Proposal for a Debits Tax

A Debits tax is a tax on all withdrawals from financial institutions including such transactions as cash, cheques, bank transfers, credit cards, ATM's, internet purchases and the like.

According to a report on the internet an inquirer states that a call to the Reserve Bank resulted in an estimate of approximately $120 billion of transactions every day 1 percent of which is $1.2 billion. Based on 250 working days per annum that gives a total of $300 billion which excludes any transactions on weekends and public holidays. As the transactions take place the 1 percent tax would be automatically transferred to the treasury bank account.

The 2008/9 budget indicates an estimated revenue of $319.5 billion but that includes some non-tax revenue of $51.6 billion: -

Non-tax revenue	20.2
Customs Duty	6.3
Petroleum Excise	16.1
Other excise	9.0
	51.6

Foreign-owned companies are believed to pay less tax than domestic companies because they have recourse to the use of transfer values for goods and services transferred into, and out of, Australia and the advent of this proposed tax should result in increased tax revenue. Transfer values can be difficult to ascertain with accuracy and verification of their authenticity would be a very expensive exercise in an auditing process so any such checks would be on an *ad hoc* basis.

To test the effect on companies of a 1 percent debits tax compared to the current tax regime I took the cash flow of a small, a large, and a company which is a listed investment company and compared the two methods of tax calculation. There are obviously variations but whether those variations are significant would have to be considered.

	Hills	**AGL**	**AFIC**
Cash Flow Statements	$thousands	$millions	$thousands
Payments to suppliers & employees	1,205,856	6,072.8	9,518
Purchases – trading portfolio			152,804
Interest paid	15,143		
Finance costs		189.2	3,542
Income tax paid	22,459	104.6	10,802
Business acquisitions (net)	7,097	620.1	
Purchases – investment portfolio			220,782
Property, plant & equipment	35,366	226.6	123
Repayment of borrowings	3,827	1,418.6	200,000
Loans to other entities	285	5.0	
Dividends	42,998	112.7	156,452
Exploration		8.8	
Oil & gas assets		56.8	
Tax paid – capital gains			8,471
Other		5.3	
TOTAL CASH MOVEMENT	1,333,0331	8,820.5	762,494

Comparison of Tax Payments

	HILLS	AGL	AFIC
Tax at 1 percent	$13,330	$88.2	$7,625
Actual tax	$16,140	$68.3	$5,596

Personal Exemptions

To take 1 percent of the total income of individuals could result in unfair treatment of those who presently pay no tax for various reasons. For example, some pensioners, the unemployed, the disabled and the like would require special treatment. As they receive money through Centrelink their bank accounts could have a special numbering system which would only allow transfers from Centrelink to be accepted, any other accounts being subject to the 1 percent.

Another aspect of a change to this system of taxation would be the elimination of the GST and therefore the loss of 1 percent of income would most likely be offset by that reduction in purchase costs.

Charities

Some charities are tax exempt, others pay tax according to circumstance and therefore in the latter case they could be in a position of paying less tax under the proposed system. A special bank account number can be used to prevent the deduction of tax where there are full exemptions.

Taxation Office Savings

There would be a very large reduction in the cost of operating the tax collection because tax returns would no longer be required. The complexity of the tax regime would be so simplified that the need for a voluminous legal structure would be minimised. Another side effect would be the greatly reduced need for taxation lawyers. Both staff and stationery and other costs applicable to the Tax Office would become almost negligible.

Cash Economy

Would this be reduced to a significant extent? Certainly there might be a temptation not to bank monies received and keep cash receipts on hand but they would not be earning any great rewards because most instruments that earn interest, dividends etc., usually go through a financial institution and that would mean withdrawals would be taxed.

Balance of Payments

The Balance of Payments poses a serious risk of destabilising our economy if we were called upon to repay loans from overseas. As at June, 2008 the net debt based on foreign liabilities was 66.8 percent of GDP, a figure that must cause some concern as it continues to increase. One method which could buy back some of that foreign debt would be a small increase in the 1 percent tax to provide for an annual reduction in the public debt.

Any surplus receipts could also be allocated to repatriation of Australian companies that are now in foreign ownership. A result of this would be a lessening in the current account deficit caused by paying dividends overseas and repaying loans from foreign companies. The more companies are Australian-owned the greater our capacity for controlling our own destiny.

Speculative Monies

The Tobin Tax has been put forward as a means to reduce the amount of money that is constantly moved around the world in search of profit. This has no real value to an economy and the imposition of a 1 percent debits tax in Australia could have some effect in reducing the temptation to make money out of money while at the same time bringing in revenue as the process would likely continue any way.

General Comments

As a retired person I do not have access to enough information to provide other potential advantages and disadvantages and therefore any usefulness of the submission will depend on other input from sources capable of assessing this as a substitute for the present method of taxation.

Submitted by: -

S. A. Ward
[removed for privacy reasons]