# A comprehensive approach to reform of the Tax system

The keys to a comprehensive approach are developing change by consensus, building controls to fine tune the system, an integrated and comprehensive standardisation of transaction classification, and focussing political debate in those areas requiring overarching responsibility, stability, and national agreement.

Change by consensus

- In order to encourage good decisions I am suggesting an approach based on Elinor Ostrom's work, for which she was awarded the Nobel Prize for Economics in 2009, on "Common Pool Resources". In this work she shows how groups can manage complex cost / benefit allocation problems by consensus. "Generalising the Core Design Principles for the Efficacy of Groups" provides principles which are needed for success in this process.
- I am suggesting in response to Q1 new legislation to partition revenue, transfer payments, and expenditure into clear and simple clusters where revenue measures relate directly to expenditure in a way that is sensible and efficient. This legislation would include principles and objectives for operation of each cluster.
- I suggesting a hierarchy of committees in local/regional, state, and national levels each managing their decisions by consensus and building consensus up the hierarchy. The committees would include consumers, employees, managers, politicians, suppliers, and researchers involved and/or interested in the cluster as well as departmental support staff and ministerial representatives.

Building controls to fine tune the system

- Framework legislation would provide principles, objectives, as well as authority to operate and resolve conflict for the clusters. The recommendations of cluster committees would be incorporated into legislation for each cluster.
- Currently constant intervention is required to take account of changing circumstances. Many interventions can be avoided by calibrated and automated controls that respond to circumstances in a predictable way giving the Tax System dynamic stability in place of potential inaction.
- A series of controls would be provided for parliament to maintain its budgetary management or support cluster decisions and fund initiatives or change surplus / deficit outcomes. When agreed by parliament, ministers could reject decisions of a cluster's committee hierarchy or take over its role.
- An important control I suggest will ensure stability and adequate time to prepare for change. This control requires moderate change such as government debt shift by more than 10% of GDP be forewarned in one term and implemented in the next, subject to majority support. Major changes such as changing Gini objective by .02, needs to be forewarned in term 0, legislation agreed by a majority in term 1, and implementation with a fresh majority in term 2.

Integrated and comprehensive standardisation of transaction classification

I think I am being more ambitious and comprehensive than the current initiatives in this area.

- Use of a single fully described and compulsory chart of accounts for reporting to all agencies is the best way forward. With existing technology it is simple to maintain such a system with provision for supplementary transaction classifications if such a chart of accounts does not meet a business' complete needs. Pursue this or a revised version of it to be an international standard allowing better economic statistics, benchmarks, international audit and tracking, etc.

Focussing political debate in areas of overarching responsibility, stability, and national agreement

- Framework legislation that provides principles, objectives, balance, controls, sharing responsibility, funding, and expenditure. Looking at the long term and developing strategies, new initiatives, and international agreements are going to need complex consideration and planning for the future.
- Relying on cluster legislation committees to maintain stability for budget and long term trends will need oversight and involvement of political parties and executive government. Senate inquiries will also examine decisions being made to ensure implications are fully understood by government.
- Previous attempts have relied on individual creativity and political party's drivers to guide change and inevitably create conflicted and compromised legislation. By putting the focus on ongoing governance and change for parts of the system into consultative committees we are enabling a political focus on policy and management in parliament.

As well as the preceding I am suggesting several changes that are dramatic in their impact and I know will take careful management over the long term.

I believe the following changes will overcome some of the issues raised by the OECD in their report:

"In It Together: Why Less Inequality Benefits All"

1. Remove tax deductibility of interest for individuals, business, and other cases. This will have several beneficial effects over time but risks economic disaster unless implemented slowly and carefully.

My expectation is that this will be implemented first for investment in existing residential property. Implementation here would start by changing debt to value ratio for new investments in existing property to a maximum of 50% with minimal warning. In business the starting point would be a business would get no deductibility for interest on debt that increases their debt to asset ratio with an FY+2 implementation date. Equivalent approaches would apply to later stage implementation.

Benefits would include a slowing of house price inflation, avoidance of long term land banking, increasing equity opportunities for superannuation funds and investors, better oversight of company investment plans, improved ROI due to reluctance of shareholders seeing their dividends diluted, reduced barriers to new business entry, revenue impact stopping negative gearing, improved stability, international profit shifting reduced, etc.

Most negative economic impacts are outweighed by benefits quite quickly and carefull implementation will reduce these impacts dramatically. Consumer sentiment is already aligned to this change and only financial services will notice significant change.

2. Tax assets that do not earn income on a deemed basis, not just benefit recipients. This will bring forward some CGT revenue, it will reduce the likelihood of gains escaping the tax net altogether, and will remove a privilege of wealthy individuals to choose if and when they are

taxed. It will also discourage passive asset investment causing asset price inflation and thereby generate more economic activity.

As this suggestion also affects home values it is probably desirable to make some sort of provision for regional adjustment for the asset value of principle place of residence. A regional mean house price deduction might be the initial step and this might decline by 10% annually. Regular modelling to take account of price trends and impact on different income groups will be needed to maintain the desired balance.

3. Set a Gini ratio for each income percentile as an objective for government. This is needed to allow my most important recommendation. This is to increase the lower 3 income quintile incomes in times of high unemployment and / or recession by transfer payments from high income earners i.e the highest income decile for 33% and the highest 2 income percentiles 66% and return this gradually to them as unemployment drops below NAIRU levels.

This allows better control of budget deficit as there is less reason to generate demand, as the transfer payments move income to spending in bad times, and back to the thrifty in good times reducing risk of inflation. It also means low income earners or unemployed will have reason to seek more work whilst work is available generating further activity in the economy..

4. GST changes are suggested as a way to get wider support for expanding state taxes, they are slightly progressive, discourage significant import value, and do not impact productivity. I hope this measure would eventually allow other taxes to be removed.

Other suggestions will facilitate some other changes I believe would increase productivity. e.g. moving road taxes, road tolls, registration charges, compulsory 3rd party, insurance, roadside recovery, vehicle safety inspection fees, vehicle stamp duty, some fines and enforcement into a single state government fuel levy.

This would replace age pension state subsidy for car owners and replace it with a lower car ownership costs for low usage users. It will discourage car usage for long distance travel and encourage safer cars, more lawful driving, more fuel efficient vehicles and more economical driving. The cost of collection will decline by billions of dollars a year and police productivity will improve.

5. I am suggesting government reduce its direct capital investment and its role in these investments. Business is capable of accommodating a given number of staff, fitting office space to meet a departments needs. Capital demand is replaced by ongoing expense that is largely managed by the consuming function or department.

Encourage non-government investment by developing opportunities and including passive government equity up to 25% if necessary. Manage natural monopoly investment decisions by developing opportunities, underwriting up to 33% of total funding in return for equity, constructing development partnerships through tender, parcelling infrastructure leases, renewing leases / operating contracts competitively, and regulating prices for access to each contract parcel.

Government equity returns will contribute to future investments. Management will be outsourced to partners or commercial undertakings. Impact is no tax funding for investment, better returns, and few bad decisions. Remove tax as a source of investment funding.

# Responses to the questions

*1. Can we address the challenges that our tax system faces by refining our current tax system? Alternatively, is more fundamental change required, and what might this look like?*

I believe a fundamental change is required in Tax legislation and Tax system to make the system transparent, much simpler, provide necessary certainty, changes digestible, encourage long term planning, considered change, political and societal consensus.

This will require new legislation including an act defining the language, principles, structures, relationships, primacy, etc. of all revenue and expenditure law and regulations.

New legislation to partition revenue transfer payments and expenditure into clear and simple clusters where revenue measures relate directly to expenditure measures in a way that is sensible and efficient.
E.g. Government medical expenditure of all sorts (support to state hospitals, subsidies to private hospitals, non-hospital services such as dental, PBS, optical private health insurance subsidies, long term disability services are funded through a Medical tax.
The medical cluster would be governed by national, state, and regional consultative committees all chaired by a publically elected lay representative with higher level committees representatives being nominated by regional committees. Each committee would have others representing lay, GP, specialist, nursing, ancillary medical, state and national politicians, with government departments providing support and guidance.

Other clusters might include:

* land management, subsidised or public housing, urban environment, planning, etc.
* Income support measures for parents, poverty prevention, unemployed, etc.
* Defence, foreign affairs, law enforcement, intelligence, justice, etc.
* Retirement, aged pension, superannuation, aged care, palliative care, etc.
* Economy, jobs, inflation, equity, industry, financial systems, competition, etc.
* and perhaps another 6 clusters – education, rural/remote aboriginal, sustainability, happiness?

This new legislation also needs to invest in models usable by all citizens to look at their own and others situations when change is being considered. A fully documented chart of accounts for business, non profit, and personal income and expenses to be accounted for and all government impacts to be recorded, reported, and modelled.

New legislation also needs to operate in such a way that different types of taxation and expenditure need different levels of consensus or time to pass before they take effect.
E.g. An unheralded change to GINI ratio of more than 0.03 over a parliamentary term might need a majority of 75%
Changing the rate of GST by more than 2% might require a 66% majority in both houses, etc.

*2. How well does Australia's utilisation of its available taxes align with the evolving structure of Australia's economy and changes in the international economy?*

The effectiveness of Australia's government and that of other OECD governments in this respect probably demonstrates the greatest failure of governance since the Great Depression. The failure to tax multinational and complex or obfuscating corporations is a major source of voter scepticism of democracy.

*3. How important is it to reform taxes to boost economic growth? What trade-offs need to be considered?*

To shift high net wealth owners (top 1 or 2%) into the tax net is essential as they currently bleed the economy of demand by moving cash out of the “real economy” i.e. into relatively unproductive and untaxed wealth. Shifting this “income” toward lower and middle income levels will provide the demand that is needed for economic expansion, new jobs, a happier society and resolving the revenue shortfall.

In times of inflation or unsustainable growth this shift will be reversed reducing inflation and by its loss encouraging lower income earners to gain new or additional work while the opportunities exist.

Trade-offs should not be required in a properly structured tax system.

Change should be carefully considered, benefit society, economy and / or equity. If implemented moderate changes such as government debt shift by more than 10% of GDP may require forewarning in one term and be implemented in the next, subject to majority support. Major changes such as changing Gini objective by 0.03, may need to be forewarned in term 0, legislation agreed by a majority in term 1, and implementation with a fresh majority in term 2.

This may require a full term of parliament is dedicated to agreeing structural changes and similarly a full term dedicated to agreeing to reverse them. As a stability and consensus building measure change is heralded before an election in term 0, agreed over term 1, and the electorate agrees, sufficient members of parliament can implement the, measure in the first session of term 2.

Thresholds, rates, equity should all be calibrated correctly and legislation will explicitly determine how deviations from the expected impacts will be assessed and corrected. Where significant disruption to the status quo is designed into a measure, the change will be phased in, again with legislated assessment and correction measures.

*4. To what extent should reducing complexity be a priority for tax reform?*

Critical, as only top 1 or 2% of incomes earners and businesses can afford the advice needed to take advantage of the current complexity. It is a very expensive, distorting, and unproductive aspect of the tax system. It should be a major focus for the legislative changes outlined in my response to Q1.

Most of this complexity arises from successive governments fiddling on the fringes to “correct unintended outcomes” in under engineered and overly politicised acts or amendments. This is best illustrated clearly by an onion with layers of changes, infected with the odd dirt, pests or sores, and patched with plasters in the wrong places. And perhaps parliament then puts a few more plasters on to stop the tears?

*5. What parts of the tax system are most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?*

Fairness is not apparent in the tax system as is suggested in responses above. For most participants the tax system and its associated social services are simply seen as bullying. Solutions below are priorities and the phasing of these changes will by necessity be extended over years. Introduced carefully these could stabilise equity concern, quickly resolve revenue issues, and allow a focus on expenditure and transfers.

* First we need to remove complexity including special deals for supporters or sectional interests.
* Next we need to remove deductibility of real interest charges from income for tax consideration because of the negative impact on return on investments, its impact on housing costs, and its distortions in income tax.
* Finally address failure to recognise as income, the effective rental earnings of home owners. This would need to be combined with revision of tax thresholds and rental transfer payments to properly reflect average regional income, rental rates, and house prices.

*6. What should our individuals income tax system look like and why?*

It should be simple, progressive, automatically take into account income inflation. It should also integrate income support payments, pensions, superannuation concessions, etc. This should provide a smooth gradient for disposable income from all sources, at all life stages, for all to see, understand and plan.

Government measures in themselves can only be a giant sledge hammer and should not be considered as a motivational device. Governments can facilitate and influence change but only a society can make the change to take advantage of opportunities in our economy. Members of parliament need to understand their electorates, the lives people lead, and the barriers they encounter. Making judgements about people is the job of judges and juries. Parliamentarians must already know and understand this.

*7. What should our fringe benefits tax system look like and why?*

It should be abandoned or dramatically reduced – all benefits whatever source should be taxable income. If benefits are for employers they should pay as a business expense and if the employee benefits employers have the option to pay them more pre-tax to cover income tax.

Fringe benefits encourage unnecessary or unjustified expenses at a cost to the economy other tax payers, sometimes the employee’s family and often only benefiting exporters (of cars etc.). Typical distortion of tax system, incomes, and balance of payments for some sort of ill conceived political convenience.

*8. At what levels of income is it most important to deliver tax cuts and why?*

Taxation reform requires change across the system and the immediate impact on tax rates, thresholds, deductions, expenditures and transfers for a given level of income should be determined when our objectives and principles are agreed. The answer differs depending on circumstances when the question is answered.

Today I would raise taxes on high income earners. When the economy is booming, unemployment is low and international indebtedness is low, I would reduce taxes on these same people. My objective is not to serve a sectional interest it is to maintain a happy community and a strong economy. High income earners have the planning ability and can have the reserves to cope with change whereas low income earners must spend all they have to live, boosting the local economy when it is needed.

Discussion raised by this question encourage polarisation, avoid consensus, and prevent consideration of genuine reform. Disappointing!

*9. To what extent does taxation affect people's workforce participation decisions?*

I don't believe it has a significant impact other than for taxable income spreading schemes used by some small businesses who may engineer jobs or partnerships for family – tax evasion in my opinion. Few unemployed will earn enough for tax to be a genuine issue. The impact of phasing out support payments is much more significant for many situations.

*10. To what extent are the interactions between the tax and transfer system straightforward for the people who deal with both systems?*

They are not straightforward in any sense for anybody who depends on them. They are one of the aspects of the system that creates the feeling of being bullied.

*11. How important is tax as a factor influencing people's decisions to work in other countries?*

Having worked in other countries several times myself, I have no recollection of tax being a consideration at any point. Paying tax is a consequence of having an income and receiving services. The more we pay the happier we should be – it is after all reflecting our income.

*12. To what extent is tax planning a problem in the individuals income tax system? Are existing integrity measures appropriate?*

I can offer widely held opinions but the problems are not sufficiently understood by myself or the public. Tax planning, avoidance, and evasion are rife in personal and corporate domains. This is the result of encouragement by the structure of legislation, the approach of courts, and the passive encouragement of government.

Taxation reform should focus first on this necessity before all other considerations as the problem is the consequence of complexity, obfuscation, poor drafting, and pandering to sectional interests.

Politicians in general are not equipped to understand complexity and should permit the best international expertise construct unambiguous bullet proof legislation to satisfy the principles and objectives provided by parliamentarians representing the Australian electorate.

Personally I think the problem is trivial for 95% of tax payers and we should focus on high income earners first to gain credibility and work on benefit fraud for integrity in the transfer and services area for all recipients. A focus on return will in itself restore integrity.

*13. What creates incentives for tax planning in the individuals income tax system? What could be done about these things?*

The incentives are created by legislation and the ease of gaining benefits. The motivation is greed and a disregard for the impact on others combined with the pressure of amoral salesmen offering advice and products intended to profit themselves and their employers.

*14. Under what circumstances is it appropriate for assistance to be delivered through tax offsets?*

As suggested by the question, there are various options to shift expense and income from one area to another. The choice should be made by a consensus developing process that has an overriding focus on ensuring all these options are properly integrated, focussed on agreed goals, encourage desired attitudes and behaviours, and are tuned on an ongoing basis to overcome and failures, distortions, and deviation from goals.

Perhaps a national budget should be a summary of the net change and accumulated outcomes of individual clusters suggested in my response to Q1. Razor gangs, short term budget development, mixing financial and political objectives, etc. may be the root cause of our disillusioned populace.

*15. To what extent do our arrangements for work-related expense deductions strike the right balance between simplicity and fairness? What could be done to improve this?*

Employers should pay all work related expenses and be allowed them as deductions in their tax returns. Employees should have no allowance nor any need for claiming deductions.

It is then an employer's responsibility to determine what is required for work and be accountable for justifying, providing, and accounting for it according to the law. This is a simple extension of the normal practice in all businesses. Result is a lower cost and more efficient economy.

*16. To what extent does our fringe benefits tax system strike the right balance between simplicity and fairness? What could be done to improve this?*

Employee salary sacrifice for fringe benefits is unfair, distorting spending decisions, and is expensive to administer.

Other benefits could be ignored or greatly simplified if they were available on the same basis (frequency, circumstances, and amount) to all (or a defined subset) employees, defined in their employment contract, accounted for separately by employers. i.e. Fringe benefits tax abandoned and replaced by employer accountability for income tax on non qualifying employment expenses.

Deductibility for employers could then be subject to review in tax audits. Tax audits may result in negotiation of a reduction in deductibility if guidelines were not followed. At the same time removal of cars subject to luxury car tax from the allowable business deductions would seem appropriate for all but businesses using the luxury cars for providing car hire services.

Travel from home to work in light commercial vehicles, or business use cars could be fairly included if the per kilometre rate was used to charge for personal use and travel from home to primary work place less any documented savings made by employers. These savings may be reduced travel from primary work location to other places of work at beginning or end of day, garaging costs, car cleaning, maintenance, etc.

*17. To what extent are the concessions and exemptions in the fringe benefits tax system appropriate?*

Most existing exemptions appear to be reasonable but actual usage is not clear. These could continue, using response in answer to Q16. Exemptions for worthy organisations and people are inappropriate and should be replaced by government grants.

Concessions generally seem unnecessary and again could be covered by response to Q16.

*18. What tax arrangements should apply to bank accounts and debt instruments held by individuals?*

Both individual and business bank, other deposit taking accounts, managed funds, and similar should have applicable tax deducted at the existing rates on earnings paid.

A change that is required is that calculation of earnings should be net of charges and a government declared percentage allowance for inflation. This will protect capital from taxation of what should be considered losses. This calculation is referred to also in responses to Q3 and Q6

*19. To what extent is the rationale for the CGT discount, and the size of the discount, still appropriate?*

The rationale for CGT discount is not apparent to me but it is apparent that it is neither justified nor appropriate.

*20. To what extent does the dividend imputation system impact savings decisions?*

No comment

*21. Do the CGT and negative gearing influence savings and investment decisions, and if so, how?*

Deductibility of interest charges on leveraged investments creates more wealth for those already wealthy at the same time as pricing those unable to leverage investments out of the most lucrative markets. This has the greatest impact on home prices and superannuation which pays increasing prices for reducing returns. This is unsustainable, increases instability, deprives the country of tax revenues and further privileges the wealthy at the expense of working families and the aged.

I am of the opinion that an imputed earning increase on all capital not realising a greater return in a tax year should be treated as the income for taxation in that year. When there is a return or gain realised (CGT event) the amount considered a gain should be reduced by the sum of imputed earning increases in previous years.

This will avoid wealthy people deferring taxation on growth in their assets, choosing when and how much taxable income they will realise and bring forward revenues. It will also avoid untaxed earnings being removed from Australia to a more advantageous regime.

*22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?*

It seems clear that we have two problems with superannuation arrangements. The first is that consumers are completely in the dark about life expectancy of super funds with current rules limiting age pension access. This is compounded by complete ignorance of what changes will be made in the 20 to 40 years that follow retirement. This is exacerbated by governments making arbitrary decisions on an annual basis without having any idea of the impact their changes will make in this area.

The second problem is we don't seem to know what is going to happen over the next 20 years as the majority of todays workforce will become retirees with 40 years of super accumulation. The rate of accumulation is unknown as is the rate of return on those accumulating funds.

Equity suggests if I paid for my parents and grand parents pensions then I should be entitled to a pension myself.

The solution at the moment for many retirees is to spend their super fund and resign them selves to living on a declining age pension. This is a problem we can address quickly and easily by making super inaccessible until retirement age and limiting access to withdrawals that are sustainable for retirees anticipated life span.

A great deal of research needs to be done to estimate future returns of the changing super funds and model these questions. Then learning from this work new models need to be made available so individuals can do their own modelling and planning. Then we should be able to do a decent job of stabilizing the super, age pension, and tax rules. Until then governments must assume retirees will not vote for governments that consigned them to homeless starvation.

There could be a maximum superannuation fund limit for tax relief on fund earnings, maximum tax free payments from superannuation, and a limit beyond which there is no option to make superannuation contributions from untaxed income. These limits should be indexed perhaps by a multiple of the mean quintile 3 full time male earnings, e.g. fund limit - 20 times, tax free annual payment – 3 times mean quintile 3 FTM earnings.

The suggested limits may be increased after we understand the picture better. In the meantime the only pension limits that relate to superannuation funds should be based on earnings as the amount of super fund income superannuants can expect is not remotely predictable.

*23. What other ways to improve the taxation of domestic savings should be considered? How could they be applied in the Australian context?*

As mentioned in response to several questions already returns should be taxed on a net of inflation basis. As the only investment protected until retirement super should be encouraged, perhaps by reducing tax on earnings to the greater of 15% below the marginal rate of income tax and 0%, for each fund member.

*24. How important is Australia's corporate tax rate in attracting foreign investment? How should Australia respond to the global trend of reduced corporate tax rates?*

If we truly have highly taxed corporates then the tax rate has little or no impact on foreign investment. Beyond this I can't comment and doubt there is an answer.

*25. Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?*

For Australians dividend imputation appears to work well. Taxation of dividends is an income tax issue for shareholders. There is no better approach unless we want to make judgements about the deservedness of sectional interests. When a an equitable and uniform worldwide tax regime exists then we should consider making changes.

*26. To what extent would Australia benefit from the mutual recognition of imputation credits between Australia and New Zealand?*

No comment.

*27. To what extent does the tax treatment of capital assets affect the level or composition of investment? Would alternative approaches be preferable and, if so, why?*

I believe it is a critical question that needs resolving. At present, as responses to previous questions suggest, tax treatment of capital assets is unfairly benefitting wealthy Australians and excluding most Australians from participating in a feeding frenzy.

*28. How complex is the tax treatment of capital assets and are the costs of compliance significant?*

No comment.

*29. To what extent does the tax treatment of losses discourage risk-taking and innovation and hinder businesses restructuring? Would alternative approaches be preferable and, if so, why?*

No comment.

*30. How could the current tax treatment of intangible assets be improved?*

The obvious solution is that a company operating or selling in Australia, whether directly or indirectly, should be earning a return on their intangible assets on the basis that their entire business does. i.e. intangible assets are considered to be distributed across each businesses on revenue share. With acceptable detailed data the decision on this share could be determined on a product by product basis by the taxation system.

*31. To what extent should the tax system be designed to attract particular forms of inbound investment (for example, by distinguishing between active and passive or portfolio and non-portfolio)? If so, what principles should inform this?*

Investment in existing Australian business by foreign investors should be limited to a non controlling stake thereby protecting the ongoing nature of the business and its essential Australianness. Investment in new Australian ventures by foreign investors should be limited to a non controlling market share and be structured as an Australian corporation. Direct investment in agriculture, resource extraction or forestry by foreign investors should be limited to Australian corporate structures with a non controlling interest. Direct investment in existing residential buildings or land should be restricted to those who have Australian residency and should be sold by public auction when that residency ends.

Investment in financial instruments or shares should be allowed up to foreign ownership limits but should not enable an active interest other than to acquire or dispose of these assets.

*32. To what extent does the tax treatment of foreign income distort investment decisions?*

No comment

*33. To what extent should the tax system be designed to encourage particular forms of outbound investment (for example, by distinguishing between active and passive or portfolio and non-portfolio)? If so, what principles should inform this?*

No comment

*34. How can tax avoidance practices such as transfer pricing be addressed without imposing an excessive regulatory burden and discouraging investment?*

Require full disclosure of audited accounts of all involved businesses, full compliance with an international transfer pricing treaty or agreement, or impose a regulatory burden and hope this sort of business is discouraged from investing in Australia. The same level of disclosure should be demanded of Australian businesses executing similar transactions.

*35. Should the tax system provide a more neutral treatment of different financing arrangements (debt, equity and retained earnings), and if so, how? What principles should inform the approaches?*

No, debt financing should be discouraged by the tax system by phasing in disallowance of deductibility for borrowings for income tax. Savings should be made by people who are encouraged by the tax system to save disposable income. This will increase the role of equity offerings and consequently increase stability, availability of shares, and opportunities for investors and superannuation funds to invest more, with a better return. Most importantly reducing debt will increase shareholder involvement thus improve investment decisions and shareholder oversight of board and management decision making.

*36. Should the tax system provide a more neutral treatment of income earned on revenue account and capital account? Does the distinction create significant compliance costs for business and, if so, how could it be simplified?*

It seems from the question a distinction serves no obvious purpose and is unnecessary? My suggestion, in response to earlier questions, that interest on debt should not be deductable and that capital gains be considered after allowing for inflation as income may perhaps support the view that a distinction is not necessary.

*37. Are there other important issues in the business tax system, not covered in this section, which should be considered as part of the Tax White Paper process?*

Mixing personal income tax system with business income tax system encourages individuals to try to mix personal transactions with business transactions for personal tax advantage. A simple personal tax system would by necessity require a clear distinction between personal and business transactions helping to overcome significant tax leakage from personal expenses being treated as business expenses.

With this separated business accounts would be more easily analysed. As well some transactions by or with related parties, directors, partners, family more easily regularised.

*38. In what circumstances is it appropriate for certain types of businesses to be subject to special provisions? How can special treatment be balanced with the goal of a fair and simple tax system?*

Special treatments are subsidies or taxes (or equity and dividends). They should be accounted for by government and business in this way. These circumstances are inevitably patching over an ill considered (tax or spending) measure that needs fixing or they are political deals for a sectional interest that compromises the entire system.

*39. Does the R&D tax incentive encourage companies to conduct R&D activities that would otherwise not be conducted in the absence of government support? Would alternative approaches better achieve this objective and, if so, how?*

Most R&D is not research and is seldom development. It is usually those parts of innovation that a business undertakes to stay competitive – maintenance. Genuine research and development does occur in some Australian businesses, usually developing a product which is similar to competitors to remain in a market.

All genuine R&D should be encouraged by ensuring R&D activity considers risk of research failure, potential reward for that risk, uses appropriate research staff, and does scientific research. This part of the R&D activity should be given a significant incentive such as 100% deductibility.

When research outcomes offer opportunity for developing product there will again be risk of failure, potential reward for the risk and capital needed for development. Product opportunity will not come from every research project, and every opportunity will vary in its return. Where in house research leads to an opportunity government should review the opportunity and its risk and offer an incentive appropriate to the risk. This may be accelerated depreciation, full deductibility for failed developments, or government development grants.

Innovation in business is applying existing technology to catch up with other business doing things better and should be considered to be an investment subject to analysis of potential returns, allocating capital and depreciating assets. Business as usual is already encouraged by taxation that allows depreciation on existing assets to fund their replacement.

*40. What other taxation incentives, including changes to existing measures, are appropriate to encourage investment in innovation and entrepreneurship?*

No comment

*41. What effect is the tax system having on choice of business structure for small businesses?*

No comment

*42. What other options, such as a flow-through entity (like an S-Corporation), would decrease the overall complexity and costs for small business involved with choosing a business structure? How would such an entity provide a net benefit to small businesses?*

Automatic and synchronised flowthrough to the taxpayer personal account in the same tax year of income or losses for liable shareholders is one way of simplifying corporate structures. This would not require personal income tax law to remain complicated by corporate income tax law.

*43. Is the interaction of the personal and business tax systems a problem? What can be done to manage the personal-business tax interactions?*

This interaction is a problem for millions of individual taxpayers as returns can't exclude references to business tax and personal taxpayers. Agents also need to understand when interactions arise and what this implies for their clients. For business it is almost irrelevant and should be.

*44. What are the most significant drivers of tax law compliance activities and costs for small business?*

Much discussion is provoked by businesses failing to thrive due to poor investments, bad decisions, and lack of management skills – the tax system should not subsidise weak businesses.

The tax system could support businesses suffering from unfair competition, actions of government, and unpredictable circumstances and it should provide education materials and information for decision makers.

*45. How effective is the current range of tax concessions (such as CGT and industry specific concessions) at supporting small business engagement with the tax system? To what extent do the benefits they provide outweigh the compliance, complexity and revenue costs they introduce?*

In my opinion most concessions are too complicated, often designed to be accessible to big business, and cost more than their benefits.

*46. What other mechanisms (such as a single lower tax rate, improved technology deployment or other non-tax mechanisms) could assist small businesses to engage with the tax system while decreasing compliance and complexity costs?*

No comment.

*47. Are the current tax arrangements for the NFP sector appropriate? Why or why not?*

No comment.

*48. To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?*

No comment.

*49. What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?*

No comment.

*50. What, if any, changes could be made to the current tax arrangements for the NFP sector that would enable the sector to deliver benefits to the Australian community more efficiently or effectively?*

Government grants to cover the net tax charges as they are levied. This would provide opportunity to examine accounts, select audit opportunities, and avoid needing any other special considerations in legislation.

*51. To what extent are the tax settings (that is, the rate, base and administration) for the GST appropriate? What changes, if any, could be made to these settings to make a better tax system to deliver taxes that are lower, simpler, fairer?*

A second level of GST for luxury goods and services could reduce current base rate GST or other taxes. I suggest such a luxury tax would apply to jewellery, premium (expensive detailing, finishes, decoration, doubling equivalent product prices) cars and electronic devices, and art works, antiques, and collectibles over $100 and over 2 years old.

Potentially second level GST could be used to discourage further unhealthy activities if a scientific justification can be made.

*52. What are the relative priorities for state and local tax reform and why? In considering reform opportunities for particular state taxes, what are the broader considerations that need to be taken into account to balance equity, efficiency and transitional costs?*

Increasing GST for state and local government should be conditional on the previously promised removal of inefficient taxes e.g. stamp duties on home sales, etc., residential development charges, licensing fees, etc.

*53. Does each level of government have access to tax revenue bases to finance new pending decisions? If not, should arrangements change to achieve this? How should they change? How important is it that the national government levies taxes on mobile bases? Could some taxes be shared?*

No, yes, consultation, no comment, yes. See earlier and later responses.

*54. To what extent does Australia have the appropriate mix of taxes on specific goods and services? What changes, if any, could improve this mix?*

No comment.

*55. To what extent are the tax settings (i.e. the rates and bases and the administration) for each of these indirect taxes appropriate? What changes, if any, could be made to these indirect tax settings to make a better tax system to deliver taxes that are lower, simpler, fairer?*

The answers to these questions should not be considered in the context of reform of the system. They should be answered by a reformed tax system.

*56. What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?*

No comment.

*57. Would there be benefit in developing an Australian metric for tax complexity? What factors should be included? How should they be combined into a metric?*

No comment.

*58. What system-wide approaches could have the greatest impact on reducing complexity in the tax system? Why have previous attempts to address complexity in the Australian tax system not succeeded? How might it be done in a way that is more successful?*

The keys to a comprehensive approach are an integrated and comprehensive standardisation of transaction classification, developing change by consensus, and building controls to fine tune the system without further legislative change.

Previous attempts have relied on individual creativity and political party's drivers to guide change and inevitably create conflicted and compromised legislation. By putting the focus on ongoing governance and change for parts of the system into consultative fora/forums and putting a focus on policy and management in parliament.

*59. In what ways can reforms of tax administration best assist in reducing the impact of complexity on taxpayers? Are there examples from other countries of tax administration reform to reduce the impact of complexity that Australia should adopt?*

Provide a natural language data dictionary for all accounts within the compulsory chart of accounts. Support this with models that access such data and allow users to see the impact of tax and other factors in changing circumstances. This approach is being pursued less comprehensively in Australia by COAG and others. It is used in the UK and other countries.

*60. What processes or systems currently being used by businesses and individuals could the ATO better utilise to lower the compliance costs of the tax system?*

Use of a single fully described and compulsory chart of accounts for reporting to all agencies is the best way forward. With technology it is entirely possible to maintain such a system with provision for supplementary transaction classifications if such a chart of accounts does not meet a business' complete needs.

With this in place it will be possible for tax audits to easily follow transactions from one organisation to another.

*61. Could administrative responses — such as embracing technology, harnessing data and taking the whole-of-government approach to administration — help address the issue of tax system complexity?*

Without a doubt this is one key to one barrier to a solution. My response to other questions assumes this is in effect.

*62. Would there be benefits in integrating the administration of taxes across the Federation? If so, what would be required to realise these benefits?*

I believe there is and have assumed this is one of the steps to restructure the Tax system. Further but not all changes are integrated in my response to other questions.

*63. What changes could be made to provide greater certainty, transparency and accountability to tax policy development in Australia?*

Please refer to my short commentary on "Governing the Commons" for an introduction to an answer to this question.

*64. Are current tax review arrangements appropriate? How could they be improved?*

Please refer to my short commentary on "Governing the Commons" for an introduction to an answer to this question.

*65. Could the arrangements for developing tax policy in Australia be improved? If so, how?*

Please refer to my short commentary on "Governing the Commons" for an introduction to an answer to this question.

*66. Would the benefits of releasing more tax data and detail around costings outweigh the costs?*

If the tax data is not available for use within the bureaucracy it should be. If it is already available it should be released to inform the public. Given the need for protecting privacy and providing understanding of the data apply equally to bureaucrats and the public the necessary integrity measures for the data will exist. The cost of release should be so close to zero to be irrelevant. A copy under existing Creative Commons will make it available without charge to all who want it.