966.

b) Whilst this would allow some companies, businesses and individuals to escape their outstanding taxes at that time the same companies, businesses and individuals would never again escape tax on the same basis. In the long run the result would be beneficial for the society to totally eliminate tax cheating and avoidance whilst gathering the necessary revenue to amply, even generously fund public services and facilities.

8. Technical Aspects

- The Electronic Funds Transfer network in Australia is huge and all encompassing. There are some 556,000 EFT terminals currently in use and this number is continually growing.
- It is totally flexible in design as a matter of need.
- It is stable, tried and tested, secure and efficient... if it weren't, it would no longer be in operation.
- The system is based and reliant on secured software control of dedicated and also secured hardware.
- The communications WAN and LAN systems interconnecting the network are very sophisticated and technically structured to meet and exceed the expectations of total data traffic encountered by the system.
- All of this is in place in Australia right now and is continuing to grow in ability and integrity as the system continues to evolve to cater for the continually changing financial marketplace.
- **Hardware Implementation**
A surprising feature of the technical implementation of the **ETT** Tax system is that all of the hardware requirements are already in place throughout all of Australia via the country's banking, business and governmental financial transaction systems.

Ever since the populace of Australia has been all but totally converted to Electronic Funds Transfer (EFT) this technology has been continually developed to cater for the massive task of ensuring that the actual process of transfer of those funds is undertaken in a totally transparent and efficient manner under total security.

The hardware required to undertake this job, which in general takes the form of Auto-Teller banking type machines (ATM) and EFTPOS point of sale machines exist and are maintained at a very high standard of technical operation purely as a function of need.

As generational change of the technical hardware is required this has always been achieved seamlessly and introduced via planned and controlled rollout of the new technologies.

Summary:-

In terms of technical hardware required for the implementation of the **ETT** system we need to do very little... it's already there.

- As to the cost of implementation, that too would be from negligible to next to nothing as well when considered with size and complexity of the overall system.

- **Software Implementation**

The software structure of the Electronic Funds Transfer system provide for the functionality and the control of that functionality for the EFT system.

They are technical and complex by necessity.

The design architecture of the EFT system has been designed prior to and during the present day life of the system and is continually being amended and up-graded to suit the needs and specifications of the system as conditions and parameters change.

This is a natural and necessary design feature of any electronic software control system.

The implementation of the **ETT** Tax system is nothing more than one of those amendments / upgrades. The system design is already in place to cater for such change.

Software changes would be required as it would be for any other change to the system parameters. The implementation of the GST in 2000 would be a clear example of this and this was achieved over a relatively short period of time with not too much negative impact to the operation of the system.

The software alterations required for the implementation of the **ETT** tax would be considerably less than that which was required to implement the Goods and Services taxation system.

Removal of the current system parameters relating to the GST and various other taxation burdens would be considerably more than that required for the implementation of the **ETT** system.

Software security systems for both the software and hardware operation of the system would also need to be redesigned and altered to cater for the system changes however it must be remembered that this would be a requirement when any change to the system is undertaken.

Possibly, the most required security enhancement would surround the continual auditing of the software of the banking and 'point of sale' entities charged with the responsibility of retrieving and passing on the **ETT** transactions. This would probably be a function of the governmental **ETT** collection agency.

Summary:-

- In terms of the technical software required for the implementation of the **ETT** system,,, yes there would need to be alteration but no more than would be required to undertake any other change within the system.
- Consequently, the cost of implementation would be no more than is experienced during the alteration of the system to accommodate any change of parameters. ie interest charges and fees.
- The software system of the EFT system is already designed (or should be) to provide for up-grade and alteration.

This has been continually demonstrated with the system currently in place by the many and varied parameter changes that occur within the banking system of Australia almost daily.

Overall ETT Summary

The proposal is for a new taxation system to completely replace ALL current taxes which would increase the take home pay for wages earners; reduce total costs for business even though the tax collected would be higher the reduction in costs would produce a nett gain; a system with the smallest possible collection costs thus providing even more benefit to government than the simple increase in basic revenue; a system which eliminates the need for government borrowing in most circumstances even for major project funding; and at the same time relieves every taxpayer (including businesses) of the need to keep records for taxation purposes removes tax returns and BAS statements and eliminates possible legal action over tax problems.

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