Hi,

This is a personal submission to the "Australia's Future Tax System" review.

It is an attempt to reduce the complexity of the current system, while giving people greater security and greater incentive to work. It also involves changes to the existing income support mechanisms.

At first glance (and possibly second), this proposal may look like the work of a flat tax loony. I don't think it is, and urge you to give it your consideration. The problems caused by high effective marginal tax rates, and a love of simplicity are the driving motivations behind this proposal.

I propose that:

(a) Everyone in Australia receive an income support payment, regardless of their circumstances. The amount they receive may depend on factors such age (which can't be changed), but not on factors such as their income, assets, employment status, marital status etc (which can change). This income support payment will be a basic "living allowance".

For working-age people, it should probably be set to a similar level as a single persons Newstart Allowance; for children, to the maximum level of Family Payment a child of that age is entitled to; and for pensioners, to the single aged pension rate.

Of course people in special circumstance (i.e. the disabled) may qualify for additional payments, but the idea here is to provide the vast majority of people with a payment which they get automatically throughout their life.

and:

(b) Personal income be taxed from the first dollar earned, preferably at a flat rate. If this flat rate is (say) 35 cents in the dollar, then anyone earning $1000 in a week would pay $350 tax. Just what counts as income, what are acceptable deductions, etc etc would remain is it currently is. If the marginal tax rate was set at the same level as company tax, that would be useful in removing incentives to minimise tax by moving income around.

Although it would dilute the simplicity of this scheme, it would be possible to still have a progressive tax system, if that was deemed necessary. For example there could be a rate of 0.35 for incomes up to $100,000 and 0.45 for incomes over this level.

Advantages of this proposal:

The main advantage of this scheme is that effective marginal tax rates (emtrs) are the same for everybody. This is particularly useful for recipients of existing income support payments who currently face emtrs which can exceed 0.6. I used to work in the Dept of Social Security, and it was common for unemployed people to earn $60 per fortnight, because after this point they lost 50% of any further earnings from their income support payment. I suspect that in least some of these cases they actually did considerably more than $60 worth of work, with the employer getting cheap labour, courtesy of our taxes. Anecdotally one often hears of pensioners who are terrified of earning too much in case their pension reduces. If this proposal is adopted, one would expect that the useful work done by the elderly would increase.

Perhaps the most pernicious effect of high emtrs is in low income two parent families. Typically the wife does the house work and raises the children. The husband could earn income, but due to high emtrs his earned income doesn't make any useful contribution to the well being of the family (particularly if they have lots of kids). This effectively takes away the husbands main role, and can easily lead to family

breakup. A flat emtr will allow the husband to make a meaningful contribution to the welfare of the family through his work, and therefore reduce the incidence of divorce. The kids would benefit from having a male role model and a stable family environment. Society as a whole benefits from the economic contribution of the extra workers and the increased family harmony.

This scheme would reduce welfare mentality. Much is made of the negative effects of welfare dependance. I don't believe that paying people itself is harmful. I do think that being enmeshed in the current hoop-jumping system, and facing high emtrs when getting off welfare are harmful. I believe that having a totally reliable fortnightly payment will actually reduce the level of stress which poor people feel, and make them more willing and able to work. Knowing that your payments won't stop if you move house, get married or split up will also make life easier for the poor.

But will it make more dole bludgers? Right now, there must be a few people who are working simply because it is too much of a hassle to go on the dole. But I dare say there aren't many of them. My own recollection of the 80's was that everyone in my group of "dole bludging" friends gradually drifted off into work as the economy picked up and opportunities arose.

This scheme will reduce the cost of the bureaucracy that currently administers income support payments. It will somewhat simplify the administration of PAYG payroll deductions, by eliminating the need to deduct different amounts from an employees wage depending on whether they have another job. Employment agencies will be able to focus on matching people to jobs rather than monitoring people's work efforts and reporting breaches to Centrelink.

Transition:

With any change there will be winners and losers. In order to avoid dramatic and sudden changes to people's circumstances, it is suggested that the existing system be grandfathered, and people be given the option of continuing in the existing system for the next (say) 10 years. People who have not yet paid income tax will automatically be enrolled in the new scheme If, over time, the tax free threshhold and other tax brackets of the existing scheme are not moved, then the new scheme will become more and more attractive. There may be problems with the current taxation treatment of superannuation, but I'm sure these could be ironed out (perhaps by simply saying that drawing on your super does not constitute income, since it was yours all along).

Rationale:

In our current system, everyone benefits to differing degrees from government expenditure on such things as schools, public hospitals, defence, quarantine services, roads and other infrastructure etc.

There is also a second type of government benefit, one which is targeted directly to an individual, typically in the form of income support of one sort or another.

We means test both of these government benefits in different ways.

The general benefits are means tested through the income tax system. No attempt is made to establish the extent to which each person actually benefits from government expenditure. The amount paid depends only on their income.

The individually targeted benefits are each subject to their own means test, to which one must add income tax. The result is that a person on an income of $20,000 per annum can effectively be paying a higher marginal tax rate than a person on ten times that amount.

The proposal outlined above means that there is only one mechanism for means testing the benefits an individual gets from the government, and it is the same for everyone. Hence the emtr will be the same for everyone. I love that simplicity!

I think that this proposal would be impossible in a poor country, but we are a rich country, and getting richer. It is worth looking into.

Thank you for taking the time to read this submission.

John Brookes