

## **SUBMISSION TO TAXATION REVIEW 2008**

On behalf of:           The Australian Taxation Reform Group Inc.

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1.     The Australian Taxation Reform Group submits that the current taxation system suffers from five major faults which limit any possibility of substantial improvement in either collection efficiency or taxation justice.
2.     The faults are: (i)     Crippling complexity  
                                 (ii)    High collection costs  
                                 (iii)   Inefficient collection methods  
                                 (iv)   International incompetiveness  
                                 (v)    Distorts local economy.
3.     In addition the taxation system is responsible for more company failures and liquidations, approximately 2000 businesses per year, more than any other single cause of liquidation.
4.     The only solution is a radical revision to the taxation system to deal with the above.
5.     The ATRG submits that in order to break the established pattern the taxation system for the 21<sup>st</sup> century needs to eliminate the compulsory maintenance of taxation records, eliminate tax returns and automate the collection of tax thereby eliminating the entire taxation recovery and enforcement procedure currently used as a political weapon when needed.
6.     The political downside for the adoption of such a 21<sup>st</sup> century system is the removal of the capacity of governments to use taxation as a toll of social engineering.

### **Built on Illusion**

7.     The current taxation system is built on the illusion that it is “progressive” and therefore inherently fairer to low income earners. Reality is widely accepted. The low paid must accept all of the tax burden imposed on them whilst the rich can legally subvert the system and pay a much smaller percentage of their income in tax than the official tax scales set out. In the most extreme cases some of the richest persons in Australia have paid little or no tax. Only ideologues maintain the fiction that the current system is “progressive”, a term which today has no meaning.

8. At a practical level to help overcome the real effects of the tax system on low income earners the government is obliged to make massive social service payouts in many categories.
9. The observed result is that a large percentage of families end up in a tax neutral position by collecting the equivalent in social service payments to the amount they pay in taxation. Unfortunately this system is self defeating since it also adds the costs of collection and of administering the social service payouts to the original tax neutral equation. The government, i.e. the rest of the taxpayers, bears a substantial cost.
10. Any new system must address all these issues... anything else is simply fiddling around the edges of the problem.
11. So a new system must reduce the tax burden on business by reducing the costs of taxation compliance as well as the taxes themselves, redistribute the tax burden so that it falls fairly on all shoulders; increase the government's capacity to spend on matters of social necessity such as schools, hospitals and other vital services; remove the spectre of jobs being wiped out by a the imposition on tax law; and at the same time create a constant cash flow to government avoiding the necessity of borrowing to meet government outgoings between taxation payment periods.
12. As ridiculous as it may seem there is a taxation system which accomplished all this and more.... an automated electronic debit tax system imposing a small tax at the point of withdrawal of funds from the financial system and the abolition of all other taxes. This deceptively simple system has been given many names since its creation in Roman times, when the taxation was a retained percentage of grain withdrawn from granaries, but the widespread use of modern computers makes the debit system practical and workable for any modern society. It is a fundamental transaction tax but at a very low percentage designed to make virtually any form of avoidance more costly than paying the tax.

### **The Heart of the Method.**

13. Extensive research in the United States, Europe and Australia has identified the continuing shift to electronic payment of accounts and transfer of funds by both businesses and individuals. Fewer and fewer people are risking the carriage of large amounts of cash and the increased scrutiny of cash transactions by anti – terrorism security authorities is reducing the numbers even further.
14. Because these figures are available on a daily basis as a standard part of financial institution book keeping the amount of tax due and payable each day is known and collected. The information time lags built into the current system which are a significant cause of the problems governments and the financial industries are now facing are all eliminated.

15. Most importantly this switch in transaction methods allow a ready means of identifying the taxable transactions. In the system suggested it is ALL transactions, there being no provision for immune transactions which can then be manipulated.
16. This does of course eliminate the tax free status of various religious and charity bodies but a transparent system of refunds from government can deal with any undesirable outcomes and guarantee that public support is not being perverted or diverted by the taxation system itself.
17. The rate of taxation suggested by the ATRG and by academic economists in the U.S. is a total of 1%. Some economists suggest that equity demands the tax be split equally between the buyer and seller in any transaction, i.e. ½% on each participant, but that relies upon the transaction being fully electronic. At the current time 1% on the withdrawal of funds by any means also imposes the tax on cash transactions except with second and further transactions using the same amount of cash, however some strict regulation of cash insurances policies to ensure premiums are more than 1% would make cash transactions unattractive for all but the most desperate who are not likely to be paying tax in most cases.
18. The greatest gain for government lies in the fact that computations based on the above research into the volume and number of transactions indicates government revenue would double at the same time as the burden on individuals and businesses would decrease.
19. No, the ATRG does not believe in ‘magic puddings’, but it does recognise that the current cost to business of compliance with the current taxation system is 2-3% of turnover plus the actual taxes paid. The saving to business of the automated electronic payment system is 1-2% of turnover plus elimination of all the other taxes paid; from payroll tax to fuel tax, to stamp duty, to registration fees on all types .The activities of every government department could be simplified and streamlined to the national benefit.

### **Restructure of Business**

20. A recent reply by the Assistant Treasurer to a query by an ATRG member attempted to dismiss the above system as being to easily manipulable by business restructure.
21. Only ignorance of the current tax laws and the large number of legal provisions that have been introduced to deal with the transfer of funds, profits and losses between companies and their subsidiaries could hide the recognition that companies have restructured themselves on a global basis to adapt to the current system.

22. The business community would certainly restructure to fit with the new provision and to make a number of transfers internal rather than external but this would make the real level of activity in any given company much more visible to the stock-market and other interested authorities.
23. However a considerable number of international companies operating in competitive environments would find relocation of their headquarters and registration to Australia advantageous with a resulting benefit to the capital marks in this country.
24. In short the benefits would extend far beyond the usual domestic considerations of the governments ability to adequately provide for pensions, medical and education systems, rebuilding and extension of infrastructure, without government borrowing and extended debt.. Just the fact of a daily cash flow to the government of all taxes collected that day would eliminate some of the political crises of the past and prevent the over-extension of business borrowing to pay large amounts of tax.

## **Summary**

Only the advent of modern high-speed and reliable computer power coupled with internet communication could make the application of a transaction based taxation system possible. But anything less will be seen by history to be cowardice or at best the refusal to simply regard taxation collection as the goal while seeking other means for exercising the governments desire for economic, social, and political change. We recommend the electronic automated debit tax to the review.

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