

Senate Economics References Committee

Structure and distributive effects of the Australian Taxation System

Submission No. 35

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Attachments? No Attachment



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Submission

"The Structure and Distributive Effects of the Australian Taxation System"

In 1953 (when most business dealings were honourable and above board) the Australian government signed the "International Taxation Agreements Act". What this means is that companies trading in Australia and having their head office somewhere overseas can opt to pay their income tax at that country. As Australia is the sixth highest taxed nation on the planet, it only stands to reason that the **7200** or so companies who do not pay taxes here opt to pay them at the rate of the country where their head office is based, usually a low taxed country or other tax haven. When you consider that, of the almost twenty million population of this country, we only have a little over a third as PAYE taxpayers, it befalls that third to foot the bill every time.

(The figure of about one third of the population being PAYE taxpayers is calculated from the 1998 Australian Year Book and Bureau of Statistics figures. Total weekly employee income earners approximately 7.3 million.)

Recently James Hardie Industries moved its' headquarters to Holland to take advantage of a lower taxation rate. It estimated that it would save an estimated \$30 million a year in doing so. This figure puts an extra burden of about \$4-\$5 on the average PAYE taxpayer per year, so how much are we paying for the other 7200 offshore enterprises, most of whom aren't paying GST either.

Since 1953, when the International Taxation Agreements Act was signed, the taxation on average weekly earnings has increased by over 362%.

Income Tax Bracket Creep

1950 av weekly income \$18-30	Tax Rate 7.5%	Actual Tax \$1-37
1960 av weekly income \$41-20	Tax Rate 10.8%	Actual Tax \$4-45
1970 av weekly income \$71-10	Tax Rate 18.2%	Actual Tax \$12-95
1980 av weekly income \$230-90	Tax Rate 22.3%	Actual Tax \$51-50
1990 av weekly income \$542-30	Tax Rate 22.9%	Actual Tax \$124-20
2000 av weekly income \$820-00	Tax Rate 27.2%	Actual Tax \$223-05

As can be seen here, the actual amount of tax paid on average weekly income has increased 3.63 times faster than actual income. Company taxes have probably reduced at a higher rate!

For Australia to have a fair and equitable taxation system we have to undergo major reform in the system.

- Firstly, the 1953 International Taxation Agreements Act has to be revoked.
- Secondly, the current taxation system needs to be completely scrapped.

Once the above is done laws to make companies in Australia use our banking system have to be enacted. Then we introduce a national Debit Tax, which would see every Australian contributing to the upkeep of our economy. A debit tax would mean that all other taxes would be abolished, all goods purchased would be tax free, no more tax returns, or tax file numbers for that matter. An instant pay increase to stimulate the economy, more turnover for business, more investment in business and so on.

There was an estimated \$120 billion withdrawn from banks every working day in ordinary business trading plus cash, ATM and EFTPOS accounting for more. (Taken from Australian Payments Council Report 1991-1992). If we consider only the \$120 billion multiplied by 250 working days, then this would amount to \$30 thousand billion. A Debit Tax of 1% on this total figure would amount to revenue of \$300 billion annually. This compares favourably with the actual figure of \$187 billion using all of its complexities and compliance costs. As income to the government would almost double what it is now, this would mean that an injection of funds could flow towards such things as health, education aged care, welfare, superannuation, roads, environment, defence etc..

If the above were to occur there would be a shift from state to commonwealth as all state taxes could be abolished also. The integration of the state and federal public service would have to occur also, as would the reduction of political representation.

On October 3rd 1996 the Federal government held a National Tax Reform Summit in Canberra. This summit concluded that for a tax to be effective it must have the following criteria:

- A) The tax must be simple.
- B) It must have a low compliance cost.
- C) It must be transparent (no hidden costs).
- D) It must not be avoided, especially by the rich!
- E) It must be adequate, and raise sufficient revenue.
- F) It must be socially equitable.
- G) It must be efficient.

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I once submitted a letter to a local paper regarding the virtues of a debit tax and my letter was rebutted by senator Brian Gibson who, apparently, was a representative at the tax summit. He said that such a tax was found to be unworkable because companies would do all of their business offshore. If politicians are elected by the people to pass just laws for the benefit of the people, why couldn't they pass laws banning companies trading in Australia from avoiding the Australian banking system.

It never ceases to amaze me how a committee such as this with the important issue of taxation to discuss is made up entirely of politicians who could barely manage their own bank accounts let alone the running of the country. I think it is about time you considered putting such an important issue as taxation in the hands of knowledgeable people and not waste taxpayers money as was done in 1996 with the same taxation summit. When politicians can fill out their travel claims correctly and do not protect the big businesses who donate millions of dollars to election campaigns, then I will not see such an inquiry as a smokescreen.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Jackson', written in a cursive style.

David L. Jackson.