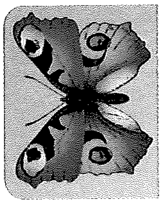

Mr J McAuley
Hopetoun Village
10 Grevillea Ct
CASTLE HILL NSW 2154

The Tax White Paper Task Force,

The Treasury, Langton Crescent,

Parkes. ACT 2600

Dear Sirs,

24.4.2015

Submission on Re:think Tax Discussion Paper. Mar. 2015

SOLVING THE AUST. FEDERATION'S FINANCIAL PROBLEMS

I enclose a copy of some of my research on the above.

In summary, my approach is to discard the GST as a failed tax. It impedes national growth and productivity, is too complex and expensive relative to revenue, at $10% plus an estimated $10% collection-cost, $20% in total for the 2 million tax-payers.

Securities markets transactions are undeservedly tax-free and a low 2 cents % Security Markets (SM) tax on buyers and sellers could more easily be collected to replace the GST revenue, and be distributed to the States and Territories, and Cwlth., by a more appropriate, non-contentious per capita method, avoiding the well-intentioned but overly ambitious (and vain) allocations recommended by the Cw. Grants Commission.

Further, to solve the present revenue and debt problems of the Cwlth., States & Territories, Australia should revert to the pre-GST era, but on an improved basis, by a low, simple, fair Business tax on Debits and Credits passing through all Financial Institutions (FI) in Australia, of around 6 cents %, uniform for States (&T.'s),with total proceeds again distributed on a per capita basis, plus negotiated share for the Cwlth.

This rate should be sufficient on my calculations, to solve the stated Federation problems (subject to any exemptions, concessions etc.), and to install for the Australian Federation, a long-term regimen of lower, simpler and fairer taxes on transactions presently tax-free but subject to much higher rates of SM brokerage and FI accounting fees than the low tax proposed.

First, I should be interested to know reasons why the $10+% GST , even ignoring that it fails any economic test, is to be preferred to over a lower, simpler, fairer 2 cents % Securities Markets tax.

Second, aside from the GST matter, Why is it that: if Spending levels are for good reasons to continue expanding, and yet debt needs to be repaid quicker than is being envisaged, and extreme "savings" by weaker groups are to be contemplated in Budgets, Why are the voluminous transactions passing through financial institutions continued to be allowed the tax-free status they have enjoyed only since about 2000?

Yours sincerely,

John McAuley

J P McAuley

RESOLVING FEDERATION FINANCES: SOME MAIN POINTS

The Commonwealth's problems stem from its customary revenue sources being unable to cover its Spending and to repay accumulated debt within a foreseeable period. It has resorted to seek "savings" in Budget finances by imposing " heavy-lifting" on the sick, aged, Youth and other disadvantaged people whilst allowing others a privileged tax-free status.

The Cwlth. has tended to concentrate and skew its tax system upon Goods and Services(G&S), to the disadvantage of Manufacturing and allied industries, whilst leaving financial activity virtually tax-free. The $10 % GST is a failed, inflexible tax, costing taxpayers around 10% of revenue to calculate, ie a total cost to tax-payers of $20% pa, and oppressive for employment, incentives, national productivity and lower income -earners.

This $10/20 % tax should be replaced to provide similar (or even higher) revenue by a tax of a mere 2 (or 3) cents % on buyers and sellers in Security Markets (SM) for govt. & 185corporate paper, shares, futu;;res and other derivatives and foreign exchange. Presently these transactions have the privilege of being tax-free.

Removal of the oppressive GST, which is a State (and Territory) tax, would require the States to be reimbursed. This should be done by re-instating Australia's 2000, pre-GST situation, but greatly improving this by having an easily collectible State- uniform tax on Debits and Credits passing through all Financial Institutions in Australia (numbering a mere few hundred instead of 2 million GST tax-payers). The Aust. aggregate SM proceeds after a negotiated amount for the Cwlth, ought be re-distributed to the States on a population basis. Previous to the GST, there was a State tax per bank Debit which varied amongst States, with the State-maximum for any given $ Debit, being around twice the State-minimum, and with the 15 cents State-minimum rising to the maximum for largest Debits, of $4 per Debit .

Pre-GST, the Cwlth. had a more uniform 6/6.5 cents % Financial Institutions Duty(FID) on Credits passing through all Financial Institutions, with a maximum of $1,200/1,500 per Credit (pre-GST rates quoted herein are as at 1.3.1996: source, Cwlth. Bank). For a resolution of the Cwlth.'s fiscal problems summarised at the commencement of this paper by lower, simpler and fairer tax, a Business tax of about 6 cents % (or less) on Debits and Credits passing through all Financial Institutions would be considered adequate (though some options are available using differing rates due to concessions or exemptions eg taxing Debits only) . Debit and Credit transactions are today tax-free, though banks may charge fees for them. In a preferred system, a Business tax could be calculated and collected at minimum cost compared with the complex GST now imposed on 2 million taxpayers.

The Cwlth. should collect and negotiate for Cwlth. use, a proportion of the Business tax and distribute the residue amongst the States on a population basis instead of the present contentious methods. States providing services at above average standards ought not be penalised. It is the Cwlth. not other States which if necessary, should compensate States with fewer resources or inferior services, by specific and appealable grants etc. These proposals would result in lower, simpler, fairer tax, resolving the problems outlined at the outset.

J P McAuley 24.4 2015 johnpmcauley@bigpond.com

RESOLVING THE FINANCIAL PROBLEMS OF THE CWLTH. & STATES

The Problem: Given a predisposition for Budget surpluses and a low-tax, low-spending philosophy, the Commonwealth's overall Budgetary problem is beset by political and technical difficulties in curtailing reasonable and prioritised Cwlth. Spending.

Customary Income sources are inadequate (aside from possible marginal revenue gains from super etc. less offsets from lower company tax etc.). There is need simultaneously to repay accumulated debt within a foreseeable short term, to solve difficulties inherent in the GST, and to avoid extreme "savings" from "heavy-lifting" on the sick, aged, Youth and other disadvantaged but politically vocal groups, especially in the face of the massive range of activities in the Australian economy presently enjoying undeservedly, tax-free status.

The GST: A convenient starting point for this array of difficulties is the $10 % GST. When collection-costs borne by the collectors/tax-payers are added for this complex and labour-intensive tax, the prohibitive total cost to tax-payers is closer to $20 % (than the nominal $10 %). To further increase the GST revenue by increasing the nominal $10 % rate or expanding the items liable for GST to health, education etc., would be as unpopular with the electorate as it could be economically disastrous for Employment, business Confidence, and social Equity for lower income-earners .

Moreover, all of these impacts could be out of proportion with the likely marginal gain to revenue from raising the $10/20 % GST rate or its coverage. The conclusion is that the experiment with the GST since introduction in 2000 has failed as a long-term revenue source and that it would be in the economy's interests to replace the GST with preferred low-tax, simpler, fairer alternatives chosen from those activities presently enjoying undeservedly, tax-free status.

The proceeds of the GST, after calculation by tax-payers (accepted by the ATO), and passed through the accounts of the Cwlth., are distributed to the States & Territories (after deduction of an amount for the Cwlth), but the distribution-methods are hotly disputed by the States (eg especially due to the present falling world iron ore export price). Whereas the Cwlth. proposes to eventually publish separate White Papers on Tax and on Federal Financial Relations, the GST, basically a State tax, is also relevant to both Papers.

Australia has traditionally imposed high tax on Goods and Services, thereby adding to the disadvantages suffered by Manufacturing and its allied industries. Australia does not need to endure the high-cost, complex GST, its contentious annual distributions amongst the States nor its adverse economic impacts on Employment, on business Incentives and social Inequity. The high taxes on G&S have reflected in relative advantages for the little or un-taxed Finance industries. An example of a presently tax-free alternative to the GST is the massive trading in Securities Markets.

This trading includes over-the-counter and exchange- trading in Govt. & Corporate paper, equities, foreign exchange, futures and other derivatives. Because of the high annual volume of this SM trading, as assessed by the reputable association for the SM industry, it would require a SM tax of only about 2 cents % imposed on buyers and sellers in security markets to return the equivalent GST revenue - the precise rate needed depends on exemptions, concessions and other related aspects discussed herein .

A SM tax is common overseas and a similar low-rate Australian tax should preferably be levied on a residence-basis rather than on settlement-location, in order to minimise incentives for trading to move elsewhere.

A Business Tax on transactions through all Financial Institutions: The general proposition advanced herein is that a broad-based Business tax at a rate around 6 cents % or less, uniform for all States and Territories should be imposed on Debits and Credits (or alternatively, only on Debits), passing through all Financial Institutions.

During the 1980's and 1990's in Australia prior to the GST, the system in place was for Bank Debits to be taxed at various scales according to the $ amount per Debit, with each State and Territory setting its own rate- scale. To this system was added by the Cwlth., a flat 6 cent % rate on Credits passing through all financial institutions, the tax being named the Financial Institutions Duty (FID). There was a maximum FID of $1,200 per deposit ($1,500 in NT). In SA, FID was 6.5 cent % and the FID did not apply in Qld.

For bank Term Deposits $50,000 and over lodged for 185 days or less in all States and Territories (except Qld), the FID of 6 cents % on a daily basis had no limit on the STMM although there were variations amongst the States as to exempt accounts and transactions . (The rates etc. on Debits and FID quoted herein, are those at 1.3.1996, as published by the Cwlth. Bank).

Volumes of Transactions Govern the Low Tax rates: It should be noted from the above that due to the differences in the massive volumes of transactions being referred to, lower, simpler, fairer tax rates of only 6 cents % or less are being proposed for the SM and Business taxes, including replacing the GST rate of $10/20 %.

Goods and Services transaction volumes are relatively low but considerably higher for Financial transactions, partly a reflection of the long-term skewness of the tax system.

Statistics of transactional volumes are not regularly published in Australia but has been an aspect of interest to this writer stemming originally from my research published by an ANU Centre, on "The Structure of Australian Public Debt",1927 to 1980, for Federal, State Budget & Other Public Auths. & Local Govt. This was followed up by my statistics published by Longman Cheshire, 1989 on Aust.'s National Balance Sheets, 1953 to 1988. This also incorporated volume-estimates for up to 40 identifiable forms of G&S and Financial Transactions. Though needing up-dating, these statistics serve as some guide to this present paper on reform of Australian public finances.

For example, reflecting the long-term growth in the proportion of Financial Assets relative to Total Assets including G&S, it is calculated that the value of accumulated holdings owned by all sectors of the Australian economy, of "Financial" Assets, has risen from 42 % of the total Physical plus Financial Assets in 1953, to around 53 % at present.

Up-to-date reliable statistics on 'annual' Transactional volumes of G&S and Financial transactions are not so readily available, but known research corroborates the magnitudes adopted in this paper, leading to the conclusion that SM and Business taxes of the order of

3/6 cents % would be sufficient to reasonably achieve the fiscal objectives set out at the commencement of this paper.

The Inter-relationships between the two White Papers: The Cwlth. proposes to issue first, a White Paper on Tax, to be followed by another on Federal Financial Relations. However, a change to or replacement of the GST as advanced herein, would have effect on both White Papers , and the Cwlth. Govt. has already publicly stated that any GST changes, as indeed its replacement, would first need the approval of the ALP and all States.

GST changes and replacement would be a matter for political negotiation, the outcome of which is unforeseeable, as many options and alternatives are available.

If the GST was to be replaced by a SM tax, this would imply exchanging tax from a base in lower annual growth in G&S consumption expenditure, for tax on a generally higher rate of turnover.

Other alternatives for negotiation could be for the SM tax rate to be the same as the Business rate, to decide whether the Business rate is to apply to Debit transactions only, or to both Debits and Credits, for Banks only, or All Financial Institutions. Estimates of transaction -volumes and adjustments to the tax rates would be relevant to these decisions.

Annual Distributions of the GST and possible replacement: Presently these are as assessed and recommended by the Cwlth. Grants Commission(CGC) on the basis of seeking Aust.-wide uniformity in standards of some services provided to the limit of the GST (less a small amount retained by the Cwlth.).These Distributions are contentious. Comments follow:

1. Implementing Australian-wide uniformity in standards of services should be at the cost of the Cwlth. not the States. In any event, achieving the objective seems mathematically impossible under the CGC's system because the results are limited by the amount of the GST whereas the needed aggregate could well be more or less than the GST.

2. States which choose to provide a service at above-average cost ought not be penalised because this initiative could be forward -looking and in the national interest.

3. If the Cwlth. considered States should be compensated for relatively low resources and inferior services, it would be more appropriate for the compensation to be made via conscious adjustments under loans and grants to the States for capital and recurrent purposes. Such a system could be made transparent and subject to review and appeal by States.

4. The Cwlth. should collect the Aust.-wide proceeds of the GST or SM replacement, and of the Business tax, negotiate amounts for its own use, and agree for the States and Territories to share the residual aggregates on a population basis.

5. The proposals herein would have cheaper tax collection-costs, would enhance national productivity, would result in lower, simpler and fairer tax for Australia, as well as resolving the problems outlined at the outset, in Cwlth. Budgetary and State finances.

J P McAuley 17.4.2015 johnpmcauley@bigpond.com

NOTES ON FEDERATION FINANCES

APPENDIX

N1. CWLTH. SPENDING: Despite complaining of inheriting a "mess", the Cwlth. Govt. has been unable to forecast a future downturn in its Budget payments in nominal or real terms. Whilst some payts. may be for long-term & for infrastructure, possibly too much may be ad hoc/political, without cost-benefit analysis & not prioritised. The Com. of Audit listed these % increases pa in Cwlth.Payts. projected to 20-23:

	Aged Pensions	6.2% pa	Total Payts incl. others	6.9%pa
	Defence	5.1%	Total Cw. Payts	5.3%
Source: Aust.2.5.14	Hosps.&Schools	10.0%	GDP nom.(only)	5.1%

According to a Productivity Commission report, Industry Assistance spending by the Cwlth. alone accounts for about $5 B pa, comprising $3.5 B from the Budget and $1.5 B from tax concessions (tariffs excluded). Source: Aust.18.1.14.

N2. Aust. Households' DEBT at 130% of GDP (78% ave. for developed nations), is the world's highest, states K. Davies of Barclays Bank, but Cwlth. & State percentages are much lower. Source: Aust. 6.3.15

N3. GST COLLECTION-COSTS: MYOB's survey of 1,000 Small to Medium Enterprises (SME) found that these averaged 84 hours pa spent on the GST calculations.

My estimate that the total cost for the 2m GST tax-collector-payers was equivalent to 20 % of GST revenue, was based on a much more moderate average time for handling the 5 annual GST/BAS returns. The times were then converted to $ costs and related to the GST revenue, to bring the total cost to approx. $20 %, including the $10 nominal GST rate.

Bentleys survey indicated that 70% of SME's opposed lifting the $10% nominal GST rate, believing that it would cause sales, profits or payrolls to fall. Source: Aust. 24.2.15.

N4. COMPLEXITY OF GST: Indicative of the complexity is the fact that CCH's Aust. Master GST Guide (10th ed.) requires over 700 pages to describe the GST system. Another example (Aust.30.3.15) is that a pizza pocket or sub is GST-free "unless additional filling is added, has thicker topping or can be cut".

N5. COMMON SHARE BROKERAGE RATE S AT APRIL 2015

	Telephone	On-line
On $5,000	40 cents %	$1.2 %
On $17,500	20 cents %	50 cents %
over $25,000	12 cents %	50 cents %

A proposed Securities Markets tax rate of 3-6 cents % would be well short of brokerage.

N6. COMMENTS ON THE GST & ITS STATE DISTRIBUTION: The Vic. Premier opposed any change in the GST but complained about Vic. receiving only 88 cents in the $GST compared with $1.08 for Qld. & 98c for NSW (Aust. 10.11.14). Others were:

	2000-01	2007-08	2015-16 Cw.GC forecast
*WA	99%	1.0%	.30%*
Sth. Aust.	1.2	1.08	1.36
Tas.	1.61	1.4	1.82

S&P is reported to be reviewing WA's AA+ credit rating. Source: Aust. 18.4.15.

N7. The NSW Premier , who will chair a meeting of Premiers later this year, and being concerned about Cwlth. cuts to health and education funding, believes that the States should have an agreed , variable share of tax receipts . Source: Aust. 31.3.15. Former Cwlth. Treasurer P Costello is critical (Aust.15.4.15) of the Cwlth.'s attempts at "lower, simpler" tax. Academic J.Sloan (Aust.14.4.15) prefers GST to be distributed on a per capita basis. (see also data in N9).She criticises the Cw. Grants Com.'s (3-yr) lag in that WA's iron ore royalties were being distributed to other States when export prices were high but these are continuing after prices have fallen.

N8. The WA Treasurer proposed at the recent COAG meeting , that in 2015-16, there be a freeze on the GST distribution formula. The Cw. Grants Com. 2015 Review reported that there would be significant benefits to NSW ,WA and the two Territories under the proposal:

	NSW	WA	ACT	NT	VIC	Qld	SA	Tas	Total
$M	535	467	104	24	-171	-577	-263	-177	58

States with negatives were apparently unimpressed. It is not known what the intention would be under the proposal for future years.

N9. CEDA is quoted (Aust. 28.10.11) as having calculated the following (inter alia) comparison of the summarised causes of the Differences between the usual GST distribution and that applicable under a per capita basis :

$M	NSW	WA	ACT
A Revenue Raising capacity	1663	-6402(-4812mining)	266
B Expense Requirements	-2416	2823	-117
C Cwlth. Payts.	401	-68	63
Total	-352	-3647	212

A= payrolls, property sales, MV, Land, Insurance.

B= Indigenity, pop. dispersion & growth, inter-state wage levels, non-state services, socio-econ., economies of scale, other.