

Submission to the Future Tax System Review, 30 April 2009

Preamble (Summary)

This submission to the Future Tax System Review has been provided by Steven Mitchell acting as an individual, private citizen of Australia concerned with the inequities and inefficiencies inherent in the existing tax transfer system.

The submission is structured as follows:

- Introduction
- Response to Q1.1
- Response to Q1.2
- Review
- Conclusion

Signed,
Steven Mitchell

Introduction

In my opinion the current taxation and transfer system (herein referred to as TTS) is a systemic failure, and we must redesign the TTS effectively from a blank slate.

Please divorce yourself completely from the current TTS in making your recommendations. When forming a recommendation, I challenge you to the realisation of the following statements:

“Australia is a centre of excellence for taxation strategy, design and implementation.”

“The Australian taxation system rewards sustainable productive enterprise and the entrepreneurial spirit.”

“The Australian taxation system is a protectorate of economic freedom and economic sovereignty of the individual.”

In reviewing the questions raised in the Consultation Paper Summary, the most critical questions are raised in Section One; these questions have been addressed in this submission. I have also provided further commentary to form my recommendations.

Response to Q1.1

Q1.1 In considering the community's aspirations for the type of society that Australia should become over the next two decades and beyond, which key features should inform or drive the future design of the Australian tax-transfer system?

This is the most critical question to be addressed in the review. The TTS must be derived from common values. It must also be based upon strategic goals. These values and goals must be explicitly defined for all forms of taxation and transfers, and additionally the **strategic goals must be auditable. This must be a mandatory requirement of any system.** We must know if the strategic goals have been achieved.

Values and Goals

Values and goals are subjective. In my opinion the core values we must strive for are:

- **Liberty,**
- **Responsibility,**
- Sustainability, and
- Community.

In short, I believe taxation and transfers should be based on freedom, fairness, and (self-)responsibility. The strategic goals we must strive for are:

- A moral tax system,
- A simpler tax system,
- A less expensive tax system,
- To provide incentive for environmentally sustainable practices,
- To provide incentive for productive enterprise,
- To provide incentive for domestic and foreign investment in sustainable productive enterprise,
- To **not** provide incentive for non-productive enterprise (such as asset price speculation),
- To **not** punish saving and financial prudence,
- To reduce the role and influence of governments, and
- To have a tax system that is valid with the Australian constitution.

Competitiveness

The TTS must be comparatively competitive with other tax regimes around the world. If we have a TTS that does not punish saving and investment in productive enterprise, then Australian citizens will have little or less incentive to utilise foreign tax havens or invest in foreign countries. Capital will always seek greater safety and a higher return on investment. Taxpayers should view Australia as a safe haven for their capital, where they can reasonably expect a competitive return on their investment when compared to other countries.

Taxation vs. social security

It is important that the realisation of the TTS does not mix concepts. Although they are currently intertwined, taxation and social security are two very different concepts. Where practically possible, they must be completely independent systems.

Monetary system weaknesses

It is also critical to acknowledge and address within the TTS the weaknesses in our monetary system. Since the Australian dollar (AUD) ceased to be redeemable for gold, inflation has destroyed the value of the currency. The government and Reserve Bank of Australia have the ability to artificially manipulate the value of the AUD by means of inflation (and deflation), thus destroying the value and stability of the currency.

The TTS must be designed 'defensively' so that any manipulation of the official currency does not distort the impact and intent of the TTS.

Response to Q1.2

Q1.2 Assuming that the absolute size of government will not fall, should (and can) Australia nonetheless aim to reduce the burden of taxation over time by promoting faster economic growth than public spending growth? Can it be demonstrated that alternative tax policies could help deliver that outcome?

By definition, if the values I have stated are realised, the role and influence of government would be greatly diminished from current levels. This would result in a lower tax burden.

In addressing the second part of the question, **I believe we need to move to primarily (or exclusively) taxing physical consumption based on the sale of physical goods, and to repeal personal income taxation and company taxation.** The intended benefits of such a tax policy, I believe, would achieve many of the strategic goals I have outlined, such as to:

- Simplify tax compliance and enforcement,
- Reduce the cost of compliance and enforcement,
- Provide incentive to businesses and individuals to reduce their use of natural resources to sustainable levels,
- Reduce pollution,
- Increase investment in productive enterprise,
- Encourage improved efficiency in business process and productivity,
- Increase business competitiveness in international markets, and to
- Encourage investment in innovation.

As we currently utilise a goods and services tax, the cost in adopting a consumption (goods) tax would be relatively insignificant to implement compared to other alternative tax policies. The return on investment would be rapid.

Such an approach may receive resistance on the basis that it discriminates against members of the community on low or fixed incomes (such as pensioners), as it may be perceived, whether real or not, that they are paying a greater percentage of tax. To offset any real discrimination against people on low or fixed income, tax rebates may be considered for necessities such as food, water and shelter.

Another argument that may be raised against this proposal is that it would lead to the reduced taxation of wealthy people. Wealthy people invariably consume more, thus would pay more tax. I would also consider, under the broad scope of consumption, of charging a form of land tax. This would mean that wealthy land owners would pay a greater level of taxation and ensure that land is used productively and/or effectively instead of hoarded.

Review

Current economic conditions

The nation of Australia faces a decisive juncture in its history. The world is experiencing a global economic recession, and based upon historical comparisons, is quite realistically confronting economic depression.

The current economic malaise, much like that of the Great Depression of the 1930's and events leading to the French Revolution (among others), are primarily due to a crisis of credit. The economic downturn is now completely unavoidable and unpreventable, especially when considering the level of public and private debt in Australia.

Politicians will, in their self-interest, attempt to prevent the deflation of credit and the healthy, organic (yet painful) financial recovery by expanding the size of government and destroying the value of the currency, suffocating any hope of a revival based upon wealth creation. They will toe the populist line of 'protecting jobs', when jobs are not the key to economic stimulus – after all, even slaves have jobs!

Economic recovery

What will stimulate the economy is offering incentives through the tax transfer system to businesses and individuals to innovate, to produce real wealth and to improve productivity. This requires providing incentive for entrepreneurs to take risks, providing incentive for individuals to improve themselves, and providing workers with the rewards of their labour. As it stands today, the tax transfer system in Australia is an enemy of the entrepreneur, the individual who improves themselves, and the common worker.

What will also stimulate the economy is foreign capital. Investors across the world will always seek a flight to safety, and a maximum return on their investment. This is no different for domestic investors. They too are victims of a punitive, unfair taxation regime and will often seek a safe haven for their capital abroad. This does not have to be the case. By attempting to exploit the rewards of enterprise, the existing system will always lose in the long-term against the Invisible Hand of free markets, as described by Martin Armstrong:

Historically, mankind migrated in an agrarian society. The very same trend still takes place today. However, instead of the work force migrating to better lands, the communistic model reversed the roles and caused the employer to migrate. What government did not notice, was this trend was not caused by the "greed" of the employer, but by the Invisible Hand of Adam Smith. Labor demanded the highest wages with the lowest productivity, and consumers demanded the lowest price with the highest reliability. The employer migrated to survive.

The tax transfer system must not unduly victimise those with capital. If it does capital will flee, and our nation will face an even deeper depression.

The abolishment of income tax

The federal income tax was introduced in Australia during World War I as a temporary 'war tax'. This temporary taxation still remains today. This is arguably due to its convenience in allowing the state to extort citizens from the rewards of their labour. Though convenient it is no way effective in increasing the wealth of the nation, nor distributing wealth in an ethical manner.

Central to the argument of the abolishment of personal income tax is the concept of justice in the distribution of income. Saint Thomas Aquinas, widely regarded as the greatest Catholic philosopher on the subject of ethics, concluded that it was immoral to attempt to alter the distribution of income in any way. To distribute the inequities within the distribution of income, one must violate the personal freedoms of another – to violate personal rights and freedoms. This is by far a greater injustice.

Means of direct taxation is also an affront to the privacy of an individual. To legally engage in providing labour to a market, one must provide private and addressable details to the government through the form of tax file number registration, annual compliance, and tax registration of bank accounts (or face excessive, punitive taxation on any interest accrued). By allowing the government such powers to invade the private lives of its citizens, it subjugates citizens to a slave-master relationship with the government.

Income tax implies the denial of private property and in that is different in principle from practically all other taxes. It implies the right of the state to the confiscation of property. By denying the right to property from one's labour, it is an attack on one's right to life and liberty.

When the individual says he has a valid title to life, he means that all that is he, is his own; his body, his mind, his faculties ... while just wanting to live gives the individual a title to life, it is an empty title unless he can acquire the things that make life livable, beginning with food, raiment, and shelter. These things do not come to you because you want them; they come as the result of putting labor to raw materials. You have to give something of yourself – your brawn or your brain – to make the necessary things available. ... when you cause these things to exist, your title to yourself, your labor, is extended to the things. You have a right to them simply because you have a right to life. That is the moral basis of the right of property.

-- Frank Chodorov

Income tax is also both a disincentive for those to improve themselves, and an incentive for people to seek methods to minimise their taxation. This is quite easily exploitable by funnelling income through company profits or other legal entities at a lower tax rate. The harder one works, or the more valuable labour they provide, the higher the tax burden.

Income tax is immoral, reduces the net wealth of a nation, and favours the state over the sovereignty of the individual. It is the principal weapon of government wealth destruction. Income tax must be abolished.

Conclusion

Australia must repeal personal income taxation and provide incentive to businesses to invest in productive enterprise and for entrepreneurs to take risks. I conclude with a quotation from Martin Armstrong's *The Greatest Bull Market in History*. I believe it serves as an excellent commentary for the support of arguments raised in this submission.

Adam Smith did lay out a design which he believed that a nation's capital should be brought to bear first upon developing agriculture, secondly upon manufacture, and only thirdly upon foreign commerce. It was Smith who influenced the enlightenment era and truly dissected the economy from taxation right down to supply and demand. His greatest single contribution in my opinion is his concept of the invisible hand. It was

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-- Martin A. Armstrong

here that Smith explained that by each individual pursuing his own desires to improve his personal financial condition, he contributed to the advancement of society as a whole in an orderly fashion incapable of duplication by any law or decree. Each and every one of us in our quest to better our own position helps to advance the economy as a whole. Herein lie the seeds of freedom. It was the innovation of Henry Ford who raised the standard of living for us all today. It was the gamble of Rockefeller that gave birth to the oil industry. It was the dream of Willy Durant that spawned General Motors and it was the faith of Andrew Mellon that created the aluminum industry. Smith was right. Each in his own pursuit may perhaps benefit disproportionately on an individual basis, but collectively society benefits much more from the freedom of the entrepreneur.

Too often most people are jealous of the wealth accumulated by such an individual. But Smith's observations stand. These individuals have given society thousands of jobs and the income derived by the working class as a whole far exceeds the income of the individual. Yet it is the jealousy which causes men to compare things on an individual basis, but the labourer has merely contributed his own production to society whereas the entrepreneur has created thousands of jobs within society. The two cannot be compared on an individual wealth basis without taking into consideration the individual contribution of each toward the expansion and growth of society as a whole.

References

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