

I argue that the tax and transfer systems can only be most effectively improved if we first take this opportunity to overhaul the monetary system. By enhancing the technology embedded in our monetary system, we can achieve several desirable objectives:

- Reduce crime.
- Enforce end-to-end electronic audit trails for all monetary transactions
- Make the tax and transfer systems fully electronic and largely automated, so that the collection of taxes and distribution of transfers is as efficient as possible.
- Such a system would be much more capable of real-time analysis for the purposes of calculating GDP etc.

The proposed changes have the intent of streamlining and simplifying existing taxation arrangements, without departing substantially from the familiar overall structure. Structural similarity is retained in the tax and transfer systems during the initial transition phase of the monetary system changes in order that the consequences of the proposed changes can be forecast more reliably and the transition effort eased as far as possible. This is because the proposed initial focus is on upgrading the monetary system to allow subsequent enhancements to be implemented to the tax and transfer systems. However, although the overall structure is retained there is a strong focus on simplification.

Streamlining is achieved through measures such as removing boundary cases and special exemptions; this will reduce compliance costs. However where a compelling case exists for special consideration, a technologically enhanced monetary system is much more capable of handling such exceptions economically.

It is proposed that most taxes should be removed in favour of broad-based, blindly applied general taxes. Personal income tax becomes a flat rate on all income (salaries, real capital gains and fringe benefits). The tax-free threshold is removed. The personal income tax flat rate is matched to the corporate tax flat rate. If the terms of reference had allowed, I would have proposed setting this flat rate to 33% and increasing the GST rate to the point where tax revenues were sustained on a before/after basis. Seemingly as rises in the GST rate fall outside the terms of reference, the flat corporate/personal-income tax rate must be adjusted to be revenue-neutral.

Technology should be leveraged for its capability to allow substantially different monetary systems than have historically been used. This includes systems for collecting tax revenues and distributing transfer payments. This is hinted at in passing in the review, on page xix which reads "Improving technology is making it administratively feasible to replace some taxes with direct user charges."

By the end of a series of suitable phase-in periods:

1) All mobile phones sold in Australia are to have a set of required capabilities:

- place and receive voice calls
- GPS
- Bluetooth
- multi-biometrics (eg facial, voice, finger)
- identity representation (ie the ability to be used as an electronic form of id, similar to e-Passport).

2) All Australians or visitors of primary school age and older to be issued with a government-owned mobile phone. At the individual's option a different (standards-conformant) phone may be used instead in which case the government-owned phone must be returned to a provincial govt office. Multiple models of govt phone to suit young children, the elderly or infirm, and particular disabilities. Some mobile phones models may be quite simple -- eg suited to a wristwatch form factor.

- 3) All Australians or visitors of primary school age and older to be issued with a standards-conformant personal banking account (selected from any accredited bank) and an associated telco account (selected from any accredited telco). Their phone will be linked to these. As part of the process of receiving government accreditation to participate in our monetary system, telcos and banks must offer zero-fee no-frills accounts so that the basic tasks of participating in the monetary system can be done at no cost. (Of course, these no-frills accounts may have commensurately greater charges for extras.)
- 4) Phase out cash. All monetary transfers within Australian borders to be conducted by electronic transfer using the phone or a conformant Internet-based banking user interface.
- 5) All interactions with civil services to be by phone -- tagging on/off public transport, hospital admissions, medicare reimbursements, as a driver's license etc
- 6) Consumption/excise taxes are levied directly by the govt, via electronic transfer from the purchaser's bank account at the time of purchase.
- 7) All proof of identity to be by use of the phone or a Passport.
- 8) All business entities in Australia also have a bank account. People authorised to make payment on behalf of the entity will have the appropriate bank account linked to their electronic payment interfaces. Simple payment authorisation structures can be encompassed by the phone's interface. More complicated authorisation structures (involving approval limits, multiple signatures etc) are handled by the richer, computer-based GUIs.
- 9) All salaries are paid electronically, and the flat-rate income tax is levied at this time. The compulsory superannuation contribution is also made into one of the ratified superannuation accounts that is linked to that person's bank account.
- 10) Visitors to Australia deposit all physical currency at the border, and pick up their phone/bank-account/telco-account. The same amount of the same currency is given back to them at their departure point. Cash cannot be taken into the country, in an attempt to avoid large amounts of paper currency becoming available within Australia that could then be used as a ghost currency in the grey/black markets.
- 11) Remove the excise on tobacco. Tobacco products can only be purchased by a person who has a prescription from their GP for a particular rate of tobacco consumption. Over time the person must cooperate with their GP to reduce tobacco consumption. All tobacco products become prescription-only and addiction is a prerequisite for prescription -- ie no new addicts. The end-goal is that tobacco products will become illegal. They cost the country far too much in health costs and lost productivity.
- 12) Additional (ie over and above GST) taxation on alcoholic beverages can remain but is to be based solely on percent alcohol.
- 13) Fuel excise is to be increased to offset the loss of tobacco excise.
- 14) Remove all taxes not specifically discussed elsewhere in these recommendations.
- 15) Replace the local and state government tiers with a provincial government tier. Many more provinces than there were States, but many fewer provinces than there were local councils. The State governments are so large that there are always disputes or competitions about whether something properly belongs in the State or Federal spheres. The local governments are so small that there is never any dispute about their spheres of activity. There should be only two tiers of government:

- A Federal government that handles all the big stuff.
- Provincial governments that handle all the citizen-facing and geo-centric stuff. Each province elects their Federal parliamentarians.

Obviously such a change has huge systemic ramifications but the potential efficiency implications for taxation and transfers are substantial.

16) Corporate, income and GST tax revenues are mostly levied based on interactions/transactions that occur in a physical location. Or they involve entities that have primary addresses which are themselves a location. Taxes flow to the Province based on this notion of the physical location of the activity that attracted that taxation event.

17) The actual taxation/monetary/transfer systems are all managed federally.

18) Federal government expenditure responsibilities may require a redistribution from provinces to Commonwealth.

19) A new policy objective for the tax system is specifically adopted: that the tax system shall not be used to accomplish social objectives. It shall be designed with the policy outcome of efficiently collecting money from the tax base. Social objectives shall be accomplished solely through the transfer system, where their true cost and benefit can be more readily calculated and they can be most efficiently administered.

20) Torrens property exchanges will be exempt from GST.

21) Transfers of wealth from deceased estates are gifts.

22) Gifting personal property (including money) to another person does not attract GST. The transaction must be marked as a gift at the time (tick the box during the phone-to-phone transaction). Gifting personal property/money to a business entity is treated as a taxable corporate revenue unless the entity is not-for-profit.

23) Resources royalties continue (including on petroleum etc).

24) There will not be a fixed retirement/pension age per se. Instead individuals will be assessed for their ability to continue working. Those with some disability (including decreasing ability due to age) will, at the stage where that disability becomes sufficiently severe as to preclude them from the workforce, become eligible for a pension. This is only received if they do not work -- indeed their eligibility is based on the understanding that they *cannot* work. The disability pension is intended to be sufficient to live off. This pension is means-tested.

25) The pension age becomes a 'floating' value pegged to the national average gender-specific life expectancy for a 25-year-old born in the same year as the prospective pensioner. Those who reach this pension age without already having become eligible for the pension due to an impaired ability to work, will at that age be eligible for the pension. Once the pension age is reached, the retirement pension is received regardless of whether the recipient continues to work. This pension is means-tested.

26) Payments made under the transfer system are not taxable income.

27) FBT exemption categories should all be removed.

28) No Medicare levy (just incorporate it into the flat-rate income tax).

29) Distributions to shareholders are treated as any other company expense for corporate tax purposes (ie they reduce the company's corporate tax burden) and are treated as any other income for personal income tax purposes (ie they are taxable).

30) Capital gains are derived either from assets that were earned as fringe benefits (already taxed as such), purchased using after-tax personal income (already taxed as such), or gifted from other parties who had already paid the tax burden for the asset. Therefore capital gains tax is a form of double taxation and should be removed in favour of an increase in the GST rate. However that is beyond the scope of the terms of reference. Therefore, I propose instead that CGT should be applied only to those assets where an institution with reporting obligations already keeps track electronically of those assets' values -- shares and similar instruments traded on managed markets, land. This means that the CGT can be automatically calculated and deducted during the transaction where the capital gain is crystallised.

31) The customs excise becomes a charge levied against importers to recover the costs of inspecting the imported goods -- ie a cost recovery of the public resources being used to carry out the customs service. It is no longer regarded as a means of raising tax revenue -- the loss of this revenue source is offset by increases in the GST rate (or by increases in the broad-based taxes, seeming as GST rates are sacred). The value of the imported item is not the basis for the levy.

32) Intertwined taxes should be removed one at a time over the transition period so that price gouging market distortion attempts can be monitored more easily.

33) Deductions should be removed from the personal income tax system. The overall intention of most of the recommendations in this submission is that the tax system should be "blind", inflexible, simple and efficient.

34) The Medicare claims reimbursement system becomes wholly electronic and automatic at point of sale. If a delay in payments is necessary to ensure the viability of the system, that is acceptable provided that the system must move to a purely automated electronic form.

35) Increase the compulsory superannuation contribution rate to 15%, by 0.5% increments per annum.

36) Remove the \$450 monthly earnings threshold from the compulsory superannuation scheme. Now that all payments are automated and electronic, the argument of an administrative burden rings false. All income should be taxed at a flat rate, and all labour income should be concomitant with a superannuation contribution.

37) If a self-employed person pays themselves (or someone else for that matter) a salary, that salary should be concomitant with a superannuation contribution.

38) A cap-and-trade CPRS to incentivise decreased emissions in Australia.