SUBMISSION TO TAX WHITE PAPER TASK FORCE
AUSTRALIA’s TAXATION REFORM DISCUSSION APRIL 2015

Taxation reform has been on the agenda for more than 20 years. Apart from a little excitement at the time of the Henry Report, very little has been achieved.

Lowering tax is popular, raising taxes is not.

It now very clear that we are currently experiencing a loss of confidence about our ability to use the taxation system of the 1950s to handle the taxation demands of the next 50 years.

We welcome the opportunity to make this submission for a more modern, innovation tax system for Australia. We need a system that is simpler and fairer without increasing the tax burden on individuals and business.

What is the problem with our present taxation system?

Simply put:

- it is unfair to many segments of our society;
- its is too complex with over 5000 pages of tax laws;
- it does not raise enough money to pay for current needs;
- it has high compliance costs especially to small business;
- our current company 30% tax rate makes Australia uncompetitive;
- the tax system is not improving our productivity and growth;
- our tax system is anti-employment;
- our tax system is anti-business growth;
- it doesn’t provide the funds to support our aged population, our unemployed youth, our under employed workers, indigenous citizens and the disadvantaged;
- it doesn’t have the mechanisms to provide the funds for innovation, new schools, hospitals, universities, roads, rail and port and other infrastructure;
- it doesn’t provide the means for older Australians to retire confident that their retirement will be secure;
- it does allow us to reduce our growing debt levels fast enough;
- it doesn’t provide the funds to purchase the military hardware and support that we need to defend our country.

The present system was built to cater for the country’s taxation needs of the past millennium. Since then there have been vast changes in work, business, global economics and the needs of the Australia of the future.

The Coalition Treasurer Joe Hocky released the overdue *Intergenerational Report (IGR)* on March 5th, 2015. The report spells out the challenges that will be faced by Australia in the next 40 years such as the fact that Australia right now is spending more than what we are earning by more than $100 million dollars every day. That is almost $40 billion dollars per annum and this figure does not include state spending.

The IGR report shows a return to surplus by 2019-20 and federal debts being paid off by 2031-32. Repayment of the state debts will take longer, perhaps by 2055. What is not at all clear from the report is the effect of paying off the debt, over 14 years, at a rate of approximately $50 billion per annum, is going to have on future school, hospital, infrastructure and defence re-equipment capital works programs. As we cannot grow to 35 million people without them, just how this is actually going to work out, is unclear.

A lot of the IGR report focuses on the cost of Australia's aging population and rapidly growing healthcare costs. It says almost nothing about the real challenges facing Australia including the structural changes needed to put our finances in order. It offers little information in terms of reform for education, hospitals, research and development, innovation, infrastructure, defence re-equipment, climate change and the tens of other issues that are critical to Australia's future.

During the G20 Conference in Brisbane in 2014 there was a lot of headlines about reducing subsidies and making corporate tax evasion more difficult. This is mentioned in the Intergenerational Report but there is little in the way of proposals to be implemented.

Up to now, borrowing has been the easy choice. Australia's commonwealth government gross debt has risen from $60 billion in 2008 to $412 billion by the end of June 2015. In addition, the state government's debts have grown to $284 billion. The mid year (2014) Pricewaterhouse Coopers report suggests that unless a fundamental change to the tax system is found that the commonwealth debt could end up as $2 trillion by 2042. Even more scary, are the calculations that indicate that state debts could reach $7 trillion by 2050.

This could follow from the commonwealth pushing more and more cost of building infrastructure on to the states. There is also significant local government borrowing and a large underfunded government superannuation shortfall.

Both sides of politics have gone quiet about the funding for the future prospective projects like better hospitals, schools and universities. Major infrastructure projects including a High Speed Rail, new roads, cities and port upgrades are unlikely to be funded from existing sources. This has fuelled a debate in the states about asset sales and private and public infrastructure development.

It seems that Defence forces funding including the purchase of 72 F-35 strike fighters, which the government has already committed to, will cost $12 billion and the Japanese submarine purchase, which seems the latest favoured option, will cost $25 billion. Overall, this Defence capital spending over ten years will need in excess of $50 billion and will come with a significant maintenance bill.

How much revenue is really required?

That is a critical question and the first question that we need to answer. We cannot build a new taxation system if we don't know what future revenues will be required.

We need to get everything on the table, not only schools, hospitals, universities, roads, rail, ports, our water supply and defence needs. We need childcare, affordable housing, aged care, community care, new cities, government service restructure involving federal, state and local government. Education, re-skilling and restructuring all need funds. Solving the refugee issues, the unfunded commitments and provision for climate change, floods and cyclones all are part of the mix.

And in answering this question, we need to recognise the limited revenue raising options that are available to the states. Either the Federal government needs to give the states full rights to raise their own taxes or give them the access to the funding to properly run state infrastructure and services. The current revenue model needs changing.

Once we have all of our national needs on the table, a totally different picture appears. A rather more scary picture. A picture showing that we need to collect a lot more taxes if we want to become a sustainable and prosperous nation.

The 2014 Budget revenues were estimated to be $360 billion. Not all of these bills have been passed by the Senate and clearly some of them never will be passed. We need to take a longer term view and assume that future parliaments will pass the future Budgets, so how much additional annual revenue is really needed to balance the Budget?

In Short:

Revenue needed

- Shortfall of existing tax collection $ 40 billion
- Replacement of inefficient State taxes $ 70
- Restructuring Federal/State government $ 10
- Debt reduction (over 10-15 years) $ 50
- Hospitals, schools, infrastructure,

  transition to knowledge economy etc,

  and defence hardware & facilities $120

Less savings currently being implemented $ 10

Total additional annual revenue required $280

This is almost double what we raise now. This requires a major reform of our tax system. We need to be serious if we are to increase our tax revenue to meet the demands of the future

You will note in the above table that there is provision for savings. Changes to superannuation tax collections, perhaps saving $1.5 billion annually, are being discussed. Government service streamlining and efficiency reviews are very much on the agenda. Savings will be made and these need to be included in the figures.

Increases in the personal tax rate, increases in the corporate tax rate (making us less competitive in the future) and the introduction of new and/or higher taxes would prove to be electorally unpopular.

There is strong electoral support for requiring high earning individuals and companies to pay more tax. Legal tax avoidance is a billion dollar business and it is very clear that people are prepared to pay for tax advice rather than pay additional tax. To suggest that this could be a way to address Australia's tax revenue problems is just wish-full thinking.

Other than imposing a raft of taxes on land and home ownership, there are NO alternative taxes that have the potential to generate the revenues that Australia needs in the future.

Now it would be quite legitimate to argue that we don't need to address these issues. This would be the "do nothing" solution. Yes, we could continue to ramp up our debts after all they are regarded internationally as being well within international norms. Ending up with a national debt of over $12 trillion by 2049-2050 is not a long term solution. Interest payment would be huge and money being used to pay the interest is not being used to build schools, hospitals and better infrastructure.

High debt give greater exposure to a GFC II.

Solutions Needed

If there is a way to address these shortfalls, then this is a far better idea. We clearly need to do something. To keep on trying to use the failed policies of the past to pay for the future of Australia, is clearly a policy of insanity. It is time to draw a line. We don't need more of what isn't working. Instead, we need to look at the subject of taxation anew.

But wait, why don't we just "tweek" the current system

OK, so a lot of people are worried about anything that is "new". They would rather cling to the known taxes like the GST however increasing the GST is already unpopular and probably unsaleable to the electorate.

So why do we need to replace the GST? There are tons of reasons. The GST revenue is falling, the business cost of compliance and payment is complex and there are too many exceptions and according to our OECD colleagues our rate of collection is too low. Raising the rate and broadening the base would further worsen the disadvantages of the scheme and hit the poor and disadvantaged.

The GST was introduced by the Howard government in 2000 at a rate of 10% on most goods and services. There are exemptions: unprocessed foods, education, export goods, medicine, medical services and childcare. Currently, the national GST collection is about $51 billion. Doing away with the exemptions would add another $14 billion to the yield. If the rate was increased to 15%, the income would rise to about $93 billion, or $43 billion more than now. Source: CPA Australia Feb 2015. This is well short of the amount of money needed to achieve our meagre goals and certainly not enough to establish Australia on a fully-funded path to a better future.

We can't really talk about taxation reform without talking about individual and corporate tax minimisation. Legal tax minimisation is a huge industry, and growing as accountants and tax lawyers find more and more loop-holes for legally reducing taxes. Over the years, various articles and papers have raised this issue. The tax advice industry earned $2.1 billion in 2010-2011, the last year that figures are available. It is clearly cheaper for some people to pay for tax advice rather than actually pay the tax.

Tax minimisation isn't a popular topic with both sides of politics mainly because both Coalition and Labor governments have been spectacularly unsuccessful at tackling the issue. A number of reports including some from the Australian Taxation Office suggest that tax avoidance or minimisation is costing the government something in excess of $200 billion annually. Why hasn't something been done about it?

A much lower corporate tax rate of 15% would go a long way towards stopping the outflow and encouraging companies to pay their fair share of taxes.

Much was made at the recent G20 Global Summit in Brisbane and the more recent Senate enquiry of international corporations not paying their fair share of company tax. An outcome of the conference was to build upon the work of the Organisation for Economic Cooperation and Development (OECD) in connection with its work on Base Erosion-Profit Shifting (legal tax minimisation). Tax avoidance is recognised as a global problem requiring a global solutions. The G20 governments are to co-operate to determine a plan of action. In the meanwhile, PricewaterhouseCoopers, Ernst & Young, Deloittes, KPMG and law firms Ashurst, Freehills, Clayton Utz and Mallesons continue to rake in billions of dollars from advising clients how to minimise taxes, legally.

The Senate enquiry was an interesting exercise but one that is unlikely to persuade the hard-nosed businessmen of Google, Microsoft and Apple to share more of their profits with Australians.

Clearly a new approach is needed.

The need for a new approach

We need to look at the Australian monetary system with fresh eyes. There are a lot of individuals, companies and interest groups that pay little or no tax. We need to cast a wider net. We need to raise about double what we currently collect now. We need to consider how we could restructure our tax system if we had that amount of revenue.

People want lower taxes, fairer and easier to understand taxes. So why not restructure the tax system to:

- replace the GST completely and reduce the cost of living;
- get rid of the 100 or so inefficient State taxes that the GST was originally supposed to replace;
- lower and simplify personal income tax to reduce bracket creep;
- do away with FBT, CGT, negative gearing, dividend imputation and other taxes that are costly to administer;
- reduce company tax to 15%;
- pay off the federal and state debts in less than 15 years;
- provide the funding for infrastructure projects and support the structural changes that Australia needs;
- allow the superannuation collections to be doubled, the start of a system where people not the government fund their retirement;
- remove tax rorts and significantly reduce tax avoidance and
- collect taxes on overseas purchases and online shopping.

In the new system proposed here all the above issues will be resolved and we would have a much simpler, fairer and easier to manage tax system.

Everyone would pay the same tax. There are no loopholes or exemptions and minimum compliance costs as the tax is based upon consumption. The tax would be collected by the banks at a rate of less than 1% and paid directly to the federal government.

The states currently are find the revenues from property sales taxes and payroll taxes is keeping them afloat. However, these taxes are unpopular so the states may need reassurance about their share of any new taxes before they agreed to drop state taxes and the GST. But because the new tax will generate a revenue **six times larger than the GST**, this should not be an issue for long.

So how do we do this?

Casting a wider net

We clearly need to do something. To keep on trying to use the failed policies of the past to pay for the future of Australia, is clearly a policy of insanity. It is time to draw a line. We don’t need more of what isn’t working. Instead, we need to look at the subject of taxation anew.

We need to look more carefully at the transactions that pass through the Australian financial system. There are thousands of individuals, companies and interest groups that pay little or no tax. This amounts to billions of dollars.

Well, as they have the advantages of life in Australia, isn’t it time for them to make a small contribution. For example, we recommend that the tax free status of charities and churches be abolished. We recommend that the payment of all overseas and online transactions would attract the new tax. The tax would apply to all payments made through the Australian financial system. There would be no exceptions.

Tax verses Levies

Almost all taxes in Australia exist purely to raise revenue. However, there are a number of taxes that are designed to regulate consumption of products seen as creating a health risk. These are associated with smoking, alcohol consumption and gambling. It is suggested that these be removed from the taxation schedules and instead collected as a "Health levy". The total revenue would be approximately $12 billion annually. The collection should be at source, import or wholesale supply so as to reduce compliance costs. The revenue would go to fund hospital and healthcare programs.

A New Tax Structure for Australia

In considering a new tax structure for Australia, most Australians would see that raising taxes is going to mean that they will be paying more. That's the current model.

Most people would be surprised to learn that there are millions of commercial transactions that occur in Australia every day that don't pay any form of tax. These are addition to the GST exemptions and cash payments. Doing away with the current system of GST and replacing it with a much broader, but considerably lower tax, might these not provide the basis for a simpler and fairer system of taxation?

The politian's one liner: *Everyone will pay lower taxes but the revenue raised from the wider tax base, would be much bigger.*

In answer to the critics who don't like change: it is essential that any future system of taxation be implemented without any burden upon our population or any risk to our economic health? It would help if the tax was easy to understand, simple to implement and easy for business to handle. Community and business engagement is essential. The impact of the tax on all sectors of the community needs careful study, stakeholder questions need resolving. Implementation timescales and transition mechanisms need resolution.

Might replacing the GST at 10% with a tax at less than 2% be popular with Australians? Prices would fall and everyone would have more money to save or spend. Might the retail sector recover offering more jobs and might this provide the impetus to get Australia moving again?

It is vital that the states be intimately involved in any changes to the tax system as they play such an important role in the Australian system of taxation. They need sufficient funds to support state programs and they need a certainty of supply. They need to have a say as to which of their taxes they would like to retain or which they are prepared to forgo as part of a revised tax system for Australia.

There is also a need for reform the operation of COAG, the commonwealth- state working group that operates across Australia through some 140 agreements that involves 230 bodies in the relationship implementation and administration. There is room for reform here. Clearly having a bigger tax ”cake” will make the exercise easier.

Anyone who has seriously studied the cost of transforming Australia from an agriculture/mining economy of today to the innovative/services economy of tomorrow, understands that the transition is going to need a lot of money. Especially so if we are to retain our standard of living.

The following headings outline the proposed changes. Only a broad time table is provided and the items to be reformed are not prioritised. The total restructuring of the tax system might take 10 years. Phasing out over 120 existing taxes will take time and management. It is believed that the fundamental structural reforms could be implemented in two parliamentary terms by a government with the desire to initiate change.

Bi-party support for a new progressive taxation system would speed up the implementation and the public acceptance.

A new all-in-one tax

The headline reads:

“New tax to raise $340 billion a year; GST and state taxes dumped. So what’s the catch?”.

There is no catch. The new tax comes from just thinking outside the box. The new tax called an all-in-one tax, once fully implemented could replace all of the taxes that we currently have in Australia. The proposed initial phase would include replacing the GST, state taxes and reducing the level of company tax.

The tax could be subject to a lower threshold of say $200. However, the tax from transactions below the limit should be accumulated by the financial institutions and applied to the client account at month or quarter end.

Now that sounds rather unrealistic, perhaps even pie in the sky so while the proposed tax has the absolute ability to deliver on the above statement, this document focuses on an initial implementation of the tax that would do away with the GST and many of the state taxes that are regarded as being inefficient. The operation of the personal income tax would be simplified based upon a lower rate of tax.

The company tax would be reduced to 15%.

The financial institutions would collect the tax as the transaction is processed. They would transfer the total collected each day to the federal government.

There would be a phased implementation of the scheme that would allow a smooth transition from the present system of taxation to the new system. These would be implemented over 5-10 years.

The initial implementation phase would involve:

- The selection of a tax rate of approximately 0.85 per cent
- Replacing the GST
- Replacing state taxes that the state governments agree to
- Converting the health related taxes on alcohol, gambling, horseracing and smoking to a Health Levy
- Simplifying and lower the personal income tax tables
- Reduction of company tax to 15%
- Restructuring superannuation to make it more efficient
- Moving to a cashless society

Moving to a cashless society is not integral to the tax but it makes a lot of sense to introduce it at the time of doing away with the GST. A number of countries are seriously looking at phasing out cash include Sweden, Canada and the USA. Israel last year was the first country to start a trial system. This is more fully discussed later.

The all-in-one tax has the potential to replace all other taxes. This would involve significant restructuring of business and financial systems. Once the initial implementation of the tax provide to be successful, then there is a built in mechanism for raising the tax rate, to a maximum of 2%, and the $800 billion raised would enable a significant number of additional changes to be implemented.

During the initial implementation, a tax rate of 0.85 per cent is suggested but the rate could be raised or lowered as the circumstances required.

The percentage would be applied to the purchaser's (drawer's) account by the all financial institutions operating in Australia, automatically. There would be no exceptions other than government payments processed by the Reserve Bank and other inter bank and bank to government payments.

Currently the Australian financial system transacts about $40 trillion annually. This figure has been confirmed by the Australian Payment Clearing Association (APCA).By applying a tax rate of 0.85 percent to these transfers, the revenue generated would be approximately $340 billion. **This is more than six times the amount raised by the GST**.

The APCA figures do not include the transactions processed through Australia's transfer systems. The addition parallel processes would need to be added to the transaction mix. Cash still represents a major method of payment and over the counter branch withdraws represent at least 15% of the money withdrawn via ATMs. Paypal and other online purchases and payments that are excluded from the current system of payment, are significant and growing. Figures indicate 3% of consumer purchases in 2013 were made through Paypal.

So while the government payments made though the Reserve Bank would not be included there could be some commercial transactions that would add to the transaction mix. It is possible that once we have moved to a cashless society and all forms of transactions are identified that the overall monetary transaction base might exceed $50 trillion.

The all-in-one tax is similar to a consumption tax. The idea is not new but the innovation of a universal application is. Transaction based taxes has been considered before and rejected. One of the reasons for this is that it was largely seen as a Financial Transaction Tax (a new tax on financial transactions) and not a complete replacement for the existing tax system. For some reason the transaction tax was seen as being too complex, a comment that I find almost comical considering the complexity of Australia's system of taxation. The proposed tax is quite different to the proposed European Union financial transaction tax.

Every individual, rich and poor, every company, big or small, would pay the same tax.

However, if the critics believe that applying the tax to both rich and poor, an argument could be made that during the collection process that a variable rate could apply. Poor people pay 0.35 per $100, ordinary earners pay 0.85 per $100 and high earners pay 1.20 per $100. This might make the process appear more complex but the process would be totally transparent to the population.

Collection costs would be minimal. There would be **no tax collection by the retailer**. No forms and no refunds. The drastic reduction in the number of complex tax laws would make life a lot easier for the Australian Taxation Office. They would need fewer staff and they may lead the way towards a smaller lower cost but higher service Public Service.

By doing away with cash at the time of the initial implementation this should considerably effect the level of fraud, corruption and political influence. We will come to the subject of handling cash shortly.

It is worth noting that that before June 2001 a debt tax as well as a fiduciary investment duty (on bank deposits) was collected by the banks, so the technology exists to collect the tax. The question of whether or how the banks would be compensated for providing this service, is addressed later.

The following table provides an indication of the effect upon the tax based upon the 2014/2015 budget. The part implementation is with a simplified and revised personal income tax retained and a 15% company tax.

Table of 2014 Federal Budget vs Part Implementation of an All-in-one Tax

Items	Estimates Budget $M	Revised Budget $M	Difference $M	Notes
Individual and Withholding Tax	163,800	130,000	-33,800	1
Fringe Benefit Tax	4,090	1,000	-3,090	2
Company Tax	68,000	45,000	-23,000	3
Super Taxes	6,530	4,000	-2,530	4
Mineral Res Tax	170		-170	
Petroleum Res Tax	1,400		-1,400	
Additional Revenue from Tax Avoid		85,000	85,000	5
All-in-one Tax		340,000	340,000	6
Total Tax Receipts	243,990	605,000	361,010	
Goods Service Tax	51,003	0	-51,003	7
Wine Equalization Tax	760	0	-760	
Luxury Car Tax	430	0	-430	
Excise				
Petrol	6,000	0	-6,000	8
Diesel	8,990	0	-8,990	8
Other Fuel	3,690	0	-3,690	8
Tobacco	7,850	7,850	-0	9
Beer	2,370	2,370	-0	9
Spirits	1,890	1,890	-0	9
Other alcohol	960	960	-0	9
Other Custom Duty	2,980	2,980	-0	9
Carbon Pricing	7,180	0	-7,180	10
Agricultural Levies	476	0	-476	10
Other Taxes	3,074	0	-3,074	11
Total Tax Receipts	341,643	618,070	279,407	
Sale of Goods	8,764	8,764	-0	12
Interest Received	3,210	3,210	0	12
Dividends	3,040	3,040	0	12
Other Non Tax	6,840	6,840	0	12
Total Non-tax	21,854	21,854	0	
Total Receipts	363,497	639,924	279,407	
Percentage increase				77

Notes:

1 Income from individuals at a lower personal tax rate with fewer deductions.

2 Recommended to be abolished but some increase in personal income tax as a result of employers giving "benefits" to employees.

3 Company tax reduced to an effective 15% with an increase in collections from new investment in Australia and more honest reporting.

4 Reductions from introducing a revised system of taxation on Superannuation.

5 Additional revenue from lesser personal and company tax minimisation. This amount of $85 billion is purely an estimate based upon the additional return resulting from the company tax rate reduction and the implementation of a cashless society. The effects of the later are very difficult to determine but could be 2-5 times the size of the estimate.

6 All-in-one tax replacing GST at rate of 0.85 per cent in the part implementation of the tax.

7 Replaced.

8 All fuel taxes abolished.

9 Tobacco, beer, spirits and alcohol taxed retained as Health Levy.

10 Abolished.

11 Reviewed and/or abolished.

12 These are not taxes but could be reviewed and some abolished

There are a number of examples of how this would be applied later in this report.

The new collection figure for all sources of taxation and non-tax revenues, based upon an all-in-one tax rate of 0.85%, is $639.9 billion for the initial implementation. After allowing for the $70 billion of state taxes replaced, this is $210 billion more than the current federal government's taxation receipts for the part implementation.

Note that these figures are hypothetical and based upon those in the 2014 Budget papers. Once the impact of the initial implementation had been assessed it would be possible to model further extensions of the all-in-one tax to further reduce company tax and individual personal income tax.

Examples of the new tax

So how will this work? Lets have a look at some typical transactions:

It should be noted that the fee that the Debit Card or Credit Card companies charge would be subject to the all-in-one tax. However as there is no tax below the threshold of say $200, means that no tax would be payable up to charges of $66,666 (assuming 3% Visa/MC etc. charge).

One of the fundamental differences between the GST and the all-in-one tax is that the GST was only paid upon the final sale to the consumer. Apart from government payments to and by the Reserve Bank, the all-in-one tax would be paid each time a payment is made. This means that goods and services with a long supply chain would pay the tax at each step of the process. Estimates show that a five step supply chain with a 10% cost of sale at each step and 0.85% tax would result in a retail price of $166.09 versus $175.69 including GST for an item costing $100.

This will also encourage efficient supply chains that keep prices low.

Also employers, professionals and service companies paying service to others on behalf of the client would require to be compensated for the payments above the threshold. The way that this would be handled would be via an invoicing system that adds the service fee just like the GST was added. It really is that simple.

Lets look at some transactions:

Buying a New TV

I buy a new HD TV in a retail store. The price is $2,350 and there is no GST. Note when GST had been added the price would have been $2,585 which includes $235 GST. As this is above the threshold, I'll pay by debit card and I pay a all-in-one fee of 0.0085. That's $19.98, which when compared to the GST of $235, looks very attractive.

Now had I used a credit card, the charge would be doubled as there would be one credit transaction upon purchase and one transaction when I paid the amount off my credit card. That's $39.96. The purchaser is still $195.04 better off than currently paying GST, if they had paid with a credit card. Both individuals and companies would benefit from this reduction but businesses would benefit most because there is no compliance cost.

Note that in all retail transactions, the supplier will bill the retailer and the all-in-one tax would apply to these transactions when the payment was made. When the credit card companies reimburse the retailer for the credit or debit card transactions, the all-in-one tax would again apply.

My electricity account

Ignoring the discount for early payment, my electricity account for the quarter is $465.77 which includes a GST charge of $42.35. Under the all-in -one there would be no GST and a tax of $3.60 would be levied upon payment by Debit card. Note that had I paid via an agency or by credit card that an additional $3.60 would be payable. The saving over paying GST by using a Debit card would be $38.75.

Household Contents Insurance

My current Contents House Contents insurance policy includes a Basic Premium of $384.55, a Fire Services Levy of $55.19, GST of $43.53 and a NSW Stamp Duty of 43.53. Total $527.24. Under the all-in-one tax there would be no GST and the stamp duty. The tax on the Premium and the Fire Services Levy would be $3.74 would be added to the bill making the total cost $443.48; a saving of $83.76 over the present system.

Dr Visit and Operation

The invoice for my specialist who doesn't bulk bill is $130 per visit. As there is no GST and the amount is under the $200 threshold, under the all-in-one tax no tax is payable.

However, if I'd had a medical procedure there would have been charges. The Dr fee for the procedure is $1550. The Health Fund will pay $121.20 and the scheduled fee for Medicare is $$363.60 and the gap for me to pay is $$670.20. Under the all-in-one tax, the Health Fund payment to the Dr is nil as his fee is less than $200. My all-in-one tax on the gap payment to the Dr is $5.70. If the Health Fund incorporated the all-in-one tax into their fees for payments above $200, slightly increasing the premium, then there would be no additional payment. I would pay no all-in-one tax on my fortnightly Health Fund payment of $133.85 as it is less than the threshold. The extra cost to me was $5.70 plus a slight increase in premium.

Buy/Selling Shares

What happens when I buy and sell some shares?

Firstly, under the new tax regime Capital Gains Tax has been abolished but I will have to pay the all-in-one tax on all share trades irrespective of whether they make a profit or a loss.

When I'd originally established my account with the broker, I would have paid a transaction fee on the money transfer to the brokers account. Lets say that was $35,000 which would attract a $297.50 all-in-one tax.

The other fees that I'd incur in the buying and selling would be fees paid by the broker or the share registry upon selling. These would either be charged to my account or incorporated into the brokers fee and charged to my trading account.

Lets say I **bought** 1,000 shares in BHP six months ago at $33.72 and sold them today at $35.68. In this example, I'll use the Westpac Internet broker fee of 0.11%. Westpac pays the transaction fee on the transfer to the share registry and depending on how Westpac handle the fee, they would probably combine the two fees together, say 0.96%. That's $323.71 charged to my trading account on the purchase plus the $33,720 for the shares.

On the **sale** the share registry deducts $303.28 from the sale proceeds before sending the amount to the broker. The broker collects the purchase less the transaction fee and deducts his 0.11% brokerage fee ($39.25). My account is debited with the balance, $35,337.47. I now have $36,293.76 in my Westpac broker account, and ignoring my initial tax on the input to my trading account, a paper profit of $1,233.76. The all-in-one tax revenue is automatically sent to the Taxation Office by the bank. Should I decide to withdraw the money, the broker would charge the all-in-one fee on the account balance before transferred the trading account balance to my regular bank account.

Selling My House

So what happens if I sell my house? Lets say the sale price is $800,000 and the sales agent charges 2% plus advertising of say $2,000. The sales agent would provide the seller with a bill for $18,000. When I pay this, it would attract a all-in-one fee of $153. If I didn't have a mortgage to pay off, the $800,000 would be transferred into my bank account less the bank's all-in-one fee of $6,800. Note that prior to the all-in-one tax introduction when GST was payable upon the cost of sale that this would have been $1,980.

If I had a mortgage say of $300,000, the bank would deduct two all-in-one fees of $2,550 for the mortgage settlement and $4,250 for the transfer of the funds to my bank account plus any service or settlement fees - these would also be subject to the all-in-one tax. These would be the only charges to my account. Depending upon the bank, the service fees could incorporate the service fee and the all-in-one into a single charge. The purchaser would have paid an all-in-one fee on the bank cheque upon purchase, plus any service fees on their side of the settlement.

Note that further internal processes involved in the registration of land transaction may involve payment of the all-in-one tax on these charges. This needs further investigation. However, as it is likely that Stamp Duty and Mortgage taxes would be removed, it is unlikely that these will be substantial.

In the above example, legal fees including land dealing transactions have been omitted but these would be payable upon settlement and would form part of the solicitors final reconciliation. Tax would be payable.

Purchasing the House

Now let's look at that from the buyer's point of view. The sale price is $800,000. The purchasers have $300,000 in the bank. In the example, the purchaser pays the agent a 10% deposit and requires a bank mortgage of $500,000. The all-in-one fees would be $1,360 on the double transaction to pay the deposit - once when the initial payment is made into the real estate agents trust account and the second time when the trust account pays the bank 10% upon settlement.

The settlement would require an all-in-one fee of $1,870 for the remaining $220,000 to come from the purchaser's account. The bank will provide a bank cheque on the full $800,000 upon settlement. This would attract a fee of $6,800. Total all-in-one fees for the purchasers would be $10,030 ($1,360+$1,870+$6,800) versus the current NSW stamp duty of $31,490. Normal bank charges for paperwork and attending to settlement would attract charges plus any legal fees. These would be subject to the all-in-one fee and should amount to less than $100. The bottom line is $10,130 versus $31,490. Could this help housing affordability?

Online Purchases outside Australia

As a final example, let us say I buy something from Amazon in the USA for $150 plus shipping $25. Allow the difference in the USA and Australian price. I can pay with the credit or debit card that they have on file. As soon as the payment to Amazon transaction reaches my account an all-in-one fee would be levied. If I use a debit card there would be a all-in-one fee of $1.49. If I used a credit card the payment of the amount off my credit card would attract a second fee of $1.49 making the total $2.98. There are two points about this transaction.

Number one, for the first time the government is getting tax from an overseas purchase. Hurray!

Secondly, most people would use Debit cards rather than credit cards as there would only be one all-in-one fee. Could this be the strong incentive to use the debt card and have higher savings?

Tourist Income

Note that as the all-in-one Tax system would catch all transactions including tourist spending, but as the rate is so low that the VAT type refund process would be dropped. Consideration could be given on purchases of a value greater than say $10,000. As tourism grows fuelled by Australia's lower prices, so will the all-in-one tax revenue.

All-in-one tax collection

Will the banks and financial institutions that make up the Australian financial sector agree with these proposals? A detailed analysis of these figures will show that the implementation of an all-in-one tax will result in more money flowing through the banking system. Removing cash from our financial system and the investments flowing from a more active retail sector and foreign investments would have the potential of doubling the banks profitability over ten years.

Banks currently are proving to be some of the most profitable commercial organisations in Australia. They are profit focussed organisations and they will no doubt wish to maximise their return from the operation of a new system of taxation. Consumer groups will no doubt seek to use the opportunity to further regulate and perhaps cap bank fees and charges in the era of a cashless society and online banking.

Stamp duty on share trading and financial institutions duty levied by the states were removed when the GST was introduced in 2000. So for the past 15 years other than the Capital Gains tax, there has been little revenue collected from the financial sector.

The introduction of a tax based upon transactions, which is what the all-in-one tax is, needs careful consideration. Certainly areas such as internal Reserve Bank and government originated payments that would be excluded from the tax. Whilst the goal would be to keep the exclusions to a minimum, it does not make sense to tax the governments or penalise the banks for interbank and bank to government payments.

The effect of a $200 threshold needs investigation and projections of any effect on transaction volumes as a result of moving to a cashless society needs modelling. But share transactions, bonds and other financial instruments and foreign exchange trading should be included. A system satisfactory to all stakeholders will be worked out with the focus on the benefits to all Australians.

To avoid companies and individuals taking payments offshore, it might be necessary to legislate that invoices raised in Australia for goods and services need to be paid in through the Australian financial system. In a similar manner, all wages, salaries, bonuses and other forms of remuneration should be likewise paid through the Australian financial system. This would close off any loophole.

It really is all that simple. All it needs is a government with the strength and fortitude to implement such a scheme.

The magnitude of such reform would stand with the social services reforms of the Whitlam era and the changes to the financial and labour laws of the Hawke and Keating era.

Effect upon other Taxes

The introduction of the all-in-one tax would allow:

- The removal of the GST tax completely;
- The reduction/simplification of Personal Income (PI) Tax and lower tier scales;
- Lower PI rates for people who are prepared to give up standard deductions. No tax returns required for these tax payers;
- A reduction of all company tax to 15%, either progressively or one off;
- Removal of state taxes as agreed by the states, particularly smaller ineffective or unproductive taxes. Both property sales tax and payroll tax to be considered;
- Removal of Fringe Benefit taxes with some components transferred to PI tax;
- Removal of taxes on petroleum and fuels related to transport;
- Remove the taxes on wines:
- Remove the taxes on imported cars;
- Removal of the Negative Gearing on property deals;
- Removal of Dividend Imputation;
- Simplification of Capital Gains Tax;
- Review and adjustment to taxes on Trusts;
- Removal of the 15% input tax on Super contributions;
- Revision and standardisation of mining royalties to national scale;
- Review and removal of other tax concessions.

All these need consideration and inclusion in any final tax package.

Moving to a Cashless Society

All major changes have critics. Now I can hear the critics of the all-in-one scheme say, “Oh, everyone will pay with cash”. Well yes they might. However, when they withdraw the cash from the bank, they create a transaction with the bank.

But in the Australia of 2020 and beyond it is highly likely that we won’t have cash. “What?” I can hear some people say. But they may be surprised that there are already a number of papers in circulation that address an Australian cashless society and the major banks are already starting to put in place plans for this eventuality. Why? The reason is very simple. Cash takes a lot of resources to manage. Lesser resources means more profits for the banks. Support for this notion is to be found in the 2013 Reserve Bank of Australia’s Payment Systems annual report.

The cost to our society of using cash is not generally recognised. The cost to business for handling cash is considerable. As at June 2013 there were 780,000 EFTPOS terminals in Australia. These process some 62 million transactions annually representing more than $11.43 billion. The machines all need servicing and cash topped up, usually daily. Another cost is the banknotes themselves. The 1,200 million banknotes in circulation cost over $400 million to produce and have a relatively low life cycle. Doing away with cash would impose little in the way of restrictions on the population but would have a huge effect upon the profitability of the banks.

Debit card use is rising significantly as more and card payments for low-value transactions are replacing cash. Contactless cards, both debit and credit, continue to be introduced and are gaining in popularity. Visa recently reported that 40 percent of all face-to-face Visa card transactions in Australia were made using the group's contactless system, payWave. The use of smart phones to operate a mobile payment system is in its infancy. Anyone with a mobile phone can verify the purchase transaction of any goods and services anywhere in Australia.

Security is still an issue with using mobiles for banking, but second and third generation systems are being introduced to overcome this issue. Cusal, an Australian provider of banking services such as eftpos and BPay is rolling out a new, more secure, mobile digital pay system to banks. The banks are backing up their phone apps with the same fraud detection and protection for payments as they already provide with plastic cards.

Consideration needs to be given to older people who may not have internet or mobile phone access. If payWave terminals become widely available, they will provide a simpler method of making payments. With support systems, in reality debit card operations are less hassle than paying by cash. And more secure.

Israel is the first country to move towards a cashless society. The initial program was started late in 2014 and is be progressively introduced requiring smaller and smaller amounts to be transacted in cash. They are not the only country; Sweden, Canada and the USA are putting out feelers for public comment. The officials who are looking into implementing a cashless society claim that apart from a substantial saving in currency note printing, storage, movement and control the move will wipe out a host of "underworld" and in many cases, illegal, use of cash. "Honest people have nothing to fear", said one of the committee appointed by Prime Minister Benjamin Netanyahu to look into a cashless society.

It is true that many people might want to move to trading and bartering but they have that opportunity right now. With a transaction rate of less than 2% it is doubtful that the number of people involved in this will be large. Laws governing transfers of high value items could be introduced.

Conclusion

The government says that it wants “lower, simpler and fairer” taxes.

But the public expectation is that they can’t afford to pay more. However, most Australians recognise that we need to raise more revenue to fund our future and most would respond to a government able to sell the message.

The all-in-one tax is one of the **ONLY** taxes that can perform this balancing act. The government can give tax relief by dropping the GST and state taxes and it will get more by having a broader tax base.

The size of the expanded tax base will allow extra revenue to be diverted to reduce or replace most of our existing taxes. This will improve our standard of living, boost our productivity, help pay for our retirement, make Australia an attractive investment, make our industries competitive and provide both state and federal governments with the funds needed to efficiently run our governments.

Yes the expanded tax base will catch a lot of people that don’t pay tax now and they will have to pay more tax. Many don’t pay any tax so they should no longer feel excluded. All Australians would pay the same tax.

I commend the all-in-one tax system to the government for their consideration. oo00oo

This submission is extracted from the contents of a book by the author called ***Like Never* Before - Australia to 2050**. It will be published in November 2015. Discussion on the concepts are welcome before the final edit in September 2015.

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