SIMPLE, BUT NOT EASY

# THE CASE AGAINST EASYTAX

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# AUSTRALIA'S CURRENT TAX SYSTEM

- Takes 22 per cent of GDP as revenue (projected $410 billion in 2017-18)
- Personal and company income tax ($265 billion)
- Goods and services tax ($57 billion)
- Transactions taxes and stamp duties
- Land taxes
- Other revenue

# EASYTAX: A 2 PER CENT TAX ON EVERYTHING

- Gross value of turnover (replaces GST)
  - This raises most of the revenue
- Household incomes (replaces personal and company income tax)
  - Raises much less than existing income taxes
- Real estate and financial transactions (replaces existing taxes and duties)
  - Roughly equal to existing minor taxes

# TURNOVER TAX

## AN OLD IDEA, NOT A NEW ONE

- Most European countries relied heavily on turnover taxes in early 20th century
- Abandoned them in favour of Value Added Tax (VAT)
  - Called Goods and Services Tax in Australia
- Wholesale sales tax in Australia worked similarly but did not apply to final sales to consumers

# WHAT'S THE DIFFERENCE ?

- Turnover tax applies to the whole value of sales, including the cost of inputs on which tax has already been paid
  - Taxes on taxes
  - A 'cascade' tax
  - Allows a low rate, because same good is taxed many times
- Under VAT/GST, taxes already paid on inputs are credited against tax on final sales
  - A higher rate, but tax paid only once

# WHY DOES IT MATTER ?

- Cascade tax is good for big companies that can supply their own inputs (‘vertically integrated’)
- Value-added tax is good for small businesses with long supply chains
- Switch to cascade tax would encourage more vertical integration, bigger companies
- Cascade tax is lower for services (taxed once only), higher for goods (taxed many times)

# HOW MUCH TAX ON A STEAK DINNER?

- Yearling calves sold as stores (2 per cent tax on sales price, + tax on weed sprays, and other inputs)
- Fattened at feed lot (2 per cent tax on feed and other inputs)
- Sold to meatworks (2 per cent tax on sale price, plus auction and trucking costs)
- Sold to wholesaler (2 per cent tax, plus tax on inputs)
- Sold to restaurant (2 per tax, plus tax on rents etc)
- Sold to final consumer (2 per cent tax on full price)
- Total tax well over 10 per cent
- McRobert estimate to Senate, multiple of 7, implies 14 per cent tax

# HOW ABOUT A BIG RESTAURANT CHAIN ?

- Owns cattle property and feed lots, uses own trucks
- Pays tax on some purchased inputs, cost of slaughter etc
- But full 2 per cent is paid only once, by final consumer
- Total tax much less than 10 per cent
- Implication: Big vertically integrated businesses will drive out small, independent farmers, processors, and retailers

# SERVICES ALSO LIGHTLY TAXED

- Legal and accounting services, health and education (if not exempt), recreation and home services
- Tax paid only once at 2 per cent
- As services sector of economy grows, this problem just gets worse
- A major reason for shift to GST in 2000

# SOME INITIAL ESTIMATES

- Gross value of sales, **excluding** intra-company transactions $2700 billion (from ABS Business indicators: Income from sales of goods and services)
  - This is the tax base for a standard turnover tax
- Gross value of sales, **including** intra-company transactions $5900 billion (GDP * total input-output multiplier)
  - This is the tax base if all vertically integrated companies were broken up
- Household income: around $1000 billion

# REVENUE

- If perfectly effective, with no exemptions, turnover tax would raise about $54 billion, similar to existing GST
    - Requires taxation of food, health, education and other currently exempt items
    - Unlikely to be perfectly effective
- Other transaction taxes would roughly cancel out
- Tax on incomes would raise about $20 billion
- Shortfall about $250 billion

# DEBT AND DEFICITS

- Suppose we could cut expenditure by $50 billion a year
  - 2014 Budget proposed cuts far smaller than this
  - Most were rejected
- Deficit would be $200 billion per year, over 10 per cent of GDP
- Would exceed Italy in 10 years, Greece in 15
- Only way to stop this is to retain income tax, use Easytax only to replace GST

# SUMMARY

- Easytax would replace 10 per cent GST with a multitude of effective tax rates, higher than 10 per cent for small businesses selling goods, lower for big businesses and service providers
- Not nearly enough revenue to replace, or substantially cut income tax
- An old model abandoned everywhere in the world, for good reasons

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