

Submission to the Inquiry reviewing a range of taxation issues within Australia

This submission addresses both Part A and Part B of the Inquiry by proposing a change to the way taxation and social security is processed. It gives the broad principles and outlines a strategy to achieve a more efficient (in terms of cost) taxation and social security system. The effect of such a system will address the issues covered by the Inquiry.

Restatement of the issues

1. Most people would agree that the taxation system is too complex and that because of its complexity it is difficult for any taxpayer to self assess with any degree of confidence.
2. A regime where all companies calculate PAYG, where tax is paid after it is theoretically due and where there are differences in interpretation of the taxation legislation across the ATO costs money and brings the ATO into conflict with tax payers and tax collectors.
3. More than 60% of all taxation collected is redistributed to the population. That is, taxation is used as a way of redistributing income between Australians. Thus taxation and social security and other reasons for redistribution are intertwined yet all the systems are administrated separately with unforeseen effects and interactions.

A solution that addresses these issues

These issues can be addressed by simplifying the interaction of each individual with the government so that tax is calculated and paid immediately it is due for each individual and so that the application of legislation is automated through the use of computer programs.

One possible implementation

An individual is given a special bank account into which all income is deposited. A computer program is devised which analyses the income coming into the account and automatically calculates the tax owing at the time the income is deposited and sends it immediately to the tax department.

1. This solves the problem of complexity because it doesn't matter how complex the legislation is as the rules are built into the computer program. Self assessment now becomes the responsibility of the individual to ensure that all income passes through the bank account.
2. This approach means there is no need for PAYG tax calculations by companies. There is no possibility of tax being in arrears. The interpretation of the legislation is embodied in computer programs and so is consistent across the ATO.
3. At the same time as taxation is calculated on income so redistribution income in the form of pensions, family payments is calculated and automatically transferred from Treasury to the income account. This makes the payment of redistribution income automatic. It also eliminates the need for a FBT regime as entities report fringe benefits as income to individuals.

The practicalities of implementation

In practice the computer program has to know more about the individual than the income they receive. Other information such as marital status, age, etc is needed. This would be supplied by the individual and would be part of the self assessment. That is, self assessment becomes telling the truth about your personal situation and reporting all income.

The system could be introduced on a voluntary basis and could be financed by private organisations. That is, the tax department and social security departments could outsource their functions and pay a fixed amount for the administration of each individual's tax return and social security payments. This amount could be set at some arbitrary figure such as 25% of the current cost to the departments for processing. This along with the advantage of collecting all income from an individual would mean that many companies would compete to provide the service.

An individual who opted into the system would be responsible for ensuring that all income was reported to the system. The individual would also be responsible for giving their personal circumstances to the system.

The system does not need to have a real bank account to work as it could operate with a 'virtual account'. However, a single income depositing account is desirable for simplicity of understanding and also to make it attractive to banks to implement solutions.

Individuals will need a trusted electronic form of identification to interact with the parties from which income is derived and with a way of supplying personal information in a privacy friendly way. It should be noted that unless under investigation all information about an individual will be private and not available for other purposes without the permission of the individual.

The government's role would be to set in place the framework for the system to operate and to police its operation. Government would license or regulate the bank accounts and the computer programs which operated on the accounts. They government would also mandate that if an individual requested it then income payments must be made directly to their bank account.

Advantages

The cost of administering taxation and social security will be dramatically reduced. If everyone participated in the system a back of the envelop calculation suggests savings of between \$10 and \$20 Billion to the government annually. Similar savings would be made to other economic entities. Potentially it promises to be the equivalent of at least \$1500 extra income for every person in perpetuity.

The system can be easily tuned to achieve other objectives such as eliminating poverty traps and stopping problems such as the repayment debts due to over estimating family payments.

For the individual it is simple to comply with the legislation and removes the need for almost all taxation accountants.

It removes a burden on employers to calculate and remove PAYG taxation.

Similar systems can be applied to other economic entities and would simplify all taxation reporting.

The computer programs can be used to model legislative changes before they occur. That is, the effect of new programs can be precisely estimated and individuals can check the exact effect on their own situation.

A similar system can be introduced for investments. That is, instead of superannuation an investment bank account is created. Existing superannuation is transferred to the individual's account and the same principles of applying the legislation with tax due calculated at the time of the entry and exit of money.

Summary

A system of automated tax collection is proposed where tax is paid at the time it is collected and earned for each individual. To participate in the system the individual agrees to the transfer of all income from all sources to a designated bank account. Computer programs calculate the tax payable and it is paid immediately. The same system is used to automatically calculate social security and other transfer payments.

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