Tax-Reform

8th Floor 371 Queen Street
Postal address
GPO Box 2927 Brisbane
Queensland Australia 4001

Phone 07 3229 6366
07 3378 7102
Fax 07 3229 8782
Int +61 7
web site: www.tax-reform.org
email: tr@copyright.net.au

Submission of
Tax-Reform[1]
to the
Senate Economics References Committee
on

The Structure and Distributive Effects of the Australian Tax System

11 April 2003

Note[1] Tax-Reform is the operating name of a non-political, not-for-profit, Australian group formed solely for the purpose of replacing the existing complex tax morass with one simple system able to be understood and respected by all.

All truth goes through three stages: first it is ridiculed, then it is vigorously opposed, finally it is accepted as self-evident. **Schopenhauer**

Tax-Reform is the operating name of a non-political, not-for-profit, Australian group formed solely for the purpose of replacing the existing complex tax morass with one simple system able to be understood and respected by all.

Tax-Reform is funded by the members of the group.

Current members are:

Derek A. Smith, a Chartered Accountant with over four decades of experience in the Profession including 5 years with Price Waterhouse in Brisbane, and 36 years occupying executive financial positions with large private and public sector organisations in marketing, manufacturing, mining and banking. Taxation in all its forms—Commonwealth, State and Local Government—has been a feature of this experience with recognition of the impact of direct and indirect taxation on wealth creation, resources utilisation and employment in Australia.

John D. McRobert BE (Civ), a civil engineer with over 40 years of experience in large project design and supervision including project budget development and defining and controlling cash flow objectives. He developed the cost index system for converting Utah Development taxation accounting from historic cost to a current cost basis required for General Electric's USA taxation accounting. He is currently a director of a number of mining and publishing companies.

Brian R. Davis JP has spent a lifetime as a financial consultant, and is a Registered Tax Agent, a public accountant and member of the National Institute of Accountants, The Association of Taxation and Management Accountants & the National Tax Agents' Association.

Gino G. Milani B.A/L.L.B. (U of Q) Solicitor. Partner in Law firm Deacon and Milani. In legal practice for over 40 years, and private practice in field of commercial, taxation planning, Stamp Duties, and general legal since 1969. Ex director of Nudgee College Foundation, Mr Milani has participated in numerous non-profit community organisations.

Dr Glenister Sheil M.B.B.S., F.R.C.P., F.R.A.C.G.P. In medical practice for over 30 years, much of which as Principal in own private practice and proprietor of a Private Hospital. Senator for Queensland for 12 years. A one time National Fitness Sportsman of the Year, Dr Sheil has wide commercial and community interest experience.

Arthur T. Scurr M.B.E. Previously—CEO, Scurr Group; Founding Chairman, Mitre 10 Group in Queensland; Chairman, Mitre 10 Australasia; Vice Chairman, Small Business Development Corporation; Member, Council Mt Gravatt CAE; Member, Savage Inquiry into Small Business Regulations; Director and Chairman, Building Industry Credit Bureau; Chairman, Commission of Inquiry into Payment within Building Industry. Also Founding Chairman, Hardware Retailers Association of Queensland; Honorary Doctor, Griffith University. Currently—Director, Queensland Research Institute; Director various small companies. Mr Scurr is also involved with various community groups.

The principal objects for which the group is established are:

(a) to cause the Australian Federal Government and each State and Territory Government, to pass into law a tax system to replace the existing income tax (personal and corporate), fringe benefits tax, payroll tax, superannuation tax, goods and services tax, capital gains tax and associated withholding and provisional taxes, and which is simple, visible, fair and non-discriminatory to comply with the following:

Target Federal, State and Territory Government action

- Effect substantial reduction in the tax component of Australian goods and services thereby significantly improving their price competitiveness both at home and abroad;
- Removal of the existing tax disincentive on savings, investments and businesses, in particular those involved in producing Australian goods and services

thereby allowing

- A substantial increase in the purchasing power of incomes, savings and investments

Target required market responses

- A substantial market growth increase in demand for Australian goods and services
- Demand driven opportunities with low tax incentives encouraging
  - employment
  - savings
  - investments

Required outcomes

- Australians having the financial capacity to exercise freedom of choice over goods and services presently provided by government and funded out of taxation—to result in Small Government focused on the National and International interests of Australians
- Improvement in the standard of living in Australia—to be within the top five countries in the world

(b) to promote to the Federal Government a tax system for bench testing in (c) and which after implementation will provide the required outcomes in (a)

(c) to have the Federal Government adopt a Financial Model of the Australian Economy and a basket of Australian goods and services (loaf of bread, supermarket, childrens' clothing, motor car, housing, education, rates, electricity, gas, beer, wine, etc.) for the purpose of bench testing against the criteria described in (a).

(d) to consult and communicate with members of the government and public bodies at all levels, representatives of professional, business, industry, trade union, social welfare and other groups, and the community at large

- the information and material for promoting and achieving the objects of the group;
- in regard to all matters affecting reform of taxation and the economy.

Contents

		Page
About the Tax-Reform group		ii
Terms of Reference		v
Submission of Tax Reform to the Senate Economic References Committee		1
Itemised response to Terms of Reference		3
The Structure and Distributive Effects of the Australian Taxation System		5
Objectives in funding fair and democratic government		6
10% GST does not compute		7
Implementation of fundamental tax reform through simplification of B.A.S.		8
Fundamental tax reform can fund sound government and pay off foreign debt		9
Roll-over timetable		10
Appendix 1	Checklist for Australia's economic policies	11
	Notes to the Checklist	12
Appendix 2	Case Studies	
	1) Small imported car - Retail price $15,000 pre-GST	15
	a) 10% GST facilitates the export of Australian jobs and wealth	16
	2) Export Meat Industry (typical of pastoral and related industries)	17
	3) Export Sugar Industry (typical of agricultural and related industries)	17
	4) Compliance by Foreign Corporates and individuals	18
	5) Price comparisons and % increases/reductions	21
	6) Wage earners	21
	7) Shopping Trolley	22
	8) What's in it for the individual?	23
	9) Welfare Recipients	24
	10) Self-funded Retirees	25
	11) Farm Businesses with Turnover less than $50,000 per annum	25
	a) Observations	26
	12) Small Business	27
	13) Finance - Building Society	28
	14) Tourist Agent	29
	15) Loaf of Bread	30
	16) Implementation to ensure no group disadvantaged	31
Appendix 3	Commonwealth Budgets and reduction of foreign ownership	33
Appendix 4	By reducing the tax burden on employment, unemployment can be slashed	35
Appendix 5	Price comparisons based on the following three schedules	37
Appendix 6	Cameo profiles - benchmark snapshots from the pre-GST period	39
Appendix 7	Other forms of taxation	45
Appendix 8	Superannuation	47
Appendix 9	Benefits of fundamental tax reform	49
Attachment 1	Book: *Your Future in Your Hands*	
Attachment 2	Paper: *Is Self-assessment Working? The Decline and Fall of the Australian Income Tax System*	

SENATE ECONOMICS
REFERENCES COMMITTEE

SENATE

The Structure and Distributive Effects of the Australian Taxation System

The Senate has referred the following matter to the above Committee for inquiry and report by June 2004:

The structure and distributive effects of the Australian taxation system with reference to:

a) the level, extent and distribution of the current tax burden on individuals and businesses;
b) the impact of (a) on taxpayers' families;
c) the use and efficacy of various tax and expenditure incentives to influence social and economic conduct, for instance participation in the workforce;
d) the long term social and economic impact of the current distribution of taxation, government spending and employment including the intergenerational consequences of the tax structure;
e) the respective roles of the Commonwealth and the states in relation to the collection and distribution of taxation revenue; and
f) any other relevant issues which may arise in the course of the inquiry.

Written submissions are invited and should be sent to: The Secretary, Senate Economics References Committee, Room SG.64, Parliament House, CANBERRA 2600.

The closing date for submissions is 11 April 2003.

The Committee requests that where possible submissions should also be provided by e-mail to **economics.sen@gov.au** preferably as MS Word 97 or RTF format documents. Further information is available from the website www.aph.gov.au/senate/committee or the Secretariat (ph: 02 6277 3541, fax: 02 6277 5719).

Once the Committee accepts your submission, it becomes a confidential committee document and is protected by Parliamentary Privilege. You must not release your submission without the Committee's permission. If you do, it is not protected by Parliamentary Privilege. At some stage during the inquiry, the Committee normally makes submissions public. *Please indicate if you want your submission kept confidential.*

Advertisement in ***The Courier-Mail***
18 December 2002

Terms of Reference

(from the website www.aph.gov.au/senate/committee)

Senate Economics References Committee

The Structure and Distributive Effects of the Australian Taxation System

The Senate has referred the following matter to the above Committee for inquiry and report by June 2004:

The structure and distributive effects of the Australian taxation system with reference to:

a) the level, extent and distribution of the current tax burden on individuals and businesses;

b) the impact of (a) on taxpayers' families;

c) the use and efficacy of various tax and expenditure incentives to influence social and economic conduct, for instance participation in the workforce;

d) the long term social and economic impact of the current distribution of taxation, government spending and employment including the intergenerational consequences of the tax structure;

   a. the respective roles of the Commonwealth and the States in relation to the collection and distribution of taxation revenue; and

   b. any other relevant issues which may arise in the course of the inquiry.

Written submissions are invited and should be sent to:

The Secretary
Economics References Committee
Department of the Senate
Suite SG.64
Parliament House
Canberra ACT 2600

The closing date for submissions is 11 April 2003.

The Committee requests that where possible, submissions should also be provided by e-mail to economics.sen@gov.au preferably as MS Word 97 or RTF format documents. Notes to assist in preparing submissions are available from the website www.aph.gov.au/senate/committee or the Secretariat (ph: 02 6277 3540, fax: 02 6277 5719).

Once the Committee accepts your submission, it becomes a confidential committee document and is protected by Parliamentary Privilege. You must not release your submission without the Committee's permission. If you do, it is not protected by Parliamentary Privilege. At some stage during the inquiry, the Committee normally makes submissions public. Please indicate if you want your submission to be kept confidential.

Submission of the Tax-Reform group to the Senate Economics References Committee

11 April 2003

Introduction

The structure and distributive effects of the Australian Taxation system have been extensively analysed for over 20 years by the private self-funded individuals who compiled this submission. During that time there has been an explosion of tax legislation in ongoing futile attempts to a) define the indefinable, and b) satisfy insatiable pressure groups. There will be no relief from this torrent of futile tax legislation until the fundamentally flawed basis of taxation in Australia is replaced with a fundamentally sound and far simpler system.

Keeping within the terms of reference of this Senate Economic References Committee, items a) through e)[1] are covered in this submission, with each of these items addressed by comparing the proved outcomes of the existing system with the conservatively predictable outcomes of a simpler and fairer system. Item f) is the natural follow through, **that the highly relevant issue which must arise in the course of the inquiry is that there is an irrefutable case in this new world of astonishing productivity to change the base of the entire tax system to one using expenditure alone as the taxable parameter**.

The Australian tax system is now a complex mixture of income and expenditure based taxes, with annual expenditure of the three tiers of government taking 37% of GDP.[2] The cost to the economy and the Australian community of the current inefficient method of funding government is demonstrated to be of the order of $100 billion per annum.[3]

A computer model developed by Unisearch[4] has shown the impact of the Australian tax system on the Australian economy industry sector by industry sector, tax by tax, State by State and year by year for two groups of three consecutive financial years. The results have been summarised and published.[5]

Businesses and individuals in Australia are being suffocated by taxation. Tax reforms introduced since the Hawke tax summit in 1985 have resulted in over 8,500 incomprehensible pages of Income Tax Acts and who knows how many pages of associated exemptions, rules, rulings and regulations. Today there is still no end in sight to more changes, more 'fine tuning', more annual Tax Packs, more nitpicking levies and monumental wastage of time, energy and resources as the wealth creators of the country attempt to comply with complicated laws penalising their efforts and their savings. Self-assessment is not working as a major indictment of another failed 'patch' describes,[6] and existing superannuation arrangements are totally inadequate to meet the requirements of an aging population.[7]

The GST was introduced 'to make it fairer' and to reduce the tax on Income. On both counts it has failed in its current form. But in making the tax system worse, it has opened the door to a better solution. One by one, as they sit up at night filling in stupifying tax forms, Australians are waking up to the fact that there is a better way of paying for the government they elect to protect their lives, liberty and property. They are becoming aware that the current taxation mess is a threat to everything they hold dear.

1 *Using the itemisation in the newspaper advertisement.*
2 *Australian Financial Review* 15 May 2002.
3 See p 9.
4 A consulting group working out of the QUT, with the study funded and directed by the authors of this submission.
5 *Your Future in Your Hands* by John McRobert. Attachment 1.
6 *Is Self-assessment Working? The Decline and Fall of the Australian Income Tax System* by Michael Inglis, Tax Barrister. Attachment 2.
7 See p 47.

The **Goods and Services Tax (GST)** is an academic/bureaucratic attempt to tax something called 'Value Added'. The emasculated version which was introduced as a political trade-off is an administrative nightmare particularly for small businesses. The **'Progressive' Income Tax system (the PITs)** is an outdated relic of Marxist economic theory which penalises and suffocates individual endeavour. **Taxes on deemed annualised Company Profit** cannot be consistently or fairly measured because monetary value can only be accurately and consistently measured at the moment of sale. **Fringe Benefits Tax (FBT)** is just one unintended consequence of taxing individuals and companies (groups of individuals) differently. This complex imposition was introduced to counter resistance to high marginal rates of Personal Income Tax. The introduction of FBT had another unintended consequence, no new mining towns have been built in the outback since its introduction. Fly-in, fly-out is the 20th century response to an unpopular tax equivalent to the response in eighteenth century London to the 'Window Tax' when they bricked in the windows to avoid the tax. **Capital Gains Tax (CGT)** again defies accurate and consistent definition as the value of money changes by the minute. This tax is particularly immoral as it taxes the inflation largely attributable to the tax system itself. **Superannuation Taxes** are the height of hypocrisy for a government which aspires to help people provide for their own future with the inevitable outcome of a self-serving Nanny State. All of these taxes may have theoretical benefits but are complex in practice, highly discriminatory, inefficient, punitive and burdensome.

Conclusion

The Australian tax system has been thoroughly analysed with the assistance of the Unisearch study, and it is shown to fall capriciously, inconsistently and stiflingly on every economic sector of the community. The existing complex and inefficient system has been measured against a simple and efficient method of funding government, a 2% Expenditure tax, and a strong case is presented for adopting the latter.

A 2% Expenditure Tax to replace the existing system may be readily implemented

- The 10% complex GST can be reduced to a straightforward 2% Expenditure tax (Point-of-Sale tax),
- All Income, Capital Gains, Fringe Benefits, Superannuation and related taxes would be eliminated and
- Employee take-home pay would be maintained at current levels but with greatly increased purchasing power

Benefits would flow immediately to every individual and business in Australia, with reduced direct and indirect taxes and administration costs, lower operating costs and lower blood pressure for business owners and operators, lower costs for goods and services, lower costs of employment, vastly increased export opportunities and lower cost of government, reduced by some $83 billion in

a) churning taxes
b) high employment/low social security requirement and
c) greater efficiency in collection.

Australia would also enjoy cost effective government services, a stronger dollar, early repayment of the National Debt and a better quality of life for every citizen.

All businesses and individuals presently required to lodge a Business Activity Statement (BAS) would receive from the ATO a single page BAS (refer p 8) on which they recorded details for a limited period until lower prices are established. **Subsequently the BAS would only show two figures i.e. Sales and Employee payments (take-home pay, benefits and super) with the 2% Expenditure Tax calculated on these two amounts.**

In this country we have experienced the debacle of governments playing with 'the levers' of bank interest rates. In the early 1990s interest rates of 20%-30% destroyed many farmers and small business owners. Today in Japan and the USA, interest rates are down to zero to a few percent with nowhere to go in attempting to revive flagging economies hopelessly in debt. There is only one solution, and that is FUNDAMENTAL TAX REFORM.

What is proposed is radical, in the finest sense of the word. When the disease is well advanced, often radical surgery is the only cure. In following the argument, the reader should jettison all pre-conceived ideas, consider afresh the problem and the solution, and realise the opportunity for leadership to generate unprecedented public benefit.

Itemised response to Terms of Reference

Existing System

Comparisons

Senate Economic References Committee
Terms of Reference
The Structure and Distributive Effects of the Australian Tax System with reference to:

2% Expenditure Tax

(a) The level, extent and distribution of the current tax burden on individuals and businesses;

Existing System: **Independent university computer modelling[1] of the Australian economy has been carried out** to show the level, extent and distribution of the existing tax burden tax by tax, State by State and industry by industry. This is detailed in the book *Your Future in Your Hands* which accompanies this submission.
Examples are also appended showing the level and extent of taxes under the existing system as a baseline against which a demonstrably better method of funding government is measured. Since the GST was introduced, the price of books and other basic commodities such as certain foods have increased by 10% with no offsetting reduction from the abandoned Wholesale Sales taxes. When basic commodity prices rise, wage rise demands further push up manufacturing costs, and the wage/price spiral continues (refer p 30).

2% Expenditure Tax: **The computer modelling also shows the benefits in every economic sector of replacing the existing farrago of income and expenditure taxes with one simple, low, broad-based expenditure tax.** This model covered six years in two, three year periods and showed the 2% Expenditure tax to be a stable method of funding government. $83 billion would be eliminated from the cost of government (decreased churning taxes decreased social security as up to 2 million entered or re-entered the workforce). The take-home pay would remain at current levels, but as the tax on employment is cut to existing take-home pay plus 2%, **the cost of employment would drop by approximately one third in both public and private sectors, and demand for employment would rise.** Costs of production would drop accordingly along with the price of goods and services. The purchasing power of the take-home dollar would rise, exports would rise, and significant savings may be effected in the public sector by moving spending power to the private sector.

(b) The impact of (a) on taxpayer's families;

Existing System: It has been said that the current tax system is tantamount to the government declaring war on its own people.[2] The economic hardship and impact of unacceptably high levels of unemployment (using real statistics, not those generated using politically manipulated percentages of 'participation levels') imposed by the current tax regime has broken up many families and driven too many citizens to suicide as the ultimate measure of their despair.

2% Expenditure Tax: As described above, taxpayers' families would be immediate beneficiaries. Poverty traps would be eliminated by removing tax barriers to employment. The impact on families of a better tax system is demonstrated in the numerous case studies which follow. There is a better way than the current response of running courses such as Masters Degree in Suicidology.[3] The cause of the unemployment disease must be treated, not the symptoms.

(c) The use and efficacy of various tax and expenditure incentives to influence social and economic conduct, for instance participation in the workforce;

Existing System: A history of taxation, *For Good and Evil - the impact of taxation on the course of civilisation* by Charles Adams, describes how taxation has destroyed many of the major civilisations. Taxation should be to fund the essential elements of minimal government intervention in the marketplace, strong defence and a fair legal system of affordable justice for all citizens. A tax system which penalises and heavily taxes employment, and then subsidises consequent unemployment is the ultimate in foolishness. Obscene retirement schemes for company executives started out as reaction to high marginal PAYE tax rates with share packages in lieu of salaries. These undermine company resistance to Trade Union wage claims and consequent higher prices, and the wage/price spiral is again under way.

2% Expenditure Tax: Taxation measures which obfuscate the issue are easily exploited for political purposes to gain and protect power bases. A tax system which is confined to the purpose of funding good government, and which is clearly visible and understood by each taxpaying voter, will best serve a healthy democracy. Any government assistance then can be done in a visible manner through direct grants to worthy recipients. The impact of the current tax system on unemployment is clearly shown on p 35.

1 Unisearch—Queensland University of Technology
2 Is Self-assessment Working? The Decline and Fall of the Australian Income Tax System by Michael Inglis, Tax Barrister. Published in Vol 31 Australian Tax Review. Attachment 2. Reproduced with kind permission.
3 Advertised by Griffith University, Courier Mail 15 February 2003.

Itemised response to Terms of Reference (cont.)

Existing System — Comparisons — 2% Expenditure Tax

Existing System: With current government spending from the 3 tiers of government running at 37% of GDP, and with the Treasury Intergenerational Report predicting that Federal Government spending will need to increase by 5% of GDP in 40 years, it can only be presumed that State and Local Govt. expenditures are on track for similar orders of magnitude rises and that unless we change course, the cost of government will be well in excess of an unsustainable 40% of GDP by 2040. The Intergenerational Report could be so far out in either direction that reference to it is only to illustrate the point that we are not only going in the wrong direction, but the consequences of continuing this way are prejudicial to the very future of this society. Projecting 40 years into the future is a brave thing for the authors to attempt. Who would have thought in 1960 that within a decade, Australia would be earning billions of dollars each year from iron and coal exports then thought to be very limited resources? What would an Intergenerational Report generated in 1960 have predicted for 2000? Certainly not the Internet, nor the everyday use of computers. On the down side for the future, it will take only one major cyclone to wipe out $4 billion to $5 billion of annual export income from the Hay Point/ Dalrymple Bay coal terminal. We must take action now to swing the odds in our favour to meet such future challenges.

Comparisons: (d) The long term social and economic impact of the current distribution of taxation, government spending and employment including the intergenerational consequences of the tax structure;

2% Expenditure Tax: Only a consistent form of non-inflationary taxation can be relied on for results of reasonable predictability over a long term. Short and long term benefits of the 2% Expenditure tax are immediately apparent (see p 49).

Existing System: The sheer complexity of the existing tax system is inimical to any fair and equitable sharing of the revenue.

Comparisons: (e) The respective roles of the Commonwealth and the states in relation to the collection and distribution of taxation revenue;

2% Expenditure Tax: Australia is now relatively well developed, and if future governments aspire to a fair society, the user-pays system is difficult to ignore. The alert reader will have noticed the introduction of the 2% Expenditure tax replaces only the cocktail of income and expenditure based taxes which exist now. The level of excise duties on petrol, tobacco, and alcohol, all expenditure based, can be reviewed when the Expenditure tax is in place, and those revenues directed to benefit the community at large in the areas in which the use of those substances impact on the community particularly in better roads, and better health services. The visibility of the Expenditure tax and the various sources of its collection will facilitate the fairest possible distribution of that revenue.

Existing System: The other major issue which arises is that it is self-evident that the time has come for radical surgery to remove a system which is a threat to the economic well being of a country which deserves better.

Comparisons: (f) Any other relevant issues which may arise in the course of this enquiry.

2% Expenditure Tax: It is said that the tribal wisdom of the Dakota Indians passed on from one generation to the next tells words to the effect: *When you discover you are riding a dead horse, the best strategy is to dismount.* Our tax system, the horse on which every Australian must ride, is worse than moribund, it is destroying the riders. Every citizen who works to provide for themselves, their families, their friends and their country is being bled by this voracious creature. It's time to find a new horse.

The Structure and Distributive Effects of the Australian Taxation System have been analysed. These compare poorly with a fairer alternative, a 2% Expenditure Tax

The existing tax system falls unevenly and unpredictably across the community, with the rule book changing yearly. The total picture is described in Attachment 1, *Your Future in Your Hands*. Figures 7 and 8 in that publication show the spread of taxes levied on each industry sector for both PAYE and Total taxes.

The mining industry, because of its high average wages, is the most highly taxed in the PAYE category but the finance industry contributes more tax on a per employee basis. As discussed on p 35 of this submission, PAYE tax is a tax on the employer rather than the employee. While Trade Unions bargain and fight for more take-home pay, more disposable income, the employer has to fund this PLUS the burgeoning tax oncosts complete with bracket creep.

On p 70 of *Your Future in Your Hands*, the PAYE taxes collected from each industry sector are compared to the reduced tax revenue from a 2% Expenditure tax and the savings expressed in equivalent extra employees for each sector, totalling over 2 million equivalent extra jobs if the savings went directly to employment.

That some $83 billion per annum could be cut from government spending by changing to this simple Expenditure tax, and given that there are over 14 million employable people in the country and only 8 to 9 million in jobs (many of those part time) gives some measure of the cost to the community of the existing economic disaster which is the Australian tax system circa 2003.

Appendices 1 and 2 of *Your Future in Your Hands* show as no other study has done, the distribution of the annual tax burden State by State, Tax by Tax and Industry Sector by Industry Sector. The message is clear from these figures which cover a three year period, and they are consistent with an earlier three year period. A study covering a more recent period would be useful but not necessary to understand the problem and its solution. It is a sobering observation that the Social Security budget (inflated by high underlying tax-driven unemployment) is significantly more than the total value of Australia's massive minerals and energy export industry currently returning approximately $59 billion per annum.

The population time bomb is ticking. Locally we could handle it, but we have seen only the initial waves of boat people. We cannot wait until June 2004 to read the findings of this present inquiry into the Australian tax system. The Federal Government must act as soon as it verifies the information in this submission. The Australian tax system with its built-in inflationary effects must be fundamentally reformed immediately. Superannuation is unfunded and each year the level of risk grows, threatening the already inadequate funds set aside. The timetable suggested may be optimistic, but targets must be set and acted upon with the utmost expediency.

Objectives in funding fair and democratic government

A Taxation System should be:

- a Simple, Fair, Equitable, Visible, Consistent.
- b Easy to collect - Easy to understand - Easy to calculate - Easy to comply.
- c Easy to apportion between Commonwealth, State and Local Governments.
- d Easy to police.
- e Free from Government vote manipulation as an agent of Social, Industrial or Economic Policy.
- f Not a major factor in wage demands (refer p 3) .
- g Resistant to change.
- h Welcomed by all taxpayers for getting the government off their backs, out of their hair and out of their pockets.

The Taxation System should also:

- i Encourage its own payment - discourage its own avoidance.
- j Provide sufficient Government revenue - not increase but decrease the Public debt.
- k Not distort people's economic decisions.
- l Encourage industry, exports and imports.
- m Treat Internet trading on the same basis as local over-the-counter trade.
- n Tax income or expenditure but not both.
- o Provide incentive for industrious production by individuals and companies.

The existing system fails to satisfy any of these criteria.

ALL OF THIS IS SELF-EVIDENT

10% GST does not compute

1. GST heaps taxes on the taxes already levied, imposing an uneconomic burden on every citizen. GST **effectively increases** PAYE, Personal Income Tax, Company Income Tax, Fringe Benefits Tax, Capital Gains Tax, Withholding Tax, Superannuation Surcharge and many other taxes built in to the 'Value Added' at each stage, by 10%. Any increases in these taxes, now automatically increase by 10%.
2. GST **has not achieved** this Government's stated objectives in any of the countries in which it has been implemented.
3. GST has produced **economic distortions** to the detriment of all the people in every country which has adopted it. Unemployment is high in the UK, Germany and France. GST did not produce the desired economic outcomes in Canada and New Zealand.
4. GST is **not fair and equitable**. Compliance is costly and complex—it cannot catch offshore tax manipulation of the Income tax system through transfer pricing.
5. GST is **not readily adaptable to Internet trading** (Ottawa OECD Conference Oct 98).
6. GST is inflationary and **retards paying off the National Debt**.
7. GST requires **huge administrative adjustments** to nullify the deleterious effects it has on certain sections of society, especially those on low incomes because of the high cost of food, clothing, shelter and essential services; on religious and charitable institutions; Credit Unions; self-funded retirees; people on fixed incomes; people with disabilities; those in primary industry, manufacturing, health, education, recreation, book and magazine publishing, the used car industry and many other activities. Obviously the **Government cannot possibly compensate** all these people adequately, leading to festering nests of unhappy people. Providing millions of dollars of subsidies to assist over 1 million small businesses and special interest medium and large businesses recognises the problem exists, but fails to recognise the magnitude.
8. GST does not nullify CPI increases.
9. GST **distorts people's investment decisions** towards obtaining tax advantage rather than economic advantage.
10. GST has **increased the costs of compliance** generated by our ramshackle system and it has not released the people from harassment by the bureaucracy and lawyers and accountants parasitising the carcass of our decaying tax system which rewards wealth redistributors at the expense of wealth creators.
11. GST puts a **load on our exporters** and gives a **windfall to importers**, thus encouraging companies to move offshore.
12. The **cascading effect** of the 10% GST through production chains is **at least double** that of a low broad-based expenditure tax
13. The 10% GST **holds no attractions** beside a broad-based low expenditure tax when it comes to fairness of the system, living standards, the efficiency of the economy and future public revenues.

NONE OF THESE DISABILITIES WOULD OCCUR
WITH A LOW, BROAD-BASED, SIMPLE EXPENDITURE TAX TO REPLACE INCOME TAX AND ITS DERIVATIVES

THE BENEFITS OF THE SIMPLER SYSTEM WILL BE ACCEPTED
BY FUTURE GENERATIONS AS SELF-EVIDENT.

Implementation of fundamental tax reform through simplification of B.A.S.

Example of a small business

First Yearly BAS after introduction of 2% Expenditure tax (transition year only)

	$	$
Total value of sales of goods and services		490,000
Sales subject to GST	396,000	
Less GST on these sales - 1/11th of $396,000	36,000	
Sales exclusive of GST	360,000	
Sales not subject to GST	94,000	
Total Sales Exclusive of GST	454,000	
Total taxes presently paid to ATO:		
GST on sales as above	36,000	
Deduct claim for Input Tax Credits on purchases	15,000	
GST payment to ATO	21,000	
PAYG Tax on employees wages (employees take-home pay $160,000)	40,000	
Fringe Benefits Tax (employee benefit $5,000)	5,000	
Employer Superannuation contributions $18,000, Tax Deduction see below		
Payroll Tax - not applicable	0	
Business Income Tax on profit of $76,000	24,000	
Total of the above taxes to be abolished and used to reduce selling prices		90,000
		400,000
Deduct actual reduction in the price of purchased goods and services (assume 17% of $165,000)		28,000
Value of Sales for 2% Expenditure Tax		372,000
Add 2% Expenditure Tax		7,000
Selling prices reduced by 23% (maintaining existing operating profit) to a total of		379,000
Deduct cost of sales:		
Employees take-home pay and benefits	165,000	
Employer Superannuation contributions $18,000, Tax Deduction at only 2% substantially increasing the superannuation payout to employees	18,000	
Purchases of goods and services (assumed reduced in price by average 17% - originally $165,000)	137,000	
2% Expenditure Tax on sales of $379,000 and on take-home pay benefits and superannuation of $183,000	11,000	
		331,000
Deduct reduction in taxation compliance costs	4,000	
		327,000
Net Profit after 2% Expenditure Tax (Previously $76,000 - $24,000 = $52,000)		**$52,000**

Second and subsequent Business Activity Statements will reduce to -

(as lower prices are established)

		2% Expenditure Tax
Sales inclusive of 2% Expenditure Tax	($379,000 /102) x 2 =	7,431
Employee payments - take home pay, benefits, and super	($183,000 /100) x 2 =	3,660
	Payment to ATO of 2% ET	**$11,091**

Instead of paying $90,000 in taxes to the ATO the business pays 2% Expenditure tax of $11,000 and applies the reduction in taxes of $79,000 to reduce selling prices. Together with lower prices passed on by suppliers and reduction in taxation compliance costs, the 2% Expenditure tax will enable the Business to reduce its prices by 23% to make the business more competitive on both domestic and export markets. This process is managed on an industry basis including the use of existing taxes to remove impediments to sustainable lower prices and increased demand and supply.

The Business owner's profit of $52,000 has an average increase in purchasing power of 17% to $61,000, i.e. will buy more goods and services including for the development and expansion of the business as consumer demand increases as a result of the average 17% reduction in prices of all goods and services and workers continue to receive their present take-home pay. Employees' take-home pay and benefits of $165,000 enjoy an average increase in purchasing power of 17% to $193,000.

Note: 1) Figures are based on maintaining profits at current dollar values through the implementation period (rounded to the nearest $1,000).

2) *The 2% Expenditure tax is NOTHING LIKE a Bank Debits Tax, under the 2% Expenditure tax, bank withdrawals and deposits are not taxed as such.*

Key elements of 2% Expenditure tax:

After introduction, employees receive the same take-home pay as before, cost to employ goes down to take-home pay plus 2%, employment rises, cost of supplying goods and services falls, compliance cost falls, spending power of the take-home dollar and all savings rises, cost of government falls and yes, the government will have enough money to provide better Social Security, Defence, Education, Health and Infrastructure - and pay off the National Debt.

Fundamental tax reform can fund sound government and pay off foreign debt

Forward Estimates of Federal Govt. Revenue and Expenditure under 2% E.T.

Source: Final Budget Outcome 1998-99, ABS Labour Costs, and Tax Reform Ltd Submissions to the Senate Select Committee on a New Tax System

	Financial Outcome 1998-1999 $Billion	2% Expenditure Tax Outcome in 3 years $Billion	Taxes Eliminated in 3 years $Billion	Wealth creation for Investment $Billion
Commonwealth Revenue				
From Taxation				
Total Tax on Individuals	80.0	0.0	80.0	
Company Tax	20.7	0.0	20.7	
Superannuation Funds Tax	3.9	0.0	3.9	
Sales Tax	15.2	0.0	15.2	
Excise Duty	13.6	13.6		
Customs Duty	3.6	3.6		
2% Expenditure Tax - Public Sector		3.0		
- Private Sector		54.0		
Other Taxes fees and fines	4.1	4.1		
Total Taxation	**141.1**	**78.3**		
Interest Dividends and other	5.3	5.3		
Total Commonwealth	146.4	83.6		
State and Territories - Payroll Tax	8.1	0.0	8.1	
Total Revenue	**154.5**	**83.6**		
Total of Taxes Eliminated			**127.9**	
Commonwealth Outlays				
General Public Services	7.2	5.0		
Defence, Public Order and Safety	12.2	8.6		
Education	9.7	5.7		
Health	23.3	9.7		
Social Security, Welfare and Housing	54.0	20.5		
Recreation and Culture	1.4	0.0		
Industry Economic Support	9.2	0.0		
Public Debt Interest	7.5	7.5		
General Purpose Inter Government Transactions	24.5	8.6		
Total Commonwealth Outlays	**149.0**	**65.6**		
Financial Surplus	**5.5**	**18.0**		**18.0**

Increase in community purchasing power and capacity to save and invest to secure ownership of Australian Business and Property	
Reduction in selling prices of goods and services by the elimination of the taxes as above	127.9
Add, reduction in Admin. and Compliance costs	2.1
Add, reduction from increased economic activity	0.0
Deduct, 2% Expenditure Tax	57.0
Lower prices of goods and services by	**73.0**
Deduct, Private sector outlays on a user pays basis	
Education	1.0
Health	6.6
Recreation and Culture	1.4
Industry Economic Support	9.2
Housing and Community Amenities	1.2
State, Territory, and Local Government services	8.6
Sub-Total	**28.0**
Increase in community purchasing power and capacity to save and invest	**45.0**
Total surplus to buy back ownership of Australian business and property and/or to pay off Net Foreign Debt	**63.0**

Roll-over to a 2% Expenditure Tax

Tax Reform Implementation Timetable

	2003 Jan 1	2003 July 1	2004 Jan 1	2004 July 1	2005 Jan 1	2005 July 1
2% Expenditure Tax QUICK START: 2% Expenditure Tax REPLACES complex accounting, administration and compliance, with a simple one-page tax return.		Start				Complete

Appendix 1

Checklist for Australia's economic policies

Alternative policies for the Future	Keep Current Govt Policies	Incr. Govt Size	Cut Social Welfare	Your Choice	Substitute 0.3% Debits Tax	Substitute Land Rent	Substitute 2% Expend. Tax
1 Can the policy adequately fund sound, sustainable government?	No	No	Maybe		No	No	**Yes**
2 Will it lead to greater productivity?	No	No	Maybe		Maybe	Maybe	**Yes**
3 Will it cut inflation?	No	No	No		No	No	**Yes**
4 Will it help those dependent on government to stand on their own feet?	No	No	No		No	No	**Yes**
5 Will it reduce unemployment?	No	No	Maybe		Maybe	Maybe	**Yes**
6 Will it reduce visible taxes?	No	No	Yes		Yes	No	**Yes**
7 Will it reduce invisible taxes?	No	No	Yes		Yes	Yes	**Yes**
8 Can it be achieved democratically?	N/A	Yes	Hard		Yes	Yes	**Yes**
9 Does it appeal to the entire spectrum of the community?	No	No	No		Yes	No	**Yes**
10 Is it efficient to administer?	No	No	Yes		Yes	Yes	**Yes**
11 Will it have direct impact in a more effective fight against crime?	No	No	No		No	No	**Yes**
12 Will it be a constant reminder of the cost of government?	No	Maybe	No		No	No	**Yes**
13 Will it have direct impact on an efficient anti-drug campaign?	No	No	No		No	No	**Yes**
14 Will it provide a constraint on the cost of government?	No	No	No		No	No	**Yes**
15 Will it improve manufacturing capability and slash our overseas debt?	No	No	Maybe		Maybe	Maybe	**Yes**
16 Will it reduce poverty?	No	No	No		No	Maybe	**Yes**
17 Will it increase profitability?	No	No	Maybe		Some	Some	**Yes**
18 Can it be achieved in one political term of office?	N/A	No	Maybe		Yes	Yes	**Yes**
19 Will it mobilise the resources of pensioners for their benefit?	No	No	No		No	No	**Yes**
20 Will it improve our defence capability?	No	No	Maybe		No	Maybe	**Yes**
21 Will it provide a climate for regulatory reform to improve eg. Trade?	No	No	Maybe		Maybe	Yes	**Yes**
22 Is it simple?	No	No	No		Yes	No	**Yes**
23 Is it fair and equitable?	No	No	No		No	No	**Yes**
24 Can it tax Internet trade fairly— on an equal footing with over-the-counter trade?	No	No	No		No	No	**Yes**

Notes to the Checklist

1. **Can the policy adequately fund sound, sustainable government?**
Only by mobilising the full resources of a country can sound, sustainable government be achieved. The financial integrity of the 2% Expenditure tax is demonstrated in an analysis of the computer modelling of the Australian economy by Unisearch as fully described in the book *Your Future in Your Hands*, and as further summarised herein.

2. **Will it lead to greater productivity?**
People are motivated when their efforts are rewarded and they have control over their lives. The 'tragedy of the commons' is the tragedy of communism. When the community 'owns' everything, the fruit is picked while it is still green in case the neighbour spots it first, and there is little incentive to plant new fruit trees because the neighbours are not doing their share unless a policeman tells him to do it. Progressive rates of taxation under the current system are a penalty for doing more than your share. To avoid this unjust penalty, industrious people may even work under false names and go to extraordinary lengths to split income to drop into a less punitive tax bracket. A low, single and fair rate of taxation will allow the natural human trait of improving one's own lot, to be channeled into productive areas with low bureaucratic overheads.

3. **Will it cut Inflation?**
Too much money in circulation in relation to the amount of goods and services being traded, is Inflation, too little is Deflation. The market is volatile, and the amount of money in circulation must be kept in tune with the goods and services with which it is exchanged. Banks create credit against proven assets or performance as one way of keeping the money supply in tune with the market value of goods and services. 2% Expenditure Tax will allow Government to have timely and detailed information on monetary turnover making it better equipped to maintain the growth of money (the money supply) in tune with the market it serves.

4. **Will it help those dependent on Govt to stand on their own feet?**
The current system locks a growing number of people into Government charity. The inbuilt means test in the 2% E.T. allows a self controlled exit from the pension trap. Lowering the cost of employing labour, provides more job opportunities. The cost of a loaf of bread will also drop, this alone will alleviate poverty. Bread is the time honoured example—the cost of all foodstuff and other commodities would also drop.

5. **Will it reduce unemployment?**
The cost of employment is so overloaded with PAYE and Payroll tax surcharges, that unemployment can only grow under the current system. Cut the tax on labour to lower its price, and the demand for labour will rise—it's simple economics, it's self-evident.

6. **Will it reduce visible taxes?**
2% E.T. will eliminate thousands of pages of unnecessary and unworkable Governmental rules and regulations and reduce the tax required to pay for this. 'Visible' is used in preference to the ambiguous word 'transparent'.

7. **Will it reduce invisible taxes?**
The term 'invisible tax' is used to cover the cost of complexity and compliance with archaic and punitive tax laws. e.g. the paper war in the administration of fringe benefits and capital gains tax, which wastes valuable productive time.

8. **Can it be achieved Democratically?**
Over 50% of voters are dependent on government income, either being employed in the public sector or dependent on social welfare. All would enjoy increased spending power under 2% E.T. Also this method of taxation would automatically cut the **need** for social welfare and would have greater voter appeal across the board than a policy of simply cutting social welfare to address our current problems. Encouraging exercise to allow people to walk is better than kicking away the crutch.

9. **Does it appeal to the entire community?**
Once the credibility gap is bridged and the level of tax proposed at 2% is seen to be not preposterously low, there will be support across the entire political spectrum for this major breakthrough in taxation. The cost of commodities would be lower. 2% E.T. would reduce taxes and the cost of taxes (the cost of employing teams of lawyers and accountants, and the time constraints on market decisions to fit with feared Federal Budget changes or the most propitious Tax year) on both the higher income bracket and low income earners, with no unfair demarcations.

10. **Is it efficient to administer?**
The 2% rate is low and spread over a wide tax base and its fairness would encourage honesty and voluntary compliance. Augmented with random spot audits and punishment to fit the crime of non-payment, administrative inefficiencies of the current system would be eliminated. Provisional payments and withholding taxes would go.

11. **Will it have direct impact on a more effective fight against crime?**
Under 2% E.T., 21,000 Tax Department employees would be freed of the administrative burden of enforcing deemed rulings and obscure interpretations which abound under the current punitive system of artificial thresholds and demarcations. They could get on with the more rewarding job of detecting undeclared peaks in the income of criminal elements. The spotlight would come onto declared bonanzas of ill-gotten gains. Criminals would be faced with 2 choices after a bank job or a drug drop, either declare it and pay the tax due—and leave an indelible trail for investigators—or not declare it and be subject to a tax audit. Capone was jailed by the IRS when the FBI failed. The current tax system is making criminals out of honest, productive people, and letting the real criminals go free.

12. Will it be a constant reminder of the cost of Government?

As a service sector, Government has a cost. Under 2% E.T. every voting adult pays a visible contribution towards this cost in direct proportion to their use of money.

13. Will it directly impact on an efficient anti drug campaign?

2% E.T. provides a two way impact. First, reduced unemployment and restoration of the incentive to work honestly would remove much of the need for quick thrills and fast hopeless living. Boredom breeds frustration. Second, a new task force of redeployed Tax investigators would be an effective deterrent.

14. Will it provide a constraint on the cost of Government?

By bringing the major tax collection into the 2% ambit—Government economic activity can be closely tied to the country's economy. To increase it to 2.1% would be politically difficult simply because it is not so easy to calculate, and with this tax visible on every receipt and viewed daily by 14 million taxpayer/voters, the divide and conquer tactics historically used to introduce tax increases would be impossible. To increase it to 3% would represent a 50% hike in taxes and would be politically more difficult. A referendum could lock 2% into the Constitution and put Government on a strict economic diet. Then if the economy prospers, so will Government. Government policies should provide a fair field with no favours and not distort investment decisions in annual hunts for ostrich farms and other tax havens.

15. Will it improve our manufacturing capability and slash overseas debt?

By reducing the cost of labour, the cost of production will drop and improve our export potential. Once this is done, and not before, tariffs can be phased out. With a fair and simple tax base, we could import the world's best technology and tools to become a great manufacturing country. Forget the cheap labour illusion—one dragline does the work of 20,000 coolies. We need an educated, motivated workforce with access to the best tools to be internationally competitive. And with 2% E.T. we would be deluged with offers from the world's best brains for a place in the sun with employment opportunities opening across the entire spectrum from baby sitters to bridge-builders, from house renovators to highway constructors, trainees and trainers—the opportunities are endless.

16. Will it reduce poverty?

By eliminating the tax barriers to employment, between 1,000,000 and 2,000,000 jobs will be created through the private sector. There can be no better way of reducing poverty than by allowing the dignity of labour to prevail, and to reduce the cost of living as shown by the loaf of bread example.

17. Will it increase profitability?

Under 2% E.T. there are no penalties on profit. A well equipped and motivated workforce can also do wonders for a balance sheet. The tax rate does not increase for overtime or extra jobs.

18. Can it be achieved in one political term of office?

A three year implementation is practical.

19. Will it mobilise the resources of pensioners for their own benefit?

The spending power of pensioners will increase e.g. bread will be up to 20% cheaper. Also there will be no taxation barriers to pensioners obtaining jobs to supplement their pension.

20. Will it improve our defence capability?

That the government will have an increase in real spending power for infrastructure development, defence and reduction of the Public Debt is demonstrated.

21 through 23:

All self evident.

24. Can it tax Internet trade equitably with over-the-counter trade

This is another pressing reason for introducing the 2% E.T. now. Electronic commerce is instant and passes over border gates, not through them. Profit and VAT based taxes are too slow and archaic for trade into the future, **all having complicated tax refund arrangements**. Also the heavy tax on labour drives investment to high-tech, low-labour solutions, or the investors follow the silk road to countries where the total cost of labour, including tax, has least impact on the cost of the tradable commodity. The interchangeability of goods, services and labour has never been more apparent, and one would wonder why the taxes on labour are different from the taxes on the goods made from that labour, or why electronic trade should be taxed on a basis different from trade over-the-counter. **One simple tax on each trade at source allows easy implementation with low compliance costs and efficient spot checks for audit purposes.** The country which first adopts this will have a huge competitive advantage in world trade. Rogue traders could still avoid it, but when the cost/benefits ratio of compliance is better than the cost/benefits ratio of evasion, voluntary compliance would be much higher than with the existing system in every field of endeavour. All sales including imports are taxed lightly and fairly under the 2% E.T. proposal, and under 2% E.T. there is no comparative advantage by moving offshore. On the contrary, there would be **a strong incentive for industry and commerce to start up here or relocate to Australia**. Land Taxes are too localised. If Land Tax was the principle method of funding government, Internet traders would operate offshore free of the tax that local traders would have to carry.

Appendix 2

Case Studies illustrating the distributive effects of pre and post GST tax, vs 2% Expenditure tax

(1) Small Imported Car - Retail Price $15,000 pre-GST

(typical of manufacturing)

Cost/Price analysis	Pre-GST Price		10% GST Price		2% Expenditure Tax Price
W/S Sales Price	9,286		9,286	(1)	9,286
Costs/Profit	2,099		2,099	(2)	2,099
Price to dealer	11,385		11,385		11,385
W/S Sales Tax 22%	2,043		-		-
2% Expenditure Tax	-		-	2%ET x 2 on (1)	393
				2%ET x 1 on (2)	42
Dealer Margin	562		562	(3)	562
List price	13,990		11,947		
Stamp Duty on List Price	280	GST	1,195	-2%ET on (3)	11
Third Party Insurance	230	+GST	253	-17% + 2%ET	195
Registration	214	+GST	235	+ 2%ET	218
Transport	69	-WST x Excise	62	-17% + 2%	58
Co-op advertising	40		44	-17% + 2%	34
Pre delivery	250		275	-30% on 50% + 2%ET	217
First Service	200		220	-30% on 50% + 2%ET	174
Floor Plan - Finance	50		55		51
Property etc. costs	100		110	-17% + 2%ET	85
Reduction in dealer margin	(423)		(423)		(423)
2% Expenditure Tax	-		-		260
Selling Price incl. tax	**15,000**		**13,973**		**13,262**
Price reduction	**-**		**1,027**		**1,738**
Dealer's net margin	139		139		139
Add 8% hold back margin	1,120		1,120		1,120
TOTAL	1,259		1,259		1,259
Courier Mail Price			13,677		
Price reduction			1,323		

An analysis of these figures indicates that under a 10% GST, it pays importers to avoid showrooms and advertise fully finished cars on the Internet with all features of the car portrayed in graphic detail. Cars will be purchased over the Internet and driven from the containers fully fitted and registered, so that even car dealerships will be overseas entities.

Under 2% Expenditure Tax, the lower cost structure on the costs of labour will encourage manufacturing industries back to Australia

(1a) 10% GST facilitates the export of Australian jobs and wealth

Pre-GST Wholesale Sales Tax

Rates - 12% Household, 22% General, 26% Wine, 32% luxury goods, 45% luxury vehicles - all increase the price in Australia of imported goods, effectively taxing all overseas inputs.

A 10% GST is disadvantaging Australian manufacture and helping the down-sizing of service industries

On these imported goods the replacement of these Wholesale Sales Tax rates by a 10% GST has effectively reduced the Australian tax revenue by -

12% down by 17% to 10%
22% down by 55% to 10%
26% down by 62% to 10%
32% down by 69% to 10%
45% down by 78% to 10%

Effectively, imposition of a GST is giving tax credits of these percentages on the overseas costs, profit components, including labour of imported goods. In contrast, Australian costs, profit components, including labour, will bear an additional tax of 10%.

Overseas manufacturers exporting to Australia will take out of Australia costs, profit components, including labour, because after tax they can reduce their costs and either reduce their prices to the Australian consumer or more likely hold existing prices and increase their profits.

In the case of imported small cars the overseas manufacturers exporters will offer their product over the Internet with audio visual presentation, including a graphic on-screen experience of driving the product in a range of simulated Australian conditions. The Australian consumer will make an on-screen decision to buy, motivated by instant incentives, e.g. cash-back deposit to their local bank account etc. The imported small car, ready for delivery, including registration plates and sticker will be collected by the Australian customer from the wharf distribution facility.

Giving away this cost/profit price advantage to overseas car manufacturers will make it economically impossible for Australian manufacturers to produce such products. Not only will it savage existing manufacturing in Australia, but it will also down-size all service industry presently supporting these manufacturers. 2% Expenditure Tax gives back the incentive to Australians to commit to manufacturing industry for both domestic and export markets.

Imported products and services bear 2% Expenditure Tax on all inputs and 2% Expenditure Tax on the export price to Australia, a total of 4%.

In the Small Car example the impact on the Retail Price is as follows

Today's	$15,000	Reduction	
10% GST			
(unable to agree CM $13,677)	13,973	$1,027	
2% Expenditure Tax	13,262	1,738	

the impact on the W/S Sales Price including related tax

Today's	11,329	Reduction	
10% GST	9,286	2,043	
2% Expenditure Tax	9,679	1,650	

the impact on the cost to employ Australian workers

Today's	34,507	-	
10% GST	37,958	(3451)	Increase
2% Expenditure Tax	27,190	7,317	Decrease

The incentive of a 21% reduction in today's cost to employ, 2% E.T. on sales replacing profits tax etc. will provide the economic incentive to shift manufacture to Australia and/or the rebirth of the Australian car manufacturing industry as a total product producer. 2% E.T. is pro employment in Australia and the creation and accumulation of wealth by Australians in Australia.

Exporters to Australia will face stiff competition from Australian manufacturers and service industry including Tourism. Australian domestic consumers will financially benefit, further increasing the purchasing power of take-home pays and incomes, and savings and investments. 2% E.T. and its flow-on economic advantages is **inflation negative and provides the basis for long term zero inflation.**

(2) Export Meat Industry
(typical of pastoral and related industries)

2% Expenditure Tax recognises that Farmer, Abattoir, Wholesaler and Butcher's prices are burdened with tax, in particular by the Income tax on wages. Under 2% Expenditure Tax, 9 major taxes are abolished to reduce all prices of goods (up to 40% reduction) and services (up to 30% reduction). Of special interest, the check-out total of a shopping trolley is expected to be down by 20%. Significantly for the farmer 2% Expenditure Tax is cash flow positive as no PAYE tax etc. is paid on wages regardless of any cash flow available from sales.

In an actual industry example 2% Expenditure Tax would apply as follows -

	Price	Mark-up	TOTAL	2% Expenditure Tax	
Farmer	$80.00	-	$80.00	$1.60	
Abattoir	$81.60	$32	$113.60	$2.27	
Wholesaler	$115.87	$28	$143.87	$2.88	
Butcher	$146.75	$64	$210.75	$4.22	
Consumer	$214.97			$10.97	or 5.1% of the price to the consumer

Compared to GST price of $330, 2% Expenditure Tax delivers a **35% price reduction to the consumer in this example**.

Under 2% Expenditure Tax all customers **have increased purchasing power because of lower prices,** providing industry with the opportunity to sell more product to Australians with a flow on cost efficiency to exporters.

Under 2% Expenditure Tax the farmer sells his livestock at a price which secures his economic future. Similarly, the abattoir wholesaler and butcher will apply mark-ups to secure their economic future. Significantly all prices of the livestock to the consumer will not be burdened by the 9 major taxes but only 2% Expenditure Tax on input costs, the sale value of the livestock and on all distributions of profit.

(3) Export Sugar Industry
(typical of agricultural and related industries)

All sectors (growing, milling, refining, exporting and domestic wholesale and retail activities) of the Australian sugar industry benefit under 2% Expenditure Tax.

The concept of 2% Expenditure Tax is to take the existing 9 major taxes out of industries' costs and prices to give new price competitiveness. This is implemented by consultation between the industry and Government during the three year implementation period of 2% Expenditure Tax. This new cost/price competitiveness gives the Australian Sugar industry the financial capacity (eg positive cash flows) to protect its global and domestic markets. Also for the industry to become price makers for profits not price takers for losses.

2% Expenditure Tax rebates 100% the 9 major taxes presently in the cost of all inputs. eg Wages and all prices of all industry sectors. These 9 major taxes are abolished over 3 years to substantially lower cost inputs and prices. 2% Expenditure Tax is applied to each sale but cascades at a low rate compared to the existing high cascading rate of existing taxes.

Exports have substantial tax rebates as above, giving them a new price competitiveness to protect existing markets and provide surplus for growth.

Imports are subject to 2% Expenditure Tax at the time of entry into Australia, at 2% Expenditure Tax on the INPUTS (eg 100 x 1.02 = 102) to place such goods on an Australian tax parity with goods produced in Australia, plus 2% Expenditure Tax on the IMPORT (eg 102 x 1.02 = 104.04). Thereafter each sale and the inputs to these sales are subject to 2% Expenditure Tax.

Imports will be less competitive whilst Australian products will be more competitive.

(4) Compliance by Foreign Corporates and individuals with 2% Expenditure Tax

In brief

All Foreign Corporates and individuals will comply with 2% E.T. on all their dealings in Australia based on values current in the Australian economy, including on imports and transfers of funds into Australia, and on exports and transfer of funds out of Australia. This compliance occurs as a consequence of documentation, declarations, 2% E.T. disclosure and payment, and 2% E.T. returns enforced by certification, audit and computer comparison of the value of ownership change against benchmarks of data bases representative of current values in the Australian economy.

Detailed response

2% E.T. is charged to Foreign Corporates and individuals in a wide range of circumstances including:

On imports of goods and services and funds

2% E.T. is charged at the time of entry into Australia.

On purchases in Australia

2% E.T. is charged on the sale value of goods, services, including labour purchased, at the time of purchase.

On sales in Australia

2% E.T. is charged on the sale value of goods and services including labour at the time of sale.

On borrowing either from within Australia or from overseas

2% E.T. is charged on the amount of the borrowing at the time of borrowing, also on the repayment of these borrowings.

On the distribution of funds or goods and services of value to outsiders but within Australia

2% E.T. is charged when the distribution takes place in whatever form this is.

On the distribution of funds or goods and services of value including those representing capital and profits to entities and individuals outside Australia

2% E.T. is charged when the distribution takes place in whatever form this is.

On the acquisition of an Australian owned enterprise and assets e.g. property

2% E.T. is charged when the acquisition takes place based on the market sale value

To achieve compliance by Foreign Corporates and individuals with 2% Expenditure Tax, a multiplicity of steps arise, including independent verification and by cross-reference to the other party to a transaction. These steps include:

On Imports of goods, services and funds

Imports
- by shipping documents and import/customs declarations - computer checking of values can identify understatements of a material nature;
- by payment of the imports cross-checked against the import documentation values;
- by comparison with insured values.

Funds
- by foreign exchange transactions;
- by funds transfer through the banking system in both foreign and AUD$ funds;
- by declaration at the time of entry of the funds into Australia.
- by Reserve Bank of Australia controls.

On purchases in Australia

- by being charged by the seller who has first responsibility to charge and collect the 2% E.T. and pay this to the Federal Government. The purchaser has second but equal responsibility with the seller to see that the 2% E.T. has been charged (visible on all documentation) and that they have proof of payment to the seller;
- by computer checking and comparison of the monthly 2% E.T. return required to be lodged by the seller; with the monthly 2% E.T. payment
- by payment of the purchases cross-checked against the purchase documentation.

(4) Compliance by Foreign Corporates (cont)

On sales in Australia

- by charging 2% E.T. to the purchaser with the charge visible on the sales documentation;
- by computer checking and comparison of the monthly 2% E.T. return required to be lodged with the monthly payment to the Tax Office.

On borrowings either from within Australia or from Overseas

- by the banks charging 2% E.T. at the time of borrowing and on each repayment. The Bank paying 2% E.T. to the Government with their monthly 2% E.T. Return.
- by the Banks charging 2% E.T. on the receipt of funds representing borrowings from overseas and on the disbursement of funds overseas representing repayments. These transfers of funds being separately subject to currency control by the Reserve Bank of Australia.

On the distribution of funds or goods and services of value to outsiders but within Australia

- The seller is legally responsible to determine the current commercial value of the ownership change and to calculate 2% E.T. on this value with the total being paid by the recipient. The seller pays the 2% E.T. to the Government with the monthly return. For compliance, efficiency and effectiveness purposes, where the change of ownership involves a business e.g. Corporate entity and an individual, the business has first legal responsibility to pay the 2% E.T. to the Government not later than monthly. The individual has second but equal liability to see that the 2% E.T. is visible on the documentation and that they have paid 2% E.T. to the business, e.g. an employee receives a payslip showing that 2% E.T. has been paid by deduction to the employer. The annual employer's certificate to employees details payments e.g. take-home pay to the employee and 2% E.T. paid to the Government on behalf of the employee. The employee sends this certificate to the Government with a single page 2% E.T. Annual Return. Where the change of ownership involves two businesses or two individuals, the business/individual making the sale has first legal liability to charge the 2% E.T. to the buyer and to pay this 2% E.T. to the Government not later than monthly.

On the distribution of funds or goods and services of value including those representing capital and profits to entities and individuals outside Australia.

Funds
- by documentation and declaration of these payments;
- by the Banks charging 2% E.T. on the amount sent outside Australia when this takes place,
- by Reserve Bank control of these funds being sent outside Australia.

Goods and Services
- by documentation and declaration of these exports,
- by statutory reporting to the related Government authority including ABS;
- by legal liability of the recipient of these exports with documentary proof, e.g. on shipping documents that the 2% E.T. has been charged and paid to the exporter in Australia.

Capital and Profits - as for Funds.

In all cases the exporter is required to make declaration in their monthly 2% E.T. return to the Australian Government and include payment of 2% E.T. or to include proof of payment by others, e.g. Banks.

On the acquisition of an Australian owned enterprise and assets, e.g. property

- by the seller or agent, e.g. Australian stockbroker charging 2% E.T. on an acquisition through the Australian Stock Exchange at the market value. Stockbroker pays 2% E.T. to Australian Government with monthly return of trading etc.
- by the seller or agent, e.g. business broker charging 2% E.T. on the sale price certified by an approved business valuer or by reference to other tenders submitted in an open market tender for the business;
- by lodgment of the sale details, including 2% E.T. paid, with the Registrar of Foreign Ownership of Businesses, Land and property, and other assets.

General Compliance arrangements

- Legal liability to pay 2% E.T. of both the seller and buyer to all changes in ownership.
- Businesses and individuals conducting changes in ownership exceeding $10,000 per month to lodge monthly 2% E.T. returns and pay any liability to 2% E.T..
- Monthly and Annual 2% E.T. return to include declarations of changes in ownership conducted by counter trade, barter, gift or any other means including via the Internet..
- The values on which 2% E.T. is paid to be confirmed by reference to open market values and benchmarks including for items infrequently traded, sales history and market trends.
- The Annual Financial Statements of businesses and individuals conducting changes in ownership exceeding $1m in value per annum to be subject to independent professional audit under ASC regulations with the audit certificate including verification of compliance with the payment of 2% E.T. on the changes in ownership in the year.
- The 2% E.T. monthly and annual returns contain the relevant data to establish the level of accumulated wealth of business and individuals. Where computer comparisons against valid benchmarks disclose abnormalities between declared changes in ownership and actual ownership, this will initiate a compliance investigation process including, if non compliance proven, the application of penalties with a minimum penalty rate of 20%.

The principal strength of 2% E.T. is that it is based on a philosophical concept of equity where all individuals and businesses, associations, unions and other entities, however formed, pay 2% E.T.

First, on the means of entering into a change in ownership, e.g. an individual offering labour for sale, (level of ability, education, training and experience), e.g. a business, association, union etc. receiving capital and borrowing funds. Consequently all imports of funds, goods and services, are subject to 2% E.T. so that foreign businesses and individuals are treated in the same manner as Australian businesses and individuals in obtaining the means of entering into a change in ownership.

Second, on subsequent changes in ownership as a consequence of these means, e.g. an individual's take-home pay being spent on food, clothing etc. 2% E.T. in the price e.g. an importer of goods and services pays 2% E.T. on these imports on entry into Australia. (Note 2% E.T. is paid on the "means" as above and on the subsequent change in ownership as a consequence of these means, e.g. two payments of 2% E.T.. This also applies to airfares to Australia, prepaid accommodation, tours etc. paid overseas.) e.g. a business, association, union, etc. investing its capital and borrowings in buying stock for resale. (Note 2% E.T. included in the buying price.)

Third, all individuals and businesses, associations, unions and other entities, however formed, either resident in Australia or directly/indirectly participating in the Australian business and general communities, equally contribute, (e.g. all pay 2% E.T. at the same rate and on the same basis) to the Revenue of the Government of Australia to protect and uphold the sovereignty of Australia as an independent nation of people sharing equality of opportunity to participate in and benefit from all that Australia has to offer.

Summarising

2% Expenditure Tax is designed to make Australia's goods and services competitive at home and abroad by eliminating the nine major taxes. Imports into Australia of Goods and Services will face a new highly competitive market in Australia. Australians will have the opportunity to engage in new production of goods and services for domestic and international consumption. This increased production providing full utilisation of Australian resources including its labour.

2% E.T. provides all Australians with the incentive to create and accumulate wealth for their personal security throughout their lifetime.

Per capita, Australians currently have the highest average National Asset Value but achieve a poor return on these assets. 2% E.T. creates the opportunity for Australians to raise the return on their National Assets to be amongst the world's leading economic performers. In the process, Australians can secure their National Sovereignty and secure their personal independence and identify as a community of interests, committed to a fair go for all Australians.

Australians are entitled to expect that Overseas Interests operating in Australia, pay to the Australian Government the same taxes as those paid by Australians. For the first time in the history of Australia 2% E.T. will achieve this equity.

(5) Price comparisons and % increases / reductions

Household Expenditure Analysis (ABS YBA 1997 Page 157)

	%	Average Weekly	10% GST	2% E.T.
Housing Costs	14.2%	86	91	63
Fuel and power	2.8%	*17	*18	*13
Food	18.4%	111	122	88
Alcoholic beverages	2.9%	*17	*17	*17
Tobacco	1. 5%	*9	*9	*9
Clothing	5.6%	34	37	26
Household furnishings	6.6%	40	44	31
Household services	5.2%	31	33	24
Medicare and Health	4.5%	27	28	19
Transport	15.5%	93	94	79
Recreation	13.2%	79	86	64
Personal care	1.9%	11	11	8
Miscellaneous	7.6%	47	50	37
TOTAL	**100.0%**	**$602**	**$640**	**$478**
			Up 6.3%	Down 20%
Percentages used in calculating the implications of 10% GST and 2% Expenditure Tax are conservative at			Up 5.5%	Down 17%

Note 10% GST figures are based on examples quoted in the Courier Mail 14.8.98. Independent working of the GST figures suggest the CM figures are understated by up to 9%, e.g. Diet Coke 2 x 1.25L bottles - today's price $2.50, CM re GST $2.33. Independent working $2.55. **If this is correct across all household expenditure as above, the 10% GST total would be $698, up 15.9%.** Note * Excise not reduced or removed at this stage from Alcohol etc.

(6) Wage Earners

	Cost to Employ includes taxes and insurance		Take-Home Pay includes super and Medicare		Increase in purchasing power with lower prices of all goods and services	
Wage p.a.	**Pre-GST**	**2% E.T.**	**Pre-GST**	**2% E.T.**	**Per Annum**	**Per Week**
$10,000	11,500	10,161	9,675	9,780	1,663	32
$20,000	23,000	19,192	18,270	18,480	3,142	60
$30,000	34,500	26,872	25,563	25,878	4,399	85
$40,000	46,000	34,262	32,578	32,998	5,610	108
$50,000	57,500	40,903	38,873	39,398	6,678	129
$60,000	69,000	47,116	44,768	45,398	7,718	148
$70,000	80,500	53,339	50,663	51,398	8,738	168
$80,000	92,000	59,562	56,558	57,398	9,758	188
$90,000	103,500	65,540	62,218	63,163	10,738	206
$100,000	115,000	72,008	68,348	69,398	11,798	227

Benefits to employee

- Increased purchasing power expected of 17% of take-home pay;
- Superannuation preserved at existing gross amount - contributions invested 100% (presently taxed at 15%) for retirement;
- Medicare levy preserved for employee to take up fund membership either private or public fund;
- Hourly rate calculated on take-home pay including Super and Medicare. No bracket creep and lower cost to employ provides incentive to employer and employee for overtime etc. hours.
- Increased purchasing power provides the opportunity to increase superannuation contributions invested in a fund of employee's choice.
- Lower cost to employ provides an incentive to employers to develop and train employees for higher productivity and increased profits.
- 2% Expenditure Tax a single page Annual Return easy and quick to complete.
- By eliminating poverty traps, more poor people can become rich.

(7) Shopping Trolley

An article in the Daily Telegraph dated 29 July 98, states this 'typical' grocery list was picked by independent consultants 'to show why prices don't rise by 10% across the board under a 10% GST'.

It is curious that this 'typical' list does not include weekly food necessities such as bread, butter and sugar, which contained no Wholesale Sales Tax.

Also had more items such as bread been included, *The Courier Mail* report that bread would increase by only 10%, did not accord with the total Treasury Tax Revenue increase of 20% as the full flow-on effect of GST. How can the GST be justified as a fair taxation system for the Australian consumer?

Original list has been split into items previously containing Wholesales Sales Tax, and those exempt.

Wholesales Sales Taxed Items	**Pre-GST Retail**	**Today's Price**	**2% E.T. Price**
Valencia orange juice (2 ltr)	3.39	(Crusta) 4.49	2.46
Diet Coke (2 x 1.5 litre bottle)	2.50	5.40	1.75
No name cling wrap (60 m)	1.85	1.94	1.40
Morning Fresh Detergent (refil 500 ml)	3.96	3.29	2.75
Nivea roll-on deodorant (500 ml sic prob. 50 ml)	2.35	3.08	1.67
Palmolive shampoo (500 ml)	3.84	3.37	2.68
Kleenex toilet paper (6 pack)	4.97	4.57	3.43
Colgate Junior toothpaste (45 g sic prob. 90 g)	1.36	2.02	0.95
Smith's chicken chips	3.35	3.20	2.50
Tim Tam biscuits (200 g)	2.22	2.50	1.65
Cadbury chocolate (250 g)	3.24	3.54	2.40
Sub-totals	**$32.93**	**$37.40**	**$23.64**

Items without W/S Sales Tax	**Pre-GST Retail**	**Today's Price**	**2% E.T. Price**
Weetbix	3.84	4.57	3.38
No name full-cream milk (2 ltr)	2.27	2.42	1.96
Raguletto pasta sauce (500 g)	1.79	2.29	1.53
Edgell tinned tomatoes (400 g)	0.87	N/A	0.76
San Remo spaghetti (500 g)	1.69	1.99	1.45
Greens tinned salmon (105 g)	1.65	1.98	1.47
2kg washed potatoes	3.99	5.90	3.32
1 kg carrots	1.49	1.98	1.30
McCains frozen mint peas (500 g)	1.49	1.73	1.28
No name flour (1 kg)	0.81	0.95	0.72
Bega mild cheese (750 g)	3.77	N/A	3.20
Nescafe coffee (100 g)	4.70	4.79	4.27
Vegemite (455 g)	4.97	5.55	4.25
Premium mince (at $7.39 per kg in 1999)	5.13	9.49	4.58
Bananas (at $1.99 per kg in 1999)	1.69	2.29	1.62
Butternut pumpkin (at $1.49 in 1999)	1.32	N/A	1.28
Pre-packed red apples (1.3 kg)	2.00	4.78	1.83
Dozen eggs (67 g)	2.75	4.64	2.45
Sub-totals	**$46.22**	**-**	**$40.65**
Total all	**$79.15**	**-**	**$64.29**
Total of items which may be compared today	**$73.19**	**$92.74**	**$59.05**

(8) What's in it for the individual?

Wage earner

Pre-GST Gross Pay p.a.	**$30,000**	**$50,000**	**$70,000**
Increase in purchasing power per week	$85	$129	$168
Reduced cost to employ per week	$146	$319	$522

Unemployed job opportunities
Above reductions in cost to employ
make taking on new employees affordable.

New small car
Pre-GST $15,000
Under 2% Expenditure Tax $13,300

Number of weeks to pay out of increased purchasing power of take-home pay	156	103	79
Total Average Household expenditure per week			
Pre-GST $602—% of present take-home pay to pay	134%	89%	70%
Under 2% Expenditure Tax $501			
% of 2% E.T. take-home pay purchasing power	96%	63%	50%

Nursing Home fees per week reduced by 14%

Pre-GST cost per week of $200, reduces to $172
A Government subsidy of $150 reduces to $129
A pre-GST cost per week to patient of $50 reduces to $43
Saving to Government per annum $1,092
Saving to patient per annum $364

Self-funded retiree - super fund

	Presently	**2% Expenditure Tax**
Contribution invested	85%	98%
Income invested	85%	100%
Administration fees deducted	100%	81%
Benefit payment	85%	98%
Benefit for payout	78.6%	105.1%
2% E.T. to increase the present benefit payout by		34%

Small Business

2% E.T. enables	- sale price reduction	18%
	- cost to employ reduction	25%
	- abolition of provisional tax	

and deducts only 2 cents in the dollar on distribution of profits

Finance Industry

2% E.T. enables - fees to be abolished
- provision for a reduction in loan interest rates
or - provides for an increase in interest rates on deposits

New House and Land Package

Existing price of $131,000 reduced by 2% E.T. to $126,000, a saving of $5,000.
Flow-on benefit of this $5,000 reduces home loan monthly repayment and interest.

Investment in shares

- Funds invested subject to 2% Expenditure Tax, 2 cents in the dollar.
- Dividends received are not subject to further tax assessment (presently, top rate of 49.5%, less any tax credit, could be assessed on the amount of dividend received).
- On the sale of the investment the seller receives 100% of the sale value.

Negative Gearing

A single annual payment over three years compensates for net negative gearing amount not covered by increase in purchasing power of take-home pay, to leave a benefit at the same level as other wage age earners, e.g. Year 1 up to $6,000 per annum or $115 per week.

2% Expenditure Tax benefits everybody

(9) Welfare Recipients

The Budget Estimate of Social Security and Welfare for 1998-99 is (Budget Paper No.1 98-99).

		$Billion
Assistance to		
	Aged	15.7
	Veterans and dependents	4.6
	People with disabilities	6.7
	Families with children	14.8
	Unemployed and sick	5.8
	Young people	2.0
	Other	3.8
	TOTAL	53.4

The full implementation of 2% Expenditure Tax is expected to reduce living costs funded by 90% (net of tax) of this assistance by 17% or $8.1 billion p.a.

The Tax Reform Formula has taken into account $5 billion on the basis that Government can maintain adequate purchasing power of existing assistance at a lower cost. Instead of passing on $8.1 billion in increased purchasing power, reduce this to $3.1 billion - a 6% increase in the 97-98 level of assistance - from $50.4 billion to $53.5 billion, and the same level as that provided by the Government in 98-99 Estimates $53.4 billion.

It is important to keep in mind that if these shifts in Outlays to the Private Sector require to be spread over an extended time period to gain Electorate support, this is achieved by delaying the abolition of the major taxes 1998/99 Tax Reform Formula $104 billion, whilst applying 2% Expenditure Tax to broad based turnover, including that not presently equitably taxed.

(10) Self-funded Retirees

2% Expenditure Tax abolishes the existing 15% tax on contributions and income receipts of superannuation funds and only applies 2% E.T., (e.g. 2 cents in the dollar) to payments out of the fund so that existing superannuation contributions and income receipts accumulate at 100%.

Payments out are only taxed at 2 cents in the dollar so that 98% goes to the fund member.

Also administration costs and fees by advisers, auditors, etc. are reduced as a result of the abolition of the major taxes on wages, incomes and profits and the application of 2% E.T., e.g. Administration costs and fees expected to reduce by up to 19%.

Benefits - immediate financial gains.

- The self-funded retiree can expect new growth in their superannuation fund with benefits paid, also having increased purchasing power expected at 17%.
- Self-funded retirees with interest income deposits and investments will immediately benefit as the existing interest received is not subject to further income tax assessment, e.g. not subject to 2% E.T. Also this income has increased spending power of 17%.
- Self-funded retirees, receiving dividends out of taxed profits, immediately financially benefit in the same way as for interest income. Also the business in which investments are held have the opportunity for growth, higher profits and increased dividend distributions which are only taxed at 2 cents in the dollar. Self-funded retirees can review their investments to maximise future income and capital growth.
- Self-funded retirees with cash convertible investments can access these funds with an expected 17% increase in purchasing power, e.g. $100,000 today will buy $117,000 worth of goods and services on the full implementation of 2% E.T.
- Self-funded retirees with owned property investments (see separate paper re negative gearing) will benefit from lower maintenance and management costs, e.g. down by 15%. On property sales, 2% E.T applies to the sale value but there is no Capital Gains tax.

(11) Farm Businesses with Turnover less than $50,000 per annum—Case Study

Reference: ABS 1997 YBA - Page 371, 1994-95
Number of farm businesses 22,800. Total Turnover $696.1 Million. Average Turnover $30,530.

	Pre-GST		2% E.T.		
	Per annum	Per week	Per annum	Per week	
Turnover - cash	47,290	909	47,290	909	
Costs - cash	48,170	926	40,594	781	
2% Expenditure Tax			927 *	18 *	Paid when product sold
Farm net(negative)cash	(880)	(17)	5,769 [1]	110	

Note [1]: Under 2% E.T. small farmers can recover all costs within 7 years - instead of going backward as at present

	Pre-GST	2% E.T.
Farm loss including unrecovered costs including depreciation of farm assets	36,850	31,081

Costs- Cash Analysis
(TRL Estimates)

	Pre-GST Per annum	Pre-GST Per week	2% E.T. Per annum	2% E.T. Per week
Household	17,420	335	14,456	278
Farm	30,750	591	26,138	503
TOTAL	48,170	926	40,594	781

Household (TRL Estimates) ABS 1997 YBA 93/94 Page 157.

	All Average $ p w	Small Farm $ p w	2% E.T. $ p w.
Food	111	59	47
Alcohol and Tobacco	26 [3]	26 [3]	26 [3]
Clothing	34	17	13
Medicare/Health	27	20	16
Recreation	79	38	33
Personal care	11	11	8
Housing	86	47	37
Fuel and Power	17	17	13
Household furniture	40	18	14
Household services	31	23	18
Transport	93	40	36
Miscellaneous	47	19	17
	$602	$335 [3]	$278

Note [2]: Excise not removed at this stage.
Note [3]: This compares with the lowest 20% of households $303 p.w. Ref: ABS 1997 YBA 93/94 p157

Under 2% Expenditure Tax the Small Farmer could discount prices by 12% and have a break-even cash flow compared with today's negative cash flow $880 per annum.

If, after the implementation of 2% Expenditure Tax (prices down 12%) Small Farmer increases Turnover by 20% the effect is:-

	Prices down 12%	Production up 20%
Turnover	$41,142	$49,370
Cash costs (*include 5% increase in farm costs)	40,594	41,901 *
2% E.T. (paid when product sold)	807	968
Farm net cash	(259)	$6,501 [4]
Farm loss including unrecovered costs, including depreciation, of farm assets	$37,109	$30,608

Note [4]: Likely outcome of 2% Expenditure Tax - Small Farmer can recover all costs within 6 years

(11a) Farm Businesses with Turnover less than $50,000 per annum—Observations

ABS 1997 Y. B. A. - Page 371. 1994-95 shows - 22,800 Small Farm businesses which have been decreasing in number (1991 - 92, 26,300 - 13% decline in three years) due to non financial viability.

Case Study opposite shows Small Farm turnover of $47,290 p.a. operating negative cash flow of $880 p.a. and unrecovered costs including depreciation of $36,850:

Benefits of 2% Expenditure Tax to 22,800 Small Farm Businesses

- No provisional tax
- No income tax on profits
- 2% E.T. paid on income when product sold.
- 2% E.T. of $9 paid on take-home pay of $450 per week. (Compared with today, PAYE of $127 or 22% on a gross weekly wage of $577 is paid to Government. This cash outgoing of $127 may not be recovered by cash income but no refund by Government. 2% E.T. cash outgoing only $9.)
- Farm worker pre-GST on $450 per week take-home pay would have a 2% E.T. increase in purchasing power of $76 p.w. to $526 per week
- Positive Cash Flow $146 per week on farm worker cost to employ. (Pre-GST cost to employ this farm worker reduces from $663 * per week to $517* per week, a reduction of $146 per week or 22%.
  *(Both figures include superannuation and medicare levy)

Note Pre-GST total cost to employ 4 farm workers, would employ 5 farm workers under 2% E.T.

Pre-GST, a small farming business with a negative cash flow and increasing unrecovered costs, including depreciation, is not financially viable and losing equity in the farm. 2% E.T. provides Small Farm business with a positive cash flow - see Case Study - $6,500 per annum and full recovery of all costs including depreciation over 6 years. **2% E.T. increases farmer's equity in 22,800 farm businesses**. 2% E.T. reduces the cost of farm risks and losses - natural and exceptional circumstances;

- lowers cost to employ. e g. take-home pay, super and medicare levy, plus 2% reduces -
  - losses due to natural disasters, e.g. flood, fire;
  - cost of on-farm improvement, e.g. land reclamation and off-farm improvement, attending training courses.

2% Expenditure Tax reduces both on-farm costs, e g household costs' and off-farm costs, e g private education for children hospital treatment and care, holidays, etc.

2% E.T. delivers equity to 22,800 Small Farm Businesses and provides the opportunity of a financially viable future, capable of recovering past losses over 6 years.

(12) Small Business

The following example demonstrates the benefits to Small Business of the full introduction of 2% Expenditure Tax.

		Pre-GST $'00s	2% E.T. $'00s
Business Activity			
Car detailing and adding small accessories to motor vehicles		400	328
Parts	- imported	45	45
	- Wholesale Sales Tax	8	
Parts	- local	30	30
	- Wholesale Sales Tax	4	
		87	75
Labour			
Employer's contributions		7	7
Take-home pay		74	74
PAYE Tax		30	
Payroll Tax		nil	
Medicare		1	1
		112	82
Other Operating costs - Property, Transport, Communications, etc.		90	76
Interest on borrowings			
Note: loan repayments in total $40,000		16	16
Profit		97	79
2% Expenditure Tax		-	9
Income Tax		27	-
Net Profit		70	70
Total Tax Pool			
PAYE		30	
Sales Tax		12	
Profits Tax		27	
TOTAL TAX POOL		**69**	
Estimated costs of Tax (Administration and compliance 10 x .5)		**5**	
TOTAL		**74**	

2% E.T. on	- Labour	82 x .02 = 1.64
	- Loan repayments	40 x .02 = 0.80
	- Sales	321.44 = 6.42
		8.86
	ROUND	9.00

Employees take-home pay has been preserved along with super contributions (with 100% of Super for investment) and medicare levy. Profit has been maintained at $70,000 p.a.

Tax take has reduced from $69,000 to $9,000 p.a. Tax Administration and Compliance costs reduced by $5,000 p.a. Selling prices to customers have been reduced by 18%.

Small business can get on with business for growth, additional employment and additional profit margins taxed at only 2 cents in the $. Small business operator putting in 100 hours p.w. can afford to employ new staff (cost to employ down 25%), reduce working hours in the business to engage new opportunities for growth and a secure future. **2% Expenditure Tax provides a future for small business.**

(13) Finance - Building Society

		Pre-GST $ Million	2% E.T. $ Million
Interest Revenue		40	36
Interest expense		24	24
Net Interest		16	12
Other revenue fees		3	2.1
Operating Expenses			
Wages	- Take-home pay	6.6	6.6
	- PAYE Tax	1.2	
	- Payroll Tax	0 5	
	- Employer Superannuation Contribution	0.6	0.6
	- Medicare Levy	0.1	0.1
Other Operating Expenses		4.0	3.3
TOTAL		13.0	10.6
Operating Profit		6	3.5
Income Tax		2	
2% Expenditure Tax		-	0.5
Net Profit		4	4
Dividends		2	2
Retained Profit		2	2

TOTAL TAX POOL

	$Million	2% E.T.	$Million
PAYE TAX	1 .2	On Wages etc.	0.15
PAYROLL TAX	.5	On interest income	0.32
INCOME TAX	2.0	On revenue fees	0.01
	3.7	On dividends paid	0.04
TAX ADMIN/COMPLIANCE COSTS	.1	**TOTAL**	**0.52**
	3.8		

In addition Bank collects 2% on new loans $180M, Interest Revenue $40M, on repayment of loans $140M and pays 2% E.T. to Commonwealth of $7.2M.

On the full implementation of 2% Expenditure Tax the Building Society can reduce its interest rates on loans by 10% and reduce its fees and other revenue charges by 30%. (These figures were taken out on interest rates pertaining to the late 1990s)

The Society's Profit is maintained.

The Employee's take-home pay, Employer's superannuation contribution and Medicare levy are preserved.

The Society, in paying interest to its depositors and dividends to investors, has paid the 2% Expenditure Tax so that these payments are received without further taxation assessment.

Borrowers have paid to the Society 2% Expenditure Tax which the Society pays to the Government.

NOTE: 2% Expenditure Tax is NOT a Debits Tax or a Financial Institutions Duty. It is a charge for the use of money in the exchange of ownership of property, goods, services and labour. Moving funds in or out of banks and financial institutions does not attract this tax if there is no change of ownership.

(14) Tourist Agent

Case Study	Pre-GST	2% E.T.	Opportunity under 2% E.T.
Holiday rentals	1,000,000	750,000	900,000
Commission 10%	100,000	76,500*	91,800*
Take home pay	31,472	31,472(1)	31,472
Super	3,043	3,043(2)	3,043
Medicare	652	652(3)	652
	35,167	35,167	35,167
Paye Tax	11,348		
2% E.T.		703	703
	46,515		
Expenses	53,485	38,509(4)	46,000
2% E.T.		1,500	1,800
EXTRA INCOME		609(5)	7,970(5)
2% E.T.		12	160
TOTAL	100,000	76,500	91,800
*Includes 2% E.T.			
TOTAL TAX	11,348	2,215	2,663

Note 1. Take home pay of $31,472 increased purchasing lower of 17% or $5,350.

Note 2. Superannuation contribution taxed as follows.

	Contribution	Tax	Invested
Today	3,043	456	2,587
2% E.T.	3,043	61	2,982

Effectively a 15% increase in contribution $395

Similarly income on the super fund investment and payment of superannuation are only subject to 2% E.T. not 15% today with higher tax rates possible. Superannuation Administration costs are expected to reduce by 28%.

Note 3. Medicare of $652 will buy more with hospital and Medical costs reducing under 2% E.T. by an expected 30%. Also this levy will be one targeted for removal as the tax reform program improves the economy and Government net revenue increases to an adequate level.

Note 4. Expenses expected to reduce an average by 28% under 2% E.T.

Note 5 Extra income of $609 has increased purchasing power of 17%, $103 so compares with $712 today.

Note 6. Expenses increased for higher business activity.

Note 7. Opportunity for business growth under 2% E.T. means that additional income only taxed at 2 cents in the dollar.
Extra income of $7,970 has increased purchasing to $9,325. No tax bracket creep with 2% E.T.

(15) Loaf of Bread

**THE 10% GST IS AN OPEN CHEQUE FOR GOVERNMENT
AND WILL DESTROY JOBS RATHER THAN CREATE THEM AS DESCRIBED BELOW.
IT ALSO TRANSFERS MORE POWER FROM THE STATES TO THE FEDERAL GOVERNMENT**

A 10% GST hurts, not helps, Australians' living standards. It is increasing prices of Australian goods and services, making them less competitive and reducing the buying power of existing take-home pays and savings LEADING TO

- demands for higher wages and incomes and increased social security payments to existing recipients and new recipients made unemployable by a GST (not an objective of the tax package) **LEADING TO**
- reduced consumer demand **LEADING TO**
- reduced business activity **LEADING TO**
- increased business failures caused by GST induced higher costs not able to be passed on to the consumer in a competitive market where businesses fight for market share of a shrinking market **LEADING TO**
- forced sales of Australian owned assets to overseas interests **LEADING TO**
- **reduced living standards of all Australians as profits leave Australia to boost the living standards of people overseas.**

The following example describes the process:

A loaf of bread priced at $1.94 pre-GST contained 97 cents tax (Tax Reform Ltd model). There was no Wholesale Sales Tax on bread—if a 10% GST had been levied, this would have been additional to the existing Income tax system. Similar economics apply for food on which GST HAS been levied.

- ❏ Had a GST of 10% been applied to bread, this was claimed to have increased the loaf price by only 19 cents to $2.13.
- ❏ **To pay this 19 cents price rise would have required a wage increase of 37 cents (taxed at 49%) for the family breadwinner employee to purchase one loaf, but this is representative of all items in the family shopping trolley not then subject to Wholesale Sales tax.**
- ❏ To pay the equivalent of a 37 cents wage increase, the baker would have had to further increase the loaf price, which in turn would have increased the GST, requiring a further wage rise leading to a further price rise—a vicious cycle with many losers and few winners.

If the baker increased the loaf price by another 5% to cover wage claims, the position would then be:

Loaf price	$1.94	
Baker's 5% price increase	.10	
	$2.04	
GST at 10%	.20	
GST loaf price	$2.24	
Total price rise	**.30**	**or over 15%**

This would have required a wage increase (before 49% tax) of 59 cents rather than the 37 cents claimed, thus continuing the inflationary cycle.

Govt. tax revenue would have been up by the GST on higher prices, on Income tax, and GST on that Income tax.

Baker's price increase would have been 30 cents or 15% increase in the price, adversely affecting CPI.

Total tax take on a $1.94 loaf would therefore have increased from 97 cents to $1.17 on a $2.24 loaf, or an increase in tax of 21% on this basic commodity. But this tax increase would soon be used up by increased Social Security payments to existing recipients and new unemployed.

- if wage/fixed income earners and social security recipients don't get a significant increase (more than the proposed 4%), their living standard would decline.
- if baker's increased taxes on inputs could not be passed on through higher prices, some bakers would go out of business.

As a contrast, 2% Expenditure Tax could result in the cost of a loaf of bread falling to $1.40 per loaf with the bakery maintaining the same profit levels as before. On 8th April 2003 the least expensive 680 g loaf of bread at Woolworths in Brisbane was $2.20.

(16) Implementation to ensure no group disadvantaged

- All stages of implementation are controlled processes based on validated information.
- This control includes responding to political issues influencing the electorate.
- **The initial stage** involves information gathering and interpreting. Much of this information is currently provided to Government, e.g. monthly taxation payments and returns.

Two groups of information have priority.

Group 1 The existing taxes component of the retail prices of all goods and services and the effect on these prices net of existing taxes of the 2% Expenditure Tax, e.g. Retail prices expected to reduce by up to 40% for goods and 30% for services.

Group 2 The retail prices, reduced as in Group 1, of Government goods and services presently provided to the Australian community either without charge or at subsidised prices.

- **The second stage** includes consultation with all sectors of industry and community groups to identify the optimum sequence by which existing taxes, e.g. sales tax, payroll tax, etc. are to be abolished, the 2% Expenditure Tax introduced, retail sale prices reduced, employment increased.
- Employees take-home pays (net of existing taxes) stay, as does the net-of-tax income of the self employed, retired and other investors.
- As retail prices reduce, the purchasing power of existing take-home pay, and other net-of-tax income, increases.
- This increased purchasing power will enable payment for Government goods and services on a user pays basis.
- The ability to project and later monitor the effect on all sectors of the community, e.g. the young, students, unemployed, employed, retired, etc. enables the implementation priorities to be determined for positive outcomes for the electorate.

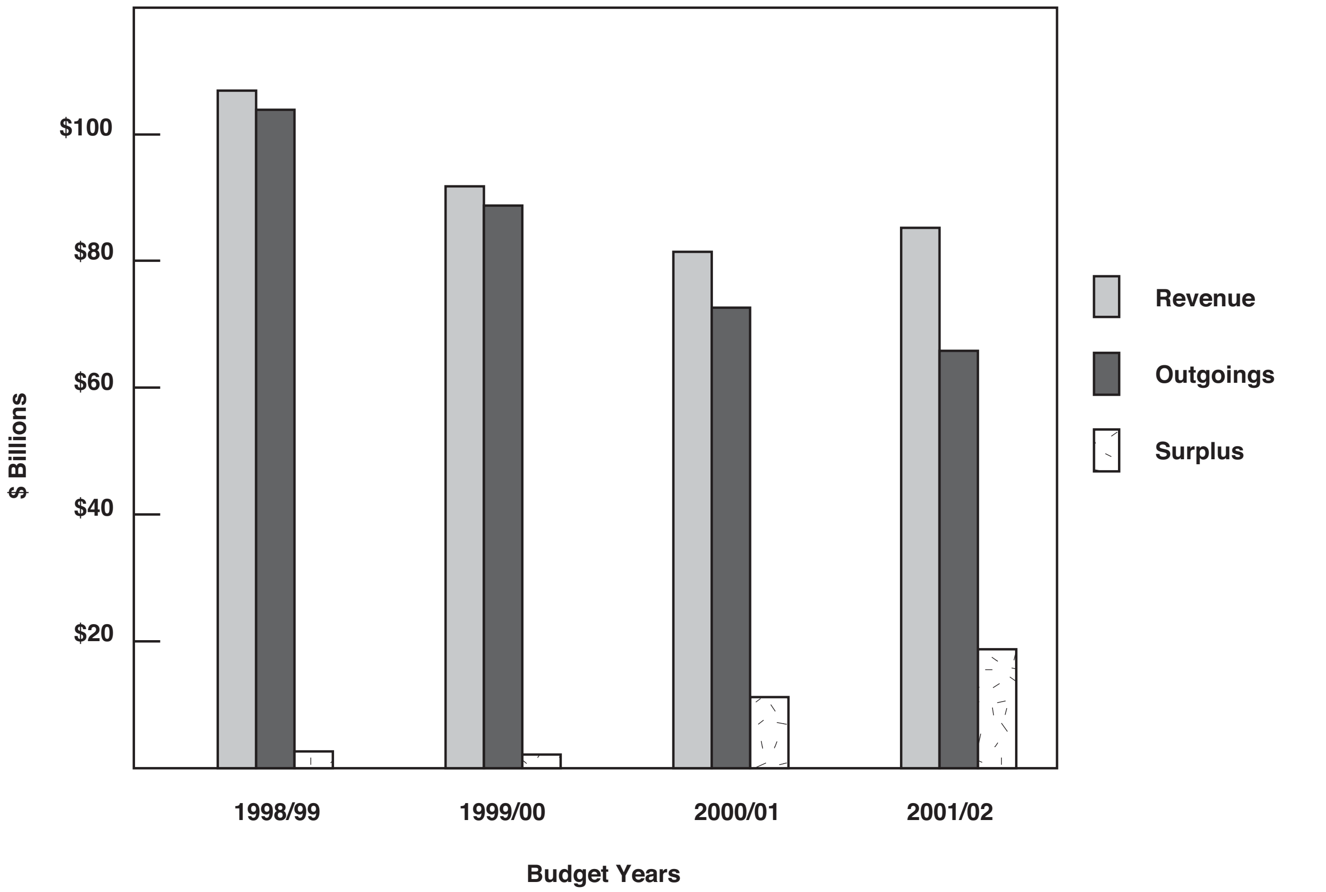
2% Expenditure Tax has appeal to the electorate because everybody pays (there are no exemptions) and we all pay at the same rate.
Lower prices of goods and services and only 2% Expenditure Tax on additional income including from investments (previously non income producing because of taxation) provides the incentive to all Australians to be fully employed and to invest to expand Australia's productive output.

Only 2% Expenditure Tax provides the opportunity for Australians to be more competitive both overseas and at home and to increase their wealth if they so choose.

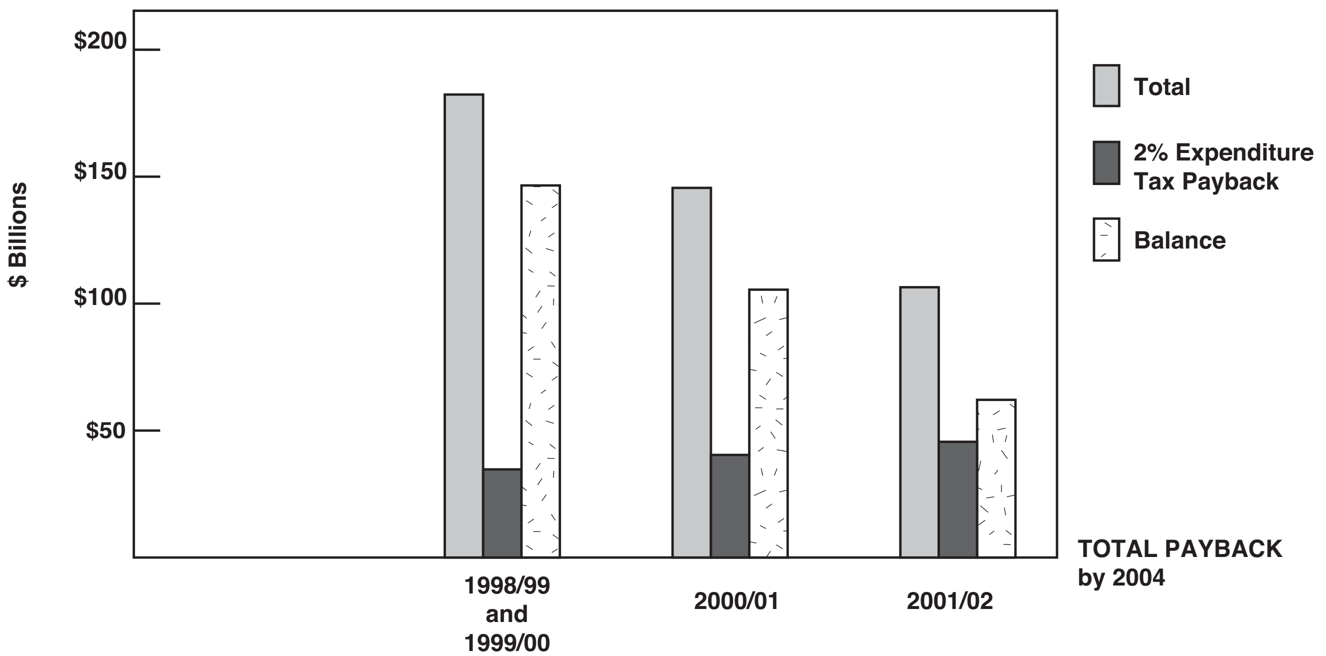
Appendix 3

2% Expenditure Tax adjusted Commonwealth Budgets

Refer also to Forward Estimate tabulations



Surplus available to reduce Foreign Ownership after 2% Expenditure Tax implementation

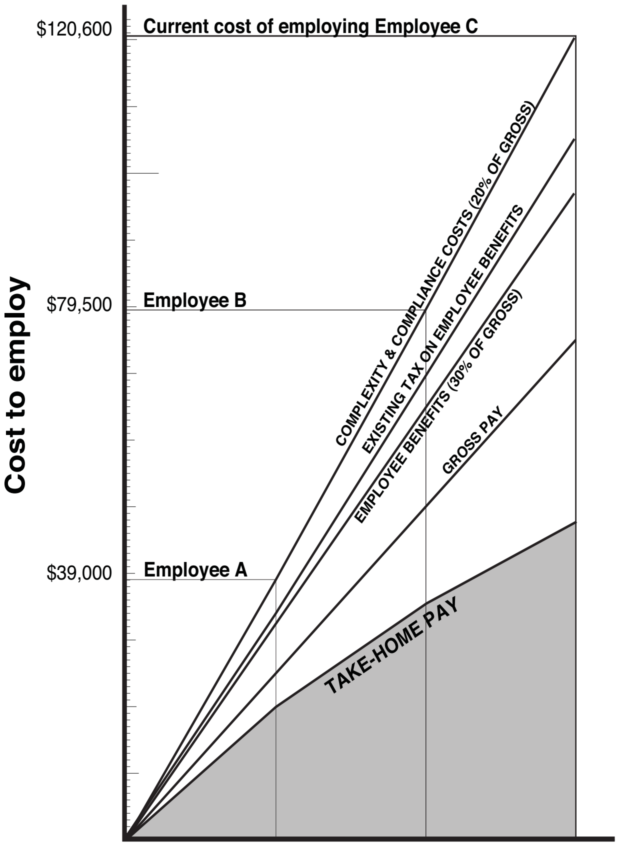


Appendix 4

By reducing the tax burden on employment, unemployment can be slashed

Current package of 8 complex taxes

- Personal Income Tax
- Company Income Tax
- Sales Tax
- Payroll Tax
- Provisional Tax
- Withholding Tax
- Capital Gains Tax
- Fringe Benefits Tax

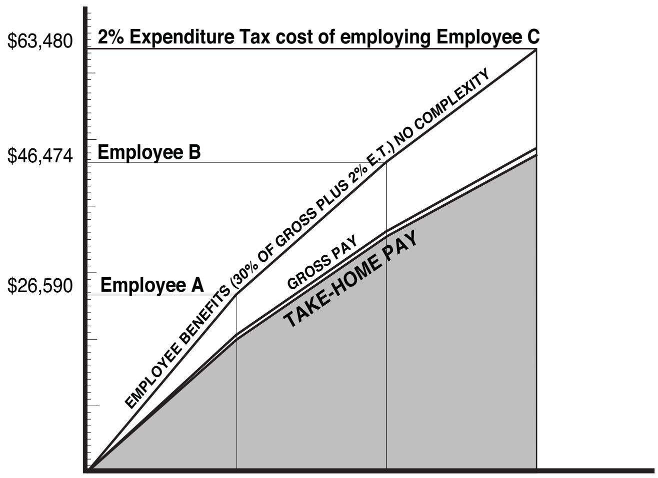


Proposed 2% Expenditure Tax

- **Replaces 8 complex taxes with one low, visible tax of 2% on all sales.**
- **No deductions or exemptions.**
- **Removes complex tax surcharge from employment to maintain the same take-home pay.**
- **Reduces cost of employment to increase demand for labour.**
- **Reduces cost of goods and services to increase purchasing power of take-home dollar.**

Every pay rise sought by Unions for generations has been based on a desired increase in take-home pay, regardless of the taxation on-cost borne by the employer. The tax inflated pay packets had to be paid for by the tax inflated price of goods and services produced. Some of the current complex taxes on labour may be reclaimed by the employee through tax avoidance schemes, but these are often counterproductive, and they remain as surcharges on the costs of production. Such schemes are not universally available and do nothing to promote the concepts of fairness or equity.

The only way to create a prosperous economy for employee and employer alike is to remove these complex tax surcharges from the cost of employment.



	Employee A	Employee B	Employee C
Gross	$25,000	$50,000	$75,000
Less PAYE + M/C Levy	($4,947)	($14,952)	($27,127)
Take-home pay	**$20,053**	**$35,048**	**$47,873**

	Employee A	Employee B	Employee C
Take-home pay	**$20,053**	**$35,048**	**$47,873**
Plus 2% Expenditure Tax	$401	$701	$957
Gross	$20,454	$35,749	$48,830

Note 1: Employee benefits include Superannuation, Long Service Leave, Sick Leave and Fringe benefits such as private use of car and parking. In many cases, these benefits exceed 30% by a large margin. These also attract a significant tax penalty. The Payroll tax effect is not illustrated.

Note 2: The real wage is the take-home dollar. The direct and indirect tax surcharge on this has taken the cost of employment beyond that which the market can bear—hence the high level of unemployment. There are 13 million employable people in Australia and only 8 million in employment. Only 8 million pay income tax. The tax burden falls primarily on these people and those who provide their employment. The ever increasing tax burden prices tax-generating jobs out of existence to make more people dependent on tax welfare to expand the demand for more taxes on those still in productive jobs to price more tax-generating jobs out of existence ... and the degeneration feeds upon itself. The cycle must be broken. Fundamental reform of the tax system can only be effected by stripping away the complex taxes accumulated over years of attempting to comply with a failed concept, attempting to define and tax the elusive profit (taxable income), and to compound the error by progressively taxing personal income.

You cannot strengthen the weak by weakening the strong. Abraham Lincoln

So how can the government exist with such low taxes on labour?

1) The above graphs apply to the 6 million in private employment but also to 2 million public servants in the three tiers of government. **2% Expenditure Tax would reduce the built-in PAYE tax component of the cost of Federal, State and Local govt. salaries by over $15 b.**
2) The cost of all materials purchased by the government for health, education and defence would be similarly reduced through lower employment costs. Every ton of steel and cement required to build schools, hospitals and defence facilities, every loaf of bread for the catering, is purchased from the heavily taxed private sector—elimination of these churning costs would allow the economy to work efficiently.
3) A comprehensive model of the economy indicates that at least another 2 million people could enter the workforce or actively participate in the economy under the 2% E.T. system. Reduced social security costs, increased tax base, and a renewed motivation to produce and exchange goods and services would result. Goods and services could be traded knowing the net-of-tax return at the point of sale.
4) Exports would multiply with a substantially decreased cost base allowing competitive pricing.
5) Multinational companies would find it attractive to base themselves in a nation with the best tax system, and the most dynamic society, in the world.
6) **The model indicates the net return to government under 2% Expenditure Tax would be greater than under the present shambles, with a healthy surplus available for essential infrastructure (roads, bridges, dams, ports, airports, research), defence, education and health.**

Appendix 5

Price comparisons based on the following three schedules

	Pre-GST Wholesale Sales Tax @ 22%	GST @10%	Expenditure Tax @2%
Selling Price	$4,600	$4,490	$3,158
Reductions on Pre-GST price		2.4%	31.3%
Tax Take	$1,435	$1,255	$408
% of selling price	**31.2%** A	**28%** B	**12.9%** C

These examples are detailed in the following three tables in which Post Tax Profit and Take-home pays have been held constant.

The 2% E.T. model shows acceptable cascading to 12.9% across a multi-stage sequence of manufacturing, wholesale and retail functions. In contrast 10% GST taxes all inputs, raising $289 or 23% of the total tax take of $1,255.

THIS IS IMPORTANT:

It needs to be understood that the elimination of Wholesale Sales tax is like giving a tax credit on all overseas costs and profits of imported goods. The application of a 10% GST on the Australian costs and profit components of the selling price is an added tax-take **which will drive these functions and profits off shore. This must adversely affect employment, the GDP, and our ability to pay off the Public Debt.**

2% Expenditure Tax makes possible the elimination of Wholesale Sales Tax because Australian costs are reduced by 31%, from $2,279 to $1,564. This demonstrates that **2% Expenditure Tax will make Australian costs competitive, resulting in an increase in manufacturing and value adding in Australia creating opportunities for Australia's unemployed and providing economic growth to boost GDP.**

Pre-GST Wholesale Sales Tax—Table 1

Multi-stage	Manufacturing				Manufacturing				Manufacturing				Final	Wholesale	Retail	Total
	Stage I	Stage I	Stage I	Assembly	Stage 2	Stage 2	Stage 2	Assembly	Stage 3	Stage 3	Stage 3	Assembly	Assembly			
Selling Price	96.0	96.0	96.0	480.0	96.0	96.0	96.0	480.0	96.0	96.0	96.0	480.0	2,000.0	2,600.0	4,600.0	4,600.0
Labour	27.3	27.3	27.3	39.2	27.3	27.3	27.3	39.2	27.3	27.3	27.3	39.2	39.2	6.5	470.1	879.2
Raw Materials	22.3	22.3	22.3	288.0	22.3	22.3	22.3	288.0	22.3	22.3	22.3	288.0	1,440.0	2,000.0	2,600.0	200.3
Transport	6.0	6.0	6.0	18.0	6.0	6.0	6.0	18.0	6.0	6.0	6.0	18.0	18.0	6.0	43.2	175.2
Rent	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	4.9	317.3	360.4
Rates	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	3.0	119.9	150.2
Finance	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.9	176.3	218.4
Marketing	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	9.8	47.0	120.5
Computer	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	6.1	43.9	81.7
Other Costs	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	4.0	47.9	93.5
Total Cost of Inputs	74.1	74.1	74.1	363.8	74.1	74.1	74.1	363.8	74.1	74.1	74.1	363.8	1,515.8	2,043.3	3,865.5	2,279.4
Sales Tax														468.9		468.9
Profit Pre Tax Company Tax	21.9	21.9	21.9	116.2	21.9	21.9	21.9	116.2	21.9	21.9	21.9	116.2	484.2	87.9	734.5	2,320.6
Company Tax	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	174.3	31.6	264.4	666.6
Profit Post Tax	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	309.9	56.2	470.1	1,185.1
Return on sales	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	2%	10%	26%
Tax Raised																
Payroll Tax	1.6	1.6	1.6	2.4	1.6	1.6	1.6	2.4	1.6	1.6	1.6	2.4	2.4	0.4	28.2	52.8
Super Tax	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.1	4.9	9.2
Group Tax	7.4	7.4	7.4	10.6	7.4	7.4	7.4	10.6	7.4	7.4	7.4	10.6	10.6	1.8	126.9	237.4
Sales Tax														468.9		468.9
Profit Tax	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	174.3	31.6	264.4	666.6
Total Tax Raised	17.2	17.2	17.2	55.2	17.2	17.2	17.2	55.2	17.2	17.2	17.2	55.2	187.7	502.7	424.5	1,434.9
Cumulative Tax	17.2	17.2	17.2	106.7	17.2	17.2	17.2	106.7	17.2	17.2	17.2	106.7	507.7	1,010.4	1,434.9	
%	17.9%	17.9%	17.9%	22.2%	17.9%	17.9%	17.9%	22.2%	17.9%	17.9%	17.9%	22.2%	25.4%	38.9%	**31.2%**	

A

Cost Assumptions

Group Tax at	27%.	Cost of Labour	$27,300
Payroll Tax at	6%	Payroll tax	$1,400
Profit Tax at	36%	Super	$1,700
Sales Tax	22%	Gross Pay	$24,200
		Group Tax	$6,500
		Take Home Pay	$17,600

10% GST

Multi-stage	Manufacturing				Manufacturing				Manufacturing				Final	Wholesale	Retail	Total
	Stage I	Stage I	Stage I	Assembly	Stage 2	Stage 2	Stage 2	Assembly	Stage 3	Stage 3	Stage 3	Assembly	Assembly			
Selling Price	103.7	103.7	103.7	518.0	103.7	103.7	103.7	518.0	103.7	103.7	103.7	518.0	2,165.9	2,307.8	4,489.6	4,489.6
Less GST Paid	(9.4)	(9.4)	(9.4)	(47.1)	(9.4)	(9.4)	(9.4)	(47.1)	(9.4)	(9.4)	(9.4)	(47.1)	(196.9)	(209.8)	(408.1)	(1,041.0)
Sales ex GST	94.3	94.3	94.3	470.9	94.3	94.3	94.3	470.9	94.3	94.3	94.3	470.9	1,969.0	2,098.0	4,081.5	3,448.6
Labour	27.3	27.3	27.3	39.2	27.3	27.3	27.3	39.2	27.3	27.3	27.3	39.2	39.2	6.5	470.1	879.2
Raw Materials	24.0	24.0	24.0	311.1	24.0	24.0	24.0	311.1	24.0	24.0	24.0	311.1	1,554.0	2,165.9	2,307.8	216.3
Transport	5.4	5.4	5.4	16.2	5.4	5.4	5.4	16.2	5.4	5.4	5.4	16.2	16.2	5.4	38.9	157.7
Rent	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	5.3	342.6	389.2
Rates	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	3.2	129.5	162.2
Finance	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.3	3.3	3.2	190.4	235.8
Marketing	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	10.6	50.7	130.1
Computer	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	6.1	43.9	81.7
Other Costs	3.5	3.5	3.5	3.2	3.5	3.5	3.5	3.2	3.5	3.5	3.5	3.2	3.2	4.0	47.9	95.8
Total Cost of Inputs	76.6	76.6	76.6	386.2	76.6	76.6	76.6	386.2	76.6	76.6	76.6	386.2	1,629.1	2,210.2	3,621.8	2,348.2
GST Refunded	(4.3)	(4.3)	(4.3)	(31.3)	(4.3)	(4.3)	(4.3)	(31.3)	(4.3)	(4.3)	(4.3)	(31.3)	(144.3)	(200.0)	(274.7)	(751.6)
Profit Pre Tax Company Tax	21.9	21.9	21.9	116.1	21.9	21.9	21.9	116.1	21.9	21.9	21.9	116.1	484.2	87.8	734.4	1,852.1
Company Tax	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	174.3	31.6	264.4	666.7
Profit Post Tax	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	309.9	56.2	470.1	1,185.3
Return on sales	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	2%	10%	26%
Tax Raised																
Payroll Tax	1.6	1.6	1.6	2.4	1.6	1.6	1.6	2.4	1.6	1.6	1.6	2.4	2.4	0.4	28.2	52.8
Super Tax	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.1	4.9	9.2
Group Tax	7.4	7.4	7.4	10.6	7.4	7.4	7.4	10.6	7.4	7.4	7.4	10.6	10.6	1.8	126.9	236.8
Net GST	5.2	5.2	5.2	15.8	5.2	5.2	5.2	15.8	5.2	5.2	5.2	15.8	52.6	9.8	133.4	289.4
Profit Tax	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	7.9	7.9	7.9	41.8	174.3	31.6	264.4	666.7
Total Tax Raised	21.8	22.3	22.3	70.9	22.3	22.3	22.3	70.9	22.3	22.3	22.3	70.9	240.3	43.6	557.8	1,254.9
Cumulative Tax	21.8	22.3	22.3	137.4	22.3	22.3	22.3	137.9	22.3	22.3	22.3	137.9	653.5	697.1	1,254.9	
%	21.0%	21.5%	21.5%	26.5%	21.5%	21.5%	21.5%	26.6%	21.5%	21.5%	21.5%	26.6%	30.2%	30.2%	**28.0%**	

Cost Assumptions

Group Tax at 27%.
Payroll Tax at 6%
Profit Tax at 36%
Sales Tax 22%

Pay rates remain the same to increase take-home pay
Rent, Rates, Finance & Marketing costs increase by 8%
Computer and other costs remain the same
Transport reduces by 10%

B

2% Expenditure Tax

Multi-stage	Manufacturing				Manufacturing				Manufacturing				Final	Wholesale	Retail	Total
	Stage I	Stage I	Stage I	Assembly	Stage 2	Stage 2	Stage 2	Assembly	Stage 3	Stage 3	Stage 3	Assembly	Assembly			
Selling Price	75.4	75.4	75.4	365.7	75.4	75.4	75.4	365.7	75.4	75.4	75.4	365.7	1,494.8	1,618.9	3,157.5	3,157.5
Labour	19.2	19.2	19.2	27.7	19.2	19.2	19.2	27.7	19.2	19.2	19.2	27.7	27.7	4.6	331.5	619.9
Raw Materials	20.0	20.0	20.0	226.2	20.0	20.0	20.0	226.2	20.0	20.0	20.0	226.2	1,097.1	1,494.8	1,618.9	180.3
Transport	4.8	4.8	4.8	14.4	4.8	4.8	4.8	14.4	4.8	4.8	4.8	14.4	14.4	4.8	34.6	140.2
Rent	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	4.2	269.7	306.3
Rates	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.6	101.9	127.7
Finance	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.5	149.8	185.6
Marketing	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	8.3	39.9	102.4
Computer	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	5.2	37.3	69.5
Other Costs	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	3.4	40.7	79.5
Total Cost of Inputs	59.9	59.9	59.9	284.1	59.9	59.9	59.9	284.1	59.9	59.9	59.9	284.1	1,155.0	1,530.3	2,624.3	1,811.3
Profit Pre Tax	15.5	15.5	15.5	81.6	15.5	15.5	15.5	81.6	15.5	15.5	15.5	81.6	339.8	88.6	533.2	1,346.2
Tax	1.5	1.5	1.5	7.3	1.5	1.5	1.5	7.3	1.5	1.5	1.5	7.3	29.9	32.4	63.2	160.9
Profit Post Tax	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	14.0	14.0	14.0	74.3	309.9	56.2	470.1	1,185.1
Return on sales	19%	19%	19%	20%	19%	19%	19%	20%	19%	19%	19%	20%	21%	3%	15%	38%
Tax Paid on Inputs	2.5	2.5	2.5	8.6	2.5	2.5	2.5	8.6	2.5	2.5	2.5	8.6	32.9	92.4	170.9	246.6
Tax Raised	4.0	4.0	4.0	15.9	4.0	4.0	4.0	15.9	4.0	4.0	4.0	15.9	62.8	124.8	234.1	407.5
Accounted Previously				(4.5)				(4.5)				(4.5)	(21.9)	(29.9)	(32.4)	
Cumulative Tax	4.0	4.0	4.0	23.3	4.0	4.0	4.0	23.3	4.0	4.0	4.0	23.3	110.9	205.8	407.5	
%	5.3%	5.3%	5.3%	6.4%	5.3%	5.3%	5.3%	6.4%	5.3%	5.3%	5.3%	6.4%	7.4%	12.7%	**12.9%**	

Tax Paid on Inputs															
Payroll	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Others	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	8.0%	8.0%

Cost Assumptions

Labour reduced by 30.73% to maintain the same take-home pay. No Payroll tax, no Super tax, and no Income tax.

Cost of Labour	$19,200
Less 2% Expenditure Tax	$400
Less Super	$1,200
Take-home Pay	$17,600

C

Appendix 6

Cameo profiles - benchmark snapshots from the pre-GST period

Refer news report *The Cairns Post* 26 September 1998

Single Mum

Single mum Leane lives with her four children - Nathan 14, Kelsey 13, Hayley 11 and Jordan 6 in Cairns.

She works casually in the city as a clerk usually notching up around 20 hours a week, which nets her a gross income of $300 a week.

Leane is on a part parenting pension which varies according to her earnings but usually, nets her $173 a fortnight. She also receives maintenance from the childrens' father of $95 a week and a family payment of $420 a fortnight.

She spends it on paying off her house ($240 per week), groceries (up to $120 per week ''I should spend more but It's as much as I can afford and petrol (about $50 a week). Then there are school fees of about $100 a month - "I'm behind in them"

"I don't like the sound of the GST," Leane says.

"At this stage we don't pay it on services, so it would only make things go up more The fact the tax isn't going down all that much won't help me I don't know if I will be able to manage."

Under 2% Expenditure tax, Leane and her four children benefit by -

Retaining her income but with greater purchasing power of $81 per week.

Weekly income net of tax $670 stays the same but spending reduces from $433 p.w. to $398 p.w. Ieaving $272 p.w (previously $237 p.w.) and with increased purchasing power to $318 - up $81 pw

The children's father, presently contributing at the rate of $95 per week, will have increased financial capacity to make these payments and either increase this amount or have the opportunity to improve his own financial position including superannuation in his new life.

Leane will cost 16% less to employ per week. Increased hours worked are not subject to bracket creep. An increase in Leane's rate of pay will only be taxed at 2%. As her children grow older. Leane will have the financial incentive to increase her income to secure financial independence for herself and her family.

Leane's superannuation contributions, income and payments are only taxed at 2% (15% at present) and the fund's administration costs reduce by 28%.

Pensioner Couple

Fifty years married Cairns couple Margaret and Ron reckon you don't need a computer to figure out how much money is left over from their aged pensions of $295.80 per fortnight each.

"Food and products are probably the biggest drain of approximately $90 per week", Ron says, then jokes: "not including caviar and chocs.

"Fear of what may happen healthwise in our 70s keeps us in a private medical benefit fund. My new eye cost them an arm and a leg and cost us $2000 a year in subscriptions. As busy community workers we need our car. In fact, we're married to it! Our Econovan is 13 years old and like us, is still pretty fit. But maintenance expense has been heavy this year to keep it that way. We both need that TLC. The high cost of petrol, insurances and registration, tyres and new parts plunders our wallets. More insurance on our property, electricity, phone and the rent extract what is left.

"Incidental expenses include chemist bills and some smart clothing from St Vincent de Paul"

Margaret says aged pensioners who partake of alcohol and cigarettes must find it even more difficult.

"We do not pay any Income tax, so the GST would knock our finances about" she says.

"An aged pension increase would be great, but it's a bit like democracy ... it could take a long time."

The couple say they are living "okay" at the moment and enjoying life, but they are concerned about the GST and the rising cost of living in comparison to their pensions, which they say seems to be "losing ground daily".

Pensioner Couple (cont)

Under 2% Expenditure tax, Margaret and Ron benefit by -

Being in a financial position that is better by $58 per week - a 20% increase on their pension.

Their pension at the same rate $295.80 p.w. has 17% increased purchasing power to buy more.

Weekly spending reduces from $90 to $72 and their medical benefit fund contribution reduces to $30 pw. from $38.50 p.w. Their unspent pension of $167 p.w. increases to $193 p.w. but this has increased purchasing power to $225 per week.

The things Margaret and Ron need to buy will cost less - goods up to 40% less, and services up to 30% less

Margaret and Ron have the financial incentive to review their assets and expenses so that they maximise their income to meet their needs. Any savings they can make will grow as the income is only taxed at 2%.

Working Couple. No Children.

Edmonton couple Richard (27) and Julie (24) laughingly describe themselves as "typical DINKs" (double income no kids) - for the moment, anyhow.

They enjoy the freedom of income from two jobs and although they are paying off a house mortgage and a car, the pair live reasonably comfortably.

Richard is a purchasing manager at Cairns Airport, earning $26,000 a year before tax, while Julie, an advertising assistant, earns $24,000 a year before tax. They pay $300 a week off their home loan and $55 a week off their car loan. Groceries cost them $100 a week, they spend $20 a week on petrol, $100 a week goes into a budget account to pay bills and they usually allow $100 a week for entertainment, which includes eating out, going to the movies and having drinks at their local pub.

Richard and Julie have been married for two and a half years, but are not planning to have children for another two - three years.

“We've just come back from an overseas four week holiday in England so we just want to save.” Julie says.

“The GST we think is not too good because if everything starts going up in price it does make things more expensive. It depends on what happens to our Income tax.”

She says she'd rather keep things the way they are.

“We're going-out sort of people, we like going camping and the beach on weekends. But we do have to be careful with our money,” she says.

Under 2% Expenditure tax, Richard and Julie benefit by -

Being better off by $90 per week, Richard and Julie retain their present take-home pay of $767 per week net of tax. Weekly spending reduces from $675 per week to $611 per week, leaving $156 p.w. (presently $92) but with17% increase in purchasing power this increases to $182 per week.

Their cost to employ reduces by 20% - Richard’s cost down $117 p.w., Julie’s cost down $103 p.w. With no bracket creep, additional hours worked will be at their present take-home pay rate Any increase in pay rates will only be taxed at 2%.

Richard and Julie have the financial incentive to pay off their house and car loan quicker by an additional payment of $156 per week, and no bank fees under 2% E.T., or consider starting a family with their spending power of $182 per week. Expect babies to cost 30% less under 2% E.T.

Richard and Julie’s superannuation accumulates by an extra $8 per week as contributions are only taxed at 2% (presently 15%), fund income and payments also only taxed at 2% (presently 15%), and fund administration costs reduce by 28%.

Richard and Julie’s income on savings will only be taxed At 2%, not their top marginal rate as at present

Richard and Julie can plan their future easily, knowing what their net of tax incomes will be so they make lifestyle decisions, not tax based decisions.

Trader

Innisfail trader Dom has been operating his convenience store in the CBD since 1959 and says small business in the town is hurting as never before.

“Any new government should look closely at the way manufacturers and supermarket chains are creeping towards control of the market,” he said. “I know trends have changed and people enjoy shopping under one roof but our politicians can do nothing about it and the chains have become the real politicians — they dictate. The government has got to look at the situation and address it.”

Dom, a middle income earner, no longer employs full-time staff but runs the store 16 hours a day, seven days a week, assisted by family members, some not drawing wages.

He said when his father opened the store 53 years ago, it was one of seven general food and smallgoods stores in the area “Now there’s only us,” he said.

"In those days, everybody used to mark up goods at 33 per cent, and we had 90 days to pay wholesalers for grocery lines.

"This gradually slipped back to 60 days, 30 days and now it’s COD or seven days (credit) if someone is willing to give it.

"The margins also have tumbled and, although we never hoped to pay less than supermarket chains for stock, we never expected to have to pay much more in wholesale than the public can buy it for at retail."

Dom said a GST was not the answer and only would exacerbate the situation.

He said he was paying a major soft drink manufacturer and distributor 60c a (2 litre) bottle (wholesale) more than supermarkets were retailing it for.

A GST would only make this price differential worse.

Dom and daughter Melva benefit under a 2% Expenditure Tax by

Low cost inputs to their business - prices of goods reduced by 40% and prices of services reduced by 30%. Their operating expenses will be less, e.g. take-home pay only taxed at 2% so cost to employ will reduce by 20%.

There is no tax bracket creep with 2% E.T. so no penalty for longer hours. With cost to employ staff reduced by 20%, Dom can have time to plan his business and check that he pays no more for the goods he sells than his competitors, e.g. supermarkets.

The present 9 major taxes, if they apply to Don’s business, are not paid to the Government but used by Dom and Melva to reduce their prices. 2% E.T. is cash flow positive because it is paid to the Government after the goods are sold. This is not presently the case with Sales Tax, tax on wages, etc. which are paid to the Government regardless of when a sale is made. Dom and Melva’s income will have 17% increased purchasing power. The same applies to their customers who appreciate personal customer service.

Manufacturers will see opportunities to free themselves from dependence upon the supermarkets by increasing sales to customers such as Dom and Melva.

2% E.T. is visible on all sales dockets so Dom will be able to check against supermarket sales dockets to see that he is not being overcharged by suppliers

Dom and Melva will know their tax position at all times so they will be able to concentrate on their business and plan their future, based on customer service at a fair price.

Farmer

Mena Creek farmer Paul said he believed there was a need for a fairer tax system. Paul was born on his family cane farm and has worked there for 50 years. He and his wife Jacqueline have four sons and run their farm, cane harvesting and transport operations as a family company.

Paul, a committed Nationals supporter, said his main concern was with the GST. Under the Coalition proposal farmers will have to pay the GST up front at time of purchase on farm machinery and equipment. But they will be able to claim rebates from the Australian Taxation Office on items listed previously under the sales tax exemptions and classifications guidelines. This will require farmers to spend more time in the office filing claims as soon as possible after purchase to maintain cash flow and to keep scrupulous records of financial transactions.

Paul said this would lead to a new age of accounting, which posed the question of whether the revenue raised justified the added cost of administration to keep track of it all. He said farmers with overdrafts and debts, who now did their books annually, would have to do them monthly or they would run deeper into debt. Businesses generally would have to employ staff to cope with this function and all transactions would need to pass through a series of hands, adding hidden costs in administration. This could result in actual cost increases of up to 25 per cent—not just the 10 per cent GST

He said a benefit of GST would be price reductions on some articles currently subject to 20 to 30 per cent wholesale sales tax. "Most people on wages would be better off—fuel will be cheaper and maintenance and repairs to cars will be cheaper," he said. "Most average wage earners on $50,000 to $60,000 a year will be better off than farmers, who have to pay more in tax."

Paul said the fuel rebate would make it cheaper to grow cane and the average transport operator also would save on fuel. He said he would not be disappointed if a GST was not introduced but it did appear a fairer and more equitable form of revenue collection. Paul said Opposition policy had nothing constructive to add to the present system, which would continue as before.

Paul and his family benefit under a 2% Expenditure Tax as follows

Small Farm businesses have been decreasing in number with a 13% decline in the three years ending June 1995 due to non financial viability. These statistics would indicate that a small farm with a turnover of $47,290 p.a. is operating with a negative cash flow of $880 p.a. and unrecovered costs including depreciation of $36,850:

Benefits of 2% Expenditure Tax to 22,800 Small Farm Businesses

- No provisional tax
- No income tax on profits
- 2% E.T. paid on income when product sold.
- 2% E.T. of $9 paid on take-home pay of $450 per week. (Compared with today, PAYE of $127 or 22% on a gross weekly wage of $577 is paid to Government. This cash outgoing of $127 may not be recovered by cash income but no refund by Government. 2% E.T. cash outgoing only $9.)
- Farm worker today on $450 per week take-home pay has a 2% E.T. increase in purchasing power of $76 p.w. to $526 per week
- Positive Cash Flow $146 per week on farm worker cost to employ. (Today's cost to employ this farm worker reduces from $663 * per week to $517* per week, a reduction of $146 per week or 22%. *(Both figures include superannuation and medicare levy)

Note today's total cost to employ 4 farm workers, will employ 5 farm workers under 2% E.T.

2% E.T. provides Small Farm business with a positive cash flow and full recovery of all costs including depreciation over 6 years. 2% E.T. increases farmer's equity in 22,800 farm businesses. 2% E.T. reduces the cost of farm risks and losses - natural and exceptional circumstances;

- lowers cost to employ. e g. take-home pay, super and medicare levy, plus 2% reduces -
  - losses due to natural disasters, e.g. flood, fire;
  - cost of on-farm improvement, e.g. land reclamation and off-farm improvement, attending training courses.

2% Expenditure Tax reduces both on-farm costs, e g household costs, and off-farm costs, e g private education for children, hospital treatment and care, holidays, etc. 2% E.T. delivers equity to 22,800 Small Farm Businesses and provides the opportunity of a financially viable future.

Executive

Innisfail executive Rob, 41, has a wife and two daughters, aged 9 and 13 years, and operates on a single-income budget.

A middle income earner and swinging voter, Rob has concerns with family allowances.

"My understanding is that the older the children, the less their potential for family allowance benefits," he said.

"This is wrong—the older they get, the more they cost us, so their (Government) policy is flawed.

"And the Coalition's advertising on the GST is misleading. The effect of a GST depends on what the wholesale tax rates are on the items we buy. The cost of a basket of shopping for us is approximately $280 a week, but I don't know whether I'm better off with the GST or existing wholesale sales taxes.

"I am all for simplification of the taxation system. But my real concern is that if I have a reasonable grasp of economics and I have, and I can't make an informed decision, how can the average person?"

Rob said he believed proposed tax reforms had not gone far enough to include income splitting for PAYE employees with single-income families.

Rob said governments should leave superannuation alone.

"One thing that get's my goat is when governments make changes to superannuation," he said

"I've been employed 25 years and there have been changes in that time which I consider retrospective. The decisions I have made in time on super, for my future, may not apply when I retire. I am 41 and making long range plans for my retirement and, if someone changes the ground rules now, they (the plans) will go out the window."

Said Rob: "I believe if any government has some silverware in the chest (major assets such as Telstra), they shouldn't sell it for short-term gain. It would be best for Telstra to be operated 50-50 as a joint venture between the government and the private sector."

Rob, his wife and two daughters benefit under 2% Expenditure Tax by:

Rob's take-home pay having an expected 17% increase in purchasing power with lower prices of all goods and services.

Their family allowance also buys 17% more, including meeting the needs of the children.

There is no tax bracket creep so increased hours worked are not taxed at a higher rate. Additional income for Rob and his wife will only be taxed at 2 cents in the dollar. Similarly, income on savings only attracts 2% E.T., not the top marginal rate as at present.

2% E.T. protects existing medicare payments but allows freedom of choice, either the Public Fund or a private fund. Medical care, including hospital care, is expected to cost 28% less under 2% E.T. so Medical fund payments will be reduced to provide a wider cover.

2% E.T. on Superannuation contributions, incomes and payments is only taxed at 2%, not the 15% as at present Fund Administration costs are expected to reduce by 28%.

2% E.T. provides the incentive to businesses and individuals for growth, with the Government benefiting by budget surplus to pay off foreign debt and fund new development in Australia for all Australians.

2% E.T. makes it no longer necessary to sell off public assets, e.g. Telstra, and will provide the incentive for Australians to invest in Australian ownership of our industries. (Rob needs to understand that a 50:50 ownership by Government will only benefit the public interest if through their 50% interest, the Government can control their market share and market interest. The Government's share of Qantas does not work in the public interest because British Airways controls the operations and marketing of Qantas.)

Appendix 7

Other forms of taxation

Carbon Tax

Extract from *Your Future in Your Hands*

Before environmentalists become too carried away with the foolish notion of a carbon tax, the article 'Waiting for the big volcano' in the August 1997 edition of Geographical places this concept in reasonable perspective. Pinatubo in 1991 caused global cooling of up to 1^0C. Eruptions 100 times more powerful than Mt. Pinatubo are possible to lower temperatures up to 15^0C. When the big one goes up, our silos must be full, and our technology must be better than today to minimise the proverbial fallout. Another tax on technology is the last thing we need. While the proposed carbon tax collectors harass industry with puny emission sniff meters, they could pause to reflect on the march of mankind towards a better and safer world in spite of stupid albeit well meaning tax laws.

The first blast furnaces used as much as 8 tons of coal or coke to make one ton of pig iron. In 1828, a Scot (who else) developed a system which economised on fuel—5 tons per ton of iron. Today's usage is closer to half a ton of coke to 1 ton of iron. All done without a carbon tax. When hay burners once used for transport were replaced by gas guzzlers, solid dropping pollutants were replaced by low density pollution in a gaseous form—and always the latest models emitted cleaner exhaust and gave more kilometres per litre. More new cars would be on the roads to replace obsolete versions if sales taxes and tariffs weren't so high. The cars of tomorrow will be fuelled by hydrogen, and the ash of hydrogen is H_2O. The exhaust will be water vapour, but that's another greenhouse gas. Will they tax that too?

If those who really care about the environment applied their minds, they would realise that fewer taxes, not more, are the answer. A tax system based on 'profit', and which allows large write-offs on obsolete equipment, which taxes to its knees investment in high-technology low-polluting equipment, which limits the availability of venture capital with the stifling capital gains tax, is the source of much of the unsightly and unnecessary pollution in the world today. A non-punitive tax system could clean up our act in more ways than one.

When unleaded petrol was introduced, the writer observed a well intentioned fellow pour it into an old car designed for leaded petrol and roar off down the road pouring smoke from his exhaust, happy in the knowledge it was lead free. Carbon tax is the smoke screen of today, and its proponents indicate the same blinkered vision as the happy chappie with lead in his foot and his head in the clouds.

Land Taxes

Monetary value exists only at the moment of sale. It is self-evident that any form of taxation based on 'deemed value' is doomed to a future in capricious courts of law, with the outcome dependent on whatever political, financial and peer group pressures apply to the judge, lawyers and jury. The concept that fair and equitable taxes can be based on the deemed 'value' of land is a non sequitur and deserves no more than this brief note to rebut.

Bank Withdrawal Taxes (Debit taxes)

This concept deserves even less rebuttal. It would divide the community into three groups, a) those with a bank account who would pay the tax, b) those who used cash who would pay tax only when they purchased something from those who put it through the bank, and c) those who used overseas banks who would also pay tax occasionally to suit their particular agenda.

Appendix 8

Superannuation (this alone should be the alarm bell)

	Pre-GST	10%GST	2% E.T.

John Sample age 25, retirement age 60, current income p.a. $30,000, existing assets $5,000. Inflation-indexed retirement income target 75%, e.g. $22,500 at today's income.

	Pre-GST	10%GST	2% E.T.
Variables:			
Inflation rate % per annum	3.5%	4.5%	0.0%
Earnings rate % per annum	7.5%	7.5%	4.0%
Projected salary on retirement	$100,008	$140,020	$30,000
Lump sum to purchase lifetime pension, e.g. to age 79	**$1,235,680**	**$1,730,071**	**$376,675**
Contributions:			
Employers	$2,107	$2,107	$2,107
Extra employers	$2,938	$4,304	$2,777
TOTAL	$5,045	$6,411	$4,884
Cost to employ John Sample			
Gross Income	$27,062 *	$25,696 *	$21,262
Super - Employer	$2,107	$2,107	$2,107
- Employee	$2,938 *	$4,304 *	$2,777
- TOTAL	$5,045	$6,411	$4,884
PayrollTax	$1,800	$1,800	-
Insurance	$600	$600	$521
SUBTOTAL	$34,507	$34,507	$26,667
PAYE Tax	$5,800	$4,474	-
10% GST		$3,451	-
2% E.T.		-	$425
Tax on Super	$757	$994 **	$98
Payroll tax	$1,800	$1,800	-
TOTAL TAX	$8,357	$10,719	$523
Cost to Employ	$34,507	$37,958	$27,190 #
Take-home pay	$21,262	$21,222	$21,262
Increased/Decreased Buying Power	**-**	**-5.5% ($1,167)**	**+17% $3,615**

* Deduct from Gross Pay
** Includes 0.5% increase in costs due to GST
# 28% reduciion on GST cost to employ

Appendix 9

Benefits of fundamental tax reform

1 **None of the problems described in this submission for the existing system would occur** with the implementation of a low, broad-based expenditure tax to abolish nine major taxes—Personal Income Tax, Company Income Tax, Goods and Services Tax, Payroll (State) Tax, Fringe Benefits Tax, Capital Gains Tax, Withholding Tax, Provisional Tax and Superannuation Tax. Other taxes would be abolished as the economy grows.

2 Such a system could be **safely brought in over three years** and would be welcomed by all taxpayers. (refer p 35)

3 It would provide **its own incentive for compliance** and increasing productive work. (refer Case studies pp 15-31)

4 There would be **no incentive for tax avoidance** and people would develop a healthy attitude to the payment of their taxes.

5 The **disincentive** of increasing taxation rates with increasing income would be **removed**.

6 The deleterious effect of high taxes currently built into all costs in the production chain would be removed. (refer pp 37-38)

7 Exports would be enhanced and Australian manufacture advantaged to better compete with imports. (refer pp 15-16)

8 People could work as long or as hard, or hold as many jobs as they like, without increasing their tax rate.

9 No sector of the populace would be advantaged or disadvantaged by the introduction of a broadly-based low expenditure tax. (refer p 31)

10 The economy would be enhanced by **paying off the Public Debt** over three years. (refer p 9)

11 Financial arrangements between the Federal, State and regional areas would be less complicated than they would be with the existing system.

12 There would be no need to:

- 12.1 tax food or other necessities of life under different rules
- 12.2 resort to complicated methods to minimise taxes
- 12.3 make any special arrangements for specific industries, the non-profit sector or regions
- 12.4 have special Commonwealth/States arrangements for implementation, and no mechanism would be required for future alterations to the tax apart perhaps from reducing it
- 12.5 devote many pages of legislation defining the meaning of 'Health' for tax purposes, and more pages to define other additions to an expanding list of exemption trade-offs.

With a low broad-based expenditure tax, UNEMPLOYMENT WOULD VIRTUALLY DISAPPEAR. Government costs would reduce because fewer people would require welfare services. The churning costs of public service taxation would be reduced. More people would be working and paying tax. Less people would be avoiding tax because of the public stigma attached to tax avoidance in a system enjoying widespread respect as being fair and equitable—a system in which, by virtue of its inherent prosperity, citizens can afford to pay such a nominal fee for the privilege of living in a dynamic economy.

THE BENEFITS WOULD BE IMMEDIATE AND FUTURE GENERATIONS WILL WONDER WHY IT TOOK SO LONG TO ACCEPT SOMETHING SO SELF-EVIDENT.