

Telephone (07) 3396-7269

P.D.Glover ANZIM
Economic Consultant
46 Berrima Street
WYNNUM QLD 4178
BRISBANE

June 5 2003

The Secretary
Senate Economic References Committee
Room SG 64
Parliament House
CANBERRA ACT 2600

'addendum to Submission No: 64' on
"The Taxation System" etc.

Dear Sir,

Enclosed is an item from the "Australian Financial Review"
of to-day's date page 64.

I am sending this to you for the purposes of distributioj to members
of your Committee for their information.

In my notes I mentioned "8,500 pages of legislation"..it is now 10,000
pages and counting for the said to exist reason of "providing for the
Revenues of the Common-Wealth".

Well 'we' have a population of less than 20 Million (about the same size
as a large city overseas) and yet we need...'10,000 pages of tax legislation,
18,500 taxation employees, 42,000 tax 'professionals', innumerable series
of returns, to raise a mere \$170 Billion (plus \$32 Billion GST) etc.

"That" is a situation not even reconcilable with the word "absurdity"!

From November 11 2000 (yes three years ago) the Common-Wealth Government
has had the information necessary to provide all the needs of the revenues
of the Common-Wealth, in legislative terms, on not more than 4 pages
of A4 of legislation.

That such a proposition, that includes the obvious that mere taxpayers
of which I am one, would clearly understand the laws so passed, is thus
regarded as quite unacceptable to the bureaucrats and the fiscal pharisees
who feed on the confusion...the bureaucrate want to build ever greater
departments and the fiscal pharisees want even greater fees for their
attempts of dealing with what is in essence, a # buggers muddle".

I ask that Members of your Committee with both apptitude and alacrity
set about, in the ways we have indicated, to provide a remedy to this
utterly stupid situation.

Yours sincerely



Peter D Glover

ENCLOSURE: 1

FINANCIAL REVIEW

AFR 5/6/2003

Costello must tackle reform

If Treasurer Peter Costello is looking for a challenge to put his leadership claims beyond doubt, he need look no further than the 10,000 pages of tax legislation. The various tax acts are an affront to the rights of business and society, virtually impossible for many people to comply with because of their complexity, and an invitation to civil disobedience. They have tripled in size since the Howard government took office pledging to cut red tape and simplify the tax system.

The past two attempts to fix them — the plain English rewrite in 1997 and the new tax system enacted in 1999, built around the goods and services tax — floundered because of the sheer size of the task, a change in political direction and bemusement at the proposed balance sheet-based tax system. Of course, the new tax system succeeded for Treasury because the strict verification and accelerated company tax payments made it much less permeable and sent tax revenues soaring.

Sadly, the effort of implementing and complying with the resulting legislative monster has reduced companies and tax practitioners to a kind of hostage syndrome where they lack the will to escape their oppressor. In these circumstances it may seem sadistic to urge Mr Costello, who has just had his dream of becoming prime minister pushed into the distance, to again take up the cudgels of tax reform. But it is doing him a kindness, pointing to a golden opportunity for the PM-in-waiting to show true leadership in a field in which cynicism reigns because it's all been downhill since the first generation of tax acts was consolidated into the Income Tax Assessment Act 1936.

In any event, the Board of Taxation, the official channel for tax advice to the government, has put on the agenda the massive task of simplifying the tax acts by revealing to this newspaper plans for a scoping study. There are no promises, which is not surprising given bitter experience, just a commitment to report to the government on the feasibility of the job.

Past experience has made the board cautious; it has decided tax reform can be achieved only one step at a time, and therefore its simplification project will aim to redraft, not overhaul, how tax is collected. This could be a mistake. To really simplify the tax acts, the parliamentary drafters would have to shift from copper-bottomed drafting, which seeks to document and exclude every conceivable loophole, back to a principles-based approach. It would help if lawmakers were willing to cancel exceptions and concessions

**“The system is costly,
opaque and complex,
though taxes are
easy to pay.”**

in the interests of being able to lower average tax rates.

To do this, they will need political leadership at the highest level. This means Mr Costello has to in-

volve himself in tax reform again, instead of passing the buck to his assistant, Helen Coonan. Senator Coonan can handle the detail, but Mr Costello must drive the project.

The case for wholesale simplification is overwhelming. Adam Smith laid down the golden rules for just tax systems in *The Wealth of Nations*: taxes should be fair, efficient (economical to collect), certain and convenient to pay. Instead, our system is arbitrary, costly to comply with, and opaque and complex, though the Tax Office ensures taxes are easy to pay.

It is arbitrary because different rates of tax apply to the same work depending on whether it is done as an employee, as an incorporated entity or through a trust, and because a taxpayer's effective tax rate depends on how far he or she is willing to bend the rules and claim borderline or unmerited deductions. It is costly to administer, but we don't know how costly. The last estimate, by the Atax centre at the University of NSW, put it at \$10 billion in 1995, or \$6 billion to \$7 billion net of deductions. Frank Drenth of the Corporate Tax Association claims one Australian multinational puts the cost at two to three times the comparable cost in the US; tax barrister Michael Inglis says every bone in his body tells him this is not far from the truth. But Atax's Chris Evans says there is no evidence for this, although the cost here is perhaps a bit higher and hits small firms much harder than big ones; he is still awaiting funding to study the post-GST costs.

The back-breaking size of the tax laws attests to their complexity, as do the “extreme” requirements for verifying income and capital gains tax and the vast number of taxpayers claiming individual deductions to reduce their effective rates — 8.2 million, spending nearly \$750 million on advice. Few ordinary taxpayers in Britain or America have to do this. The tax implications of leasing a car can be found in seven places in the three acts — a temptation to cut corners.

Sweep all this away, and Mr Inglis reckons the tax acts could be cut to 1000 to 1200 pages. Few will hold their breath for this, but it's up to the government and the Board of Taxation to explain why a tax system suitable for the 21st century is not achievable, not the other way around.