

TAX

Fair
and Simple
Taxation
for Australia

Policy Centre Australia

April 2009

Published on the internet in May 2009
at <www.icappd.net.au>

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National Library of Australia Cataloguing-in-Publication data:

Policy Centre Australia.

ISBN .

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Foreword

The present Australian tax system has many problems. It is too complex. It collects too heavily from wage and salary earners. It makes excessive compliance demands on business, employers, the self-employed and employees. It promotes tax minimisation and a culture of spending to achieve tax deductions.

Federal, State and Local Government in Australia require revenue to provide public services. The Australian Constitution gives Federal Parliament powers to collect tax, but does not specify the method of collection, except "so as not to discriminate between States or parts of States." Each State can apply taxes and fees within that state, and Local Government can charge rates and fees under powers from the States. However, there is no requirement to keep the present system.

Personal income 'tax brackets' (higher tax rates at higher incomes) are meant to ensure that those with highest earnings pay most tax. But personal tax minimisation often avoids this, and the lower rates of company tax can be used for personal benefit.

Present 'Income tax' is heavily dependent on employees, and the creep of wages into higher tax brackets due to inflation and pay raises continually increases that tax burden. This 'creep' gives the government an ever increasing tax source without raising the tax rate, and may be difficult for them to give up.

The taxing of profit is damaging to the economy because it punishes business success. Also, gambling by business and individuals, and trading activities that do not create products or services are not discouraged by the present taxation system.

Australia needs a fair and simple tax system that retains the nation's wealth in Australia. We believe the following article describes such a tax system.

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1. Problems with the existing tax system :

- 1.1 Complexity and volume of taxation law
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- 1.3 Overall high personal income tax rate
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- 1.5 Complex tax on superannuation that gives most benefits to the rich
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- 1.18 Tax revenue lost to 'charitable organisations'
- 1.19 Loss of profits from Australia to offshore
- 1.20 Difficult to investigate tax compliance due to complexity of the system

2. Tax change is needed to promote productivity, in response to modern life, and to retain Australia's common wealth

Every country needs infrastructure, services, defence and governance. In modern Australia these are generally funded by taxes. Australians have trusted the government to collect tax and spend it wisely for the common good, but that trust is wearing thin due to differential treatment under the tax system, decay of infrastructure and reduction of services.

Tax should be imposed in ways that have least damage to business, the economy and individuals. Tax should be fairly and evenly applied, and only as heavily as is necessary. The tax system should reward efficient, successful work, and not support unproductive activity by such means as giving a positive value for tax purposes to 'trading' and 'capital gain' losses. Welfare payments should be applied separately to taxation.

Negative gearing and salary sacrificing are increasingly undermining any perceived fairness in the personal income tax scales. All expenditure in the economy should be treated equally.

The government has created an unnecessary complexity and banker role for itself in the treatment of depreciation and losses. There is also an unhelpful concentration within business on deductions and tax minimisation.

Unfortunately, the present personal income tax and company profit tax system is very complex and a compliance nightmare. Fringe benefit tax, capital gains tax, and depreciation have become so complex that many people with the best intention to put in correct tax returns have a high chance of error.

Many people are now both wage earners and operators of a small business. The job of keeping finances separate for tax reporting is a great burden and often not possible to calculate. The whole tax reporting system is very difficult for small business operators to understand, and time consuming to comply.

The present tax system ignores many practices of modern life. Many businesses claim 100% deduction for the cost of telephones, internet and office equipment, when it is accepted practice that staff use these for private purposes as well as work.

Australians do not have a simple arrangement of one employed income earner and an unpaid partner at home in all households. Life and business is complex with many interactions.

Everything that is done to bring about the hopes and wishes of the person or family is part of their "life project", and by reasonable logic should be tax deductible under the present tax system. Some individuals are able write off life expenses as deductibles or have them provided at the expense of a business.

Hard work and good investment should not be heavily taxed. Waste and roting should not be supported by the tax system.

Income tax could be completely removed with a change to a different, broad based tax system. Existing take home pay rates could be retained, with reduced cost of wages to employers. The work load and responsibility on the employer would also be less. This would make Australian labour rates more competitive in a global market.

A tax on wealth leaving Australia is also necessary to protect the common wealth of the nation.

3. What a new tax system should achieve

- 3.1 Raising of the required revenue for public services
- 3.2 Ability to adjust the total of revenue raised without great complexity
- 3.3 Very broad base of tax collection
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- 3.21 No tax revenue lost to 'charitable organisations'
- 3.22 Ability to simply apply tax 'levies' to activities that cause environmental, social or other damage or costs to the nation
- 3.23 Control and reduction of Australian wealth flowing offshore.

4. Summary of the proposed tax system

- 4.1 Sales tax all goods and services sold in Australia. The sales tax rate could be 10% and should be no greater than 15%
- 4.2 The sales tax would generally be collected by a business at point of sale. Forwarding of that sales tax to government would be the only tax the business would pay
- 4.3 Exit tax on all money leaving Australia. The exit tax should be between 20% and 50%. That tax would generally be collected by financial institutions authorised to make overseas transactions
- 4.4 No personal income tax, no personal income tax returns
- 4.5 No GST
- 4.6 No business or corporate profit tax
- 4.7 No capital gains tax
- 4.8 No payroll tax or other state taxes
- 4.9 No tax reporting of 'deductions' or 'depreciation'
- 4.10 There may be additional levies applied to some products or services as a means of recovering or discouraging their social or environmental damage. That levy would be applied as a simple increase in sales tax on those items. Eg. A polluting or greenhouse gas emitting product or process could have sales tax of 5% above the standard rate
- 4.11 All taxes would be collected by the commonwealth government
- 4.12 Tax revenue would be distributed to commonwealth, state and local government so that each could properly meet their responsibilities.

5. Discussion of the proposed tax system

The new sales tax could be called 'STAX' as in S_(ales)TAX reflecting the likely popular opinion that the government is making stacks of money from it. The STAX would be a flat rate on **all** sales of goods and services within Australia. It is likely that the rate could be set at 10% of sales price because the tax would apply to many more items than the present GST, and would apply at each point along the supply chain where a sale takes place.

The new 'exit' tax could be called 'OZTAX'. The OZTAX would be a different, higher flat rate applying to money going offshore. It should probably be set initially at about 30%.

The new STAX and OZTAX together would need to collect the equivalent of about 30% of Gross Domestic Product in order to replace most existing Federal and State revenue.

The comprehensive new STAX together with abolition of all tax deductions, differential rates of tax, depreciation and negative gearing would create a 'level playing field' for all citizens and businesses. People, regional areas, and industries requiring financial assistance could be more easily assessed, and assistance could be given transparently as grants or welfare support.

The STAX would collect from many areas of financial and share trading, and gambling, as each trade or punt would be a sale. That may greatly reduce share market trading, but may promote longer term investment and a less volatile share market.

Abolition of income tax would allow salary and wages to be reduced to their present 'after tax' amount plus 10% to cover the STAX. Overall, that might cause a reduction of about 20% in national labour costs. That reduction would improve international competitiveness for Australian business.

Unless a person has a business, they would not need to fill in any tax return or have any contact with the ATO, and could not be guilty of any tax matter.

The government could easily raise or lower the STAX rate as needed, affecting every person and business equally. There would be no tax brackets to distort the effect of changes to the STAX rate.

Business would have a greatly reduced compliance burden. Abolition of income tax from salaries and wages would be a very significant saving, and the abolition of deductions would mean that no expenditure or depreciation records would need to be kept for tax purposes. Business would only need to keep a record of sales, and to pass the STAX portion of that on to the government.

The STAX would be a profit tax on business in the sense that the higher the sales the more STAX is paid. But the STAX would be a flat rate, and could be easily calculated and allowed for in budgeting.

OZTAX would collect a percentage of money leaving Australia. Imported items may be more expensive because the new price would be the purchase price from overseas plus the OZTAX. That may stimulate industry in Australia.

The OZTAX would also collect a percentage of money being sent overseas by individuals and business. Individuals would lose that percentage of money they spend out of Australia on holidays etc. Any businesses that sends profits overseas would lose that percentage, but would not lose it if the profits were kept in Australia.

The OZTAX would generally only apply to money going overseas. Export products would not generally be taxed on their value, but there may be some regulation to ensure that exports are not sold cheaply with the purpose of profit being realised overseas rather than in Australia.

Abolition of state tax revenue raising could beneficially change the relationship of the Commonwealth and State governments. It may lead to reduction of shared responsibility for services, and better arrangements for distribution of the tax revenue.

The proposed STAX rate should be stated in election policies, and the actual rate applied during the term could be part of the performance assessment of governments.

6. Details of STAX compliance

6.1 Non-business: Wage and salary earners, retirees, unemployed, children

Unless they have a registered business, no person would have to complete any type of tax return. They would not have to report on investment earnings, capital gains tax, etc. STAX would be taken out of purchases they make, by the seller. Wage and salary earners would not have any tax taken from their income.

6.2 Business

- STAX reporting by business would simply be a statement of sales;
- STAX payment would be for the set flat rate STAX of those sales;
- All businesses selling goods and/or services would need to be registered, because in most cases the seller would be responsible for reporting and paying the STAX. In some cases such as sale of real estate and second hand motor vehicles the STAX may be collected by the government office that registers the transfer of ownership;
- There would be no withholding of employee tax or payment of that to the Australian Taxation Office;
- There would be no reporting of purchases, depreciation, capital gains, fringe benefits, franked amounts etc;
- The supplier of goods and/or services would pay the required STAX after the end of the set reporting period. There would be no offsetting of business purchases against supplies as at present with GST / BAS reporting;
- Suppliers would effectively be tax collectors for the government, but that would require very little documentation or accounting;
- All prices advertised and stated would be required to be the price including STAX, but there would be no confusion because there would be no exemptions from STAX;

7. Application of STAX

The STAX would apply to all sales and transfer of ownership within Australia (unless exempt) including but not limited to:

- Groceries, fresh and packaged foods;
- Clothes, furniture, whitegoods, electrical, consumer items etc;
- Books, music etc;
- Motor vehicles and transport items and equipment;
- Boats, planes etc;
- Shares, options, tradeable rights etc;
- Poker machine and gambling activities;
- Currency trading;
- Real property;
- Interest payments but not capital repayments;
- Agricultural, Industrial and Construction equipment and products;
- Recreation and tourism;
- Health products and services;
- Fuel and energy;
- Communications;
- Water;
- Sewerage and waste services;
- Leases and licences;
- All payments to entities other than a living person;
- Payments, Donations and gifts to all entities including previously registered charities and tax-free entities, other than a living person;
- All payments to living persons for products or services, except for wages and salary and bona fide cash gifts;
- All sales and/or exchange of property and/or goods and/or services between entities and/or living persons, except for sale of certain second hand goods by living persons who are not in business as second hand dealers;
- Inheritance of property and cash, with the exception of between spouses.

Exemptions to STAX

- Transfer of property and assets between spouses as part of a will;
- Bona fide cash gifts between living persons, not related to business supply of goods or services;
- Salaries and wages paid in cash by employers to living employees;
- Superannuation payments to the accounts of living persons;
- Sale of certain second hand goods by living persons who are not in business as second hand dealers.

8. Effect of STAX on Wages

All award wages would be adjusted to what the present 'take home pay' would be if there were no distortions of the tax system by 'welfare', and then the percentage of the STAX would be added.

Examples (present tax rates may not be correct):

1. Present weekly wage: \$500 less \$145 tax = \$ 355 take home pay
New weekly wage = \$ 355 plus 10% (\$35.50) = \$ 390.50 take home pay
2. Present weekly wage: \$1100 less \$378 tax = \$ 722 take home pay
New weekly wage = \$ 722 plus 10% (\$72.20) = \$ 794.20 take home pay

It is recommended that the Compulsory superannuation contribution be made 10% on top of the adjusted wage.

Effect of STAX on employers' wage costs

Wage bills to employers would be reduced with the new STAX, because the employer would no longer be required to pay the employees' income tax to the ATO, only the base wage rate plus a percentage of that equal to the STAX rate.

The examples above (not including other entitlements or superannuation, etc) show:

1. Employer saving of \$ 109.50 per week
2. Employer saving of \$ 305.80 per week

There would also be savings in accounting, tax compliance costs and cost of finance to cover wages.

The reduction of labour cost is a very significant saving which should reduce the price of Australian made goods and services in the domestic market and for export.

9. Application of the OZTAX

All money and assets going out of the country would have OZTAX applied. The percentage rate would probably be similar to the current corporate tax rate, which would be abolished within Australia.

Applying the OZTAX in this way should reduce the amount of Australian wealth going overseas through corporations, and make a simple method of dealing with money being sent offshore.

The OZTAX would also act similarly to putting a duty on all imported products. This is protectionist in some ways, but is a valid tax policy method to help make Australian labour competitive in the international market.

A 'true value assessment' may be necessary on some products leaving the country to ensure that the Commonwealth was not being cheated by exporters who were making large profits in foreign destinations but inadequate value coming to Australia.

Exemptions to OZTAX

- Purchase from overseas of items essential to Australia, identified by legislation;
- Assets moved outside Australia to invest, purchase or build business, where the Australian Government agrees to and becomes part owner of those investments and/or businesses to an extent of 5% above the OZTAX rate.

10. How to move to the new tax system

- We are more than half way there with the existing GST;
- Develop the system;
- Consult and determine details;
- Introduce on determined date.

11 Tax collection and distribution

Present situation:

	Estimate of tax collected	Estimate of tax spent
Commonwealth	80%	54%
States	16%	40%
Local Govt (Rates)	4%	6%

Proposed:

	Proposed tax collection	Proposed tax spending
Commonwealth	98%	30%
States	0%	40%
Local Govt (Rates)	2%	30%

The Commonwealth would collect the STAX and OZTAX, generally through payment by business.

STAX and OZTAX would account for more than 90% of tax collected by the Commonwealth. The remainder would be special additional taxes on a small number of goods and services, generally selected due to the social and/or environmental damage caused by those goods/services, and on selected exports.

The Commonwealth would collect about 98% of all taxes in Australia. The other 2% or so would be rates collected by local Councils, recommended to be lower than present.

All three levels of government may charge other fees for specified services.