Revenue Review Foundation
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AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

via email: AFTSubmissions@treasury.gov.au

Dear Sir,

I thank the Government for the opportunity to contribute ideas for your consideration. Please find below my submission to Australia's Future Tax System Review in my role as founder of the Revenue Review Foundation.

You will also shortly receive by post a short DVD-video presentation discussing Revenue Review's tax reform proposals.

Submission to the AFTS
Revenue Review Founder – Richard Hackett-Jones

My advocacy is centred around the following key points:

- a uniform rate of income tax for all
- multiple tax free thresholds for taxpayers based on the number of dependants
- personal annual tax returns for most tax payers rendered unnecessary
- simultaneous social security reform, removing disincentives for the under-employed
- a once only tax on dividends with interest taxed directly
- replacement of capital gains tax with a *small capital exit tax*.
- more appropriate spending of fuel tax revenue
- a comprehensive review of local government funding

My criticism of the current tax and social welfare systems has always been based upon the fact that human endeavour is discouraged.

I have come to my convictions as a layman economist rather than a "tax expert".

A taxation system that encourages arbitrage should be abolished. Any new proposals that either allow arbitrage or are predisposed to sectional interests should not be entertained. The new tax system should be as streamline as possible. Specific interests should be dealt with outside of the administration of the Tax Act itself.

The basis of my submission is my website: http://www.revenuereview.com.au. Please read and include this as part of my submission.

You would be well aware that:

- 80% of personal income tax is redistributed as social security and family benefits.
- Around 40% of tax payers are in receipt of benefits that either equal or exceed the amount of tax paid. The flow to and fro is costly to administer, hard to understand and has some unfairness regardless of the best intentions of the Government of the day.
- Barely 10% of personal income tax is acquired in the range above 30%.
- 30% is the main rate of tax which 80% of tax payers do not exceed. 30% is also the corporate rate as well as a time honoured rebate rate.
- The 40% and 45% rates encourage arbitrage. The 15% rate gives an avenue for arbitrage.

I propose that there be one income tax rate for all persons and corporations.

The corporate rate and personal rates should be the same despite advocacy favouring a lower corporate rate. In the end a shareholder of a Corporation is an individual.

For ease of calculation we will assume that the current levels of personal and corporate income tax are $200 billion per annum. For example the typical surplus proposals in current budgets are around $7 billion. If this surplus was distributed as a reduction to the 30% rate then the 30% rate would float downwards to 28.95% on individuals and companies. If a further reduction in Commonwealth expenditure was achieved, by following my suggestions regarding the elimination of overlap between State and Commonwealth Departments, of $12 billion per annum this would be a bonus of 6% which would reduce the tax rate by a further 1.8% to 27.15%.

The uniform rate for the forthcoming year would be matter of declaration at each May Budget.

It easy to see that the current Family Benefits A & B could be overlapped by 'family-sized' tax-free thresholds for people with dependants. Perhaps then only a very small number of people would need any supplementary benefits. These would be administered outside the taxation system anyway.

My proposal would see every member of a family given a $15,000 threshold. Consider the example of a family of five – a breadwinner, dependant spouse and three children. This would result in a tax-free threshold of $75,000, which at 30% equates to a tax credit of $22,500.

Deductions should assumed within this $15,000 threshold at a rate of $2,500 per person. This would result in this taxpayer not making claims for work expenses, educational expenses or medical and dental expenses of himself or any of the members of his family until the total expenditure of the whole family exceeds $12,500.

It may seem that my system would unfairly disadvantage a single person. However, the current threshold level should be increased to around $18,000. (We are essentially exchanging the 'discounted' 15% rate of taxation for an increased threshold.)

I will post on my website in the next couple of weeks some examples of different family structures and comparisons with the current system.

No social security recipient entering the workforce should end up retaining less than 60c of every dollar earned after withdrawals and tax. Please refer to my website for further commentary on this issue.

The overlapping of State and Commonwealth departments should be eliminated as a very early priority of reform. This costs Australia $1 billion per month. Please refer to my website for further commentary.

Too many people today are using Superannuation purely as a tax shelter and not as a retirement savings plan. For example, someone who retires without superannuation, but with $1 million in spare cash, can currently shift their money into a 15% tax shelter.

I propose that there be no tax on any superannuation account until the earnings on the account reach twice average earning. Thereafter the tax rate should be the uniform rate of 30% or less.

The same principle should apply to employee superannuation funds. The 15% contribution tax should be scrapped as this combined with the 15% tax on earnings retards a retiree's cash benefits by at least one third.

Investors should not look at superannuation specifically because of tax benefits.

Luxury Car Tax is a product of the politics of envy and should be substituted with a tax that is more in line with current aspirations, such as upon fuel consumption.

Capital Gains Tax should be replaced with a capital exit tax of between 0.5% and 0.7%. This should achieve similar revenues to the current system.

Should an activity not be profitable, it should not be encouraged with non refundable tax payer funds. Creating jobs or export income can also be achieved by properly planned enterprises. 10% company tax on export earned profit should be sufficient to negate a number of existing tax concessions.

Fuel excise should be ear-marked in growth corridors and the necessary upgrades should be facilitated immediately.

Turnover Tax of 2% should be charged on all companies, profitability notwithstanding, with a credit against other tax liabilities but with no negative credit against carried forward losses.

Please refer to the website as part of my submission. See: www.revenuereview.com.au.

Feel free to contact me on 3012 7010, 0405 405 110 or email info@revenureview.com.au.

Yours sincerely,

Richard Hackett-Jones
Revenue Review Foundation