

## Tax – Senate Speech 25 March 2015

[Senator DAY](#) (South Australia) (13:30): It was Benjamin Franklin who said, 'In this world nothing is certain but death and taxes.' Will Rogers responded: 'Yes, and the only difference between death and taxes is that death does not get any worse every time parliament sits.'

I note that over the past 12 months, the strategy to repair the budget has shifted from cutting spending to now raising revenue. If that is the government's strategy then it begs the question: what is the best way to raise revenue? As we attempt to answer this question, can we please set aside preconceived ideas and beliefs and look at the facts, the figures, the evidence and the logic because these all give rise to one irrefutable conclusion. If you want more revenue then lower the tax rate. Let me explain.

Tax law in Australia has been described as unintelligible. It is practically impossible to know what the law is and what it means. As we have learnt from bitter experience, in any area of compliance, rules and sanctions must be clearly spelt out so people know how they are supposed to behave and what will happen to them if they do not. The resultant attitude of many taxpayers to tax law is to treat the law and the courts as irrelevant. 'Forget legal advice, just give me an ATO ruling that will protect me from penalties or prosecution,' many say. Other taxpayers of course just surrender and pay up. Systems which are complex in their application and debilitating in the sense that the more you earn the less of each dollar you keep, and unfair and unreasonable in the sense that people feel penalised for working, are destined to failure. Anything not based on economic reality is doomed to failure and it is clear that our tax system has failed us.

Australia's cash economy is estimated at about 15 per cent of GDP—that is approximately \$240 billion—one of the largest in the developed world. An underground economy of that magnitude requires the involvement not only of a lot of businesses but also of millions of consumers. As we know, laws only work when people believe in them and at the moment they have no respect for our tax laws. High tax rates undermine enterprise and destroy the will to work. Behavioural response is a reality.

The prospect of giving up half or more of any additional earnings leads people to decide that it is simply not worth it. Taxation then starts to produce gross inefficiencies as people stop working as much or as hard as they used to and governments find their taxes are not producing the revenue they expected. Similarly, many on welfare benefits decline opportunities to work due to the punitive effect that small earnings and high tax rates have on the security of their welfare benefits and the value of extra work. As for people on very low incomes, they fare worst of all, for as they increase their earnings, higher rates of income tax combined with the loss of means-tested benefits deprive them of up to 80c of every extra dollar they earn.

If we are to extricate ourselves from this dysfunctional system, the goodwill of the public needs to be restored by getting tax levels back to something which most people would see as reasonable. To do this, we need to make three specific policy changes. Firstly, in order to remove one of the most significant tax avoidance avenues, align personal tax rates with

company tax rates—in other words, make personal tax rates and corporate tax rates the same. Secondly, raise the tax-free threshold; and, thirdly, introduce a single-rate tax system.

Single-rate, flat taxes are gaining popularity across the globe. The reason Treasury officials like the idea of single-rate flat taxes is that they work. Single-rate, flat taxes increase economic efficiency by reducing distortions, improving the overall allocation of resources, encouraging labour supply and stimulating economic growth. If one looks at the experience of those countries which have introduced a single-rate, flat tax and also the tax reforms of the 1980s which took place in Britain and America, reducing tax rates causes revenues to rise. If you want more revenue, lower the tax rate.

Some further examples. When the Australian company tax rate was cut from 39 per cent to 30 per cent, revenues went up not down. The famous Reagan tax cuts in the US in the 1980s from 70 per cent to 28 per cent produced a \$9 billion increase in revenue, when everyone said there would be a \$1 billion shortfall

Russia is another example: the move to a 13 per cent flat rate tax in 2001 increased their revenues. When Sweden halved its company tax rate from 60 per cent to 30 per cent, revenues tripled.

Resistance to paying tax declines as people's tax rates fall. Conversely, when taxes increase, people respond accordingly. Former New South Wales Premier Bob Carr's attempt at revenue raising by introducing the vendor stamp duty in 2004 resulted in less revenue being collected, not more, and it was scrapped after just 12 months. Single-rate flat taxes have now been adopted in over 30 countries and counting. In a research paper commissioned by the Association of Chartered Certified Accounts, Australia's Professor Sinclair Davidson concluded:

Our existing tax system is flawed and unsustainable. ... A single-rate flat tax with a generous tax-free threshold would be a major improvement on the current Australian tax system.

Australia is becoming uncompetitive. In 2006—nine years ago—an inquiry headed by Dick Warburton and Peter Hendy benchmarked the Australian tax system against tax systems applying in other major trading nations. Mr Warburton said:

... we should be looking at major tax reform—not just tax cuts, but reforms that look at the whole structure of the tax system. One of the ways you can do that is broaden the base and cut the rate.

Mr Hendy called for personal tax rates to be cut to equal company tax rates.

We also need to start reducing the current 30 per cent company tax rate. It cannot be done overnight, but the government could start by cutting the rate by one percentage point in this year's budget and then announcing its intention to make a similar reduction every year it is in office. That would hold out the prospect of a 20 per cent company tax rate, if the government is really serious about an internationally competitive tax system, and a 20 per cent personal tax rate by 2025.

Nobody enjoys paying taxes, but in the 1950s and 1960s relatively low taxation and a comparatively simple set of rules meant that people paid what was due without too much complaint. Today, however, the government and the ATO find themselves locked into a destructive relationship of repression and resistance with ordinary taxpayers. Where people can avoid tax by exploiting loopholes they will do so; where they cannot, as with ordinary PAYG taxpayers, they will just become resentful at the unfairness of it all.