Tax White Paper Task Force

The Treasury

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Dear Treasurer

I believe the time has come for our leaders to seriously debate the merits of a BANK DEBIT TAX, collected automatically on all financial withdrawals, to replace all existing Federal and State taxes. A debit or transaction tax is the ideal tax in the information and electronic age. It is simple to collect, it is low and most importantly broad and difficult to avoid.

With the proliferation of electronic transactions in recent years, paper money is becoming obsolete, now is an ideal time to revolutionise and simplify collection of tax. Based on 2014 RBA statistics (cheque payments, direct entry payments, gross settlement payments and ATM withdrawals) $750 billion, would have been raised, resulting in an approximate $300 billion surplus based on the forward estimates. A 2% rate could replace taxes at all levels of Government. No more income tax, GST, stamp duty, payroll tax, council rates etc. All 100 plus taxes replaced by one single low rate tax.

This style of tax has been tried in Latin American countries and also Australia with varying degrees of success, but only as an added tax, not as a single tax. In Australia the debits tax was raising approximately $1 Billion per year at a rate of .03% based on a $5000 withdrawal. This tax was only applied on cheque accounts, so was therefore avoidable by using a savings account. Marcos Cintra Bank Transactions Tax: pathway to the Single Tax ideal is a study on the success and benefits the tax achieved in Brazil and concluded the tax proved to be evasion-proof, more efficient and less costly than orthodox tax models\*.

To briefly outline the workings of the tax; any ATM withdrawal or electronic transfer from an Australian bank account or credit card would have the BANK DEBIT TAX added and remitted daily to the ATO. The major advantages taxing this way are the simplicity, the equity, the ease of collection and the fact that it captures a small amount of unavoidable tax, from welfare recipients to the wealthiest individuals. The tax is progressive in its nature, as the wealthy who earn more, will spend or invest more, and will pay more tax. Welfare recipients will not require compensation as would be the case with raising the GST rate, as the costs of most goods and services should actually fall with removal of GST, payroll tax etc . ATO resources could then be totally geared towards eradication of the black economy, but ultimately Australia should work towards a cashless society and excess ATO workers redeployed to other areas of Government. According to Cintra the impact of introducing a single tax in terms of releasing real resources to be put to other uses is in the order of 7.4% of GDP\*, in the Brazilian example, similar GDP gains would be expected in Australia.

The economic boost to the nation would be substantial. Average $70 000 wage earners currently paying around $16000 income tax, plus several thousand more in GST, would have their tax reduced to $700, assuming all money spent/invested. Any savings left in bank accounts are tax free. The boost to family cash flow would have massive flow on effects throughout the economy. Small business owners would have cash flow freed up and their time able to be used on growing their business, rather than tax compliance. Employment opportunities will open up and people will want to work if they are only paying 1% tax on expenditure. The big businesses of the world will want to establish bases in Australia’s low tax regime and most importantly they will be paying tax on goods/services sold in Australia. The electronic age and complex tax arrangements have enabled multinationals like Apple and Google to avoid paying tax on vast amounts of revenue generated from Australian consumers. The debits tax will finally capture revenue from these multinationals.

Demographers have highlighted the financial abyss Australia is heading towards, given our ageing population and the significant shift towards shrinking numbers in the workforce, paying for the pensions of a constantly increasing number of retirees, who in the next 30 years, are forecast to live well into the nineties. A debit tax will at least still be collecting tax from these pensioners as they spend their pensions, compared to zero tax collection now.

Possible disadvantages revolve mainly around the financial sector and the accounting sector. Financial traders/speculators will have a significant increase in initial cost of a transaction, but then any profits are actually tax free. The high volume, algorithmic traders may leave Australian markets, whilst this may have a small impact on liquidity, it could be equally argued that this may benefit Australia, by removing the extreme volatility that these traders are believed to cause.

There will be a shake-up in the accounting industry as the need to process taxation information declines, but business will still require financial information to grow and prosper and the sector can position itself towards a more consultative role. Likewise the number of ATO staff will be cut, but this will allow the Government the luxury of redeploying into more productive areas, as previously discussed. It could be argued that the significant increase in money circulating in the economy could fuel inflation, but general prices of goods and services should be lower in competitive industries.

I urge the Government to look at a debit tax to reform our taxation system, the finer details regarding the rate, whether both debits and credits be taxed etc can be scrutinized by the bureaucrats and statisticians. It is clear that the easily avoidable taxes designed fifty plus years ago are just not capable of generating the revenue required in a globalised, demographically changing world. Less and less people are being asked to pay more and more as multinationals and the wealthy are able to avoid tax, and retirees drop out of the tax system and come into the welfare system. Australia has a great opportunity to pioneer a new system of taxation. Our Government has a distinct choice, either it can tinker around the edges of a dogs breakfast, highly inefficient, difficult to administer and comply with, outdated tax system; or it can consider the merits of a simple, fair, broad based, low rate, unavoidable tax system to return our nation to prosperity.

Yours Sincerely

Mike Kavanagh

References

\*Marcos Cintra (July 2009). ["Bank transactions: pathway to the single tax ideal. A modern tax technology;the Brazilian experience with a bank transactions tax (1993–2007)"](https://ideas.repec.org/p/pra/mprapa/16710.html). University Library of Munich, Germany in its series MPRA Paper with number 16710.