

AUSTRALIAN TAXATION REFORM - A CALL FOR VISION

In 2015 we are facing some interesting challenges, in an increasingly competitive global marketplace, many of which challenges threaten to re-define the cultural, demographic, economic and environmental direction and fabric of Australia.

Fundamentally I trust that our leadership group, while playing a role as good global citizen, will maintain a clear focus on the protection, progress and prosperity of Australian citizens. I trust they will show vision, and create a plan for the decades beyond the next election.

As this particular paper seeks to address the issue of taxation reform, I will not venture to cover the raft of other issues pertaining to health, education, law and order, and the environment, which are all related to this topic and in need of more substantive consideration.

The current LNP Government is well within its rights to highlight the financial malaise inherited from the previous Labour Governments, and the necessity for such a dire first budget in 2014. This is of course no excuse to think only in the present, and to plan simply for the next few years. We must be better than that.

The business community has generally responded well to Mr Hockey's second budget, and particularly the small business incentives deserve acclaim. It is hoped that this recent budget, which clearly only gently touches the edge of tax reform, is a prelude to a far more courageous pre-election taxation revolution in 2016.

There has been an abundance of political rhetoric regarding serious taxation reform, however to overcome one's addiction, one first needs to fully and unconditionally admit the problem. In the case of our nation, we need to acknowledge that our fore-bears have failed to recognise the unique opportunity which this country enjoys, and failed to identify the fundamental structures needed to guarantee long-term prosperity for its citizens.

If the Federal Government is willing to show the intestinal fortitude to implement the much-needed substantive reforms, it will entrench itself not only as a long-serving government, but also as one of the greatest reformative governments of the modern World.

One of the difficulties faced in the current environment is that the two most influential lobby groups, who appear to be the primary play-makers outside of parliament, are those who have built their financial and political power on this failure of government at both Federal and State level. These parties are the union movement and the resources sector, both of whom believe their interests are best served with the current inefficiencies and excesses. I implore them to look further afield, to consider more broadly, and to support and embrace change which is of paramount importance to the future success of the nation.

If we are to implement truly meaningful change, our leaders must navigate these waters robustly and effectively. The best way to achieve success will be to target full employment, and to support private natural resource mining and processing, albeit under new rules. This is not difficult to incorporate, and will flow automatically from the measures proposed herein.

The author is unashamedly a believer in free enterprise, minimalist government, the responsibilities as well as the rights of citizens, and the inherent goodness of the majority.

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The nation's greatest economic challenges are currently as follows:

- (a) an unsustainable and self-defeating employee remuneration structure at all levels;
- (b) employment-limiting industrial relations policy;
- (c) excessive layers of government and too large a public sector;
- (d) sovereign risk caused by ineffectual foreign investment rules;
- (e) an unaffordable real estate market, also caused by ineffectual foreign investment rules;
and
- (f) a taxation system which discourages investment, entrepreneurship, and innovation.

All of the above issues will largely be resolved by a total restructuring, and ultimately the elimination, of our taxation system at all levels.

The prospect of eliminating taxation may at the least sound ambitious and optimistic, if not entirely fanciful. In fact, it is entirely achievable, and is simply a financial formula implemented progressively, and achieved naturally with the effluxion of time.

We are a large nation with no common borders and an enormous wealth of natural resources, servicing a very small population. This provides an almost unique opportunity. Add to this formula the extraordinary recent developments in technology, and we no longer have any excuse to plan Australia's future with taxation of its citizens as a feature.

There are other countries which enjoy a low population base and excellent natural resources - we would do well to assess their taxation systems as a guide. The primary key is to acknowledge that the country's natural resources belong to its citizens.

The exploitation of all natural resources should automatically be minority owned by a sovereign wealth fund on behalf of Australian citizens. This will become more palatable to the resource sector if it is accompanied by the elimination of company tax.

In simple terms, the fundamental shift in the taxation regime is proposed as follows.

1. In the short term:

- 1.1. implement a Federal Transactions Levy ("FTL") (being a debits tax or credits tax, but preferably not both) to replace ALL other direct and indirect taxes, both personal and corporate, at all levels of government - this takes the form of a automated bank transfer to Treasury of a single set percentage (between 1.00% and 2.50% depending on the nature of the FTL) of all bank transactions excluding loan capital transfers (with very few other exclusions);
- 1.2. eliminate the need to file personal tax returns, corporate tax returns, BAS Statements, eliminate all FBT, GST, CGT, DD, Stamp Duties, etc.;
- 1.3. equitably allocate the FTL between all levels of Federal, State, and Local Government;
- 1.4. implement a 20% compulsory Employee Superannuation Levy on all salaries and wages, in addition to 10% Employer Superannuation Levy (a la Singapore);
- 1.5. remove cash from the economy;
- 1.6. establish the Australian Sovereign Wealth Fund ("ASWF") which is quarantined from changes in governments, majority controlled by independent professional private-sector managers, with a charter to invest in new technologies, innovative businesses, capital intensive manufacture, infrastructure, and global business;

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- 1.7. create two new forms of corporation, being for example a NCL (National Corporate Limited - publicly listed company) and a NPL (National Proprietary Limited - private unlisted company) which facilitate investments incorporating the ASWF as a shareholder with preferential dividend rights;
 - 1.8. replace government grants and subsidies with ASWF investment in all business sectors with an emphasis on business innovations and expansions, and infrastructure, to a maximum of 26% ASWF equity;
 - 1.9. ensure an automatic 26% equity for ASWF in all new and existing resource ventures;
 - 1.10. transfer all non-core government assets and businesses, including infrastructure assets (everything other than parliament houses, key residences etc) to a NCL, with the ASWF retaining 26% and the balance offered to investors, with an initial priority offering to Australian citizens;
 - 1.11. limit foreign (non-citizen) investment to 49% of NCL's and NPL's;
 - 1.12. introduce a prohibitive withholding tax to discourage repatriation by foreign investors of dividends (and deemed dividends), fees and capital gains, and to encourage re-investment of the benefits gained from investing in this country;
 - 1.13. limit foreign (non-citizen) investment in freehold assets to 75 year leasehold, with a five year grace period for foreign owners to sell or convert existing assets.
2. In the medium term:
 - 2.1. consolidate the local government sector throughout Australia into a number of Super Councils, using Brisbane as a benchmark, including for example Sydney becoming only four Super Councils (North, South, East, West);
 - 2.2. amend the rules of State Parliament such that all Ministries are held by the Council Mayors, thus dramatically reducing the current over-government of the nation.
 3. In the long term:
 - 3.1. continue to develop the investments in the ASWF until dividends fully fund the operations of all levels of Australian government (estimated at 30 years);
 - 3.2. progressively redirect the Federal Transactions Levy to the Employee Superannuation Levy, until dividends from the ASWF also fully fund the Employee Superannuation Levy; then
 - 3.3. redirect the Federal Transactions Levy to the Employer Superannuation Levy, until dividends from the ASWF also fully fund the Employer Superannuation Levy; then
 - 3.4. allocate surplus dividends (after government expenditure, and employee and employer superannuation contributions) equally between ASWF re-investment and citizen dividends.

The above is a simplistic representation of a complex implementation programme, some of which has been structured by the author, and some of which requires further refinement.

For example, the re-structuring of State and Territory Governments to a minimalist position, and the Federal Senate to more accurately reflect the Australian population and economy, will greatly assist the overall minimisation of government throughout the country, however this needs to be considered in several stages to meet the requirements of the Constitution and legal limitations.

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Also, it may be appropriate to establish Local Council versions of the ASGF, to enable community level involvement in infrastructure and in national and global growth assets, free of political interference.

There are also a suite of ancillary policies which are recommended to supplement the above reforms, but which are not directly classified as taxation reform. As with any business model, all portfolios are interconnected and interdependent.

These would include:

- The elimination of penalty rates and leave loadings - an impost on business and a handbrake on employment;
- A more direct benchmarking of public sector salaries and benefits to reflect those in the private sector;
- The return of employment control to the employer (the owner of the employment capital and business risk), a strategy which clearly worked for the country during the Howard era;
- Retraining, support and ASWF investment programmes to facilitate a positive transition for personnel from the shrinking public sector to the burgeoning private sector;
- A clear and mutually beneficial link between environmental responsibility and economic prosperity, including *inter alia* a commitment via the ASWF to the development of renewable energy technologies and associated industries;
- A commitment to developing global strategies for the development of global prosperity and the establishment of global peace and unity, including the progressive replacement of aid programmes with a long-term commitment to ASWF investment in developing economies.

Unfortunately there is always a tendency to pick a few pieces of these complex puzzles and only play in those areas. That will not work. All elements of the economy, and of society, are interconnected and interdependent. A comprehensive approach must be taking to the solving of our current issues.

This proposal is based on the premise of a laissez faire economy with nil taxation for individual and corporate citizens. In a broader sense, I advocate minimal government; single national policies for education policy, health policy, law and order policy, environmental policy, transport and infrastructure policy, industrial relations policy, and non-local laws; privatisation of delivery of education, health, transport, infrastructure, construction, and all non-core government occupied property; and perhaps most importantly, the encouragement of excellence, innovation, independence, and entrepreneurship at all levels of society.

I humbly present this submission to the citizens of Australia, and the Australian Government, and hope that it will assist in some small way in steering the future of our magnificent nation.



Michael Reid
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