

Dear Dr Henry

It is a fact that 80% of our men, women and children receive an advantage of \$4,600 or more. The remaining 20% of the population receive on average \$2,300.

It is the interactions between the various forms of this basic advantage that are the prime cause of inequities within the tax transfer system. No solution will work unless this situation is simplified.

Simplifying the system will be difficult. There are many sacred cows within this mix. Many people have fought long hard battles to get preferential treatment for their constituents. An offshoot of this is that to maintain their positions they must constrain the preferential treatment to only their constituents.

These sacred cows in many cases come down to the differential advantage rather than the absolute advantage. I used to believe that it was good bringing particular targeted groups up to the \$4,600 advantage. I thought that an incremental approach was OK, these advantaged groups could be held static while the excluded groups were later brought up to their level. I have lost confidence that this approach is achievable. It will not happen easily, too many vested interests will block any attempt to remove the differential advantage that their constituents currently receive or are perceived to receive.

It would be much more transparent to provide a standard \$4,600 to all with no conditions. 90% of this \$96 billion annual cost is currently provided. A reasonable proportion of the \$10 billion annual additional cost will be recovered from administrative savings in the government sector, and a further reasonable proportion will be recovered from savings in the private sector.

This transparent view will lead to many other inconsistencies in the scheme becoming exposed. As such the whole has to be examined together. Every advantage offered to anybody has been pulled apart, and the parts have to be dissected, analysed and remixed with every other part of every other advantage to provide a simpler, effective, integrated social system.

Two quotes from Einstein:

1 - Any intelligent fool can make things bigger and more complex... It takes a touch of genius - and a lot of courage to move in the opposite direction.

2 - First, out of clutter find simplicity. Second, from discord make harmony. Third, in the middle of difficulty, find opportunity

In 2005 I wrote the attached booklet. It is a rewrite and update of work I wrote in 1992. It is my conclusion, the only way that I can see, of how to re-arrange all the parts of current advantage into a coherent, simple, effective system. Its core is the simple non-negotiable statement that "Nobody, but nobody, not ever, receives more advantage from the system than a poorer person". Rough English, but such a simple and transparent concept is needed. I particularly look forward to seeing what your basic premise is.

Best regards

Glenn Thorpe

# **Fairly Flat**

## **Specifications for a fair, flat social system**

**Glenn Thorpe**

**2005**



## **Introduction**

This book outlines an integrated social system that encompasses all taxation, welfare and other advantage.

The centrepiece of this proposal is a payment of \$4,200 p.a. to every man, woman and child in Australia. This payment represents the minimum Marginal Cost of Support for an extra person in an existing household (MCS). The remainder of the proposal is fixing the inequities, complexities and illogicalities that are highlighted when this MCS payment is implemented.

Effectively every adult in our society currently receives some advantage that the MCS payment will recover. The MCS payment is principally replacing the current myriad of advantages with a single cash payment. It is adding definition and standardization to advantages that we currently provide. Practically, it pays this money when it is needed rather than having people wait to claim it back as a tax refund or a reconciliation back-payment.

The major arguments against paying this MCS benefit are: from the right, that people do not like paying money to other people for doing nothing; from the left, that as families need more than this MCS to survive we need to pay more, it is pointless to pay only the MCS amount; and, from the management consultants and economists, that the proposal produces churn and adds big scary numbers to some parts of the national accounts.

The right's real agenda is the abolition of many of the advantages we currently provide. Primarily this is the abolition of low tax rates, the uncompensated replacement of the progressive income tax system with a flat system. In many ways I agree with their basic thrust, I also propose a flat income tax regime. However, the difference is that where the right will abolish the advantage currently provided, I first define this advantage and replace it with a cash benefit.

The left's conception, to pay a surviving wage to every family, was championed by Henderson in his 1975 report into poverty. At the time Australia was close to being the richest country in the world and was in an economic boom. Henderson stated his proposal would be funded by a flat

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40% income tax rate. We are now far from being the richest country in the world, although we are in an economic boom.

To fund a flat adult payment equal to the single rate of pension would now require a 62.5% income tax rate (plus the current GST), an increase in the required tax rate of 22.5%. When our current boom ends this required tax-rate will rise even further, at it did through the late seventies and eighties. Scandinavian countries that did implement similar programs have abolished them, they have lowered benefits and lowered tax rates. It didn't work.

Both the left and right want relatively radical changes to the system. My proposal does not radically change the current situation, it primarily adds definition and a foundation. I am saying: "Folks, after generations of ad hoc changes we do have it about right. Here's a slightly different view of the underlying logic that simplifies the processes, is slightly more equitable and is much more robust. I came, I looked, I basically liked what I saw but here is a little bit of support that will solid it up a bit."

For 20 years governments have seriously twiddled with our social system. Every twiddle is supposed to fix the system, yet still more twiddling is needed the next year. None of the problems have been properly fixed, everything is a compromise, a fix in one area causes problems in others. The system lacks any foundation and is rotten to the core.

During this time the buzzword has been targeting. Families are served a bit of this, a bit of that, none of this other and a pinch of something else. The result is a system so complex that the interactions produce a mangle that nobody understands.

Similar outcomes for most people and families can be achieved by implementing a much simpler system.

The starting point for this simplification is to flatten all the tax and welfare programs so that they apply to everyone equally. The progressive features currently included in the various programs are extracted and analyzed. These features are then combined with similar features from other programs to provide universal flat benefits or impositions.

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This methodology keeps the essence of our current system. Our starting point is simply rearranging the deckchairs, we are looking at the same system from a different point of view.

Putting the components are back together is a recursive task. There are so many permutations on so many levels that all interact, it is fairly complex. The system described is the best and simplest that I could devise using this methodology.

Putting the various components back together does result in changes in families' benefits and taxes. Where these changes are substantial it raises the question of whether it was intended that this particular group should be advantaged or disadvantaged to such an extent? It is most often the case that the complex interactions between programs in the current system have unintentionally caused the group to be advantaged or disadvantaged to such an extent.

It is impossible to state in simple terms who are winners and who are losers. Seemingly similar families are affected differently. This is a result of the complexity of the interactions between the various programs in the current system.

The creed *No-one, but no-one, not ever, receives more advantage than a poor person* was applied when the proposed system was developed.

The purpose of our social system is to ensure the poorer members in our society are provided with essential goods and services that they could otherwise not afford.

To redistribute wealth between people with similar situations because one person's investment or income is considered to be more deserving than the other's should not be a function of our basic social policy.

It is this attitude of picking winners that has resulted in the mangle of a system that we now have. It distorts outcomes. It increases the burden imposed on everyone else. It always has the effect, in some circumstances, of providing advantage to a richer person over a poorer person.

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The social system proposed provides the basic redistribution to the poorer and then leaves the rest to market forces. It imposes the minimum burden practicable on the population to achieve our basic social outcomes.

Calculations in this book are initially based on 2003 dollars. All taxation and welfare figures are available from relevant government departments for the 2002/03 financial year. The calculations can therefore be done on the situation as it was in 2003.

This approach means that all the inputs can be checked against departmental reports. It saves having to convert every value to 2005 figures. When the calculations have been completed I converted the outcomes to 2005 dollars and include policy changes that have been implemented since 2003.

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The end system proposed here comprises:

### **Universal Benefits**

- i. A flat rate universal Marginal cost of Support (MCS) payment to every man, woman and child of \$4,200;
- ii. An Unclaimable Cost of Work (UCOW) payment payable to people who have income and no tax deductions and receive no benefits but taxable salary and wages from their employment;
- iii. A right for all working age adults to one days work per week at reasonable wages, plus one weeks work every 12 weeks;
- iv. A flat level universal Age pension, government secured and compulsorily contributed to by the pensioner according to their means.

### **Universal Taxation**

- v. A flat personal income tax of 27%;
- vi. A GST to raise the equivalent of an 8.5% income tax – the GST in 2003 raised 8.2% equivalent;
- vii. A flat Assets Tax of 0.35% on the value of assets owned by every entity. This raises the equivalent of the GST;
- viii. A Company Tax rate of 18½%

### **Welfare – Special treatment**

- ix. Special conditions for the universal working benefit for disabled, sick, parents, carers
- x. Supporting Parents
- xi. Childcare Assistance



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### **Section 1 – Universal Benefits**

#### **1.1 - A Universal Marginal Cost of Support (MCS) payment**

An advantage in the ballpark of \$4,200 is currently provided to the majority of people in our society. In general the provision of a universal MCS payment replaces other advantage that is currently provided.

Replaced advantages include:

1. low tax rates on the first \$21,600 of income
2. \$4,200 of adult welfare (Pension, Newstart Allowance and Parenting Payment) payments
3. Dependent Spouse Tax Offset
4. Family Tax Benefit Part B
5. Family Tax Benefit Part A
6. Childcare Assistance
7. Youth Allowance
8. Maternity Allowance
9. an average of \$2,100 per student in grants to private schools

For single, childless people this provides equivalence to their current situation. Many families remain in rough equivalence, although the reasoning for their financial advantage will often have changed from being for a reason such as childcare to being for MCS. Some families will be worse off, although this is offset by other families being better off. That is, this change results in a relatively minor redistribution in the total advantage currently provided to families.

On the individual items replaced the following points are relevant

#### **Replacement of Low Tax Rates on the first \$21,600 of income**

Replacing low tax rates with a cash payment requires taxation at the “standard” tax rate to apply from the first dollar of income. For anyone with income over \$21,600, equivalence with their current situation is obtained by

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providing a cash payment of \$3,827 and applying a “standard” tax rate of 31.5% from the first dollar of income. (ignoring the Low Income Rebate and the Family Medicare Levy reduction). This approach leaves the higher tax rates on high incomes as intact, they can be considered to be a “tax premium”.

Example: From 1<sup>st</sup> July 2005 tax on \$21,600 is \$2,340 tax plus \$324 Medicare Levy, leaving after tax monies of \$18,936. Under the proposed system on \$21,600 income, tax would be \$6,804, but this would be offset by the \$4,200 MCS payment, leaving equivalent after tax monies of \$18,996. This holds true for any income above \$21,600.

On incomes below \$21,600 people not on welfare will be better off. However it is noted that most people on incomes below \$21,600 receive welfare that is to be adjusted in point 2 to provide equivalence with their current situation (eg Newstart Allowance with Rent Assistance does not cut-out until an income of \$20,700, so the \$4,200 reduction in their Newstart entitlement will offset the gain from the MCS payment)

#### **2 – Replacement of \$4,200 of Pension, Newstart Allowance and Parenting Payment**

Pensions, Newstart Allowance and Parenting Payment are reduced by \$4,200 and the MCS payment is made as a replacement. People with no private income will receive equivalent gross monies, however there is a problem because tax will be applied from their first dollar of taxable income. This problem is overcome with the UCOW payment discussed in the next chapter. For beneficiaries with other income, adjustments to the income tests for these benefits are needed to provide equivalence with their current situation.

#### **3 – Replacement of the Dependent Spouse Offset**

Dependent Spouse Offset is only provided to very low income partners of couples with no children. The value of this Offset is only \$1,600 so these families will be some \$2,600 better off, giving them equivalence to similar families that have the ability to income split.

#### **4 – Replacement of Family Tax Benefit Part B (FTBB)**

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Married recipients of FTBB who have no income will be \$830 better off if they have a child aged under 5 and \$1,750 better off without a child aged under 5.

There is an interaction between the lenient income test on FTBB recipients and the advantage provided by low tax rates, which results in those recipients with a child aged under 5 and an income of between \$3,500 and \$13,100 being slightly worse off. In many cases this will be more than offset by the replacement of income tested FTBA with the non-tested MCS payment for children. On incomes between \$13,100 and \$21,600 these recipients will be slightly better off.

Married recipients with no child under 5 are always better off.

FTBB is also paid to all single parents supporting children. The effect on this is discussed further in chapter ??

#### **5 – Replacement of Family Tax Benefit Part A (FTBA)**

The rate of the proposed MCS advantage is equivalent to the maximum rate of FTBA for a child aged under 13. All moderate- and high-income families will receive an increase in their cash payments from the effective abolition of the income test on FTBA. This increase, however, will be offset by the replacement of targeted advantage by way of Childcare assistance and grants to private schools.

Paying a standard rate to all people will result in low income families with a child aged 13 – 15 being \$950 worse off. However it is noted that currently the rates paid for children in low income families follow an illogical pattern, Children aged under 13 get \$4,200, children aged 13 – 15 get \$5,030, children aged 16 – 17 get \$4,650 YA, and children aged over 18 get \$5,600.

#### **6 – Replacement of Childcare Assistance for moderate and high income families**

The income test on Childcare Assistance will be tightened to preclude moderate- and high-income families from this advantage. The effective abolition of the income test on FTBA will offset this impact on many families. It is intended that some families utilizing childcare will be worse off, however these families will have opportunities to more efficiently

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pursue alternative childcare arrangements because they are getting cash-in-hand rather than targeted reductions in approved childcare fees.

Childcare Assistance remains available to low-income families but does become a welfare benefit under this proposal.

#### **7 – Replacement of Youth Allowance**

The maximum rates of Youth Allowance are reduced under this proposal, so that families that receive the maximum rate of Youth Allowance will be worse off by \$450 for youths at home aged under 18, \$1,400 for youths at home aged to 24 and \$4,300 for youths living away from home. There is some offset by “right to work” and special conditions applied to this work for students. It should be noted that although these particular youths are the biggest losers in the proposal, youths overall are the major beneficiaries with 1.3 million of them receiving an increase averaging \$1,800.

#### **8 – Replacement of Maternity Allowance**

The effective abolition of the income test on FTBA will offset the replacement of Maternity Allowance for many families, particularly those on moderate and higher incomes. Currently many families change from being two income moderate-income families to being single income low- or moderate-income families with the birth of their first child, and resultingly receive Maternity Allowance but only basic FTBA from the birth of their child until the end of the financial year. This offset will result in many of these families receiving close to the equivalent that they currently receive.

#### **9 – Replacement of Private School Grants**

Part of the grants to private schools can be considered to be targeted assistance to the students’ families. There are few families with children in private schools who get the maximum rate of FTBA, which is one reason that private school grants are justified. Paying the MCS benefit for these children negates this justification and provides these families with the ability to pay increased fees by up to this \$4,200 without their current situation being adversely affected. In the costing for this proposal I have reduced the grants to private schools by only ½ of the MCS payment, leaving considerable scope to either save more monies or to keep providing the

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current grant for low income families with children in these schools. It provides the families with choice to pursue whatever options they wish without being tied to this targeted assistance.

#### **Summary**

The replacement of existing advantage by a single, uniform MCS benefit closely mirrors our existing social system, it is what has evolved in our tax and welfare systems. An MCS benefit adds definition to the advantage, it removes the stigma of “cold charity” from particular advantages and provides a solid foundation on which to build a social system. The definition can effectively be summarized as:

**The government accepts responsibility for the minimum marginal cost of support in an existing household for all people. In general individuals have a base responsibility to provide a household for themselves and their dependents, and to care for their dependents.**

### **1.2 – Unclaimable Cost Of Work (UCOW) Allowance**

A UCOW benefit is provided to meet two objectives. Firstly it nullifies the advantage many workers receive from untaxed provision of advantage, particularly transport. Secondly whilst Pensions and Benefits remain not tax-free, some relief from taxation on low incomes needs to be provided. Thirdly this allowance replaces any deduction claim, people either claim the allowance or claim deductions.

The value of this Allowance is about \$1,400, or 1/3 of the MCS benefit. At this value a Newstart recipient is not taxed. The value is dependent upon the standard tax rate, the lower the standard tax rate the lower the value of this UCOW Allowance. This value does coincide with providing a tax break on a reasonable cost of transport for a person working.

It is envisaged that the UCOW Allowance will be provided in quarterly installments throughout the year or as a single item on personal tax returns. In any case it is reconciled on a person's tax return, and the tax return is the claim for payment in quarterly installments for the following year.

People claiming the UCOW Allowance will make a statement that they have not received any personal untaxed advantage from their employment, including provision of transport which is considered of a private nature. Transport to and from work is considered to be of a private nature. Those excluded from this Allowance include:

- those who use a work vehicle, even if only to and from home
- the self employed
- those receiving transport allowances from their employers
- those receiving non taxed allowances for any items that have any personal use, computers and the like in particular.
- those receiving fringe benefits

Compared to people's current situation, those entitled to a UCOW Allowance with deduction claims less than \$5,000 will be better off than they currently are. Those people not entitled who are not on welfare payments will be slightly worse off than their current situation. Adult welfare

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recipients who claim tax deductions or who receive untaxed benefit from their employment will lose money.

In the proposal costings all welfare beneficiaries are given equivalence to their current situation, so there are additional savings to be made from this. It is intended that there will be a phased implementation of the UCOW, which will allow these pensioners to unwind their positions if they so desire.

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### **1.3 – The right of all working age adults to one days work per week at reasonable wages, plus one weeks work every 12 weeks**

The provision of an MCS benefit to everyone reduces the rate of all pensions and adult benefits by \$4,000. The single rate of Newstart Allowance, including Rent Assistance, reduces from \$12,900 to \$8,700.

\$8,700 is just a little over minimum wages for one day's work per week with a 30% loading, plus one week's work every 12 weeks with no loading.

A 30% loading is justified, there is a casual loading in all wages, and employment claimed under this right will also require some additional efforts on the part of claimants.

It is intended that this right to work replace all welfare to all working age adults, including Newstart Allowance, Youth Allowance, Sickness Benefit, Parenting Payment, Disability Support Pension and all carer payments.

A right to work implies the person can undertake the work. This does mean that people with limited capabilities are treated specially – their work has to be work that they can undertake. There will be many special categories with special treatment including people with disabilities, people with caring responsibilities and students. There is considerable scope for providing relevant, benevolent conditions for all categories.

A right to this limited amount of work requires very substantial government efforts to be directed towards providing suitable employment opportunities.

Work claimed under this right needs to be onerous, it is the intention that people will prefer and make effort to obtain other work with less onerous conditions and which provides a more livable income. However, onerous does not imply bastardry, there needs to be a balance.

Some people not currently entitled to welfare payments, for example self-employed people setting up businesses, will request this right. If conditions are not set to ensure solid policing the system will be rorted by small businesses obtaining subsidies for employing current staff. It will be difficult and expensive to set up. A shift in society's attitudes towards employment will be needed and this will take many years. During the transition restrictive access to this right will be necessary. This



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restrictiveness needs to cater for there being insufficient limited hour work available during the transition so welfare payment for not working will still need to be available. These are all matters of detail that can be overcome.

While difficult, this work for the dole approach is worth the effort, it removes the welfare attitude to the basic income this right provides.

Financially there are three substantial matters that need addressing: firstly Disability Pension is paid at a substantially higher rate than Newstart Allowance; secondly, Parenting Payment for single parents is paid at a substantially higher rate than Newstart Allowance; and thirdly the proposal pays the equivalent of Rent Assistance to all comers, not only renters who are currently entitled to Rent Assistance.

In regards to Disability Pension, a welfare component to take the level of payment up to the current level of Disability Pension is not precluded. This welfare component will be a relatively small amount and it is envisaged that conditions will be welfare orientated and onerous.

The aspect of Parenting Payment for single parents is discussed in the next chapter.

Rent Assistance is dealt with in detail in the Assets Tax Chapter of the next section.

The 30% loading component in the work is equivalent to Rent Assistance, which is currently untaxed. This component will also be provided tax free.

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#### **1.4 - A flat level universal Age pension, contributed to by the pensioner according to their means and topped up by the government**

With the MCS component removed from the Age Pension the annual value is reduced from \$12,700 to \$8,500 for married pensioners and from \$14,900 to \$10,700 for single pensioners, including Rent Assistance.

The value of an Age Pension can be capitalized at grant to provide a whole of life annuity, indexed at whatever. The capitalized value of a full Age Pension for a married couple is around \$350,000, which will provide the couple with the maximum rate of pension plus rent assistance for the remainder of their lives.

Capitalizing the pension allows a single assessment to be made of the pension claimant's position, provides a realistic cost on the government purse at the time of grant and allows the pension to be compared with the benefits provided to superannuation..

It needs considering that any downturn in the finance sector will impact on the value of superannuation and any crash will result in privately funded aged people falling back onto the pension system. It is therefore a reasonable position to say that when a person reaches pension age they are required to have government backed security for their basic pension finances to guarantee that they will not become a burden on society in the future. A single assessment of their pension position is therefore valid at this time.

Currently the major cause of substantial change in pensioners entitlements after grant is due to changes in their home situation, they sell their house, move into other accommodation etc. These changes can be related to Rent Assistance, and this aspect is discussed further in the chapter on an Assets Tax in the next section.

It is essential that the pension value be compared to superannuation returns. A normal or average family situation could be considered to be a 9% superannuation contribution for one person for 45 years at average earnings [AWOTE] and the other with 35 years at 75% of AWOTE with a 6% pre-tax return over indexation value. If this investment does not receive any tax break, so tax of 31.5% is paid on contributions and returns on the investment, the final superannuation value for the couple will be \$476,000.

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With the current tax regime on superannuation, a 15% tax on contributions and returns, this couple would receive \$760,000. The difference between these values, \$284,000, is what the government has foregone in taxation.

The following points are pertinent:

- this \$284,000 is effectively a prepayment of 80% of the Age Pension;
- this prepayment is paid whether or not the couple live to Age Pension age;
- this prepayment does not exclude the couple from Age Pension, they can spend it and then claim Age Pension;
- this prepayment is subject to market forces which may result in the couple losing all their monies, including the government's prepayment of Age Pension, and then falling back onto society for support.
- A couple that each receive average weekly earnings for 45 years receives an advantage from reduced taxation of \$533,000, or 152% of the maximum rate of pension.

Please keep in mind when reading this view that the forces arraigned against this view are the superannuation funds, the people that control them and the people that benefit from them. These funds are now reported to have \$800 billion under their control. Large media organizations are included as owners of substantial superannuation funds. The view the media provides may be slightly biased. Me, I own a pen!

The whole basis of this proposed system is to flatten and simplify the view, and to identify and rectify positions that are illogical. The basic logic of any social is to distribute some advantage to poorer members, the maxim "from this base nobody, but nobody, not ever, receives more benefit than a poor person" summarizes this position. If advantage is being provided to wealthier people the system is corrupt, it needs fixing.

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The prime fix is to abolish the advantage to the wealthier people and to lower tax rates overall. The concept is that tax rates are as low as practicable to achieve the objectives, and this benefits all proportionally.

An \$800 billion investment that gets a tax break of 16.5%, on earnings of say 10%, can provide a reduction in the standard tax rate of 3.6%, lowering the standard tax rate from 31.5% to 27.9%.

The current superannuation regime is an impost on the poorer, and a tax break for the wealthy. The poor are much better off investing their superannuation in their house, either buying one or paying off their mortgage.

The proposed pension/superannuation regime has these features:

- A compulsory 9% contribution with no reduction from the standard tax rate
- People claiming any government assistance for pension at age 65 pay 30% of their superannuation monies and 15% of the value of other assets towards the pension.
- People turning 65 who do not want to claim, or who are ineligible for, any government assistance have another option. Instead of purchasing a pension payable from age 65 they can purchase one payable from age 75. If they take this option then an approved financial institution must warrant that they can claim a full pension from the financial institution at any time before they turn 75. The pension payable from age 75 will be much cheaper to purchase than the age 65 pension and will be refundable if the person dies before age 75. This means that asset rich people who have an independent income, particularly farmers, do not have to dispose of their assets to pay for an immediate pension.
- People can use their superannuation for housing for up to 21 years with this basic philosophy:
  1. a maximum of three times AWOTE is permitted to be invested in a persons house

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2. the monies invested must be fully repaid by age 50
3. the person pays interest on their superannuation investment, untaxed, equivalent to the CPI rate + 4%
4. for the first seven years all superannuation monies can be invested – to a maximum of 3\*AWOTE
5. for the next 7 years funds already invested in their house can remain, accruing interest, but new contributions must go to a “standard” superannuation fund
6. for the last 7 years the investment plus interest are repaid
7. the superannuation investment is protected more than the mortgagor of the property

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**Section 2 – Taxation**

60% of the total revenue required to fund the proposal is raised from a flat income tax of 27%, 20% is raised from the current (regressive) GST of 10% and 20% is raised from a (progressive) Assets Tax of 0.35%.

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### **2.1 – Income Tax**

An income tax of 27% is applied to all income, with Company Income taxed at only 18%. From the current situation this is:

- The abolition of the Medicare Levy
- a reduction of 3% in the standard tax rate, down from 30%
- the abolition of the 42% and 47% high tax rates
- a reduction in the Company Tax rate to 18%
- the abolition of special treatment for superannuation, but with the reduction in the Company Tax rate much of their earnings will be taxed at only 18%

The UCOW allowance provides further relief for those who gain no advantage but wages from their employment and who are categorized as having Unclaimable Costs of Working.

For income earners currently paying the standard rate of 31.5% (incl. Medicare) this provides them with 4.5% of their taxable income to pay the new Assets Tax. Income earners on higher marginal tax rates get more than this to pay their Assets Tax.

The Company Tax rate is reduced to cater for the double Assets Tax being paid. The Assets Tax is imposed on every entity. This will result in the Assets Tax being paid twice on Company Assets, once by the Company on their assets and once by the owners of the company's shares on the value of their shares.

The reduction of the Company Tax rate to close to the Superannuation Tax Rate will result in a substantial reduction in the franking credits available to superannuation funds. These credits are used by the superannuation funds to offset tax that would be payable on other unfranked income, resulting in additional tax being collected from superannuation funds.

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### **2.2 - GST**

The GST as it is currently implemented will remain.

The GST in its current form raises the equivalent of a 9.5% income tax. GST collections have risen substantially in recent years, in income tax equivalent terms from 7.4% in 2000/01 to 9.5% in 2003/04.

The major consideration is what income tax the GST replaces, in particular what proportion of revenue from income is raised by the GST. I propose raising 20% of revenue from the GST, so the 21.5% of revenue that the GST is currently raising is within this ballpark.



### **2.3 – Assets Tax**

The Assets Tax is designed to add progression into the Tax system on better terms than progressive income tax rates. It is designed to benefit people who use their assets to generate income, and penalize those that do not generate income from their assets, which is opposite to what a progressive income tax achieves. It will be imposed at a rate of 0.35% on the gross value of assets controlled by an entity.

The governing principle is that the Assets Tax is to raise the same amount as is raised from the GST, 20% of base revenue. A 0.35% tax rate balances with income tax on a 4.04% return on the value of the asset. That is if the asset provides a 4.04% or better return then the person owning the asset is better off paying the proposed Asset Tax rather than an income tax.

An indication of the asset base is provided by the Melbourne Institute publication on 16<sup>th</sup> June 2004 which indicates that individuals have a total wealth of \$6,000 billion, which is around 64% of the asset base required to fund the Asset Tax at the 0.35% rate. Onto this asset base needs adding assets owned by entities other than people (companies, trusts), assets owned by non residents and some amount for gearing.

There are no exclusions from the Assets Tax. The effect on various categories will be:

- Low income home owners on welfare are compensated by the replacement of Rent Assistance with an equivalent payment to all. This additional payment to homeowners equates to the Assets Tax payable on \$686,000 for a married couple with no children.
- Low income non home owners with assets not generating 4% taxable income will be worse off.
- Moderate income working people are compensated with a 4.5% reduction in tax rates, which is calculated from the tax being applied from \$0. This 4.5% reduction equates to an asset value of \$321,000 for someone with \$25,000 income, \$643,000 for \$50,000 income and \$964,000 for \$75,000 income. People with non-income

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producing assets valued above these amounts will be worse off, those with assets valued below these amounts will benefit.

- Higher income people who are paying higher tax rates will receive more benefit from the abolition of the higher tax rates
- Companies that do not own other shares and that are not geared, and their shareholders, will be better off if the company has a taxable return of 4% or over. Raising the Assets Tax on every entity is designed to encourage simplification of corporate structures. Companies with either fully or partially owned subsidiaries will pay the Assets Tax on each entity, which will result in companies which have many levels of subsidiaries paying more tax. Optionally they can simplify their corporate structure to avoid this situation.
- Companies, or individuals, that are substantially geared may be worse off if they do not receive a 4% return on the gross geared value. This is the intention, to encourage the country's assets to be used efficiently and effectively to produce income.
- Superannuation Funds will be taxed as end entities, that is the Asset Tax will not levied on members for the funds they have invested however the superannuation fund will be liable for the tax. The \$800 billion currently invested in superannuation funds will generate \$2.8 billion in Assets Tax revenue.
- For the period that superannuation monies are invested in a person's own home the person is liable for the Assets Tax on the full value of the home and the funds invested are exempt from the Assets Tax. These funds are the person's own money, and are treated as such.

The effect on overseas investments and overseas investors are balanced. One half of the Assets Tax is relinquished for overseas investors' direct investments in Australia. On the reverse side, one half of the Assets Tax on assets owned by Australians or Australian companies outside the country are relinquished. This mechanism means that an Australian setting up an offshore company to own their assets in Australia receives no benefit, they pay ½ the Assets Tax on the value of the overseas company and the overseas company would then pay ½ Assets Tax on investments within Australia.

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The Assets Tax allows the Company Tax rate to be reduced so much that it becomes competitive with tax haven tax rates, which when considered with Australia's security, will result in companies from over the world wanting to generate their profits in Australia.

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### **Section 3 – Cold Welfare**

In the previous sections I have outlined a flat system, a system that imposes flat consistent obligations on all and that provides flat defined benefits for all. The benefits provided under this system cannot be considered to be welfare – they are provided to all equally and standardly.

Welfare is what is provided above and beyond these standard, simple benefits.

To provide rough equivalence with people's current situations there are three major requirements:

- Firstly the rate of payment for single parents needs increasing
- Secondly assistance with childcare is needed in some instances
- Thirdly the replacement of adult welfare payment with a work guarantee requires the provision of special categories to ensure that everyone, in particular the disabled, the single parents and the students can undertake work.

The government provision of these special, extra services is considered to be welfare.

### **3.1 – Increased support for single parents**

The changes so far outlined provide most people with a similar situation to what they now have. The glaring exception is single parents, who even with guaranteed work with special conditions will be considerably worse off.

The person generally impacted worst in a marriage breakup is the wife. Changes in the 2005 budget recognize that additional support is required when a woman has a child aged under 5. I would extend this need for extra support to also provide for additional support for the first 12 months after separation, irrespective of the age of the youngest child.

The question is who should provide this support? This additional support is primarily for the care of the child, which is a parental responsibility, jointly or individually.

The amount lacking in the proposed system is roughly the amount of one MCS payment, \$4,200. I therefore propose that when a child is born the whole family's MCS payment be paid to the wife. This arrangement continues whilst the couple remains together and, if they separate, until:

- the woman has another child to another man; or,
- the later of
  - their youngest child turns 5; or
  - the couple has been separated for 12 months.

This benefit is provided to every woman with a child aged under 5 irrespective of whether their spouse's MCS payment can be withheld. Where practicable the woman's youngest child's father's MCS payment is the source of this additional benefit. Where it is impractical to garnishee the father's MCS payment, widows and the like, the payment is made in any case.

Given that this additional payment is made to every woman the welfare status of the payment is questionable.

Poor fathers who lose their MCS payment are worse off under this proposal. The view is that where a woman has a child and cold charity is needed the

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poor father can ask for it in preference to the woman and child. Whilst this attitude does go against the spirit of the proposed MCS benefit on balance it is necessary and justified. A major concern is the precedence that this attitude sets, that the MCS payment to all is not sacrosanct.

Mothers will be worse off under this proposal where they

- do not have any children aged under 5; and
- have been separated for more than 12 months; and:
- remain single; and
- have income below the threshold for reduction of their FTBA payment; and
- do not receive Child Support payments sufficient to reduce their FTBA payment.

### **3.2 – Special Condition Guaranteed Work**

Employment in general requires a person to:

- be at the workplace at a specified time;
- be dressed appropriately;
- be and remain sober;
- be fully attentive
- follow instructions;
- apply and exert themselves;
- be free from interruption;
- be self sufficient from when starting work until finishing work;
- have basic skills in literacy, numeracy, use of materials and equipment, organization and problem solving.
- have appropriate attitudes regarding loyalty, teamwork, initiative, self motivation, care about consequences of actions, amicability and no complaint;

Special condition work relaxes some of these conditions.

Conversely, where it is the intention that standard guaranteed work will be available to all irrespective of other income or employment by other employers, for special condition guaranteed work conditions relating to income and other employment can be fairly considered.

Special condition work will generally be available in the categories:

- disability to work;
- caring responsibilities; or
- undertaking other approved activities (study).

The major objective is to provide as little specialness as practicable. The conditions applicable for each category will need devising with input from suitable representatives, For full time students this may be allowing the

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student to specify the days they can work and allowing time out during exam periods. For mothers it may be again that time is a factor.

Many people with a disability can work. Ken Davis pointed out recently that flexibility in workplaces is not generally available and that if the person's physical, emotional and mental capacities allow it home-based piecework may be an alternative. But as Ken points out the efficiency of people with a disability will be lower so they will earn less than other workers. With a guaranteed rate of pay for 8 hours work this becomes more practical, especially if the 8 hours work includes some "setup costs" that makes working additional hours more profitable at piecework rates.

There will be cases where a person's situation or condition precludes work of any sort. This is fine and can still be catered for within the framework outlined. In other cases, for instance carers, a person's current responsibilities can be considered to cover the guaranteed work and more.



### **3.3 – Childcare**

*Note: In the costing for childcare only ½ of the Childcare Assistance monies are accounted as being recovered. I recognize that the arguments provided here, which recommend complete abolition of childcare assistance, are controversial. For this reason ½ of the childcare monies currently paid have been left in the costing.*

The payment of the MCS for every child offsets the removal of Childcare Assistance for moderate and high income families. In some cases this offset is more than the childcare assistance, in others it leaves the family in equivalence, and in others the family will be worse off.

#### **Married couples**

One view of childcare for a married couple is that the wife is receiving tax-free money from her husband for caring for the children when she stays home. If it is accepted that the parents are jointly responsible for caring for their children a valid view of the finances related to caring for children in a single income family is:

- women often care for five or more children;
- caring for 2 children is therefore half a job;
- childcare is basic work, after tax basic work pays around \$400 per week or \$20,000 per annum, so the real cost of the childcare work for two children is \$10,000 in after tax terms.
- the husband is responsible for half the cost, \$5,000, and the wife is responsible for the other \$5,000.
- Under the proposal the husband's \$4,200 MCS payment is always paid to the wife, which is his share for caring for 1.7 children.
- The wife's share is given in her labour.

There will no doubt be disagreement concerning my defining rearing children as basic work. One view is that since one half of the world's population has done it since time began there can be no better definition of basic work.

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Now let us consider two options the family has. Firstly mum can job-share with her sister and work two days per week while sister looks after her children, and for two other days she looks after sister's two children. The second option is that she can work fulltime and pay for formal childcare.

In the first case, job sharing with her sister, mum gets \$10,000 from working. She is therefore effectively receiving \$20,000, comprising \$10,000 income from work, \$5,000 for her husband's share and \$5,000 for her share of the childcare cost. She is working effectively 4½ days, comprised of two days external work, two days caring for four children and one day caring for two children.

In the second case mum gets \$25,000 working full time but someone incurs \$24,000 in childcare costs. If this is the family's responsibility mum incurs 48% of her gross wages in childcare costs and Dad's 50% share rises from \$5,000 to \$12,000.

This scenario highlights the efficiency of parents caring for their children. Mums are particularly effective and efficient for raising children, so are grandmas and aunts. Logically the most subsidy should go to the most efficient. As no subsidy is available for parents no subsidy should be available for any other. Caring for children is a 100% parental responsibility.

One has to question the efficiency of the formal childcare industry. In any other industry using a backyard merchant or mates to perform work may provide a 30% to 50% reduction in costs. With caring for children I have shown that the reduction is more of the order of 70%.

If a function of good government is to promote efficiency why is the childcare industry supported to the extent that it is? Families need encouragement to use efficient arrangements instead of artificially distorting the industry by providing massive subsidies to only the inefficient and cruetling the efficient.

### **Single Parents - Childcare for children aged under 5**

Equating the outlined situation to single parents provides further insights.

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Firstly, if society accepts that the marginal cost of support is society's problem, then Child Support payments are foremostly for the care of the children, and secondly for luxuries for the child. We have already covered the additional MCS payment paid to all mothers with children aged under 5. We have also calculated that where a two-child family uses an informal childcare swap arrangement for two days work the fathers MCS payment covers his share of the childcare costs.

Extending this logic to cover single parents working the situation becomes:

- the father is not liable for any extra childcare costs for two children aged under 5 in informal childcare as the MCS payment always covers this cost;
- the father is liable for 30% of formal childcare costs, in addition to the MCS payment he loses.

With no societal contribution these costs should be compulsory, irrespective of the father's income. This approach encourages both parents to adopt efficient informal arrangements. It sets some base arrangement and encourages realistic negotiation of **extra** support from the father for the mother to adopt efficient arrangements. If the mother works fulltime and she uses formal care it will cost each of them \$12,000. If informal arrangements are used, or if mum stays home, neither incur this \$12,000 cost

For children aged over 5 who require after school care in the first 12 months after separation (when the wife receives the husband's MCS payment) some contribution is needed only for holiday care. After the 12 months contribution is needed for out-of school and holiday care. Again, negotiation is practical in these situations for informal care arrangements.

Parents will generally be in a better position when children reach school age. We have a HECS scheme to repay education costs. Where expensive formal childcare is needed a similar arrangement is feasible for childcare costs, for mums in particular and for dads in severe financial strife. This means that childcare costs are met for formal care in all cases – it is not a barrier to mum getting work. It is envisaged that the supporting parents repayments would be based on laxer repayment arrangements than the non-custodial parents.

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This approach changes the dynamics of Child Support tremendously. The non-custodial parent is responsible for their half of childcare costs, no matter what. These will be paid by society if needed, to be repaid later like HECS. Mother returning to the workforce does have childcare costs but half of these can be deferred, and like HECS are repayable from future maintenance or from her earnings as her financial situation allows. On occasions the debt will not be repaid, in which case it is charity and has been needed.

Additional Child Support is then for luxury items, the MCS payment is made for every child's basic necessities.

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#### **Cold Charity Conclusion**

In this section I have effectively abolished welfare.

I have brought single parents up to their current pension income by having the non-custodial parent pay their MCS payment until the child turns 5.

Welfare for adults has been replaced by one days work per week that is available to anyone. Special conditions on this work for particular categories is a little more charitable but stays within the principle outlined.

Childcare Assistance as a normal condition is abolished, but a HECS type scheme for those in need is available which ensures that childcare is always available if required.

The costings recognize that these changes will be viewed as being harsh. The cost of the MCS changes for supporting parents has not been deducted in the accounting. There has been no reduction in adult welfare included in the accounting. Only ½ of the childcare assistance has been included in the accounting. This leaves considerable scope to either continue the current programs as they are or to only partially wind these programs back.

#### **1Section 4 - Bringing all together**

The outlined system can be split into two stages.

The first stage is the provision of the MCS advantage to everyone and the provision of the UCOW to eligible people. This can be implemented independently of the remaining items, which constitute the second stage. The implementation of the two first stage items changes most people's situations relatively little, in many ways it is a change of view of our current system.

Implementing the first stage items will highlight the inequities remaining within the remainder of the system to such an extent that a comprehensive overhaul of the remainder will be irrepressible. The second stage items that I have outlined are my responses to basic questions that the change of view has initiated.

Table 1 shows how individuals in the 2003 financial year would have been affected if the Stage 1 MCS changes had been implemented. Onto the values in this table the UCOW payment needs adding for non-pensioner taxpayers if the person is entitled.

It is most interesting to examine the results of purely the MCS for various age groups. This proposal has a net cost of some \$5.8 billion however this is far from evenly spread.

As a group the aged remain much as they are: pensioners have no change, aged people with low income get some small benefit that is offset by some small impost on those with higher incomes. Both of these non-pension groups will benefit from the UCOW payment if they are eligible.

The 10 million working age adults aged 25 and over receive an average benefit of only \$67 per person, yet this is achieved by increasing the advantage to 1.6 million people by an average of \$1,460 whilst 5.9 million people lose \$317 each. The loss of this \$317 will be more than offset by the UCOW payment to those that are eligible.

I previously mentioned that a major stumbling block to paying the MCS to all is that we do not like giving money to people for doing nothing. The weakness of this position is highlighted by these figures, which shows that of

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10,000,000 adults aged there are only 60,000 who do not currently receive some advantage.

The main beneficiary group are youth. Of our 2.4 million youths 1.3 million would receive an average increase of \$1,812 each whilst a relatively small number would lose \$317.

1.7 million children will lose an average of \$1,618 each from childcare assistance or private school grants. By design, all of these losers will benefit from the average \$2,120 increase that is paid to 2.7 million children not currently receiving the maximum rate of FTBA. This change is simply the “untargeting” of these monies – it is giving these families the freedom to pursue their own childcare and schooling agendas.

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**Table 1 - Stage One MCS only (also add UCOW if entitled)  
Changes to individuals final situations**

	People	Av. Change	Total (2003 \$)
<b>All Population Summary</b>	<i>19,872,646</i>		
Increase	5,700,450	\$1,811	\$10,725,352,766
Remain the same	4,604,243	\$0	\$0
Decrease	8,463,281*	\$552	\$4,870,620,240
Total		\$295	\$5,854,732,526

\*Includes doubled counts, for childcare, Private school grants & maternity Allowance

	People	Av. Change	Total (2003 \$)
<b>Adults Age Pension Age</b>	<i>2,795,212</i>		
On Age Pension	2,214,055	\$0	\$0
Not on Pension < \$20,000	221,631	\$700	\$155,233,771
Not On Pension > \$20,000	359,526	-\$317	-\$113,879,861

	People	Av. Change	Total (2003 \$)
<b>Adults aged 25 - Age Pension Age</b>	<i>10,367,718</i>		
Current FTBB, child < 5, max rate - 60% 25+	128,972	\$467	\$60,261,980
Current FTBB, child 5+, max rate - 90% 25+	96,729	\$1,325	\$128,189,710
Current FTBB < max. rate - 75% 25+	238,247	\$0	\$0
Current Dep Spouse @ max rate	336,306	\$1,903	\$640,074,395
Adult Taxable > \$ 20,000 no Pension	5,584,925	-\$317	-\$1,769,024,994
Adult Taxable > \$20,000, includes Pension	36,428	\$0	\$0
Tax lodged, < \$20,000 - On Newstart	772,806	\$0	\$0
Tax lodged, < \$20,000 - On Pension	95,303	\$0	\$0
Tax Lodged, < \$6,000 - no pension	708,015	\$1,607	\$1,137,872,147
Tax Lodged, \$6,000 - \$15,000, No Pens	353,726	\$790	\$279,287,901
Tax Lodged, \$15,000 - \$20,000, No Pens	375,981	-\$21	-\$7,989,596
No lodgement - CSA cases	135,897	\$0	\$0
No Lodgement - Newstart, PPS, PPP, DVA	809,860	\$0	\$0
DSP, Wives & TPII (No Lodgement)	625,898	\$0	\$0
Unaccounted	68,626	\$3,303	\$226,670,687

**Summary**

Increase	1,692,373	\$1,461	\$2,472,356,819
Remain the same	2,714,439	\$0	\$0
Decrease	5,960,906	-\$298	-\$1,777,014,590
Total		\$67	\$695,342,229



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**Table 1 (continued)**

	People	Av. Change	Total (2003 \$)
<b>Youths 16 - 24 (excl. FTBB)</b>	<b>2,458,063</b>		
Current FTBB, child < 5, max rate - 40% 24-	85,981	\$467	\$40,174,653
Current FTBB, child 5+, max rate - 10% 24-	10,748	\$1,325	\$14,243,301
Current FTBB < max. rate - 25% 24-	79,416	\$0	\$0
Taxable > \$20,000 (excl YA cases)	613,277	-\$317	-\$194,408,809
Tax Lodged, < \$6,000 - No Pension/Benefit	254,319	\$1,766	\$449,140,070
Tax Lodged, \$6,000 - \$15,000, No Pens/Ben	333,222	\$652	\$217,260,744
Tax Lodged, \$15,000 - \$20,000, No Pens/Ben	198,558	-\$251	-\$49,849,971
Current YA - Full Rate (No Change)	270,202	\$0	\$0
Current YA - Part Rate	39,807	\$1,101	\$43,830,824
Current FTBA 16 - 17	121,029	\$2,241	\$271,255,126
Current FTBA >18	121,029	\$1,833	\$221,875,498
No Lodgement & not on FTBB	330,477	\$3,303	\$1,091,646,664
<b>Summary</b>			
Increase	1,296,610	\$1,812	\$2,349,426,880
Remain the same	349,618	\$0	\$0
Decrease	811,835	-\$301	-\$244,258,780
Total		\$856	\$2,105,168,099
	People	Av. Change	Total (2003 \$)
<b>Children &lt; 16</b>	<b>4,251,653</b>		
Current FTBA - full amount	1,153,438	\$0	\$0
Current FTBA - partial	919,708	\$1,121	\$1,030,647,778
Current FTBA - min to age 16	1,130,829	\$2,241	\$2,534,470,496
FTBA - other (Thru Tax system/EOY)	386,748	\$0	\$0
Currently \$0	660,930	\$3,303	\$2,183,217,023
Childcare - average/child	368,000 *	-\$1,854	-\$682,200,000
Private School, average/child	1,112,036 *	-\$1,652	-\$1,836,667,009
Maternity Allowance	210,504 *	-\$1,029	-\$216,600,000
<b>Summary</b>			
Increase	2,711,467	\$2,120	\$5,748,335,296
Remain the same	1,540,186	\$0	\$0
Decrease	1,690,540	\$1,618	\$2,735,467,009
Total		\$709	\$3,012,868,287

\* These population figures are doubled counts, they are already included in a category above

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**Table 2 - Stage One only –UCOW**

Unclaimable Cost of Work (UCOW)

Max no. of eligible - tax return lodgers	10,663,866		
Exclusions			
Fringe Benefits	- 510,889		
NPP trusts (33%)	- 440,737		
PP Trust/All Partnership income	- 752,239		
Business	- 865,966		
Allowances (25%)	- 486,632		
Employee contrib to Car	- 92,107		
Total Not entitled to UCOW	- 3,148,570		
Total Entitled to UCOW	7,515,296		
Equivalence – On Pension, Newstart etc	- 1,680,037		
Entitled to UCOW with , no equivalence	5,835,259	\$1,373	\$8,012,023,737
Current Tax Deductions			\$7,915,855,095
Savings (deductions * tax rate)			\$2,137,280,876
<b>Net UCOW cost</b>			<b>\$5,874,742,861</b>

The cost of the Stage 1 items, if the changes had been implemented 2003, would have been \$12 billion, approximately \$6 billion to fund the MCS and a further \$6 billion is to fund the UCOW.

Policy changes implemented since 2003 that are affected by this proposal are shown in Table 3. These items have cost \$15.5 billion (in 2003 \$). All these items are covered by this complete proposal so there is in fact a saving of \$3.5 billion.

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The significant advantages in this Stage One proposal are.

- Intrinsically fair system – every man woman and child gets the same base advantage
- Few debts – no income test, only births, deaths, immigration, emigration and changes of custody
- Pressure off welfare when circumstances change – they are already getting a substantial portion of their payments.
- Paid throughout the year – changes of circumstances don't lead to broke now, well off when tax return comes
- Most high EMTR's overcome

**Table 3 – Costs of changes to the Tax & Welfare system since 2003**

	Cost Announced	Convert to 2003\$	2003 Dollars
<b>Budget 2003</b>			
Tax Cuts	\$2,700,000,000	0%	\$2,700,000,000
<b>Budget 2004</b>			
FTBA - \$600 & income test	\$2,450,000,000	3%	\$2,378,640,777
FTBB - Income Test relaxation	\$414,000,000	3%	\$401,941,748
FTBB - Income test part year	\$181,000,000	6%	\$170,754,717
Maternity Payment increase	\$559,000,000	3%	\$542,718,447
Tax reduction	\$3,800,000,000	6%	\$3,584,905,660
<b>Election 2004</b>			
30% Childcare Rebate	\$200,000,000	6%	\$188,679,245
Max Rate FTBB	\$431,000,000	6%	\$406,603,774
<b>Budget 2005</b>			
Tax Cuts	\$5,600,000,000	9%	\$5,137,614,679
<b>Expenditure in 2003 dollars</b>			<b>\$15,511,859,046</b>

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### **Stage 2**

#### **Assets Tax**

The Assets Tax in 2003 would achieve a number of objectives:

1. abolition of the 42% and 47% premium tax rates
2. reduction in the standard tax rate down to 24%.
3. reduction in the Company Tax Rate down to 15.5%
4. abolition of differentiation between rent payers and home owners
5. encouragement to unwind debt, for both companies and individuals
6. encouragement for companies to make their profits in Australia from the lower Company Income Tax rate.
7. A lowering of the UCOW rate, from \$1,587 to \$1,360, because it is tied to the standard Tax Rate and if this drops the UCOW rate also drops.

#### **Costing**

An Assets Tax requires pensioners to pay an assets tax on their house. This is offset by providing pension homeowners with an additional amount, equal to the married rate of rent assistance. This allows the abolition of rent assistance and removes the distinction between renters and home-owners. This will cost \$3.6 billion. Pensioners with assets, including their home, valued below \$650,000 will be better off, those with assets valued more than this will be worse off. This allows pensions to be assessed once – for all pensioners to be provided with a set rate pension for life.

In 2003 the premium 42% and 47% tax rates raised \$10 billion. This allowed the standard tax rate to be 2.75% lower than it would have been without these premium rates. Without these premium tax rates the standard tax rate would need to be 34.25% rather than the 31.5% (incl. Medicare) it now is.

The abolition of Superannuation concessions raises NOTHING in taxes on earnings because in 2003 the superannuation industry made a taxable return

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of only 0.83%, or \$3.8 billion, on the \$457 billion they had invested. \$2.6 billion of this profit was franked dividends, which are already taxed at 30%, so are untaxable and also give a franked credit or offset.

The superannuation changes raise \$4.8 billion in tax on new contributions by raising the tax from the current 15% to 26%. To stop the current misleading reporting and reporting it is recommended that this tax be payable by the employer as normal earnings, not by the superannuation fund.

While there is a reduction of \$4.1 billion in the amount raised from Company Tax this is offset because of the effect of franking credits. There is therefore only a small overall effect which I have placed at \$½ billion.

The costs associated with the Assets Tax are:

Assets Tax gross offsets	
Savings from Stage 1	\$3,500,000,000
Raised from Assets Tax	\$31,025,000,000
Super Contributions	\$4,800,000,000
Premium Tax Rates	-\$10,000,000,000
Pensioners Rent Assistance	-\$3,600,000,000
Company Tax Reduction	-\$500,000,000
Total Additional Revenue	\$26,225,000,000
Income Tax Rate reduction	7.2%
Standard Tax Rate required	24.3%
Company Tax Rate	15.8%

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### **Changes since 2003**

There are a number of changes since 2003 that affect this proposal.

There have been two changes to tax thresholds for the 42% and 47% tax rates. As under this proposal these tax rates are abolished, the monies for this have been accounted in the Stage One costings.

Similarly changes in the 30%, from \$20,000 to \$21,600, and the change to the low tax rate from 17% to 15% have been subsumed by this proposal.

The \$600, or 18%, increase in the FTBA rate results in a \$600 increase in the MCS payment. To give equivalence to the current situation, from the situation in 2003, this increase is passed on to everyone but adult welfare recipients and private school children. It is provided to some 14,660,000 people for a cost of \$8.1 billion. 5,215,000 people do not get this increase.

There is one saving from this \$600 increase in the MCS payment. It allows the UCOW payment, which rate keeps adult Newstart recipient tax-free, to be reduced by \$200 per person as the Newstart rate has been reduced by \$600. From the 5,643,688 UCOW recipients this saves \$1.1 billion, leaving \$7 billion still to be funded.

To fund this \$7 billion the standard income tax rate needs to be increased by 1.9%, from 24.3% to 26.2%, and the company tax rate needs to increase from 15.8% to 17.7%.

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#### **Implementation**

A phased implementation over three years is considered to be advisable.

In the first year the MCS will be fully implemented at \$4,200, with reductions in the items noted in Table 1.

As the UCOW payment for all but adult welfare recipients is an increased payment it is recommended that it be paid at a reduced rate of 1/3 and 2/3 of the final amount for two years, and that for these two years it be claimed and paid at the end of the financial year. For adult welfare recipients the full amount is available as a tax offset for these two years.

The implementation of the Assets Tax needs coordinating with the increase in offsetting welfare payments and the reduction in tax rates. Over three years this provides:

	Year 1	Year 2	Year 3
Asset Tax	0.10%	0.20%	0.35%
Medicare Levy	0%	0%	0%
Standard 30% tax	30%	28%	26%
42% tax Rate	38%	35%	26%
47% tax Rate	42%	35%	26%
Pensioner Home Owner Increase (paid at EOY Asset reconciliation)	1/3 Final Value	2/3 final Value	Final Value

The implementation of guaranteed work will take many years for employer adjustments to be sufficient to provide work. The current incentives to Job Search providers are not sufficient to get many people with disabilities jobs. However the principle remains and movement towards the goal of providing employment will follow. In the interim there has not been any accounting of

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savings or costs with adult welfare recipients. The situation remains as it currently is, although they now have a defined responsibility.

Age Pensions can be implemented immediately, with current pensioners remaining as they are. Funding will be required for new scheme pensioners for their whole pension on the day it is granted. This will utilize the current surplus and future fund initiative, there will be no surplus. The existing liability for existing pensioners will reduce over the next 25 years.



## *Fairly Flat*

### **Alternatives**

As previously stated the system proposed attempts to mirror the outcomes of our current system relatively closely. It is a simplification as much as anything else. The main thrust of the proposal is the conversion of other advantage to the MCS and paying the MCS to all in a similar manner.

The “similar manner to all” in the proposal is no withdrawal of the MCS payment. It is still within the scope of an equitable system to withdraw this payment, as long as it is withdrawn similarly for everyone.

A step to the right would be the removal of the MCS from all similarly. Let us consider two options for this, firstly a harsh removal, at a continuation of the Newstart reduction rates, with EMTR's of 90% and, secondly, a reduction at 50% of after tax monies.

For a two child family the MCS payment totals \$13,212. The removal of the MCS advantage cannot start until the income level where adult welfare has become unpayable. In 2003 this was at \$27,000.

With a harsh approach a lowish tax rate of say 22% would be required, which means that to get an EMTR of 90% an MCS reduction rate of 68% would be applied. The MCS would reduce to zero, applying the 68% reduction, on an income increase of \$19,500, to a total income of \$46,500.

Put this in perspective – over the range of incomes from \$3,500 to \$46,500 this family would have a tax rate of 90%. So earning \$46,500 the family would be only \$4,300 better off than if they earned \$3,500. I consider this to be too harsh, and believe the Australian people would find it to be too harsh.

The more lenient approach would require a tax rate (flat) of over 30%, so extra income would basically be allocated 1/3 to the family, 1/3 to tax and 1/3 to MCS reduction. An income increase of \$39,600, between \$27,000 and \$66,600, would reduce the MCS payment to zero.

Again putting this into perspective – until an income of \$66,600 a family keeps only 1/3 on any extra earnings they make, and then their EMTR drops so that they keep 2/3 on any extra earnings.

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While on a philosophical basis it could be argued that this approach is valid, it is simply illogical that the majority of families would face EMTR's of 66% and that a small proportion of higher earning families face only a 33% EMTR.

A step to the left would be paying adults not only the MCS value but the value of the full Age Pension. This is what was proposed by Henderson back in 1974 and was tried by Scandinavian countries in the 70's. It means that adults never have to claim welfare payments. In 2003 this would have required an additional \$10,019 to be paid to each of the 15,077,476 people aged over 18, costing \$151 billion. \$48.3 billion would be recovered from current welfare payments to adults, leaving \$102.8 billion to be funded. This would have required a flat tax rate of 62.5% to be imposed.

The provision of a non-reducing MCS payment to all is the only logical, equitable & sensible thing to do.

Many people, including the Prime Minister, the Treasurer and every other politician, fail to accept that an advantage is provided to every working adult from the low tax rates on the first income earned. Words actually fail me, they are saying that it is not advantageous for someone to pay no tax when a tax rate of 30% is required to fund our community?

Psychology is wonderful. Accepting that advantage is provided means that a value can be put on the advantage. If you suspect deep in your mind that this can have consequences, such as a linkage between this value and the rate of FTBA and FTBB, it is much simpler to deny the bleeding obvious.

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### **Conclusion**

Simplicity provides honesty, integrity and self-respect.

I want to live in this type of society.

This is the best path I can see to get there.

Thank you for your time

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### **Carers Comment**

Smaller saving are also available from reductions in some payments such as Carer Allowance. Some of these payments can be considered to be targeted and the MCS should replace them.

The approach that I have taken defines of the basic responsibilities of society and individuals: society is, and always remains, responsible for the marginal cost of basic support in an existing household for everyone; individuals, either jointly with their partner or individually, have a dependential responsibility of providing shelter, of providing care and of providing above basic support items – luxuries – according to their ability.

A general trend over the past 20 years has been for society to accept responsibility for caring duties in precedence to providing the cost of basic support. That is, there is often no income test on caring items whilst the basic support advantage is reduced by income. The advantage provided for caring responsibilities is often of a similar value to the MCS advantage, almost recognising that this value has universal application.

The provision of MCS benefit to all does mean that income testing of caring support is much more relevant. This removes the differential between those who care and those who don't. In many cases it is this differential that provides psychological recognition of a carer's "good will". The removal of this differential, even though in real terms the carers may be substantially better off, will be problematic.

With children it is not extraordinary for a couple to be responsible for 4 young children. This is effectively a full time job. If this family type should not get any extra assistance, then should families providing full time care for a single disabled child get any extra assistance?