

Dear Greg

FOLLOW UP

Following last Thursday's consultation (which I enjoyed) there a few things I would like to follow up.

1. I did not understand your comment about the possibility of land value taxes being shifted forward into prices of goods and services. So far as I know, there is no theory or evidence for such a proposition and it is opposed by economists from the Physiocrats to Feldstein. (However, I do agree an arbitrary above-market price imposed for the use of land or a natural resource can be shifted forward: but that is not what a tax on land values - capitalized economic rent - does. Your comment is, however, a warning against creating artificial scarcity of resources such as water or air and associated monopoly rents. Was that what you had in mind?)
2. I queried some time ago the negative tax rates for superannuation shown on pages 251-252 of the August 2008 paper on "Architecture of Australia's tax and transfer system". What are the figures used? Is there a spreadsheet which can be checked? I would have thought the tax rate for superannuation was between 0 and 15%.
3. As for the tax-transfer overlap shown on page 230, a lot of this mess could be disentangled by allowing family income splitting with a \$ for \$ income test on the recipient for social security purposes. Some of this was discussed in EPAC Council Paper No 35 of 1988 on "Income Support Policies, Taxation and Incentives". You will always have problems if you don't adjust the individual income tax unit for inwards and outwards income transfers. I attach a paper on the taxation of shared family incomes which deals with some of these issues.
4. As regards user charges being disguised (and very destructive) quasi-taxes, I refer you to the paper Terry Larkin and I did for the BCA in 1993 on "A tax relief system for Australian exports" ISBN 0 909865 56 6. As soon as you abandon short run marginal cost pricing and move to full cost recovery "user charges" based on notional or fictitious costs you are engaging in destructive tax farming. The excess burden of such charges is as huge as it is hidden.
5. As for imputation, please also see the paper Terry Larkin and I did for the Tax Research Foundation on "The Taxation of Company and Business Income" (Research Study No 25, 1995). There is no real justification for cutting back imputation as a "trade off" for corporate tax rate reduction.
6. The corrosive effect of income tax on law and morality has been largely ignored. A system of taxation which requires mass surveillance of the population and their financial transactions to ensure compliance is anathema to British and Australian constitutional and common law foundations. Taxes are gifts from the people to the Crown, as Pitt the Elder observed. They are not feudal dues owed to the Crown as of right. That is why tax laws did - and should - receive a strict construction. The people we elect to parliament are not there to dissipate our stores or allow Ministers to claim more than the law strictly allows. Unfortunately, hard-ball revenue collecting tactics blessed by complaisant Courts simply mean that taxpayers go underground and settle the account another way. This generates a vicious spiral where public morality becomes the casualty. If you treat people as criminals, they will become so and civil society is thereby degraded (as was the case with the convicts

sent out to this place some 220 years ago). I do not like a tax system which has an inherent tendency to turn people into either screws or toadies. Honest men are neither.

7. Finally, yes, I am an abolitionist. I would abolish all taxes save a charge on the unimproved value of land (including natural resources). But if that is not to be done, at least give Australia some competitive advantage by using land value charges (e.g. a Federal infrastructure rate) to slash taxes on (mobile or evanescent) labour and capital.

I am, of course, happy for you to place this note on your website as a submission.

Kind regards

Terry Dwyer