

The current tax system fails most criteria of a good tax system. It distorts the choices of consumers and investors and in combination with the welfare system unfairly treats poorer workers, attracting them into a life of welfare dependence. Some radical changes are proposed.

# A better tax and welfare system

A simpler, fairer and more efficient system –  
submission to the Tax White Paper, 2015

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## **Table of Contents**

Introduction.....	2
Premises and Principles for Tax.....	3
Additional considerations.....	3
Additional measures of a good tax.....	3
Apply these principles and move toward a better tax system.....	3
GST.....	3
Personal income tax .....	4
Company income tax.....	4
Franking and tax imputation .....	4
Excise duties and tobacco tax.....	4
Environmental and resource taxes.....	4
Capital Gains Tax and State Stamp Duties.....	5
Negative Gearing .....	5
Family home .....	5
Welfare payments – an alternative approach.....	6
A defect in the discussion paper .....	7
Interaction of taxation and welfare.....	8
Disability pension .....	8
Ideal income tax and welfare system.....	9
Comparison to key principles. ....	9
Qualifying for the supplement .....	9
Calculating the supplement.....	10
Summary.....	11
Responses to discussion questions .....	12

## Introduction

The Tax discussion paper is a fine document which poses many questions and I have only addressed a few that interest me.

In particular, I am interested that the tax system should meet the basic criteria of a good tax system, equity, efficiency and simplicity. I contend that merely applying those three principles very readily points to easy reforms that make the system more sustainable. The discussion paper already captures all of the key considerations. From there it is just a matter of applying the key principles vigorously. I assert that taxation policy should be formed on a premise that one policy goal requires just one tool. Each lever of policy can pull in just one direction.

But the discussion paper has a defect that concerns me. Dealing with personal income tax it glosses over the issue of high effective marginal rates of tax at low wage rates. The discussion paper is deceptive where it acknowledges this indirectly but proposes nothing to address it. I believe that the social welfare system interacts with the taxation system to produce huge anomalies and that these anomalies are inequitable, distort people's behaviour and have led to unsustainable growth in the number of long-term social security beneficiaries.

My answer to this is to remove all the anomalies of taxation and welfare in one action. The welfare system would be abolished, tax-free thresholds would be removed, graduated marginal tax rates would be abolished. There would just remain a flat-rate income tax system and a system of universal income supplements. The result is a completely fair, ultimately efficient and incredibly simple tax and welfare system whose result in terms of nett incomes and average tax is very similar to the existing system but without the anomalies, poverty traps and distortions that currently plague it.

## Premises and Principles for Tax

Page 14 of the discussion paper states:

### *“Principles for tax systems*

*It is accepted that a well-designed tax system will meet its revenue raising objective, while balancing the core principles of equity, efficiency and simplicity:*

- *equity — fairness in the distribution of the tax burden;*
- *efficiency — economy in tax collection so as to have the lowest possible cost over and above the revenue that is raised; and*
- *simplicity — the tax system should be easy to understand and simple to comply with.”*

### Additional considerations

I think that if you examine current or recent taxes there have been additional underlying rationales

- Encourage certain behaviours or discourage others, e.g. cigarette and alcohol taxes.
- Protect resources and safeguard public goods, e.g. resource rental taxes and carbon tax.
- Bespoke taxes that act as charges, e.g. the petrol excise to pay for roads

### Additional measures of a good tax

There are some other important considerations. Good taxes should be

- neutral on choice
- difficult to avoid
- and not impose high transaction costs on normal commerce

## Apply these principles and move toward a better tax system.

I think most Australian taxes fail miserably on most of the above criteria. You could almost believe our forebears read the textbook backwards. The present mix of complex taxes and concessions certainly upholds the perception that Australia has a talent for bureaucracy. There are some obvious things to draw from even a cursory review of Australia's current tax system in the light of these principles.

### GST

Applying the principles of good tax to the GST, the first conclusion is that for pure revenue raising that the GST is quite successful. It is not too onerous on the taxpayer, but could be made more efficient and simple by removing exemptions. Some say that raising the GST or expanding its base affects the poorest hardest, failing the equity test. That may be true but it is not an excuse to make the GST more complex, but merely points to some adjustments to income distribution via other means, e.g. income tax or social welfare. Not every tool has to be able to achieve every policy goal at once. We should widen the GST base and increase its rate to 20%

### **Personal income tax**

Personal income tax is the biggest source of revenue and will always be so. It is also used as a means to redistribute income. We have a progressive taxation system with a fairly high tax-free threshold. In this regard, income tax acts as a form of social welfare system but in doing so makes the system needlessly complex. We have a social welfare system and we don't need income tax to perform the same function. In fact, the personal income tax system interacts with the social welfare system to confuse the progressivity of the tax system leading to a range of anomalies and high effective marginal tax rates. We should abandon using the taxation system as a means to help the poor as it produces too many anomalies. We should abolish the tax-free threshold and have a flat rate of income tax of 42%

### **Company income tax**

As we have seen in recent times, corporations are becoming more and more global so that high corporate tax is likely to be accompanied by low rates of compliance as profits are shifted offshore. Even Australian-owned companies do this. There needs to be a different way of taxing corporations of this nature. A higher GST would mean that we receive at least some tax income from these companies' activities. Since non-compliance by diverting profits offshore is something which foreign companies can achieve but few local companies can, it puts local businesses at a disadvantage. To assist local business and encourage more compliance from overseas business, the general rate of company tax should be lowered to 21%. The combination of a vastly lower company tax and a higher GST would theoretically cancel out, but higher company tax compliance should see a far better result. While it would seem to imply a 30% fall in corporate tax revenue, the actual revenue drop would be far less, as the tax avoidance industry would have its basis undermined.

### **Franking and tax imputation**

With corporate tax rates reduced, the current imputation rules would need to be revised. I suggest that in its place would be a far simpler system. Income distributed from corporate income that had already been taxed would be taxed at a concessional rate of 21%.

### **Excise duties and tobacco tax**

The main reason for taxing alcohol and tobacco highly is that their consumption often imposes a cost on society. In the spirit of user-pays, all of the costs of alcohol should be taken into account to accurately derive the level of tax. We should derive taxes on antisocial products to cover their actual cost to society. The result could be a higher rate of tax, especially for alcohol. This concept can be extended to other menaces such as plastics and sugary foods.

### **Environmental and resource taxes**

Regardless of one's opinion on climate change, there are several things to consider with regard to mining generally and burning coal and other fossil fuels.

- These industries impose costs on society in terms of direct environmental damage (to the land, the waterways and the air.)
- There are also health costs of lower air quality and contaminants
- There are also risks of catastrophic climate changes that could possibly destroy civilization. Even if considered an unlikely result, it is a risk, and any prudent manager must take it into account.

These risks and costs are borne by society but are not included in the price of the goods or services these industries provide. It would be reasonable to impose a charge to counterbalance these costs. If you do not, then you implicitly favour polluting industry or destructive mining. This implicit subsidy to pollution is an impediment to moving to a clean, sustainable economy where the air and the water is clean and farmland remains productive. It would level the playing field for clean industries which in many cases bear the full cost of producing energy without a subsidy. We should use taxes to charge industry for environmental damage.

Mining has often been touted as the saviour of the Australian economy, but in fact, it is often the cause of our woes. In 2012, during the mining boom, the Australian dollar reached heights that forced ordinary Australian secondary industries and some service industries to the wall. Industry cannot flourish when there is such uncertainty over exchange rates. The high value of the dollar also had the perverse effect of reducing the actual Australian dollar revenue of mining contracts, reducing tax revenue. Now that period is over, commodity prices and the Australian dollar have dropped, but where are the lasting benefits from the good times? Now is the time to prepare for the next boom. With proper super-profits taxes or resource rental taxes in place, any repeat of the high commodity prices of the recent era should be diverted into reserves like the Future Fund. Of course, such revenue boosts should never become part of general revenue.

### **Capital Gains Tax and State Stamp Duties**

Stamp duties on property sales are a very inefficient way to raise revenue. A property that never changes hands never contributes to the coffers. Another property sold several times over a short period makes a disproportionate contribution. I believe that any stamp duty should merely cover the general administration of maintaining good records. Existing stamp duties impose very high transaction costs on property purchases and indirectly to sales which then act as deterrents to sensible behaviour, restricting people's mobility and increasing congestion in cities as people hang on to unsuitable homes in inappropriate locations. A capital gains tax on family homes could provide a much better and more reliable source of revenue, albeit at a lower level.

At present, CGT for assets other than the family home is paid at a 50% concessional rate but why do we exempt the family home and why do we have such a concessional rate? It can't be justified. This anomaly attracts people to engage in schemes to convert income into capital gains. That is wasteful and distorting and should be abolished.

### **Negative Gearing**

Some people blame negative gearing for the current erratic behaviour of home prices. I don't believe that argument. Any form of investment has costs and the costs of investing need to be able to be written off against income from that investment. Applying those costs to other forms of income through negative gearing is sensible, however the current system gives investors a second bite of the cherry via the concessional treatment of their capital gain. What really needs addressing is removing the concessional treatment of capital gains, which has become the ultimate goal of the investor – deferring tax to a later date and then paying at a vastly reduced rate.

### **Family home**

Many aspects of taxation and welfare give the family home favourable treatment. What is the rationale for this? Is it to encourage people to own their own homes and be independent? This

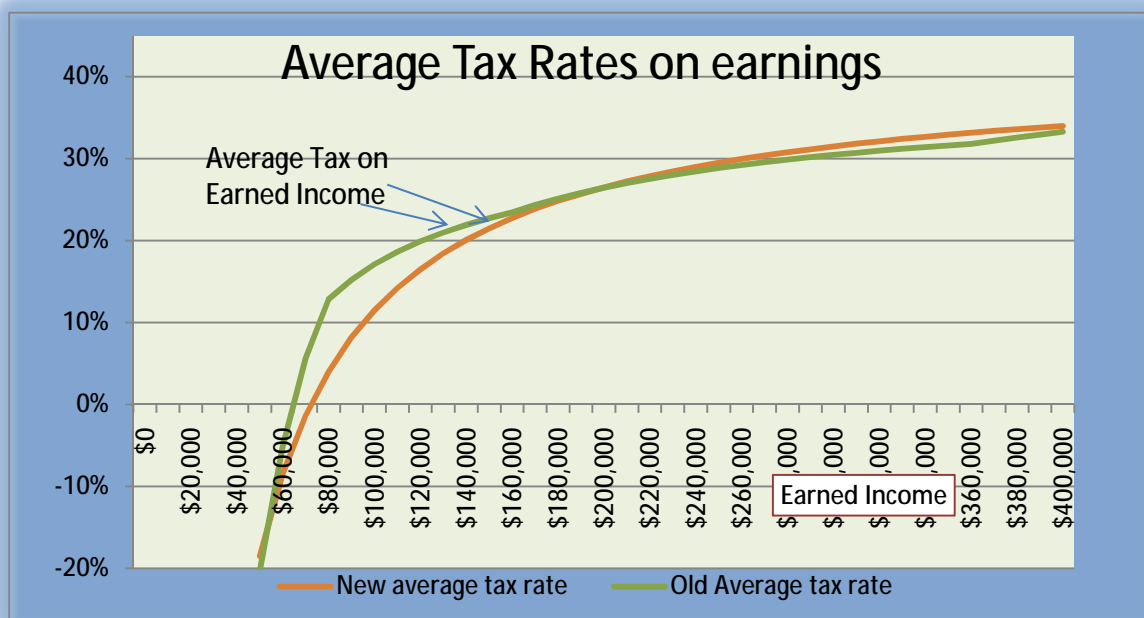
seems a worthy purpose, however giving home-owners many tax breaks and welfare advantages has produced a perverse result, which by favouring those who already own homes is actually reducing the competitive position of those trying to gain a first home, effectively denying those people the security of home ownership that was intended. It also penalises those who have good reason to not own a home and it distorts people's investment behaviour away from productive purposes. Wealth that could have increased the productive capital of the country and which would enhance productivity is spent on bigger, more lavish homes. One result of this treatment is to encourage people to hang onto big and valuable homes when their lifestyle and family situation would be enhanced if they moved on.

As homeowners are likely to be wealthier than non-homeowners isn't it a case of the wealthy just making rules that suit them? Besides, what role does moralising on the virtues of home-ownership have in a taxation system? Surely, taxation should be free of value judgements.

### Welfare payments – an alternative approach

You cannot consider income tax without considering the transfer payments of the welfare system.

At present, the welfare system is complex, irrational and inequitable. The low rates of Newstart benefits and the relatively high rates of disability allowance have had an extremely perverse effect. They have sucked 300,000 beneficiaries into the welfare system (by my estimate later in this submission) and onto the scrapheap called disability allowance. It is a haven for those who have been able to manipulate the system. Honest people who become unemployed are punished while those who manipulate the system are rewarded. I suggest abolishing welfare altogether. In its place would be a system of universal income supplements that are paid to all residents.



The graph above compares the existing system to the proposed system for a two-child family. The universal income supplements would be calculated on each individual's circumstances, regardless of income. Combined with a flat income tax, these payments would, as in the graph, closely approximate the current welfare system and progressive taxation, but without the anomalies and

complexities. (If you don't believe me, just do the maths and you will see for yourself.) The circumstances determining the level of payment would include a person's age, children, family type, disability, student status, time since making earned income tax payments and wealth. (Please refer to a more detailed explanation later.)

## **A defect in the discussion paper**

The discussion paper is a great document. The facts are presented clearly and I feel great confidence in its content except in regard to effective marginal tax rates. There are some comments I would like to make.

On page 13 the paper states,

*"Australia's tax and transfer systems are highly progressive, which supports fairness."*

On page 42, however, the paper states,

*"Relatively low-income taxpayers, particularly the secondary (or lower) earner in a couple, may receive transfer payments that are withdrawn as their income increases and at the same time they begin to pay tax, reducing the immediate reward for work."*

I interpret this to mean high effective marginal tax rates, which are not progressive!

On page 44 the paper states, referencing transfer payments,

*"Given the complexity of the interactions between various components of the tax and transfer systems it is possible that some people do not have a good understanding of how their participation decisions affect their disposable incomes. The two systems have different units of assessment, different periods of assessment and reconciliation, and differences in the timeliness of assistance. It is therefore difficult to say how important effective tax rates actually are in driving participation decisions at the margin, although it is likely that most people are broadly aware of the impact of substantial changes to the numbers of hours they work."*

I interpret this to mean that the system is difficult to understand and we rely on that so that people don't just stop working and get welfare.

These above quoted statements from the discussion paper are way out of line. It seems that the discussion paper is trying to hide the issue of Effective Marginal Tax Rates. The question should not be, "do people make participation decisions based on high effective marginal tax rates?" The question should be, "How can we eliminate high effective marginal tax rates, so taxpayers have no inducement to not participate?" Anything else is almost criminal. Whether taxpayers can do the complex maths required to derive whether they are better off participating or not, they can tell where they stand with their peers. If a person sees a neighbour receiving benefits buy a new TV and subscribe to Foxtel yet they work forty hours and can't afford it, then they already know the truth without doing the calculations.



While the government might think that high effective marginal rates of taxation for the working poor are necessary to save money, the truth is that they backfire very badly and that is borne out by statistics. I have chosen disability allowance as an example.

## Interaction of taxation and welfare

### Disability pension

How did all these people become disabled? We live in a healthy society with good health facilities. Rates of birth defects are falling and motor accident rates are falling. Now consider these DSS statistics:

[www.dss.gov.au/sites/default/files/documents/01\\_2014/sp11\\_pdf\\_na.pdf](http://www.dss.gov.au/sites/default/files/documents/01_2014/sp11_pdf_na.pdf)

Recipients of Disability Allowance (Table 6, Page 8):

1992    378,558

2012    827,460

From the 1992 base the Australian population grew 40% and if disability pension grew proportionally this would imply just 530,000 disability pensioners by 2012, but the figure has risen to 830,000! The implication is that there are 300,000 too many people on Disability Allowance (assuming it was perfect in 1992.) Why?

Theoretical case1: Consider an individual on Disability Allowance getting \$730 per fortnight, plus cheaper medical care, half-fare public transport, discounts on various entertainments and other concessions. This disability pensioner then gets a casual job five hours per week at \$160 per fortnight, with no tax and no loss of entitlements. The nett result is \$890 plus other miscellaneous benefits (valued at, say \$60) and comes to \$950.

Theoretical case2: Now suppose that person decides to get a full-time job at the minimum wage, work 35 hours at \$16.80 to receive \$1176 per fortnight, but pay \$90 tax, to nett \$1086. They spend \$77 on fares. The extra sixty hours of work nets them \$59, less than a dollar per hour! People who work forty hours a week at the minimum wage should be given a medal. Logic says they should be trying every possible way to achieve a disability pension. By my earlier estimate, 300,000 have succeeded, so far, at a cost to the community of about \$6 billion each year!

There are innumerable cases like this because the system just does not work. The system of highly targeted untaxed benefits does not work. It may be justified by a concern with removing middle-class welfare and money being targeted where it will “do the best good.” This objective appeals to simplistic analysis, appeals to those trying to reduce outlays and it appeals to socialist views. However, when all programs are targeted, all reduce at 50% or 60% as income rises and generally cut out around average weekly earnings these programs combine to place the greatest burden of welfare on the lower half of working income earners. This produces a situation of uniform poverty where we ensure that no one is left behind by ensuring no one can get ahead.

## Ideal income tax and welfare system

The current welfare and income tax system can be replaced by an ideal system comprising a flat personal income tax system (at a rate of about 42%) and abolishing the welfare system, replacing it with universal payments based on an individual's circumstances (other than income.) The factors would be:

1. Family type<sup>a</sup>
2. Age<sup>b</sup>
3. Children<sup>c</sup>
4. Disability<sup>d</sup>
5. Student<sup>e</sup>
6. Wealth<sup>f</sup>
7. Time since income tax paid (a work test)<sup>g</sup>

### Notes:

- a. Family type would vary a person's supplement, e.g. a couple would qualify for less than twice an individual's payment; an under 25 at home might attract a lower rate than living away from home, etc.
- b. Age would affect payment for a child or post retirement age and it would also affect the calculation of the wealth threshold. Age of child would vary child payments, as pre-school children might attract a higher rate, as would teenagers.
- c. Child payments would reduce for second and subsequent qualifying children.
- d. Disability would exempt a person from having to meet a work test. There could be separate payments for specific costs related to the person's disability.
- e. Being a student would (for a time) exempt a person from the work test.
- f. Wealth (over a threshold) would reduce a person's supplement at about 0.6%. The threshold would rise with age (e.g. from \$0 at age 15 to \$300,000 at age 65.)
- g. A person not paying any tax, not studying, aged or invalid, would have payments reduced by a factor each quarter or six months.

## Comparison to key principles.

**Simplicity:** 42% flat tax is as simple as possible.

**Equitable:** Everyone pays the same proportion of tax, and everyone gets a supplement according to the same set of rules. No one can complain.

**Efficient:** Taxation becomes simpler to administer, easier to understand. Participation is taken out of the picture as everyone has the same incentive to participate.

The same administrative benefits apply to welfare. The rules would be simple to follow as they don't vary with income.

## Qualifying for the supplement

All but the extremely rich would qualify for the supplement regardless of income. The payment would be made by Centrelink. The number of people dealing with Centrelink would rise, but the

simplified nature of the interactions would mean fewer rather than more staff required. Currently, everyone has some contact with Centrelink at some time, as a parent, as an aged person, as a student or as a short-term unemployed. It is reasonable to say that 80% of the population do at some time have to face Centrelink. This new system will increase that to about 98% of the population, but their interactions will be so much simpler.

There is less need to police the rules. No one has to qualify for a benefit, as everyone gets the supplement. There is little incentive or opportunity to cheat – just register your details. If people cheat by registering children that aren't theirs or understating their wealth, there are public records that can disclose that. The taxation department records can be matched confidentially and reveal who is paying tax. There may need to be some increased frequency in the way that employers pass tax information to the ATO. While under the current system there is an incentive to hide income, in future people would have an incentive to disclose income and pay tax, else their supplement would reduce.

In future, the only interaction between a person and Centrelink would relate to a change of address, birth, death, marriage, separation or a reassessment of a person's wealth. Gone would be endless continuation forms, reviews, spot checks and assessments. No more welfare cheats. Gone will be the need to continually report small variations and casual income. There will be no need to prove that a person is trying to get a job. Everyone has a genuine incentive to get work rather than to work the rules.

This system would remove the class warfare from tax and welfare. No one could claim that they paid too much tax or that another gets too much welfare. Everyone pays the same proportion and receives the supplement under the same set of rules. It does however mean that setting the value of the supplement at the right level is crucial. Disposable income is actually very similar to the current system. There will be losers and winners, but the losers will have no argument and the winners will finally be getting some justice.

## Calculating the supplement

How big should the supplement be? The existing rules for pensions and benefits already set the rates of many categories of benefit, but the rates are often contradictory. The age pension rates are easy to match under the new scheme, but it is difficult for other categories because of unusually constructed rates. For example, by my reading of the latest budget, an unemployed couple with a child would receive much less in total than an individual sole parent pensioner with a child.

Some suggested amounts at annual rates would be as follow:

	Base Suppl- ement	Invalid or age >65	age <5	age >13	age <22	Aged 18- 25 at home	Wealth > thres- hold (\$500K)	Wealth > threshold (\$1Mill)	No tax for six months	No tax for twelve months
First adult	\$15,000	\$4,000			-\$2,000	-\$5,000	-\$3,000	-\$6,000	-\$3,850	-\$7,500

Second adult	\$11,000	\$2,000			-\$2,000		-\$3,000	-\$6,000	-\$2,750	-\$5,500
First child	\$7,000		\$2,000	\$1,000			-\$3,000	-\$6,000		
Second child	\$4,000		\$2,000	\$1,000			-\$3,000	-\$6,000		
Third child	\$3,000		\$2,000	\$1,000			-\$3,000	-\$6,000		
Fourth child	\$2,000		\$2,000	\$1,000			-\$3,000	-\$6,000		
Fifth child	\$1,000		\$2,000	\$1,000			-\$3,000	-\$6,000		

These amounts are for illustration purposes and a thorough analysis would be needed to establish the most effective, reasonable and possible rates that can permit a healthy society in which there are no incentives and no means to cheat the system or work the rules.

The system would produce a society in which each person can rely on two absolute facts – that of each dollar that they earn they get to keep a fixed after-tax amount, no matter how rich or poor; and that whatever happens to them they will receive an income supplement that will sustain them without degrading them.

The supplement can also take the place of many tax offsets and rebates.

## Summary

The discussion paper has already answered most of the questions it poses. In respect of the core principles of equity, efficiency and simplicity the course of action is often obvious. Sometimes radical solutions, such as lowering the company tax rate seem paradoxical, but removing the foundation of the “tax industry” will liberate the efforts of companies from tax-minimisation to more productive use of their talents. Removing CGT concessions also removes the problem of negative gearing. Removing some of the advantages accruing to home-ownership, combined with reducing stamp duties on property purchases, will actually help people achieve home-ownership.

On the key area of personal income taxation the discussion paper is disingenuous. It purports that the taxation system is “progressive” while hinting that, in fact, the system may affect the participation decisions of lower-paid workers. This is because the interaction of taxation and welfare systems produce unpredictable, perverse results causing effective rates of tax close to 100%.

My solution is to abolish progressive taxation, including the tax-free threshold, abolish the welfare system and introduce a combination of flat income tax rates and universal income supplements. The result of this drastic plan is nett incomes very close to the existing system but without the anomalies, poverty traps and disincentives.

## Responses to discussion 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?

**Fundamental change is needed. I have an alternative to personal income tax and welfare payments. I believe that it meets all the principles of a good system, but it is a fundamental change.**

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

**This is absolutely essential. Complexity is the product of a lazy mind. The current system has created such a hole in the financial talent of the country wasting their time trying to reduce tax instead of boosting efficiency!**

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

**Number one. With simplicity comes many external advantages and the ability for innovation to have a role in Australia again.**

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?

**With targeted welfare payments and personal income tax designed to achieve vertical equity, horizontal equity has been lost. Under the universal income supplement system, everyone qualifies for the supplement under the same rules. Fairness in personal income taxation is achieved by ensuring that individuals just pay the same proportion of income in tax. The result is a perfect system where fairness is implicit to the design.**

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

**Flat rate of 42% for all income and a universal income supplement based on individual circumstances. This eliminates all the contentious aspects of tax and welfare.**

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

**At present, low income families with a single income earning just under average income are facing the highest effective marginal tax rates, but addressing this through the tax rates alone is mathematically impossible.**

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

**Considerably. In the last twenty years Australia's population has grown 40% but disability pension has risen by 120% to over 800,000. The combination of welfare targeting and taxation has created this growth.**

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

**No one can be certain as the two systems working together are full of anomalies and contradictions.**

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

**This is a big problem but only includes a small proportion of taxpayers. Most wealthy people (can't call them taxpayers) can manipulate a variety of legitimate methods to convert income to wealth without having to pay tax.**

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

**The incentives for tax planning are actually features of the tax system! Family trusts, income splitting, concessional CGT, no CGT for mansions, superannuation and negative gearing are effective because of features of the tax system. There is an incentive to move income into assets so deferring tax until a lower tax rate is available. There is an incentive to move tax to a family member with a lower marginal tax rate. A flat rate tax on all income would remove the incentive to income split. Remove the concessional treatment for CGT would also address some of the problems.**

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

**This would be unnecessary if the proposed universal income supplement is adopted. All such offsets could be incorporated in the supplement.**

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

**Totally inappropriate. This discount represents just one of several mechanisms whereby wealthier taxpayers convert today's income to capital in order to defer paying tax until later and pay at a lower rate.**

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

**It is fair to give superannuation income special treatment as a substitute for a person receiving a pension, but if a person receives a tax-free pension and the tax-free super income and tax-free earnings within the retirement fund then the balance has swung too far. There could be a simple rule of thumb – what part of the individual's super fund assets cancel the pension? This figure can be calculated. Any excess saving above this figure is merely an investment that should be subject to a suitable level of tax. I suggest 21%.**

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?

**Australia should also reduce corporate tax. I suggest 21%. This will undermine the taxation planning industry and increase compliance.**

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

**With a corporate rate of 21%, dividends taxed at a further 21%.**

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

**By moving the emphasis to the GST to tax the activities of foreign or international companies and reducing the company rate to 21% to undermine the need for tax schemes.**

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?

**The GST should be higher and it should have a wider base. It is said that this makes the tax system less fair, but fairness can be addressed through income tax or the welfare system.**

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?

**Unfortunately, state-based taxes, e.g. stamp duty, are often inefficient and bad policy. Council rates are often unfair and leave poor areas with poor services. Centralised big-ticket taxes are far more efficient, but formulae for allocating them to states and local councils are difficult to manage. Stamp duty puts an impediment on buying and selling homes. In an era when mobility is considered important, state stamp duties are a drag on the economy.**

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?

**Australia could have more taxes on socially damaging consumption or production, e.g. pollution taxes, plastic taxes and sugary foods taxes.**

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?

**(See next response.)**

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 Australian sense of fair play has led governments to continually adjust a flawed system with a variety of tweaks to address anomalies, modifying taxpayer behaviour and thus leading to a new round of tweaks. Each round creates more complexity. Some political forces believe that each tax has to address all social issues and circumstances. All this complexity can be wiped away by acknowledging that an individual policy instrument can only affectively achieve a single policy goal. Once acknowledged then it becomes clear, for example, that many GST exemptions are unnecessary and that many tax offsets, allowances, rebates, levies and deductions are inappropriately dealt with by the tax system.

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?

**Personal income tax and welfare can be simplified dramatically using the approach in my submission. Australia could lead the world in this area.**

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?

**Yes, in personal income tax and welfare, by adopting the system as described in my submission**

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

**See answer to Q65.**

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

**Yes, the main improvement would be to justify all changes in line with the principles (as per page 14 of the discussion paper.) The government could publish a charter that defines the principles and a parliamentary committee could examine all proposed tax changes to ensure they are helping to achieve a simpler, fairer and more efficient tax system.**