

Tax Proposal for Australia's Future Tax System

By Derek Smith Chartered Accountant

Note The only connection between Andrew Pullen and Derek Smith is that they are Australians deeply concerned for the future of the Australian lifestyle and living standard, in particular for families, children and future generations. This idea was proposed in 2006 and figures reflect this.

THE PROPOSAL IS TO LOWER THE 2 TOP RATES OF PERSONAL INCOME TAX TO 30%, THE SAME AS COMPANY TAX. INSTEAD OF GIVING THIS TAX CUT TO THE EMPLOYEE IT IS GIVEN BACK TO THE COMPANY TO REDUCE THE COST OF GOODS AND SERVICES AND BENEFIT ALL AUSTRALIAN'S.

The former Prime Minister expressed a wish that the top personal income tax rate be reduced to 30%

The media recognise that significant complexities, sensitivity and unfairness under existing taxation rates on personal income, fringe benefits and capital gains would be eliminated by reducing the top personal income tax rate to the 30% business income tax rate.

The former Treasurer set out 5 benchmarks for personal income tax rate reductions

1. Benefit 97% not just the 3%
2. Budget not negatively impacted including being put into deficit.
3. Not at the expense of necessary economic growth infrastructure.
4. Not to put low interests rates at risk.
5. No additional tax on the community from widening the tax base.

At present, consumer confidence is driven by fear of inflation leading to higher interest rates. History, including the current attempts at Tax Reform in the USA, shows that reducing tax and increasing take home pays only adds to inflation, leads to higher interest rates, denies personal financial security and worsens adverse terms of trade and foreign debt.

Taxation research by Derek Smith in 1983 showed that if

1. Any reduction in taxation is applied to reducing the price of goods and services and the cost and outlays of government; and
2. Not passed on by increasing take home pays.
3. Australians will cost less to employ without reducing their take home pay.
4. Australians' existing take home pays will buy more goods and services at lower prices. All savings and superannuation will buy more goods and services.
5. Australians will have the opportunity and incentive (no bracket creep, existing rates of take home pay buying more goods and services, lower tax on savings, etc) for increased participation in the work force.
6. With lower costs and outlays Government will be fully funded by lower taxation.

In relation to (1) an outstanding success in the implementation of the former Prime Minister's GST was the reduction in prices on the elimination of the wholesale sales tax including the role of the ACCC.

Reducing tax and keeping take home pays at their existing level, eliminates inflation, takes the pressure off interest rates and provides the opportunity and incentive for personal financial security and to turnaround adverse terms of trade and foreign debt.

The former Treasurer's 5 benchmarks are satisfied as follows;

1. Benefit 97% not just the 3%.

- Reducing top rate to 30%.
- Take home pays remaining the same.
- Applying the tax cut to reduce prices of goods, services and resources in particular labour.
- Weighing the benefit in favour of middle and lower Australians who spend the majority of their take home pay on the necessities of life.
- Reducing the price of goods, services and resources in particular labour for increased domestic consumption and for increased exports.
- Increasing demand on lower priced resources in particular labour to provide new employment opportunities.
- Reducing the price of imports competing against lower priced Australian goods, services, and resources in particular labour.
- Providing the incentive of no bracket creep above 30% for increased workforce participation including overtime and flexible working hours with take home pay based Awards.
- Increasing the purchasing power of take home pays, savings and superannuation to improve living standards and provide savings opportunities for financial security and freedom of choice.

2. Budget not negatively impacted including being put into deficit.

- Budget Revenue directly lower from income tax rate reduction but fully offset by Budget Expenditure directly lower from reduced prices of goods, services and resources in particular labour including -
- Reduced cost of Commonwealth employees with the 30% income tax rate lowering gross pays but take home pays remain the same i.e. significant reduction in employment costs.
- Reduced Commonwealth expenditure on goods, services and resources from lower prices.
- Reduced outlays by Commonwealth as lower prices of goods and services for recipients of financial support reduce the level of this support.
- Reduced outlays by Commonwealth as increased demand from lower prices of goods, services and resources in particular labour and the incentive of take home pays with greater purchasing power, the elimination of bracket creep above 30%

and flexible working hours increase workforce participation i.e. lower unemployment assistance.

- Reduced Commonwealth expenditure on infrastructure and other capital expenditure as lower prices of goods, services and resources in particular labour reduce the required level of funding.
- Reduced Commonwealth funding of other levels of Government as a direct result of the reduction in their costs and outlays in particular significant reduction in employment costs.
- Reduced Commonwealth expenditure and outlays as the increased purchasing power of take home pays and savings enables the Commonwealth to shift spending to the private sector.

3. Not at the expense of necessary economic growth infrastructure.

- Appropriately managed including by the ACCC (1) and (2) can confidently produce a Budget Surplus to accelerate funding of economic growth infrastructure.
- Directly lower prices of goods, services, resources in particular labour and indirectly of imports to provide greater purchasing power of funding for economic growth infrastructure.
- Increased workforce participation and productivity in particular at the higher skills level from the incentive of take home pays and savings with increased purchasing power, the elimination of bracket creep above 30% and flexible working hours.
- Australians working overseas with direct incentive to return home i.e. including overseas savings having additional purchasing power.
- Increased workforce participation servicing increased demand creating economic utilisation of infrastructure and the cost/benefit justification of new technology in particular in transport and alternative energy.

4. Not to put low interests rates at risk.

- Lower prices of goods, services and resources in particular labour taking "inflation" out of the interest rate setting equation.
- Increased domestic and export demand serviced by increased workforce participation and productivity increasing Commonwealth revenue and Budget surpluses.
- Increased Australian production in particular of innovative products and services for reduced demand on imports.
- Increased Exports and a balanced level of imports creating favourable terms of trade.
- Increased GDP and favourable terms of trade to progressively eliminate foreign debt.
- Increased savings by Australians with financial security supporting a peace of mind lifestyle.
- Increased Private and Public capacity for investment in economic growth capital expenditure and infrastructure.

- Increased utilisation of Australian resources in particular an expanded workforce providing Australia with a set of economic fundamentals which support the value of the \$A and allow interest rates short and long to move to lower levels.

5. No additional tax on the community from widening the tax base.

- Welcomed and supported by the Australian community (1) (2) (3) and (4) will provide the Commonwealth and all other levels of Government with the capacity to reduce existing taxes and charges on the community.
- Lower taxes and charges will give the community the confidence and the Government the capacity to widen the tax base so that the contribution made by Upper, Middle and Lower Australians is commensurate with their spending power and financial security.

Recent speculation of further reduction in income tax rates has created a community expectation and an economic necessity, which needs to be made good.

The timing and circumstances are right to show the Australian community how the personal income tax top rate can be reduced to 30%, all five of the former Treasurer's benchmarks satisfied. With lower costs and outlays Government will be fully funded by lower taxation.

The research to confirm the above can be expected to demonstrate that a rate of 15% can be implemented for the following taxes

1. Top personal income tax rate reduced to 15%
2. Fringe benefits tax rate.
3. Business income tax rate.
4. PAYG withholding tax rate.
5. Capital gains tax rate.

For the purpose of demonstrating the above Tax Reform 2 case studies as set out below.

1. The present risk of Australian aircraft maintenance technicians losing their skilled jobs to overseas technicians.
2. The need for more casual seasonal farm workers.

Case study 1.

The loss of these "Australian skilled jobs" to overseas technicians is of deep concern. It is also contradictory to statements that there is a skilled labour shortage in Australia.

Australians have a sense of ownership of the flying kangaroo, which is attributable to the enviable safety record of Qantas as an outcome of the skill and professionalism of Australian

aircraft maintenance technicians and other Qantas workers.

The Government's and Opposition's Tax Reform puts these skilled jobs at risk

Tax and Government charges finds its way into the price of all goods and services and the cost of government adding significantly to inflation and putting Australian jobs at risk.

A substantial % of the cost of servicing aircraft in Australia is tax and government charges.

The Government is considering further Tax Reform, which for some will increase take home pays. This has a track record of adding to inflation and increasing interest rates for all Australians. Higher inflation and interest rates increase the cost of servicing aircraft leading to loss of skilled jobs in Australia.

These jobs can be protected by implementing the Real Tax Reform briefly explained below

Real Tax Reform, which reduces taxation and government charges and applies this reduction to

- reduce the cost of servicing aircraft in Australia
- reduce the price of all Australian goods and services, and
- reduce the cost of all levels of Government in Australia

Will protect these skilled jobs in Australia because these Australian skilled technicians will cost less to employ without reducing their take home pay.

Take home pays of Australian workers including these skilled technicians are held at their existing level but will buy more goods and services at lower prices. All savings and superannuation will buy more goods and services.

Increased purchasing power of take home pays and savings will give the government the opportunity to provide greater freedom of choice to the consumer by shifting spending from the Public Sector to the Private Sector i.e. education, health, security, etc.

With lower costs and outlays Government will be fully funded by lower taxation.

The Government's Industrial Relation Agenda will be refocused on existing take home pay awards. All Australians will have greater incentive for higher income with no bracket creep and for increased participation in the workforce.

With no inflation the pressure will be off higher interest rates for all Australians.

In stark contrast under the Government's and Opposition's Tax Reform the immediate economic prospects for all Australians are -

- higher inflation leading to increased interest rates
- resulting in a reduction in the purchasing power of take home pays and savings
- to further erode living standards and putting Australian jobs at risk

This Real Tax Reform can be implemented progressively. An early successful alignment of the top personal income tax rate and the business income tax rate at 30 cents in the dollar would present the Commonwealth with the means to progressively make further rate reductions i.e. to 15% and below, to become a global low tax economy with tangible flow-on benefits including

1. Lower costs for export businesses including the Tourism Industry.
2. Lower domestic prices forcing lower import prices.
3. Higher spending/saving power for workers in particular those taking advantage of overtime and flexible working hours
4. Higher employment including the homecoming of Australians to relieve the skills shortage.
5. A non-inflationary economy with the Commonwealth holding the brake on prices including take-home pays.
6. Incentive driven increased productivity
7. Increased domestic production
8. Pressure off the balance of payments.
9. Pressure off interest rates presently high to support the \$A.
10. Increased resources for homeland security.
11. All Australians with the opportunity to share in a bigger cake for a better standard of living.
12. Increased international negotiating power for the Commonwealth.
13. Australians with increased capacity to contribute to a better world.

This Real Tax Reform would slash red tape, substantially reduce the cost of renewing and adding infrastructure, and has the capacity to unite all Australian employers and employees with immediate tangible benefits and a fair go for effort.

Case study 2

Currently an Australian casual seasonal farm worker can find themselves in the position that this take home pay puts them in a higher tax bracket which is a significant disincentive to do this work. In contrast a worker from overseas is unlikely to experience this tax disincentive.

I have been in contact with the ABS and the ATO to find out the existing annual average rate of income tax collected by the ATO on casual seasonal farmer workers' incomes but to date have been unsuccessful. From discussions with the ABS the advice is that this average annual rate of income tax cannot be reliably estimated. I am continuing to push the ATO for this information or what actual data they have which is the closest fit.

If you have access to this information it would be most appreciated.

For the purpose of this research I have made the following assumptions, which may bear little relationship to actuals but this does not detract from this Real Tax Reform.

Casual seasonal farm workers average weekly wage is \$640 based on 40 hours at \$16 hour.
Australian resident has income tax deducted of 19% to give a take home hourly rate of \$12.96
Nonresident has income tax deducted of 29% to give a take home hourly rate of \$11.36

Both the Australian and the Nonresident only do this seasonal work for half of the year.
The average annual income of the Australian casual seasonal farm worker results in Tax Offsets and a lower tax rate to give an average annual rate of income tax of 11% or an actual take home hourly rate of \$14.24

Real Tax Reform to provide more casual seasonal farm workers

In BRIEF - the figures are based on the above assumption.

The farmer to pay the income tax on casual seasonal farm worker's rates of pay so that the worker's take home pay is not subject to income tax. Australian workers receive a take home hourly rate of \$14.24 and the farmer pays to the ATO income tax of \$1.76 to give a total cost to the farmer of \$16.00 per hour. Nonresident workers receive a take home hourly rate of \$11.36 and the farmer pays to the ATO income tax of \$4.64 to give a total cost to the farmer of \$16.00 per hour. The Australian and the Nonresident workers pay no income tax on their casual seasonal farm work take home pay. The cost to farmers does not increase. The ATO collects at least the same amount of income tax for the Government.

The BASICS.

A person wishing to do casual seasonal farm work must be in the Australian Taxation System by having an ABN and registering as a Resident or Nonresident.

Farmers obtain an income tax deduction for this cost by only using casual seasonal farm workers with an ABN.

The farmer and worker agree on the rate of pay as a take home pay amount with no income tax deduction. This rate setting, hours of work etc are subject to guaranteed minimum Awards and Conditions.

The worker lodges a BAS with the ATO for this casual seasonal farm work take home pay and pays no income tax on this income.

The farmer includes on the BAS lodged with the ATO the total casual seasonal farm work take home pay for Residents and Nonresidents and calculates income tax at the rate set for the financial year by the Government and pays this tax to the ATO. Initially this rate to be set at the existing annual average rate of income tax collected by the ATO on casual seasonal farmer workers' incomes so that the Government is not out of pocket.

Australian and Nonresident farm workers receive the take home pay set by the farmers and pay no income tax on this income.

Farmers have the opportunity to set casual seasonal farm work rates of pay to attract the required number of workers and can reliably budget their cashflow outlays for casual seasonal farm work for the financial year ahead and beyond.

This is a win for the Government, for farmers and for casual seasonal farm workers regardless of where they are from.

REAL TAX REFORM OUTCOMES which benefit the Government, farmers, casual seasonal farm workers and all Australians include -

- This income tax administration and compliance is effective and efficient for the worker, the farmer and the ATO.
- The ATO can expect to collect more income tax on casual seasonal farm work. This will enable the Government to reduce the rate of income tax to be paid by farmers to the ATO on total casual seasonal farm work take home pay paid to workers.
- To attract more casual seasonal farm workers the farmer can increase the casual seasonal farm work rates of pay.
- With reliable access to casual seasonal farm workers, farmers can reliably plan to increase production for domestic and export markets.
- Farmers and workers have the opportunity and incentive to improve their financial security.
- Increased farm production and sales including exports improve Australia's terms of trade and provide additional net revenue to reduce foreign debt.

The TECHNICAL DETAIL

A person who wishes to do casual seasonal farm work applies for an ABN and registers as a "Resident or Nonresident casual seasonal farm worker".

The Australian Business Register (ABR) will show their name, Resident or Nonresident status, casual seasonal farm worker registration and ABN. No other registration is required.

The casual seasonal farm worker is now in the Australian Tax System regardless of their residency status i.e. an Australian or from Overseas.

The casual seasonal farm worker applies for work and provides their ABN.

The farmer accesses the ABR online to confirm the ABN, name, Resident or Nonresident status, and casual seasonal farm worker registration.

The farmer receives an income tax deduction for this cost by only using casual seasonal farm workers with an ABN.

On attending for work the worker provides to the farmer documentation to verify their name and Resident or Nonresident status i.e. passport, birth certificate, naturalisation certificate, driver's licence, etc.

The farmer and worker agree on the rate of pay as a take home pay amount with no tax deduction. This rate setting, hours of work etc are subject to guaranteed minimum Awards and Conditions.

The worker receives the take home pay and a payslip showing the ABN, worker's name and amount of the take home pay.

The worker lodges an annual BAS with the ATO for this casual seasonal farm work take home pay and pays no income tax on this income.

The farmer includes on the existing BAS lodged with the ATO the total casual seasonal farm work take home pay for Resident and Nonresident workers and calculates income tax at the rate set for the financial year by the Government and pays this tax to the ATO. Initially this rate to be set at the existing annual average rate of income tax collected by the ATO on casual seasonal farmer workers' incomes so that the Government is not out of pocket.

Australian and Visiting farm workers receive the take home pay set by the farmers and pay no income tax on this income.

Farmers have the opportunity set casual seasonal farm work rates of pay to attract the required number of workers and can reliably budget their cashflow outlays for casual seasonal farm work for the financial year ahead and beyond.

The ATO can expect to collect more income tax on casual seasonal farm work. This will enable the Government to reduce the rate of income tax to be paid by farmers to the ATO on total casual seasonal farm work take home pay paid to workers.

To attract more casual seasonal farm workers the farmer can increase the casual seasonal farm work rates of pay.

Yours sincerely
Derek Smith
Chartered Accountant

For your information

- I have been a member of the Institute of Chartered Accountants for over 40 years.
- I have over 40 years taxation experience in Australia of which 20 years has involved researching and documenting Real Tax Reform.
- I have 11 years experience in the Profession including 5 years with Price Waterhouse and 37 years in industry including 13 years in marketing, sales and manufacturing for domestic and export markets, 6 years in coal mining and exporting, 7 years in banking and 11 years in consulting.
- I have had both a professional and personal interest in the Rural Sector for over 40 years.
- I have had a family business interest in the Tourism Industry for the past 16 years.