

# Spending Tax

## Australia's chance at leadership in Asia

An address by John Rivett B.Com. LL.B., Barrister at Law, CEO of AusFirst Supporters and President of the Federally Registered Political Party - Great Australians - to the Inverell Forum - 12 March 2005

If there is anybody here who is actually happy with our current Income Tax system, would they please stand up?

No one. Well, you folk are not alone. Even the Reserve Bank Governor Ian McFarlane said last month that the national economy risked hitting the wall without urgent tax reforms including lowering high marginal rates. Business leaders, and journalists of all persuasions cry out for reform. Small business owners struggle under the weight of compliance.

Politicians are deathly quiet and seem devoid of ideas.

It is no wonder we are all unhappy, and shortly I'll share some of the depressing Income Tax horrors with you.

However, let me first state that my mission today is to leave you convinced of six facts -

- 1 our present Income Tax system is in the final stages of decay leading to its death and we should help it on its way - give it the green needle as the Veterinary Surgeon would say
- 2 the Goods & Services Tax is a nightmare for the private sector and has resulted in a relatively minor return to Government. It's introduction however has paved the way for realistic reform
- 3 the much touted option of a Bank Debit Tax can never work
- 4 we should bury the Bank Debit Tax once and for all, because continuing to propose it is actually harming the chances of abolishing Income Tax
- 5 there is a viable option - the Spending Tax
- 6 the Spending Tax is user friendly for wage and salary earners, small & big business and all levels of Government alike, and will boost our economy to make us a powerhouse in Asia. It should be embraced by all Australians whatever their politics.

Having convinced you of these facts, my mission is to motivate you to help us at the Great Australians convince the people of Australia to embrace the Spending Tax and rally the people to force the government to introduce it. If we can introduce it, we can scrap Income Tax and all its festering derivatives, as well as the Goods & Services Tax and Federal Payroll Tax. I acknowledge the foresight of the founder of the Great Australians John Cumming in realizing the benefits of the Spending Tax and making it very much a part of our agenda and I am sure we all wish him well in his retirement at Sunshine Beach. I encourage you to read *The Digger's Legacy* - my tribute speech to him which can be found on our website - [www.greataustralians.org](http://www.greataustralians.org)

It's a big call, but I am still optimistic enough to believe that logic, economic and financial good sense and 'right' will prevail. There are a growing number of Australians prepared to devote the rest of their lives to this mission. We do not want to live under the rotten Income Tax/GST regime any longer. I don't want my children and grandchildren to have to live their lives filling in these ridiculous forms and suffering from the lack of incentive and downright unfairness that the current system imposes on all Australians.

What I refer to as the Spending Tax was explained in John McRobert's two books *A Diet of 2% Can Prevent Harder Tax* and *Your Future in Your Hands* and by the 'Tax-Reform' group in its most recent submission dated 11 April 2003 to the Senate Economics References Committee. I am indebted to John McRobert from Tax-Reform who helped in the preparation of this speech.

I have some copies of John McRobert's second more definitive book here to-day and you can download the Senate submission from the Great Australians website - [www.greataustralians.org](http://www.greataustralians.org). Don't let another Easter go by without reading this book and Tax-Reform's excellent Senate submission.

I implore you to stop whining about the Income Tax system whilst meekly filling in the ATO's stupid forms and get involved in the movement to get rid of it once and for all.

For all their careful thought and research, and their comprehensive computer modeling, the Tax-Reform group have not had their arguments fairly and openly debated. Too often their proposal, based on monetary exchange involved in the sale of goods, services, property and labour, has been confused with the Bank Debit Tax with which it has nothing in common. It must be a major frustration for them to have come up with a concept that is so demonstrably beneficial to all parties (except cynical tax fiddling politicians and tax avoiding multi national companies) and yet fail to be able to have it rationally debated.

It has gained support from one of America's most respected economists - Dr Arthur Laffer, one of the world's leading financial advisers - Dr Harry Schultz, and many outstanding Australians - Professor Emeritus of Law Geoffrey Walker, tax Barristers Michael Inglis and Dr Ian Spry and political and economic commentator Alan Jones.

I think the McRobert 2% tax proposal should be called a 'Spending Tax' to differentiate it from 'Income Tax' and 'Bank Debit Tax'. The distinctions are then obvious

from the names - 'Income Tax' taxes income, a 'Bank Debit Tax' taxes bank transactions and the 'Spending Tax' taxes yes - you guessed it - spending. It is only the Spending Tax which is a fair and accountable method of funding government while minimizing the cost of running the country.

### 1 Income Tax

Now let me share with you some of the horrors of our present Income Tax system.

Income Tax started as a simple idea to collect donations to pay for the First World War, but now it is only working effectively to tax the soft underbelly of the wage and salary earners.

It has two fundamental problems.

Firstly, it seeks to tax the arbitrary statutory concept of 'net taxable income'. This is a controversial calculation even for wage and salary earners, but almost impossible for small businesses, national and international companies. Not even the accountants can agree on how to calculate it. The vast majority of the 10,000 odd pages of the Income Tax Act are devoted to trying to calculate this mystical figure by defining income and deductions and providing penalties for getting it wrong. There are so many arguments - all good fodder for the burgeoning Tax Office and the accounting and legal professions. Later I will compare this to the simple arm's length agreed upon 'transaction price', which the Spending Tax uses as its dollar figure to tax.

Secondly, Income Tax seeks to tax companies in the country of residence. Of course multinational companies can change this at will - like James Hardie did recently when they moved their administration to Holland. You might have seen recently the Italian Dairy conglomerate Parmalat suffered a fraud in its head office - in the Cayman Islands!! Not a lot of cows there now are there?

This residence concept has led to the Double Tax conventions which I believe are prejudicial to our national interests in that they seemingly allow foreign companies to operate in Australia through wholly owned subsidiaries without paying Income Tax here. The companies claim their residence in some foreign tax haven and avoid paying anywhere. They can also shuffle profits around the globe using transfer pricing.

The fact is small and big business, foreigners and the one million Australians currently working offshore largely avoid paying Australian Income Tax, because would you believe it, they never seem to make any 'net taxable income' in Australia. Even old Kerry Packer struggles - poor chap.

The legislators have promulgated the ten thousand odd pages of tax acts, regulations

and rulings in an attempt to define the indefinable 'net taxable income' and collect the uncollectible of what's left after all the deductions. The drafters have given up in many cases and granted the Commissioner the discretion to take whatever he wants - a bit like the Sheriff of Nottingham holding a knife to your throat and emptying your coin pouch until he feels you have 'bled' enough.

The Income Tax Act is incomprehensible even to the collectors, Accountants, Lawyers and Judges. In January, one of the country's leading jurists, former High Court Chief Justice Sir Harry Gibbs said in his Australia Day address to the Samuel Griffith Society that the laws relating to Income Tax were 'a disgrace' and 'getting worse'. 'The legislation is absurdly voluminous compared with our own earlier legislation and with other tax systems and the volume increases rapidly from year to year,' he said. 'Much of it is obscure to the point of being incomprehensible. It gives the ATO unacceptably wide discretionary powers .... many practicing accountants no longer try to unravel the mysteries of the legislation by reading its provisions. Rather they rely on the various documents and rulings of the ATO - a subordination of the rule of law to the opinions of the Executive. The uncertainty of the law is an impediment to business generally.'

Despite this, it is relatively easy to tax the worker. Just force the boss to collect it before he pays the wages. No arguments. Then the worker fights to get some back by claiming deductions for work boots or dry cleaning or hair do's or whatever. It's a pathetic sight watching your kids learn to scramble for 'Tax deductible Invoices' so they can recover a few dollars of their hard earned pay. Last Sunday night I was the last customer in my local fruit shop and there was the owner sorting his invoices whilst having to employ two casual workers on double time to stack the fruit in the fridge.

It's so easy to tax the worker that the result of our corrupt system is that income tax paid by individuals accounts for about 40% of the total tax collected by the Federal Government, because it is easiest to collect from them, while businesses pay about 15% and yes you guessed it, foreigners pay one half of one percent. Take a look at the table I have handed out to you today or you can view it on our web site - [www.greataustralians.org](http://www.greataustralians.org).

Individuals pay eighty times as much as the foreigners who own 90% of our industry.

Why aren't you all rioting?

Is it the long weekends, the footy games, the enjoyment of a day at the club playing the pokies or are you just lying back enjoying Mr Howard's comfortable years while our country goes down the plughole?

Do you care, or is it just that you don't understand what is being done to you?

There are some tragic consequences of our tax system.

1 The high marginal tax rates applying to individuals strangles personal incentive to work harder and save more. The second job is a nightmare for many Australians who take one to 'get ahead' and find they are catapulted into a 48% tax bracket.

2 This lack of incentive to find a higher paid more skilled job has helped lead to a chronic lack of skills in our economy which the Government is only just admitting.

3 We have nearly 800,000 taxpayers claiming property investment losses against other income - negative gearing. Not 800,000 properties - 800,000 taxpayers! Some of them might own 100 properties. Each year they claim about \$4 billion in rental losses. This issue will not be addressed by the mainstream parties. Mr Latham tried for about half a day before his minders gagged him. The Reserve Bank Governor has just come out and virtually instructed the government to stop this insanity, but will they?

4 The impossibly high capital gains tax provides a disincentive to ever sell residential investment property.

5 The consequence is that a major portion of the post war wealth of our country is now tied up in over inflated negatively geared investment properties NOT manufacturing and the employment of our youth. The report on national wealth published by Treasury late February revealed that the value of dwellings had doubled from \$1.6b in 2000 to \$3.3b to 2004. Things that double in four years scare me.

6 The percentage of our economy devoted to manufacturing is about 13%. The OECD average is 25%.

7 By a combination of the generous negative gearing laws and the Capital Gains Tax, our Government has created an artificial lack of supply of owner/occupier houses and units for sale with the consequence that house/unit prices have skyrocketed.

8 The average age of first home ownership is now 33. Home ownership is dropping because young people can't afford to buy a first home. Young married couples face the prospect of both working until they are 33 to save their deposit, and if you want to live in Sydney - good luck if you don't have parents to help fund the gap between hope and reality.

9 There is virtually no money available for new technologies and new business investment. In the 2002-03 year 9512 applications for venture capital were made to the ABS reporting funds yet only 131 were funded - of these on 9% were seed capital - 12 only in one whole year. A new technology has a 1 in a 100 chance of attracting equity capital from our ABS reporting venture capital funds. This is a national disgrace.

With business and even professions, it is now so easy to set up an offshore company based

in a tax haven and channel some or all of your income through it. Income tax as a concept cannot survive the computer age as tens of thousands of Australians sign up for lap top operated foreign bank accounts owned by their blind companies and trusts in the world's burgeoning array of tax havens.

Then there is the legal challenge to Income Tax which is progressing through the Courts of which you will no doubt hear more about this weekend.

## 2 Goods & Services Tax

The Goods and Services Tax attempts to tax a concept of the 'Value Added' to production which is time consuming for businesses to calculate. As the front page leader article in the March edition of *The Strategy* pointed out - this Act even gives the ATO the discretion to treat a Particular Event that actually happened as not having happened at all.

Nevertheless, it collected about \$31B out of a total of about \$240B in tax revenue collected by all three levels of Government in the 2002-03 year.

Whilst the calculation of the tax on their own gross sales for each business is as easy as running off the till tape, it is an enormous burden on business to calculate the inputs from their paid creditors' Tax Invoices. It has created an accounting nightmare and at least doubled and in some cases nearly quadrupled the tax work for the accounting profession. A recent survey of NSW small business found an average of 25% of the principals' time was spent in tax compliance issues.

The GST has raped our savings and particularly hurt the elderly by reducing the spending power of their savings.

Compliance is such a painful affair that the GST has been almost solely responsible for the doubling of the cash economy to an estimated 15%.

For all this, it only collects a modest percentage of about 15% of the total tax collected which of course is why the Feds give it all to the States. They wanted to keep the cream - the Income Tax on individuals which collects about 40%.

The one good thing about the GST is that it has set up the administrative framework for the introduction of the Spending Tax. The ATO could very simply amend the BAS forms and use them for the Spending Tax. All that needs to be done is cross out all the hard questions and leave 'gross sales'.

## 3 Bank Debit Tax

The concept of a Debit Tax or as it is being touted now - a 21st Century E-Tax is to place a small tax on all bank transactions. Figures from 0.1% to 2% have been bandied around. In this way, the theory goes, we will not notice the tax, it will be easy and cheap to collect, there will be no need to file returns, most tax collectors can be sacked, and politely (or not so politely) invited to go and get a real job, and we can all live in freedom whilst the government reaps a bonanza from the foreign

multinationals and rich people who will be forced to pay because they will have to use the banks, and of course in an appeal to the Green vote, we can save the trees. On its face it is appealing.

The fact is that it can never work and can be easily discredited.

It suffers from many insurmountable shortcomings -

- 1 The government can only legislate to force Australian Licensed Banks to collect it. Every Foreign company and many Australian companies and wealthy and even not so wealthy individuals will simply open accounts with foreign banks to avoid it, if they haven't already got one.
- 2 By definition it legitimises and excludes the cash economy. The majority of people still don't cheat (mostly because they can't), but many more than the 15% who cheat now will deal in cash to avoid the tax if it is legal to do so. The reality is that a Debit Tax is OPTIONAL.
- 3 Wage and salary earners can demand their pay in cash and they will then avoid the tax. They can and will opt out of it, simply by not using the banks.
- 4 Small business will be caught as they will have to use Australian Banks to bank their cash takings and pay their bills.
- 5 There are so many transactions where taxpayers will object to payment - eg trust accounts, family loans and gifts, transfers between related entities and family members that the government will be under extreme pressure to bring in a host of exemptions which will be extremely expensive and time consuming to administer.
- 6 The Bank Debit Tax still aims to collect the same amount of excessive taxation as is presently collected - a so-called revenue-neutral solution.
- 7 It can be readily increased in small increments, and it will have to be as more and more people opt out of it. Remember the boiled frog who was cooked as the gas was applied and the temperature went up. Taxpayers who have to use local banks and so are caught by the Debit Tax will be cooked as they find the rate goes up as others who don't need to use a local bank opt out.

It can be seen that it will divide the economy into those who can't avoid it and those who quite legitimately can and will. It will fail any test of fairness.

The well-intentioned folk who are pushing for it are actually giving encouragement and undeserved credibility to the critics of the much more realistic Spending Tax by confusing the two.

I implore all of you who are determined to bring about real tax reform in this country to study the shortcomings of the Optional Bank Debit Tax and dismiss it so that the debate can be focused on the relative merits of Income Tax/GST versus the Spending Tax.

## 4 Spending Tax

The Spending Tax is simply this. Whenever spending occurs on goods, services, property or labour, the buyer (spender) pays Spending Tax. The Tax Reform models worked at 2%, and we adopt that figure, but I'll talk about the 2% later.

The Spending Tax applies to all transactions except as between an immediate family unit - natural, adopted and step parent and children.

The 'dollar value' of what is taxed, namely the price of the transaction, is determined by the parties acting at arm's length. It is derived by haggling or bargaining and is unassailable and unarguable, and has stood the passage of time. Compare this with the concept of 'net taxable income' which is a difficult to define statutory concept. Remember I said the vast majority of the Income Tax Act was devoted to trying to define 'net taxable income' by defining 'taxable income' and 'deductions'? With the Spending Tax we could immediately throw out 95% of these provisions and rulings. We can also throw out the evil Commissioner's discretions.

I have found it is easiest to explain by reference to the particular categories of taxpayers in our economy.

### Wage & Salary Earners

- \* You will not pay any tax on your wages and salaries.
- \* Your gross pay will be the same as your take home pay. If you currently gross \$1000 and take home \$700, you will still take home \$700.
- \* Your gross pay will reduce to be the same as your take home pay due to the forces of supply and demand in unregulated labour markets, and due to awards being renegotiated or altered by the courts in regulated markets on the petition of the employers.
- \* Your boss will pay Spending Tax of 2% of what he pays you. Remember, in this case, the boss is the 'Spender' - spending money on your wages.
- \* You will only pay tax when you spend. Then it will be only 2%, but the seller will collect it and remit it, like the GST now. You will hardly notice it.
- \* You will have to put in a Tax Return, but only need to declare any goods, services or property that you have sold during the year on which you have collected the tax. Eg. An investment property or a boat or a caravan. Remember, it is NOT you who pays the tax, it is the spender, but you will have collected it. The vast majority of the Spending Tax Returns will be nil and will take a minute and half to complete.

### What's in it for you?

- \* Everything you earn - you can keep TAX FREE if you want to- the ultimate incentive to work harder, earn more and save.
- \* The prices of the things you buy will all come down. I'll explain this later. Your

wages and salaries will buy much more. You will lose the benefit of deductions, but the lower prices will more than compensate.

- \* Your second job is tax free and you can stash 100% of it against your home loan or spend it on your kid's education.
- \* You do not have to keep any records of 'deductions'.
- \* You and your children will have a much greater chance of securing a job and keeping one, as there will be more jobs across the economy
- \* The cost of your government will be slashed yet government services such as education, hospitals, road construction and maintenance, and law and order measures, will be vastly improved.

### Small Business

- \* You have to collect 2% of your gross sales from your customers and remit it to the ATO. You will have to complete a Spending Tax form which will be like a simple BAS form, but it will have no concept of inputs, so you only need to calculate 2% of 'GROSS SALES'. Just run off the till tape.
- \* You will remit 2% of wages and salaries paid in the way that you do now with BAS.

### What's in it for you?

- \* Simple to administer. Would save you 90% of the time you currently spend on Income Tax, Fringe Benefits Tax, and GST compliance.
- \* Your cost of production comes down at least by the difference between the Income Tax you currently pay on wages and salaries and the Spending Tax of 2%. This happens in all the businesses from whom you have purchased your raw material, so your costs of raw materials will come down as well, meaning you can produce your products even cheaper.
- \* You can employ more staff as they will cost you less, because you no longer have to fund the Income Tax on wages, just the 2% Spending Tax.

### Big Business

- \* Calculate gross sales made in Australia or to Australians and remit 2%.

### What's in it for you?

- \* Enormous cost saving
- \* Costs of production come down as per small business, and can employ more staff.

### Importers

- \* Remit 2% of import cost. This is not a tariff but a tax paid by the importer as a spender.

### Government

- \* The Government pays the 2% Spending Tax on all wages and salaries
- \* All Government departments act as if they were businesses, collecting the Spending Tax on services.

### What's in it for Government?

- \* The cost of providing CURRENT services will sharply reduce. If you look at our table, all three levels of Government collected about \$240B in 2002-03 but the Spending Tax could provide the same level of services for much less - maybe \$160B - \$180B due to the abolition of the tax on wages and salaries.
- \* Governments will be able to provide better services for less total tax collected and should be able to produce consistent surpluses to reduce debt

### What's in it for the nation?

- \* All prices will come down
- \* Our exports will become cheaper
- \* More jobs will be created in private sector - fewer non productive tax collectors and professionals helping avoiders
- \* The Double Tax conventions will be terminated with the abolition of Income tax, so foreign companies who operate here will have to submit a Spending Tax return and remit 2% of their gross sales and 2% of their wages and salaries
- \* Tax on superannuation can be reduced to 2% of transactions. All employees will be able to better fund their retirement
- \* No longer can the major parties use Income Tax as a cynical political tool - rob all of us for two & half years and then give it back to selected voters in selected electorates at election time
- \* Retirement will no longer be required to be funded by Government
- \* No wage breakout and other inflationary factors to cause the Reserve Bank to increase interest rates
- \* An immediate increase in the purchasing power of all savings and the incentive of 2% Spending Tax to invest in income and capital appreciating investments
- \* Australian industry will have access to new funding by Australians
- \* Sustainable low interest rates to fund value adding developments in Australia including updating and new infrastructure
- \* The value of our dollar will be based on national surpluses not current deficits.
- \* Horse-racing and investment on the Stock Exchange would be taxed at the same, predictable, low rate. There could be a Stock Exchange Agency beside every TAB to divert risk capital into industry.

### Understanding the Tax on Labour

In order to understand the impact that the Spending Tax will have, it is essential to understand how the Income Tax on labour accumulates through each stage of the manufacturing process.

Under our present system, workers are paid gross wages and large percentages of Income Tax are deducted at the point of payment. The worker effectively never gets this money, except for the pittance recovered from deductions recovered later. However, the

tax on labour is a real cost to the employer (and the Government which is a major employer).

Our wage levels have priced Australian labour out of the global market. The majority of Australians have worked this out, but they haven't worked out that the cause is the Australian Government's addiction to a diet of high income tax on wages.

The price of anything you buy includes the tax paid by the employers on wages. Reduce the tax on wages and you can reduce the cost of goods, and employers can afford to employ more workers. The Government will then need less money to provide its current services because it does not have to pay the high tax on wages for its own employees.

### The Spending Tax revolution is -

- The cost of labour will be dramatically reduced. In every stage of production or government the cost is reduced to 'take home pay plus 2%'
- There will be strong jobs growth
- Not as many people will need Government assistance so the cost of welfare will reduce
- Goods and services will become cheaper
- Exports will become cheaper and so more competitive
- Governments do not need nearly as much money to provide the same services
- The brains of our Accountants, Lawyers and tax collectors can be put to use developing businesses
- We can throw away the Income Tax Act and 7 other tax acts and save the trees.
- We will become the legitimate tax haven of Asia and we can better negotiate the terms on which we will accept foreign capital.

I said before that the modelling set out in John McRobert's second book shows that 2% should collect enough to continue current Government programs and provide a surplus to reduce debt.

The Federal Government currently collects tax of about 25% of GDP. This is far too high for us to sustain our lifestyles in the face of the new economic aggression from China and India. We have no capital left to reinvest or invest in new business.

I know. I work in the Venture Capital Industry. It is almost impossible to raise seed capital for new inventions and businesses in Australia. We as a nation have to reduce the percentage of GDP our Government grabs or we face economic doom.

The Great Australians policy is to monitor the 2% rate to ensure that the Government does not collect more than 20% of GDP, as it will be calculated under the new regime. The financial modelling undertaken by the Tax Reform group showed 17% was the likely outcome, but really we should be aiming at 14% in the medium term. The 2% rate is believed to be highly conservative, and should it prove excessive, the excess can in the first

instance fund much needed infrastructure and debt reduction, and once the performance record is established it is possible that the rate could be reduced to 1%. No incremental rates should even be considered.

If you want to save Telstra, vote for the Spending Tax, because only it can deliver the surpluses needed to reduce Government debt.

20% of GDP maximum will be more than enough to provide current services to those who need them, but the fact is not as many people will need them because they will be able to find a job.

The only criticism I have heard is that the Spending Tax is inflationary in that the Tax accumulates through each stage of the production process. But even in a complicated, multi-stage manufacturing process it can be shown that the existing tax regime cascades through to approximately 28% while the Spending tax cascades through to 13%. The modeling shows prices will DROP not RISE. Logic dictates the same result.

There is no question that only under the Spending tax can inflation be reduced to zero i.e., the money supply can be better matched to the goods, services, property and labour being traded if the government has almost real time information on those figures via a sensible tax system (which also encourages honesty) rather than rely on dubious ABS statistics which are often years out of date and distorted by the cash economy.

### 5 What can you do ?

- 1 Wear one of our car stickers
- 2 Join the Great Australians
- 3 Become informed
- 4 Engage in rational debate
- 5 Write letters to the editor
- 6 Drop off flyers
- 7 Promote our website - [www.greataustralians.org](http://www.greataustralians.org)
- 8 Send me your email addresses so we can keep you informed - [jrivett@greataustralians.org](mailto:jrivett@greataustralians.org)
- 9 Circulate this speech and our emails to your networks
- 10 Lobby your local member
- 11 Invite me to speak at your next forum
- 12 Read the books *Your Future in Your Hands* and *A Diet of 2%* - ask for them at your local library or obtain copies from Brisbane based Copyright Publishing <http://www.copyright.net.au>

I hope that I have given you some hope - that there is a better way for Governments to collect tax.

I hope that you will help the Great Australians spread the word and force the politicians to listen and help them understand the logic of this fabulous concept.

**John Rivett**  
Inverell Forum 2005