

## **Australia's Future tax system.**

AFTS Secretariat  
The Treasury  
Langton Crescent  
Parkes ACT 2600

Submission to the review panel.

**Issue:** The terms of reference state that the intention of the review is to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21<sup>st</sup> century and enhance Australia's economic and social outcomes.

**Background:** Australia is rich in resources, talent and knowledge, and whilst a young country historically relative to established societies in Asia and Europe it is technically and commercially mature, with many fine institutions inherited and further developed and adapted to the Australian context from their origins in England and Europe. Whilst the country is blessed by size, geographical location, resources, and the diversity of its people it like all modern societies faces challenges.

**Present Position:** The Challenge of taxation:

*Adams Smiths Principles of taxation:*

- 1. People should contribute in proportion to the income that they enjoy under the security of State protection.*
- 2. Taxes ought to be certain, rather than depend on the arbitrary decisions of tax officers.*
- 3. Tax should not be inconvenient to pay.*
- 4. Taxes should have minimal side effects:*
- 5. They should be cheap to collect;*
- 6. They should not hamper industry and enterprise.*
- 7. They should not be so onerous as to encourage evasion, and*
- 8. They should not require frequent visits and the odious examination of the tax gatherers.*

**Q: Does the present system comply with Adam Smiths Principles?**

**A: In a word No.**

There is neither space nor time in this submission to address every aspect of Adam Smiths principles and so I have focussed my attention to items 4,5,6,7 and 8 where I believe the Australian taxation system is failing.

- o Because of the level of taxation, taxes have major distortional effects on the economy and influence greatly what people do. They represent a major disincentive to wealth creation.
- o They are not cheap to collect, and getting more expensive as the demands increase.
- o They seriously hamper the individual, industry and enterprise.
- o They are so onerous that they demonstrably encourage evasion.
- o They require serious audits and the odious examination by tax gatherers and the courts.
- o Simply the taxation system at Federal, State and at local levels is taking and consuming too big a piece of the pie and there is no effective counterbalance to the inexorable rise in taxation demands.

**Lack of check and balance:**

The major weakness of the present taxation system is that there is no structural check and balance to limit the inexorable and ongoing demands of taxation that both federal and state governments with all the monopoly powers of the state apply to taxpayers.

Consequently the level of taxation has continued to increase over time from its first inception until it has become the major cost item of every business activity and investment activity of every wealth creating individual.

Without a formal structural limit to the levels of taxation eventually the system will fail. It is already apparent from normal reading of the national newspapers that immense amounts of time and effort are constantly being expended by the wealth creators in the business and professional community in structuring their affairs to become more tax efficient. If the demands were more globally competitive and reasonable this would not be required.

Simply the burden of taxation has become unaffordable for many business and professional people and businesses are relocating to more attractive countries.

**Quote:** *"The proprietor of stock is necessarily a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other Country where he could either carry on his business, or enjoy his fortune more at ease."..... Adam Smith*

**Evidence of over taxation:**

Without the reduction in taxation for contributions to superannuation, people retiring simply would not have had sufficient to retire on and they would have become a burden on the system through social welfare. So the National government realising this, voted to reduce the burden on those approaching retirement in an effort to redress the loss of confidence by Wage and Salary earners in Superannuation as a result of former Prime Minister Keating's raid on Super. This loss in confidence was largely caused by the tax change implemented by Paul Keating provoking the pilots strike into Canberra.

The policy change by the Howard Costello team which resulted in a reduction in the tax rate for those approaching retirement was firm evidence that the rates of tax on personal income and on their superannuation funds ordinarily were too high. Without a policy directed at the reduction in taxation people will continue to fight it at every turn and many Baby Boomers will simply give up, sell their businesses leave work and retire. To further reduce the number of contributors to the funding pool, and in some cases to become a burden on the remaining taxpayers.

**State Taxes:** Land tax represents up to 30% of revenue for a property in NSW; [1.6% of the UCV in NSW.] This is in addition to stamp duty on the purchase of a property, GST for all inputs and Federal income tax on earnings less costs and Capital gains tax on any sale. This does not include stamp duty on the loan to purchase the property, Council and water rates to local government and utilities etc.

In the first two years of purchase and ownership of a property State Government taxes including stamp duty and land tax absorbs some 150% of the gross rent an investor is likely to receive during those two years. This is why we have a rental crisis, this is why new houses are not being built and so an affordability crisis.

**Taxes are not competitive with the costs for other service provision.**

Margins in business are relatively low when all costs are considered. Retail margins often represent 2% to 3% of turnover. It is possible to employ virtually any professional for between 1% and 5% of the total project cost. An Architect, a Principal Contractor, a Lawyer, an Engineer even a real estate agent; all cost between 1% and 5% [of the total project cost], for a substantial project. If the project is small these costs may increase to 7% but all represent value in the overall project and can be covered by the project overall. This small margin in the real world is completely overlooked when government officers considers tax rates. For example the GST rate was established and added to the other existing taxes then in place lifting overall taxation by a further 10%. This on top of company and personal tax rates of up to 50%.

Let us compare the overheads of public companies with that of Government. What are the overhead costs of Major Corporations? If we look at West Farmers, BHP, West-Pac, NAB, the overhead costs are between 1% and 3% of their total costs and are constantly under review. The overheads for the Australian Government at Federal and State levels are closer to 50% of national earnings. Frankly the costs of Government are out of control.

**Recommendations:**

Based upon Adam Smiths Principles: ie

- *Taxes should have minimal side effects:*
- *They should be cheap to collect;*
- *They should not hamper industry and enterprise.*
- *They should not be so onerous as to encourage evasion.*
- *They should not require frequent visits and the odious examination of the tax gatherers.*

1. Make Australia's tax system more competitive by way of lower rates of taxation
2. Australia needs a formal check and balance system to limit the inexorable increase in the taxation on the society.
3. Australia needs to set a ceiling on the overall level of taxation at Federal and State level and should manage within this budget. Example a target of 15% of GDP
4. Savings need to be encouraged. Savings of the general population should not be taxed at all up to a defined level.
5. The Political class need to be made more aware of the need to be more frugal in the way they spend Australian's financial resources.

New South Wales Citizen.