

**The Committee,
Australian Government
Regulation Task Force**

A simple Tax

When I first studied tax in 1976, the Income Tax Assessment Act was an inch and a half thick. It now comes in three volumes of 4 inches plus.

The government has an opportunity - and indeed an obligation - to fix the tax system.

There has been no real tax reform since 1936, when the Income Tax Assessment Act was introduced to cause pain and hardship to the majority of people in Australia.

The newly revamped tax system is the most burdensome intrusion of government on all business, especially small business. Its implementation suits large companies and bureaucrats. It is expensive and complex for small business.

May I offer a few suggestions that will help resolve the inefficiencies in the "system" (a loose term in this case), and provide a better solution?

Tax is only about government funding...back to basics.

The tax model must be **only about raising revenue**. Over the past 50 years the tax system has been used as a tool to manipulate social and political outcomes, in a less than transparent way. Tax has been used to produce various political and social results – all failures. The tax system has been abused by governments of both parties.

Tax must be about revenue - only. Any welfare measures or other lobby groups should be dealt with in a direct and transparent way. They should be directly funded and shown as such in the national accounts, rather than being hidden in a complex and messy tax system.

The Proposed Simple Tax

To achieve a simple and effective tax system, do just that.

- Apply a "standard tax rate" to all flows of monetary or other value between any individuals, corporations or other entities/organisations".
- Remove the notion of deductibility. Tax must be applied to both gross revenue and all expenditure. Abolish any deductions. Remove any rebates.
- Take the legal and accounting complexities out.
- Eliminate the BAS/IAS reporting requirements.
- For improved accountability (of the government to the people) the tax system should be tamper proof. The only variable should be the rate.
- Simplify compliance by:
 - 1) Preparing NO tax returns
 - 2) Providing automated electronic transaction systems for companies, individuals and other entities to link to. Their choice for simplicity - not a control measure.
 - 3) Including tax in every transaction.

Value flows must be taxed as inward and outward movements. Any transaction or exchange will tax the value in both directions.

In the current "System", while income may be taxed it is taxed at source by the employer in PAYG. That makes it a tax on spending, not on income. Instead:

- When taxing outbound flows, tax the entity in the same direction – the sender of the value.
- When taxing inbound flows of value, tax the recipient.

The compliance then becomes a simple matching issue. Every debit needs a corresponding credit – this is simple accounting. One entity reports the debit and the other reports the credit. Any variations are easily uncovered.

The arguments against

- **A "flat tax" system will not work. It is "Regressive".**

For whom will it not work? Maintaining the existing system only perpetuates the inefficiencies, inequities and political corruption of the tax system. The current system is regressive, where businesses are allowed deductions for expenditure of all kinds but individuals have no such deductibility. A truly "fair share" of tax would be that everyone pays the same proportion.

The "flat tax" idea has met extensive resistance in the past – because people have positions to protect and could not accept the simplicity. Additionally, previous arguments have not included broad reform of what was taxed. They only suggested flat rates on income or profit. Tax should be built into the transaction activity, just as the banks apply their transaction fees.

The "flat tax" is completely progressive – the more you earn or spend, the more you pay. No arguments.

- **We must tax profit or net income, as taxing revenue or expenditure is "anti-business".**

It is **not** government responsibility to manage private industry or to determine profit levels. If a company spends fifty thousand dollars to make five thousand and another spends 10 thousand to make five thousand, why should we subsidise the inefficient business by taxing profit.

In the existing "system", individuals are not taxed on their profit. They are taxed on their revenue. Housing, food and transport are not deductible to the individual taxpayer, although these items are required to allow the individual to continue working. Businesses are allowed all deductions. Individuals don't get back state government stamp duty, payroll tax or any other state and commonwealth taxes from their income tax. Why should business get deductibility for theirs.

Whether people and businesses make a profit or not is their problem. The single function of tax should be kept in mind - **to collect revenue** – see above.

- **A flat tax is inflationary.**

All tax is inflationary. Get over it. So what?

- **It's not as simple as that – there are many different considerations and issues to be considered.**

There are no other issues. It is that simple.

Clear Benefits

We are a small country with abundant resources but our tendency to complex and redundant administration is making our standards of living suffer. We have three tiers of elected government, all arguing and draining the prosperity of the country. All the duplication is extremely expensive. All the legislation and regulation is pitiful.

A "Simple tax" policy would assist in many areas of social reform, allowing people and businesses to operate to create wealth rather than organising their own affairs to adjust to the tax system – or to take advantage of the system.

At present, business enterprises are allowed deductions for spending money to keep themselves alive - buying inventory, making repairs, depreciating assets etc. Individuals or P.A.Y.E. workers are not allowed the same benefits of deductions. A simplified tax on gross revenue and gross

spending would provide workers with a more equitable position. They, and business would be taxed in the same way.

The rate would be much smaller. The rate would be at such a level that avoidance would be counterproductive. The rate could be easily determined now, from total gross revenue and earnings or GDP divided into the total expenditure requirements of government.

In fact, the rate could be automatically adjusted in real time as the GDP varies. The more the country earns, the lower the rate becomes. Or, looking at it another way, if government spends more, everyone pays more tax and the government becomes accountable. That is the scary part....the tax system is used by political parties to justify keeping the public ignorant.

There would be no distinction between transactions of a capital nature and those of an income nature. All would be taxed equally.

There would be less inefficient allocation of scarce capital into non-productive investments. The tax system is such an incentive at present, to divert investment into these areas, away from job creation and output generation in Australian business. The current "system" encourages losses, not profit.

All relevant government assistance or penalties within the economy and society will be obvious and direct – through spending policy and direct penalties. The tax system will be completely transparent. The spending of Australia's tax take would also be more visible. The government accounts might start to mean something.

The massive and unproductive bureaucracy that supports a complex tax system, including a complete industry in the judiciary and accounting/tax law would be better deployed for the overall wealth of the nation. Great talents and great resources are being wasted on irrelevant tax complexity and bookkeeping.

Getting the message through

Selling this concept to the Australian people would not be too difficult if they can understand that Australian tax law would at last be efficient and fair. The advantages of the concept are:

- It will collect revenue for provision of government services – set the rate to adjust revenue. Government will then be judged on their management performance. People will choose more or less spending at each election.
- It will be transparent – the amount of tax is directly correlated to any flow of value.
- It will be simple – a collection on all inflows and outflows. There is no definitional problem.
- It will be efficient – simplicity makes it efficient and one system fits all. There will be no tax law issues and far fewer tax lawyers and accountants – who all add cost. Administration would be simple.
- It will be equitable – all flows of value are subject to it.
- It will be only about revenue collection, not social justice policy or market intervention. Adjustments to wealth distribution will be through rebates and subsidies for other policy objectives. These will be clearly visible to the people.
- It will stimulate the economy – adjusting to real and efficient endeavours rather than activities distorted by tax.
- The most important thing about this tax proposal is the delivery of real equity and fairness, not the self-indulgent definitions of these, provided by politically interested parties (particularly from the left who claim ownership of the concepts but never deliver them).

If you stretch the imagination and vision, you could even divide the tax system into two – state and federal, with each responsible for their own rate. States could tax outflows (not very novel here) and the Commonwealth could tax inflows of value – again not very novel.

If we do not adopt a simple and transparent system, eventually the current tax system will be seen for what it is – deceit.

Does the Australian government want the Australian people to understand and does it want increased prosperity? Or does it wish for more valueless jobs in accounting and law and a stifled standard of living for Australia?

The tax system and its complexity is a major issue for all Australians. The statisticians and pollsters would not identify it as such but if made into a political issue, - i.e. taking the moral high ground – it would be an election winner (or loser) depending on how it is handled. The other significant issue that could clinch any federal election would be a coordinated campaign to remove one of the tiers of government – the states.

The existing Business Tax System and the GST will NOT deliver what I have described here – efficiency, and fairness?

I would be happy to give you and your colleagues a brief presentation on the “best” tax system for Australia.

Sincerely,

Robert Jones

Small business operator