Comments for the Australian Tax review – Re-Think – 1 June 2015.

To simplify the taxation of government, the tax bases should be equivalent, and the minor taxes abolished. This will reduce the incentive for creative accounting, reduce compliance costs, and provide the largest tax revenue for the lowest effort.

The details provided in the Re:Think website provide the basis for my comments below.

1 The challenges can be addressed by changing the taxation bases in the future. I would suggest retaining only the large tax types, and applying flat tax rates in the future for income tax, like the GST.

2 With the cost of tax compliance at the quoted $40 billion per year, the tax system needs be simplified, as this is a significant proportion of the total tax take by governments and it also impedes company productivity. Further, individuals and companies cannot understand all the complex tax legislation currently in place to meet all of their obligations.

3 Internationally, company tax rates in the largest economies are at least half of those in Australia. At the current marginal rate of 28.5%, this should be lowered to 15% so that business will continue to invest in Australia.

4 Individuals income tax should be at a flat rate for all income levels. I would suggest an equivalent rate to the company tax rate, e.g. 15%. This will reduce the reliance on individual taxation, in line with the international ratios. This would simplify calculation of tax deducted by companies to meet their their tax compliance, as all employees would have the same tax rates and tax tables, whether married or single, working a second job or otherwise. This meets the fairness test, as all people have the same tax rate.

5 There should be no fringe benefits tax, or luxury car tax, as these take insignificant quantums of tax.

6 Re:think states the GST is applied on only 47% of consumption. It should be applied to 100% of consumption, including all international and on-line purchases.

7 Taxes should be raised only from individuals, companies and GST. Minor taxes applied by state and local government should be abolished, including motor vehicles, payroll, stamp duties, rates etc. These levels of government could be sustained by the total tax take. The state and local government could take a proportion of the total tax take.

8 Income from savings should be taxed at the same rate as company, GST and individual tax rates.

9 International money transfers by companies should be taxed at a single rate on the transferred amount. As company profits are now taxed at 30%, and the profit to revenue ratio is about 5%, this revenue could be taxed at 1%.

10 Many businesses charge a flat rate fee on purchases when credit cards are used for payment. Often this fee is 1% to 1.5% on their revenue. A tax on revenue could duplicate this.

11 As the company tax rates are to be reduced, the GST rate should be increased.

12 The annual tax returns should be simplified, and if flat tax rates are introduced and deductions against income are abolished, the returns would be unnecessary.

13 Tax items that are only small tax amounts relative to the total tax take by government should also be abolished – e.g. dividend imputation, negative gearing, R&D tax incentives.

14 If business and personal tax rates were similar, there would be no need for different business structures, i.e. based solely on taxation.

15 Income taxes should be paid by the Not-for-Profit sector - A revenue-based tax could be introduced.

16 The drop in reliance on individual income tax and company tax could be overcome by raising the GST basis and GST tax rate to cover all consumption. This would enhance investment from overseas.

17 One further idea is to apply the GST without “Input credits”, so it becomes a rate based on the value of goods and services delivered. In accounting terms, it would be applied to the total bill of customers e.g. at 15%, and would not have to be accounted separately on each single item of goods for sale. This would simplify accounting and back-end staffing requirements and cost to meet compliance.

18 The tax compliance cost for small business is listed as increasing cost per $1000 of turnover with smaller business size. If the annual tax paid was based on turnover, not profit, a simple statement for the business of revenue and tax due could be prepared as the annual tax return.

Regards,

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