Submission to review of
Architecture of Australia's Tax and Transfer System

The existing tax and transfer system is extremely complicated, yet fails to achieve the goal of even-handed treatment of Australians in different situations.

I am proposing a drastic change in the system of transfer payments, which would contribute to improving the feeling of community and equality among Australians, and greatly reduce administration costs. There would also be substantial associated changes in taxation, again reducing both administration and compliance costs.

Community Allowance

I propose a Community Allowance, free of tax, payable to all Australian citizens and legal residents while they are physically present in the country. The uniform rate for adults would be similar to the current single pension, and would be indexed by the cost of living. Children would receive their own Community Allowances, at scaled rates. Before the Allowance was introduced, all residents would be invited to register for it; and Australian citizens and residents who were overseas at that time would also be given the opportunity to register, either while still overseas or on their return.

The Community Allowance would be very simple to administer; once the initial registration was complete, fortnightly payment would take place automatically, by direct transfer into a nominated account. If immigration records showed the recipient leaving the country, payment would cease until he or she again passed through immigration - these changes could be executed automatically by direct link between immigration offices and the allowance payment system. Entitlement to permanent residence would automatically be linked to allowance payment. Birth within Australia would immediately entitle the new-born to allowance at the children's rate. Death within Australia, as soon as reported, would immediately lead to removal from the allowance register.

The Community Allowance would replace most existing pensions and allowances, which would be discontinued, and would leave most recipients better off Where the Community Allowance would provide a household with less support than the present system, a supplementary allowance to make up the difference would be payable, to be reassessed annually.

The establishment of a Community Allowance would doubtless have some effect on the perceived need for superannuation, particularly since (unlike Pensions at present) the Community Allowance would not be subject to any means test.

Income Tax

Taxation concomitants of the Community Allowance. At the time when the Community Allowance was introduced, it might be decided that all wages and salaries would be reduced by the corresponding amount - in other words, the employee would receive the same total as before, but part would come from the government in the form of Community Allowance, part as wages or salary from the employer. There would be no zero-tax threshold on his earnings.

Tax simplification. Various simplifications in the tax system are desirable, and could conveniently be introduced at the same time as the Community Allowance. The most obvious concomitant simplification would be the removal of all allowances for dependents - who would, of course, be receiving their own Community Allowances.

It has long been clear that the Medicare Levy is effectively part of the income tax, and should be incorporated in it. If private hospitals, services not now covered by the Medicare system, or health insurance to cover any of these services, are to be supported from public funds, that support should be separated from income tax.

A further enormous simplification in the income tax system, in addition to the abolition of the zero-tax threshold, could be the introduction of a uniform income-tax rate, equal to the company-tax rate. Tax on most types of direct payment (including interest and dividends) could then be deducted at source. The Fringe Benefits Tax would also need to be imposed at the source, probably as an additional deduction from salary, at the standard income tax rate. Only the wealthy (say, the uppermost decile) would need to pay additional tax, either as upper brackets for income tax, or preferably by an annual Assets Tax (see below). I would suggest that Capital Gains Tax be discontinued, being in part replaced by the proposed Assets Tax.

Foreign income should be included, though it would continue to depend on voluntary disclosure. Income from the cash economy should also be included, dependent again on voluntary disclosure. It might be thought desirable to introduce some incentives for disclosure of income sources which would otherwise escape the tax office. If an assets tax were introduced (see below), the records needed for that might provide an avenue for detection of undisclosed income

Companies, like individuals, would pay the standard rate of income tax on foreign income. Since the income tax rate would be uniform and apply to companies as to individuals, dividends paid out of taxed company profits would be free of tax in the hands of individual shareholders.

Transition

Ideally, the change-over from the present complicated system of varying transfer payments and varying tax liabilities to the proposed greatly simplified system of Community Allowance and uniform Income Tax would take place within a very short space of time, and simultaneously. On July 1, for instance, payment of the Community Allowance would begin (following a period of registration), and income tax deductions would shift to the new system. At this time, all wage rates and salaries would be reduced by the amount of the Community Allowance. Without any other adjustment, this would leave in the hands of the employer an amount equal to the Community Allowance for his employees. This anomaly might, for instance, be covered by a payroll tax equal to this amount, to diminish as the new system "settles down".

"Self-funded retirees" and others with income outside the income-tax-transfer system would no longer benefit from lower tax rates on part of their income; the extra income tax they would pay in some cases would, however, largely be balanced by the Community Allowance to which they would become entitled.

Assets Tax

In association with the great simplification of income tax, I suggest the introduction of an annual tax on the total net assets of resident individuals, including the main residence and assets overseas, above a moderately high threshold (say, $250,000 for an adult, scaled for children). In alleviating inequalities within the population, the Assets Tax would take the place of increased income tax rates on higher incomes, and would have the advantage of "catching" those wealthy individuals who reduce their income-tax liability by transferring income to assets

The broad effects of the changes proposed in transfers and taxation would be considerable simplification; the community allowance could be almost self-organizing, and a uniform income-tax system would be far easier to administer than the present.   The proposed annual tax on net assets, in place of increased tax rates for higher incomes, would constitute the only extra demand on services.

N.B.   This submission is purely personal; the University to which I am attached is in no way involved in it.

Dr. David W. Goodall