

## **TIME FOR CHANGE – DROP THE DEBT**

Since the Federation of Australia the Federal method of raising taxation revenue has been to tax income. With that style of system the percentage tax contribution by large corporations has been 40%. Small business and individual taxpayers have contributed 60%.

The current Federal thinking requires that any change to any tax measure must be revenue neutral. That is to say, any change requires that someone loses in order for someone else to gain. That is not change at all and it is not fair!! And it is not progress.

Let us think outside of the square and do something different!!

If the taxation system was to be changed whereby there was a pure consumption tax, what would happen? That is to say, if there are **NO** state taxes and **NO** federal income tax – just a flat GST only. This will eliminate 110 state taxes (that are only collecting 10% of revenue).

For a start small business and individual taxpayers would contribute only 40% to the national total collections, and large corporations would contribute 60%. That would be a far fairer sharing of the tax burden than has been over the last 60 years!!

Instead of the current situation of profits being sent to foreign owners, that would be taxed totally on every dollar sent overseas. Currently they are avoiding all tax on such profits. If they earn profit in Australia, then they should be paying tax in Australia. This will capture it totally.

Instead of individual taxpayers having to lodge an annual tax return, none would be required at all. That would save the ATO processing in the region of 12 million returns. That is definitely a simplification of unnecessary red tape!! That has been promised by both sides of the political fence, but neither has delivered on such empty promise for the last 20 years.

Small business and large corporations would still need to lodge quarterly BAS however, as they will be the collection points of the GST.

With a pure consumption tax, that will eliminate unnecessary and unpopular taxes such as fringe benefits tax and capital gains tax. It will

avoid the inequity of differing tax rates and thresholds and bracket creep!! Foreigners would also pay the same rate as any Aussie.

With the existing taxation system, large corporations rarely pay their statutory rate of company tax of 30%. If they did, they would immediately add \$7Billion to national cash collections, under the existing taxation system.

The current Tax Act is now so complex, even the ATO are unsure of how to advise on some issues. Walk totally away from the keeping of any tax receipts. The shoe box will no longer be required.

Our current tax system never ever catches the cash economy. No one knows exactly what that would be worth. Some estimates have been as low as \$7Billion or as high as \$70Billion. Under a consumption tax, that would all be taxed.

### **Commencement of GST :**

At about 7 months prior to the commencement of GST in Australia, I am aware that a Chartered Accounting firm in Melbourne, had used a model to estimate the outcome of the GST regime.

The scenario modelled was as follows –

- (1) No Federal tax on income,
- (2) No State taxes and
- (3) Have no exemptions under a flat GST regime.

The question to be answered was what flat rate of GST would equate to the same National cash collections? The answer is an astonishing 2%.

Currently 60% of ALL monetary transactions are exempt under the existing GST legislation. All medical, food and banking transactions are exempt.

Wipe ALL state and federal taxes, have no exemptions, and all you need is a flat GST of just 2%.

That is a reduction in the current situation of substantial proportions. Income tax currently paid on \$40,000 (income tax plus Medicare Levy less low income rebate) is \$4,747. At a flat 2% only \$800 is paid.

If half of the saving is spent on extra consumption – or better still, to pay off existing debt - and the balance is invested into your superannuation (i.e. it becomes an extra contribution to long term saving). Across the economy, this will have massive effects on the current unfunded pensions required by a rapidly aging Australian population.

Such a small GST rate seems quite impossible. However, contemplate this. There are 22 million people in Australia, say 6 million households (for easy maths).

Every weekly shopping, every household would purchase at least 10 exempt items (and that is very conservative). That is 60 million transactions now caught by the GST on a weekly basis. Extrapolate this across all current exempt transactions, and you will realise the broadening of the GST transaction base, will obviously reduce the GST rate required.

Now, if 2% equals \$500Billion, then an extra 3% would equal an extra \$750Billion into the Reserve Bank.

If GST was held at 5% for 4 years, the following programmes could be over financed. In the first year – health, the second year – education, in the third year – infra structure, in the fourth year – international debt. I would not expect the full \$750B would be spent annually; it may take a five to ten year period to fully spend the amount allocated to each area.

The first two areas mentioned above, are the two areas most Australians are concerned about. Both would be fixed in a very short period of time as the money would be in the bank!!!

If over a 4 year period \$3Trillion is put away in the Reserve Bank (the other 2% GST is paying for and running the country) various extra programmes could be run.

Lets us allocate \$1Trillion to the above 4 items (education, health, infra structure and debt reduction), then the other \$2Trillion can be allocated to specifically building a new infra structure that will be the cornerstone of the country's future for the next 100 years.

Australia is the driest continent on the planet and we have two things missing – manufacturing and water supply. What if we build the equivalent of Lake Argyle four or five time across the northern part of Australia? A pipeline joining all such reservoirs would then run parallel to

the Darwin to Alice Springs railway line (for ease of access and maintenance), permitting any capital city to draw from it so as to supplement their local requirements (Perth, Adelaide, Melbourne, Sydney or Brisbane).

Any water requirements of the central arid areas would be supplied by the north/south pipeline. The rural produce that would result (meat and vegetables) could be processed for export to our near northern neighbours. Perhaps as many as ten new rural towns would need to be built (for perhaps 15,000 to 20,000 occupants) in the central outback, as well as connecting rail links and roadways.

Australia could, in time, then easily house and accommodate a population of 30 Million plus. That size economy would be more than self sufficient with extra productivity.

This is a plan that needs urgent consideration, as it has been discussed over the last fifteen years with at least 100 different families that all say yes.

Yours Faithfully,  
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