

If these comments do not fit neatly in the confining pigeonholes of the preferred questions, I trust there will be an open mind.

SUBMISSION

1. Think Big

One reason our Income Tax is so complicated is the disproportionate reliance on income tax. Why income tax? Other countries are not so reliant. In Hong Kong, paying tax is almost a voluntary undertaking because revenue is raised from land releases. Singapore has a full tax system, but the rates are laughably low because of the revenue raised through the public superannuation system.

For example (un-analysed examples):

- (a) The Australian dollar is a highly traded currency. Trades are dominantly of a speculative nature rather than trade-based nature and so do little for our economy other than provide a base for 24-hour trading. Trades may reach \$3 trillion daily. Impose a Currency Transaction Development Levy and lower all tax rates.
- (b) Australia is a giant quarry. What we dig up, we don't do anything successfully with (look at the Port Headland iron ore pellet plant; look at the absence of heavy manufacturing). We ship it overseas. Impose a significant tax on all such exports and abolish all company tax for public companies. Abolish it entirely. It would be necessary to exclude what L.C.B. Gower has called "incorporated partnerships" and to enforce distribution to shareholders, but we have had that before. What an incentive!
- (b) Australia has vast open spaces, unpopulated, with the most stable geological structures. Build a port, rail and a large underground storage facility. Accept – for a very heavy fee – the world's mid-level and high-level waste, store them underground and reduce all income-tax by 50 per cent. Then, in 50 years time, sell it all back to a fuel-hungry world for further refining and enrichment and abolish the rest.

"When there is an income tax, the just man will pay more and the unjust less on the same amount of income."

Plato 428 – 348 BC. *The Republic*

2. Separate to simplify

Our tax system is complicated unnecessarily by intermingling different and at times conflicting goals. Taxing income, taxing capital and welfare system transfers are three different goals.

For example:

- (a) The collection of tax is quite logically separate from transfer system elements of Family Allowance Part A and Family Allowance Part B, yet intermingled;
- (b) The capital gains provisions of ITAA are different in concept, different in design, different in drafting, different in ideology (the modern economists' view of income as any gain in contrast to the traditional view of income developed over centuries) and the attempted marriage is illogical, intermingled and complicated. (Look at the Commercial Debt Forgiveness rules!)

For simplicity and transparency, these three should be entirely separate.

3. Follow the money

For example:

- (a) When Whitlam first proposed a tax on fringe benefits, he proposed taxing only car benefits and one other. That was where the money lay. I understand (I am not sure -- it should be checked) that in New Zealand only a few major fringe benefits are taxed. Instead we have the outrageously Byzantine Fringe Benefits Tax. The absurdly zealous pursuit of the tiniest benefit is disproportionate to the cost to revenue and compliance. I am aware that taxing some benefits and not others may lead to distortions, but how many home lap-top computers can a person use?
- (b) Of the 125 'small' taxes you identified, how many can be got rid of?

4. Get rid of the rubbish

You probably do not understand just how many small and medium businesses are driven to cash and to consciously ignore legal obligations and assume risks because of administrative complexity. TaxPack is now in two volumes; each one is more than the average Australian reads in a whole year.

For example:

- (a) The ABN system was designed to prevent the outbreak of the cash economy when the GST was introduced. Marketed otherwise and now intertwined with the TFN system, this was nevertheless the rationale. But it was gutted by politicians seeking to "roll back" or to counter such proposals; to "delay" its enforcement. Now the cash economy flourishes; we all face another layer of paperwork which is totally unproductive. Either make the ABN system work properly as it was originally intended or get rid of it altogether.
- (b) Seventy-five per cent of the fringe benefits tax legislation could be abolished without significant impact on the revenue.
- (c) The ATO has been made the collecting agency for a rag-bag of diverse political goals: HECS collections; unpaid child support collections; unidentified super etc. This is on top of employer obligations for Workers Compensation collections, superannuation collections etc. The Australia Card – we are getting closer and closer in practice – could allow other organisations to do their own task.

5. Leave the goalposts unmoved

Business, saving, investing and superannuation all need planning. Planning needs long lead times; plans need long times of stability to reach maturity. Changes should be minimal; the annual Budget should be a non-issue. Changes, if necessary, should be telegraphed many years ahead.

For example:

I and many others have refused to trust greatly in superannuation because we can have no faith in what the tax regime may be by the time we come to need it.

5. Don't invent the wheel.

The introduction of GST taught us a valuable lesson. Despite 10-15 years' notice and about 153 models around the world to copy from, the legislation when introduced has needed almost 1,000 amendments, the primary sources of law are now scattered among statute, regulation and ministerial statements; there are hundreds of rulings to explain what is intended; political and bureaucratic interference has been constant and we still receive almost weekly messages about changes or developments. It is a dog's breakfast requiring dedicated specialists.

So thinking practitioners are alarmed lest, as with the Ralph Review, an attempt be made to invent a different type of wheel; a different type of tax based on economists' theory.

After the GST experience, we have no faith whatever in the ability of the Australian politicians and bureaucrats to devise a tax system that is a world first. Don't attempt it.

8. Respect the times

Our Prime Minister tells us that we are in exceptional times. The values of assets and savings, private and through superannuation and investment funds, have plummeted. This is no time to introduce measures, whether logical or not, which would unfairly punish people already suffering greatly from the economic crisis.

For example:

If there is any attempt to remove the exemption from CGT of pre-1985 assets at this time, and set the cost base of such assets at present depressed values, and so tax away every dollar of lost value we recover, there will not be a politician left in his seat when people are made to understand the effect. (And practitioners will be watching for any attempt to sneak through such a measure.)

9. Business structures should be revenue-neutral

Business decisions which are distorted by tax differences are destructive of good economic outcomes. Yet that is the situation we have all-too-often. A whole accounting-legal (unproductive) industry exists because of such differences.

For example:

Capital gains made by companies are taxed on 100% of gain without any allowance for inflation (outrageous); individuals are taxed on 50% of those gains; superannuation funds (in accumulation mode) are taxed on 33.3% of those gains; superannuation funds (in pension mode) are taxed on 0% of those gains. Totally unsupportable differences.

10. Avoid 'boundary issues'

Whenever there is a 'boundary' between taxable and non-taxable or between rates of tax, there will be an unproductive distortion of activity. There will at times be tension between this principle and that of following-the-money and simplicity, but at other times avoiding a boundary will simplify (eg if the was GST on everything).

For example:

- (a) Look at the absurd GST boundary between a cooked chook and an uncooked chook;
- (b) Look at the problems there were with Sales Tax;
- (c) Look at the problems which the Government's Carbon Pollution Reduction Scheme has walked into by providing free permits to some companies/industries and not others.

11. Broaden the base and lower the rate.

The politicians may have significantly emasculated this Review by refusing, in the terms of reference, consideration of alteration of the GST tax base and rate. But they need to be reminded that the way to reduce the pain, reduce the complexity and reduce the distortions of tax is to lower the rate and broaden the base.

12. Don't underestimate

The GST taught us another lesson. Don't underestimate the ability of politicians and bureaucrats between them to eviscerate the logical integrity and completeness of the best-made scheme.

*The best-laid schemes o' Mice an' Men,
Gang aft agley,
An' lea'e us nought but grief an' pain
For promised joy.*

Robbie Burns

Sender:
Peter Griffin

31 March 2009