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TAX SYSTEM FOR THE 21st CENTURY

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The tax system in Australia as in other countries, is last century's tax system. We are in the twenty first century with considerable economic and social change taking place. The result is that last century's tax system is struggling.

> **St Clair Tax Reform Model**
>
> - ✔ One Tax
> - ✔ Less Tax
> - ✔ Huge Savings
> - ✔ No Tax Returns
> - ✔ Less Red-Tape

Once again the Federal Government is putting on the agenda so called 'tax reform'. If the past is any indication the so called 'tax reform' is merely either an increase or decrease in tax, or at best, nibbling at small elements of the system. Last century's tax system has high economic waste and inefficiencies.

We have about 125 different taxes in Australia, 10 raise 90 per cent of all revenue. Company tax rates are at the top end of OECD countries and of Asian countries in our region, dragging on our competitiveness. It is time to introduce REAL tax reform to benefit all. REAL tax reform will mean the eventual dumping of last century's tax system and in its place a completely different, efficient tax system.

The following is The Economic Architectural Summary of the **'St Clair Tax Reform Model'**. REAL tax reform that will have the eyes and ears of the world glued to these changes. It is up to panels of economists from here and abroad to be the engineers of the system, attending to the detail.

The suggested reform model comes in two distinct parts.

> ## PART A
> **THE CASH FREE ECONOMY means the end of the cash society; worth billions of dollars in uncollected tax.**

By natural economic progression the use of paper money and coins is dying out. Some Banks in Sweden don't accept paper money and coins. "Bills and Coins now represent just 2 per cent of Sweden's economy, compared with 7.7 per cent in the United States and 10 per cent in the Euro area." *Australian Financial Review, 29th December, 2015.*

Under the **St Clair Tax Reform Model** the Federal Government would first pass legislation establishing a cash-free economy, thus accelerating the natural process.

A cashless society would mean that 'black' money would disappear and all transactions would be traceable. Illegal transactions would be much more difficult. Cost savings in the production and handling of physical money would be significant also. On the flip side, electronic fraud would no doubt increase.

Special Federal Government legislation would be required to register all Banks, Credit and Debit Card Providers including Foreign Banks and Card Providers. This legislation would have particular emphasis on financial risk and security. The current Credit and Debit Cards as we know them, could be combined into one card known as a 'Money Card' linked to a 'Money Card Account' whether for an individual or entity.

As with today's Banks and Credit Card Providers commercial arrangements may be entered into under the new system.

Under this model all transactions are processed through Banks and Money Card Providers who as previously mentioned are strictly registered and controlled.

All citizens would have Bank and/or Money Cards to use for all transactions. The technology for this system exists now and could be refined.

At commencement of a cashless society all cash would be withdrawn through the Banks and Money Card Providers. It would then be credited to the individual's account. A similar system would exist for all tourists to Australia. On arranging travel to Australia tourists would establish Bank and/or Money Cards either through their Travel Agency, Bank or Money Card Provider converting their foreign currency to cards. Money transactions for exports and imports would utilise a similar system.

PART B
THE RECEIPTS BASED TAX SYSTEM

a) All 125 taxes would end.

b) Only one tax would exist – the Receipts Based Tax.

c) Tax would be collected by the Banks and Money Card Providers. The tax collected would be a percentage of ALL cash receipts – no exceptions – including transfers from one bank and/or money card account to another. Money would be transferred to the Federal Government immediately as it is collected.

d) The tax percentage would be low. How low would need to be determined, perhaps as low as 2 percent.

e) To determine the tax percentage it is proposed that PART B of the change would only be introduced one year (minimum) or three years (maximum) after PART A has been introduced. This will enable economists to assess the volume of receipts on a daily, weekly, monthly and yearly basis from reports the Banks and Money Card Providers send to the Federal Government. Then an accurate assessment of the tax rate required could be determined.

f) No Tax Returns would be required from individuals or businesses including Companies, Trusts and Superannuation Funds. This massive benefit would have a direct result of more profits and wealth creation.

g) All workers would receive their gross salary or wage with no deduction of tax (other than the Receipts Based Tax), to spend, save, reduce mortgage or invest as they wish. The gross amount would be subject to the Receipts Based Tax applied by Banks or Money Card Providers.

h) Tax collection would be from the Banks and Money Card Providers. This may well be less than 5,000 providers rather than the Tax Department dealing with millions of taxpayers.

i) There would be massive savings for the Government and business on dealing with the presently highly complicated tax regime. Everyone would pay their fair share of tax including the multi-national companies and through online and Uber style transactions. The Government would not be bypassed.

j) Tax collection would be considerably simpler with no bad debts for the Government.

k) Compensation could be considered for early retirement from the Tax Office and to firms of Tax Agents for loss of business, to Banks and Money Card Providers for set-up costs and ongoing collection for the Government and for pensioners as receipt of pensions would be subject to tax. However the tax in other respects should not penalise pensioners, as business and the wealthy would have considerably more transactions, therefore more tax. Furthermore a tax-free threshold would apply to all individuals.

On introduction of the Receipts Based Tax would commence a transition period. It would be necessary for outstanding lodgements and collections under the last century's tax system to continue until all taxpayers have finally completed their tax obligations under that tax regime.

As a result, the downsizing of the Taxation and other Tax Collection Departments would be gradual, probably only through natural attrition.

Consideration would have to be given to debtors and loan transactions under the Receipts Based Tax system. Where persons or entities are related special enforceable provisions would

The winners of the new tax system would be all Australian taxpayers. The losers would be those who have cheated the system and/or carried out their tax obligations in a very aggressive manner.

be required to be enacted, the breaking of which would be subject to penalty.

In the case of arm's length debtors and loan transactions, little change may be necessary as a result of the recipients' desire to have such transactions completed in accordance with the agreed arrangements.

Under the St Clair Model some of the broad benefits would be:

1. One tax only – The Receipts Based Tax – all other taxes would cease, saving billions.
2. No tax returns would be required from individuals or entities, saving billions.
3. The Government would have no bad debts and no collection problems. Tax would be paid on time – immediately as collected.
4. No Cash Society. Saving billions. However bartering between taxpayers to avoid tax may increase, even though this type of transaction would be illegal and subject to penalty.
5. The considerable number of individuals and entities who should lodge tax returns, and those that have tax debts, would now be paying tax under the Receipts Based Tax system.
6. Considerable savings to Governments and businesses would be made; as a result a vast reduction in taxation complexity, e.g. negative gearing, residency matters and ending of so much tax law including that associated with Capital Gains Tax, Goods and Services Tax and Superannuation Law.
7. The so-called 'sacred cow' of tax, tax exemption of the main residence, would be circumvented under the Receipts Based Tax.
8. The Receipts Based Tax creates tax pyramiding. This results in the tax rate percentage being considerably lower.
9. International transactions which may not attract tax would be subject to tax under the St Clair Tax Reform Model e.g:
   - Internet transactions
   - Those individuals who travel relatively often from country to country and avoid paying tax in any country under the old tax system would now be subject to tax.
   - In particular those large international companies who earn billions of dollars in Australia and pay little or no tax under the old tax regime, would be subject to tax.
   - The St Clair Tax Reform Model would offer greater ease with less complication in overseas trade transactions.

All International Tax Agreements between Australia and other countries would have to be reviewed.

Some of the negatives that may apply to the St Clair Tax Model:

- A transfer from utilising cash to electronic cards. The move is already happening with paying online, credit cards, Opal travel cards already in use.
- Overseas transactions being conducted through Banks and Credit Card Accounts in Australia.
- Businesses incuring losses would still have the Receipts Based Tax applied, however a tax-free threshold for individuals, a low rate of tax and no other taxes may compensate.
- Pensions being taxed but adjusted by the government increasing pensions and a tax-free threshold being involved.
- Problems with Senior Citizens coping with electronic cards and cash being no longer in use. This problem currently exists to a lesser degree. The answer may well be more input by Carers. A further increase in pensions in compensation may be the answer. In other respects, other members of the community would pay more in tax than pensioners and low income earners based on a greater number of transactions and volume.
- Transfers of money from one Bank Account or Money Card to another would attract the new tax. Believed to be acceptable in order to avoid complication, subject to the tax-free threshold for individuals and the low rate of tax.

All in all the St Clair Tax Reform Model is a model for the 21st Century. A fairer tax system, lower tax, with a vast reduction in complexity and compliance. More money in the hands of individuals and entities to spend, invest and reduce debt as they may desire.

Going Forward

The Government should set up a panel of economists to gauge the feasibility of the St Clair Tax Reform Model. If the report is favourable, the debate should begin in earnest, resulting in a referendum.

This is a huge change to Australia's taxation system, the biggest change to taxing in Australia's history, thus warranting a referendum for the people to decide.

LAST THOUGHTS

- No comprehensive tax system is perfect: a balance should be struck between the positives and the negatives.
- Last century's tax system is not the best conclusion.
- The St Clair Tax Reform Model at the very least, should be investigated.
- Change has to happen. Embrace it.

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