

# IS IT TIME TO PUT OUR TAX SYSTEM INTO RESPITE CARE?

**An over view of the current Australian Tax System.**

Thank you for the invitation to speak at this 2007 National Conference of Interchange Respite Care NSW.

It is my intention to present before this forum hopefully illuminate tax information that will evoke rational discussion relative to our current Australian Taxation System.

Fiddling with the current taxation system is being advocated by concerned and well meaning Social and Green groups in our society as being the Magic Silver Bullet to help solve many of our social problems in particular the current housing affordability crises. I believe the battlers in our society know that this silver bullet is just another lump of lead on a fishing line . There is no silver bullet with Tax Solutions engraved on it. But there is a moral, equitable and unavoidable revenue raising system with low compliance costs available to us. I will show that when needed this very tried and true Federal Government Revenue Raising System was in the past call upon to provide moral and equitable revenue raising. I repeat a Revenue Raising System.

**I shall cover the following topics.**

- A. Why Taxation?**
- B. How many Corporate Taxes are we subjected to and who pays what?**
- C. Cost of collecting Taxation Revenue and who pays?**
- D. The “Third Way” a well tested and ethical approach to a Taxation.**

## **A. Why Taxation?**

All countries require revenue; how their government's tax is the stuff for life and death of nations. In premodern world, states typically burdened their poorest and most powerless members with Taxes.

All governments who excessively taxed the poor have inevitably failed. (Early England, Russia and China)

"As a matter of historical record it should not be forgotten that in 1910, the Fisher Labor government was actually elected to office on the sole issue of the taxation of unimproved land values. As well as being a more just method of receiving revenue than the imposition of indirect tax upon the necessities of life, it is the one kind of tax that is based upon the wealth created by society.

By 1915 all the Australian States as well as the Federal Government and New Zealand were raising a significant part of their public revenues from land values. For land taxes the revenue bases were the Unimproved Capital Value of land, whereas for local government it was either the unimproved value base or the inherited English Annual Value system which included the value of improvements. In 1953, the Menzies government abolished the Federal land tax and left the field to the States,

With the possible exception of the Queensland legislation, the laws enacting this system of raising revenue were not initially based on any political, social or economic theory although by the end of the nineteenth century legislators were pointing to Henry George's philosophy to justify and amend it. It was certainly not directly inspired by him but was rather the response of settlers coming to terms with an alien environment.

The current tax on wages and company profits was only introduced into the Australian economy in 1936. It was known as the "INCOME TAX ASSESSMENT ACT 1936". This form of tax is regarded by some as an immoral system of taxation because it taxes the profits of the risk takers and wages of their employees. The just return for the labour of the employees is wages.

**I think it is now timely that we take on-board a definition of Taxation; I have two for your consideration.**

1. **For the purpose of a Tax Contribution framework, Price Waterhouse Coopers (2007) has defined a tax as "Something that is paid to government (By businesses or individuals) to fund government expenditure, excluding payments where there is a specific return of value (for example, rents and license fees)." Accordingly, not all payments made by businesses to government will meet this definition of a tax. A payment which provides some return of value to the business is not treated as a tax for the purposes of Total Tax Contribution. A license fee paid to government which conveys certain rights to a business is an example of a payment not considered to be a tax.**
2. **For the purpose of a Tax Contribution framework Wikipedia's definition of taxation is: A financial charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state (for example, tribes, secessionist movements or revolutionary movements). Taxes could also be imposed by a sub-national entity. Taxes consist of direct tax or indirect tax, and may be paid in money or as forced labour.**

**A tax may be defined as a "pecuniary burden laid upon individuals or property to support the government with a payment exacted by legislative authority". A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government whether under the name of toll, tribute, tillage, impost, duty, custom, excise, subsidy, aid, supply, or other name."**

**In modern capitalist taxation systems, taxes are levied in money, but in-kind and forced labour taxation is characteristic of traditional or pre-capitalist states and their functional equivalents. The method of taxation and the government expenditure of taxes raised are often highly debated in politics and economics.**

**For the purpose of this paper I will use the Price Waterhouse Coopers (2007) definition of a tax (No. 1) because, they have just released a most enlightening document called Tax nation for the BCA.**

Just as our early citizens lived in close proximity to each other, so do we in the 21 century and not just for social reasons but for more pragmatic reasons. Some of these being: Protection, Safety, Transport, Infrastructure, Employment, Education and Healthcare there are many more I am sure you will agree.

I would go as far as to say that most Australian citizens understand that any of the above mentioned reasons for living close to each other have to be paid for in some way. And most would say that is what they pay taxes for. But the same citizens may never have contemplated whether they should be given the right to vote on what their democratically elected representatives should spend their tax contributions on. Having voted for expenditure items they would have the right to see them locked in and executed for the allocated time period, such is the case with the French Healthcare Budget.

The French healthcare system was ranked first worldwide by the World Health Organization in 1997. It is almost entirely free for people affected by chronic diseases Average life expectancy at birth is 79.73 years.

Currently in Australia we the citizens don't have a vote on any specific government expenditure item. But instead vote for the political party that promise the most to you as a citizen or a member of a particular group of citizens.

The Australian Government allocated \$22 Billion to the ADF in the 2007–2008 financial year. (\$16.2 Billion in 05 – 06) This level of expenditure is equivalent to 9.3 percent of the Government's planned expenditure over the 2007–2008 financial year. In the 2006-07 budget the Government announced that it would continue to increase real Defense spending by at least 3 percent each year until 2015–2016. The Federal Opposition has promised to maintain this expenditure if it wins office in the Federal election expected in late 2007.

The current federal government has allocated \$18.3 billion to Medicare in 2007-08 which is the major component of the total Commonwealth health budget, taking up about 43% of the total Healthcare expenditure. This figure is projected to rise by almost 4% annually in real terms over the next few years.

Some people would argue that because a political party advocated spending \$22 Billion on the ADF and \$42.5 Billion on Healthcare before the election it has a mandate to do so if elected. Well voting for a party is one thing but voting for a particular expenditure item is another. And haven't we all seen many so called back-flips by political parties when elected into power.

In 1946 the citizens of Australia did get to vote on what they would like to see their taxes spent on (Not how much). Section 51 (xxiiiA) of the Commonwealth Constitution was inserted following the successful referendum of 1946 in which 54.39% voted in favor.

It gave the Federal Parliament power, subject to the Constitution, to make laws with respect to: *The provision of maternity allowances, widows' pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medical and dental services (but not so as to authorize any form of civil conscription), benefits to students and family allowances.*

This power supports the Federal Governments ability to manipulate the taxation system, which enables it in operating the current Medicare program. Alas, not the entire Australian healthcare or education system, but with the use of financial outcomes we have seen the Federal Government slowly dictating policy and gaining control of both.

The authority to operate public hospitals still remains the province of the State and Territory governments. In practice, the state governments, as well as private doctors, act as pseudo-contractors. This is done by a provider number system controlled by the Commonwealth. During my time of service on the board of the Kyneton District Healthcare Services I formed the opinion that this division of reasonability was a very unnecessary cost in both time and resources.

Taxation is defiantly food for the Government, if it consumes too much of its GDP the supply will eventually run out. History has shown that the most prosperous nations tax income at between 25% to 35%. The countries which offer a large range of social services generally tax personal incomes around 45%. The table below lists a sample of countries by approximate tax rates for the 2005 financial year.

Country	Personal Tax Rate	Corporate Tax Rate	Comment
Korea	17%	28%	
Mexico	18%	29%	
New Zealand	21%	33%	
Ireland	26%	12%	Cheap goods
Japan	27%	39%	
Australia	28%	30%	Importers
USA	28%	39%	Importers
Canada	32%	36%	Importers
UK	33%	30%	
Poland	43%	19%	Cheap goods
France	49%	34%	Free Health
Germany	52%	39%	

## **B. How many Corporate Taxes do we collect in Australia to satisfy societies needs.**

When asked to initially comment on this topic I thought yes! just go to ATO, but that URL proved to be lacking in the detailed picture. But fortunately for me the sun did shine, as previously mentioned I found an excellent report titled "Tax Nation": Business Taxes and the Federal–State Divide".

This report details the results of a 2006 survey commissioned by the Business Council of Australia (BCA) and the Corporate Tax Association (CTA) undertaken by PricewaterhouseCoopers (PwC). I feel it is now appropriate to acknowledge the wonderful contribution made by the Business Council of Australia and the Corporate Tax Association in the publication of this report which I shall refer to.

Unfortunately this report deals in the main only with the endeavors of 96 major Australian companies navigating their way through the complexities of the current tax system. Caution is urged when reading it, because it relates to only 92 prominent companies and is thus open to misinterpretation. But never the less I strongly urge you all to do so because all who are here today are part of the Australian corporate environment.

**Let's have a look at what it has to say about the importance of Taxation.**

**TAXATION PLAYS A FUNDAMENTAL ROLE IN PROVIDING THE OPTIMUM ENVIRONMENT FOR AUSTRALIAN BUSINESS TO RUN EFFECTIVELY, IMPROVE PRODUCTIVITY, AND TAKE ADVANTAGE OF THE INCREASINGLY GLOBAL AND COMPETITIVE WORLD ECONOMY.**

**THIS MEANS THE TAXATION SYSTEM HAS THE POTENTIAL TO HAVE A SIGNIFICANT IMPACT – BE IT POSITIVE OR NEGATIVE – ON THE IMMEDIATE AND LONG-TERM PROSPERITY OF AUSTRALIA.**

**The report highlights the following.**

“Four out of every five workers rely on private sector businesses for their jobs and incomes, and more than 50 per cent of adult Australians own shares directly or indirectly in Australian companies – that is, they have a clear vested interest in the profitability and performance of those businesses. Likewise, business tax revenues are becoming an increasingly important source of government tax revenues, and therefore government spending abilities.

In effect, this means all Australians have a clear stake in the competitiveness and health of the Australian business sector. Business tax reform is everybody’s business, and developing and maintaining an efficient, competitive business taxation system – one that raises an appropriate share of revenue as effectively as possible – is an essential element of economic management”.

Effectiveness is the key because Federal corporate income tax imposes a significant tax burden on business and wage earners in Australia. However, it is important to recognise that corporate income tax is only one of currently 21 different Federal, 33 separate State and Territory taxes and 2 Local Government . These 56 taxes collectively translate to 182 potential taxation obligations, or “taxing points”, for businesses operating Australia-wide (excluding Local Government obligations).

**By contrast, similar work in the United Kingdom identified only 22 business taxes. The economy of the UK is only 3 times larger than the Australian.**

Until now the overall impact of these “taxing points” has not been focused on nor their costs quantified in Australia. A large number of State and Territory taxes raise relatively little revenue. Not only is this inefficient, it imposes a significant compliance obligation on business.

A number of these taxes were to be abolished with the introduction of a goods and services tax (GST) but this has not yet occurred. The states receive GST revenue and payments from the Australian Government totalling an estimated \$61.4 billion in 2004-05 and \$64.8 billion in 2005-06

In 2004-05 and 2005-06, each state and territory is estimated to receive more revenue from GST than they would have received from Australian Government Financial Assistance Grants (FAGs) and their own inefficient taxes abolished under tax reform. In the absence of the abolition of further inefficient state taxes, it is estimated that the states would enjoy a cumulative GST windfall of \$17.2 billion from 2004-05 to 2009-10.

Given that the GST is neutral to business except for the Compliance cost the \$64.8 billion in 2005-2006 is coming directly out the consumer's pocket. Or \$810.00 average GST expenditure for every taxpayer P/A.

Throughout 2006 there was a revival in the debate over Australia's federal system. Research by the BCA (released in October 2006) highlighted the degree of dysfunction in federal-state relations and the costs that potentially result. Research conducted by Access Economics for the BCA suggests that overlap and duplication due to inefficiencies in Australia's federal system is costing all taxpayers about \$9 billion per year.

It is easy to understand why large business was the key driver in this report. The smallest numbers of businesses are contributing the most in corporate taxes, but it is also fair to that this group of 92 represents some of the largest companies in Australia .

Payroll Tax, now here is a tax that leaves you with the big question WHY?. Payroll tax is frequently cited by business and business groups as one of the most complex state taxes. The complexity stems mainly this from the lack of harmonisation between states and territories. Broadly, payroll tax is a tax levied on wages. Unfortunately, the application of the tax is far from simple.

## **C. Compliance Costs**

How many in this room who are reasonable for their BAS are tempted to boost the reported compliance time?

All sectors of the business environment pay and collect taxes. Of the taxes collected there are 9 federal taxes and 5 state and territory taxes.

On behalf of governments, the 92 survey participants collected an additional \$37.1 billion from other taxpayers.

In other words, for every dollar of total tax borne, participants collected an additional \$1.35 in taxes from others.

Surveyed participants paid up to \$10 million in tax compliance costs, with an average cost of \$1.5 million.

Surveyed participants employed an average of 9 tax compliance employees, with some employing as many as 40 to 50 employees.

As competitive pressures intensify around the world, and given the relatively limited scale of economic and business activity in Australia, these unnecessary administrative burdens will have a greater bearing on competitiveness, particularly as other countries and competitors recognize the benefits of harmonization and reduced compliance costs for business.

Unfortunately, the trend in Australia seems to be in the opposite direction. Notwithstanding recent announcements on payroll tax, rather than exploring additional ways to reduce complexity, the approach seems to be to find ways to impose additional taxes. Recent examples include the new infrastructure ownership tax levied by the ACT Government from 1 January 2007, and the retrospective duty on airline insurance cover recently introduced by the Victorian and Western Australian governments.

Furthermore, a number of the 92 survey participants reported that their tax compliance costs have increased over the last three years as a result of increasing demands for information from Australian revenue authorities.

Tax Office data for 02 – 03 shows the number of taxpayers with capital gains has actually fallen. Only 765,000 individual taxpayers declared capital gains in the 2002-03 tax year, down from 850,000 in 1999-2000. And the amount they declared has increased only \$350 million to \$6.2 billion over those three years, despite strong share-markets and the greatest property boom in more than a century. Hundreds of millions of dollars have also leaked from the income tax base, as those with access to tax lawyers convert income into capital gains.

The Tax Office won't tell us how much revenue it has lost but we can be sure that income tax rates are higher than they would need to be if asset owners were paying their share of the tax burden.

The Ralph Report also promised simplicity and lower compliance costs. A survey of tax advisers by Chris Evans, director of ATAX at the University of NSW, found compliance costs had in fact increased so much that CGT was the only tax area where compliance costs often exceeded tax payable. A whole breed of specialist tax lawyers has grown to guide clients through the 1999 discounts and exemptions.

### **If it isn't broken don't fix it, well why do our politicians just keep fiddling with it**

It is more than obvious that our current Taxation System is costly to administer and is continually being manipulated to benefit certain sections of the Australian economy while hindering others.

The consequences and direction of our current Federal Taxation System are:

- 1. The risk takers (businesses both large and small) and their corporate profits are taxed. Such profits are the return for investing in business and taking the risk. Profits belong to the risk taker.**

2. The number of workers is taxed. (Payroll tax) Business needs workers to join with them to turn capital into goods and services, which in the end are the consumers of most of the goods and services produced.
3. The current tax on the wages earned by labour (PAYG) is immoral because it compulsory removes a part of the reward of labour in action.
4. Tax on wages are a disincentive for labour to increase its participation.
5. Corporate tax is a incentive for business to move to lower taxing countries.
6. The under the table cash economy is thriving. I have heard of Contactors who have been known to take cash for removing the GST.
7. The GST is in effect a Tax on wages because wage earners are the consumers.
8. Lack of a Capital Gains Tax on domestic dwellings encourages Post Code shifting. This practice allows people to buy or build a second home and then alter their residential details for just over one year and then sell without tax. This unearned income was gained without very little or no risk except being caught.
9. There are many more examples of bad Taxation policy and I am sure that if you all put your mind to it we could come up with a troubling list.

**Within Political Economy there is a definite need to raise revenue for Governments to do the work of governing. But if we don't tax Corporations or Employees just how do we raise revenue for Governments to function? What is left that truly reflects the wealth of the people that was created when Capital and Labour combined to create it?**

In order to discover this, we must first define our terms and hold firm to those definitions.

"Capital" is defined as "that part of wealth that is devoted to the aid of production", whilst "Labour" is "human exertion applied to the creation of wealth", and Land is "the whole material universe outside of man himself and his products". Land and Capital, on these definitions, are always clearly distinguishable. A building is Capital, the site it stands on is Land. Minerals in the ground and fish in the sea are "Land". The mine and its equipment, extracted minerals, fishing boats, fishing nets and fish in the net are Capital. The produce remains Capital until it is in the hands of the final consumer. The characteristic feature of Capital is that Labour (human exertion) has been required for its production.

Each contributor to the production process receives its share of the produce. "Wages" are the reward for labour. Interest, strictly speaking, is the reward to Capital - the owner of the fishing boat and nets, who may, or may not, be the fisherman. Rent is the reward to Land and arises because the application of equal amounts of Labour and Capital yields differing quantities of Wealth, depending on the quality of the Land – its natural and communal advantages. Rent does not arise through human exertion but is an attribute of Land.

This view has the merit of providing a clear picture of Wealth being produced by the action of human labour on Land, aided by Capital, and implies that there are three factors of production - Land, Labour and Capital. It explicitly acknowledges the key role of the natural world. If any one of these three factors is missing, no production can take place; even the most primitive hunter-gatherer requires a container (Capital) to collect the wild berries.

Does this mean that there is no alternative to allowing the free market to run riot? Willing exchange is no robbery, although anything stolen remains stolen no matter how many times it has been traded subsequently, and exchange is not entirely willing if either party to the exchange is in an inherent position of weakness. Moreover, the price mechanism does not always respond to supply and demand quite as most advocates of the free market would have us believe. The price of manufactured goods and foodstuffs does indeed tend to follow the rules, falling in times of glut and rising when shortages occur, the higher prices then calling forth increased supplies. But the land market is entirely different; when prices are rising, there can be no additional supplies, because land (including natural resources) is fixed in quantity and sites are immovable. There is a rush to buy, creating a situation of positive feedback in which land prices are subject to runaway increases, eventually ending in an economic crash. It is a phenomenon about which mainstream economic theory has little to say. At this very moment we now have many more million dollar suburbs in and around Melbourne apart from Toorack. I don't know about you but am very concerned about my children's ability to buy a house to live in.

Not as real-estate agents term it "Get into the housing market ". As an investment product domestic real-estate is retuning less that 3.5% so why would you buy it? The 15% capital gain is the obvious reason. This grab for the unearned income is the biggest impediment to our children buying a house to live in. this capital gain is miss named because it is purely a Speculative Land price that is moving up due to demand on its inelastic supply. In many cases the capital improvements (the House) are just bulldozed to make way for more cost effective development.

We can tentatively define political economy as "the study of the production and distribution of wealth". "Wealth" is natural products that have been secured, moved, combined, separated or in other ways modified by human exertion so as to fit them for the gratification of human desires". From this definition of "wealth", as a product of labour, it follows that not everything that can be sold or exchanged can, in political economy, be regarded as Wealth. Neither land nor any other natural resources are wealth, since they are not a product of human labour.

But Land and Natural Resources grow or decrease in value due to human activity. Land values directly reflect all human activity and the community services provided. The financial return to land is rent.

## **D. I BELIEVE THERE IS ONLY ONE ANSWER** **SITE-RENT.**

Rent as two components in political economy. Firstly there is rent on buildings and improvement on land and this must go to the person who owns them. Secondly there is the rent on the land (natural resources) and this should go to the community because:

- A) community funds the government spending which pays for improved amenities (roads, public transport, hospitals etc)
- \* B) the natural increase of population places additional demands on a unique resource - land

You will notice that both A) + B) are natural forces of a community. Importantly, both add to land values. But these values are only proportional to the services, infrastructure and location.

If government were to claim the Site-Rent that part of 'rent' created by the community, taxation could be done away with and both Capital and Labour would be able to get on with the job of creating wealth.

Fortunately for Australia we have kept very accurate land title and land value records since Federation. Unlike many other countries implementation of a Site-Rent revenue system in Australia is logistically more than possible once the political and vested interest groups have been convinced that the only potential losers are the blatant land speculators.

Site-Rent is a charge on land values and thus can't be evaded because of our very accurate land records. These records are in the first instant collected biannually and recorded with Local government. (For fairness to all land tile holders they should be updated annually)

Once the Federal Government determines its total yearly budget, the budget figure is divided by the collective local governments total land value to determine the rate in the dollar for the collection of Site-Rent

Local Government would be the collection agent who inturn after taking out collection costs which would be the only compliance cost would pass the Site-Rent up the line to the Federal Government. (There is possibly no need for State Governments)

Site-Rent is known, transparent and certain to those paying it. It is fair because it reflects society created values which belong to society.

Revenue raising is one thing but to determine as a community what you see as your political economy is another matter.

I believe any discussion about Taxation or Revenue raising must be preceded by a formulation of what you see as being essential government services because the provision of these services will be reflected in land values and ultimately the Site-Rent which needs to be collected.

**The following is just a small list of work conditions & probable services**

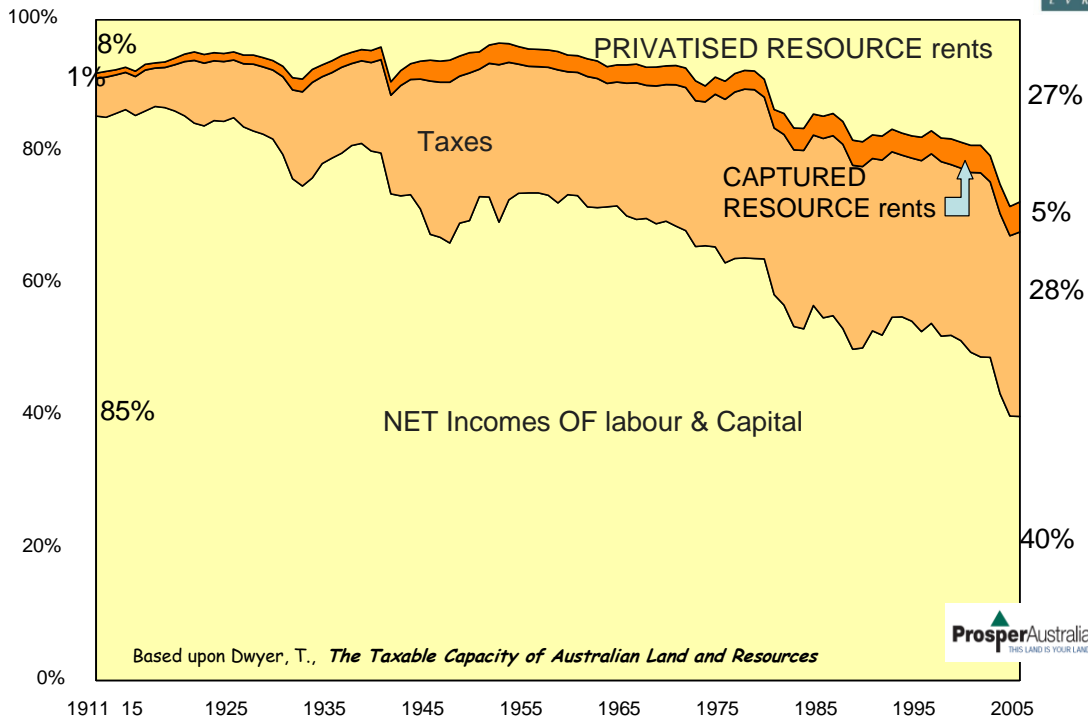
- 1. Do you want a Free Market economy? (Yes would mean no to No. 2)**
- 2. Do you want a minimum wages?**
- 3. Do you want free education up to year 12?**
- 4. Do you want free Hospitals?**
- 5. Do you want free Health Care?**
- 6. Do you want free Public Transport?**
- 7. Do you want free undergraduate education?**
- 8. Do you want toll roads?**

Just a little more history be for I wind up.

After his bloody victory in Ireland (1649-1652), one of the first things Oliver Cromwell did was to establish the worth of the lands of Ireland. He wanted to know the annual value of what he had acquired here. William (later Sir William) Petty won the tender to value the newly-conquered land by using cheap labour in the form of some of Cromwell's by then unemployed soldiers. He trained them in valuation techniques, including how they would survey Ireland, and oversaw the professional completion of the valuation contract within an amazing thirteen months.

Whereas it was accepted in Petty's day that the annual rent of land was a surplus which arose by the mere existence of community and that its collection and use was the cheapest and most equitable source of revenue, we are now educated to disregard this fairly fundamental fact. Consequently, as the annual value of our natural resources have become privately expropriated and we have morphed into the very same taxing and landholding system that destroyed ancient Rome, it has become necessary to levy myriad taxes on every sort of productive activity. In 2002, only \$25.2 billion, or 14% of Australia's \$180 billion of publicly created natural resource rents was captured for public purposes. The \$154.8 billion foregone in resource revenues was gratefully received by Australia's property owners.

## *Earned and unearned incomes* *'Classical' distribution of GDP 1911-2005*



But the work of Dr Terry Dwyer used to compile the diagram now showing suggests that this bonanza may have come at enormous cost to the country. It evidences that the growing quantum of Australia's resource rents and taxes has been at the expense of the net incomes of labour and capital. This is particularly so since 1972 where as a proportion of GDP taxes have increased by 28%, net incomes have declined by 35%, and natural resource rents have escalated by a remarkable 125%. Accordingly, it is possible to argue that the real battle is not between capitalist and worker (who are fighting over the 41% of GDP which remains after rent-seekers and taxation have first staked their claim), but that both labour and capital have common cause against such a pathological revenue system. The greatest prospect for reform in industrial relations is a shift from reliance upon taxation to an entirely different revenue base, the collection of our natural resource rents. Called Site-Rent.

Given our need for Federal Government to raise revenue to satisfy society's collective demands for community services, Taxation is the key link in the chain. Currently Federal Government taxes can be shown to be: Costly to collect, Restrictive to activities of both Business and Workers and not collected in a manner that reflects the services being provided. There is obviously real problems and ultimately fiddling with it in its current form will create catastrophic divisions in our already strained employment relations. But on a more serious note our children will not be able to live up to the great Australian dream of HOME OWNERSHIP. But there is a third way called Site-Rent. Given that Revenue Collection needs to be: Moral, Certain, unavoidable and equitable I urge you all to contemplate what I have had to say.

**Thank You.**

**John Poulter**