

## Financial System improvement through Taxation Reform

The following submission contends that a massive reform of the taxation system, driven through the financial sector, is the most efficient, effective and equitable means to meet all of the goals outlined in the Terms of Reference (ToR) in the Financial System Inquiry (FSI).

### **Recommendation:**

**The core recommendation is the introduction of a micro-tax on all financial transactions in all financial institutions across Australia as a replacement for all existing forms of taxation at all levels of Government.**

The following response, while repetitive in many parts, addresses each and every item raised in the ToR. The support of the Inquiry for this response would ensure efficacy in the financial system for the Australian Government.

*Specifically, how does it address the ToR?*

*The following includes all of the terms of reference with the response included after each item.*

1. *The Inquiry will report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis, including implications for:*
  1. *how Australia funds its growth; The micro-tax provides an easier option for Government and or financial systems to accumulate vast quantities of funds at much shorter notice than current systems*
  2. *domestic competition and international competitiveness; The micro-tax provides a competitive advantage by being a more efficient tax than the current system, and*
  3. *the current cost, quality, safety and availability of financial services, products and capital for users. The micro-tax provides both a realistic Government funding option and the option to provide a safer Government under-written and regulated market.*
  
2. *The Inquiry will refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system, including:*
  1. *balancing competition, innovation, efficiency, stability and consumer protection; the equitable and efficient nature of the micro-tax ensures that each of these criteria are better met than alternatives currently available.*
  2. *how financial risk is allocated and systemic risk is managed; financial risk to capital for consumers could be underwritten by government {funded by the micro-tax} and there would be open competition for all risk-return options above {consumer protected} capital-guarantees*
  3. *assessing the effectiveness and need for financial regulation, including its impact on costs, flexibility, innovation, industry and among users; the efficiency of the micro-tax and the instantaneous method of operation ensures that regulation is simple and with dramatically reduced costs while ensuring increased flexibility*
  4. *the role of Government the efficiency of the micro-tax and the instantaneous method of operation would ensure extremely minimalist government involvement {initial legislation, confirmation of establishment of appropriate and effective software implementation and ongoing review and auditing based entirely on a single point of checking basis per financial institution} ; and*
  5. *the role, objectives, funding and performance of financial regulators including an international comparison the equitable and efficient nature of the micro-tax is world leading.*

3. *The Inquiry will identify and consider the emerging opportunities and challenges that are likely to drive further change in the global and domestic financial system, including:*
  1. *the role and impact of new technologies, market innovations and changing consumer preferences and demography; the use of “new” technology {almost all financial transactions occur in an electronic form} and therefore a micro-tax being collected on every single transaction becomes amazingly efficient and instantaneous. This is the very basis of the micro-tax. Market innovations and consumers preferences in all demographic groups are instantly integrated.*
  2. *international integration, including international financial regulation; the introduction of the micro-tax will provide extremely efficient daily monitoring of transactions both internal and external*
  3. *changes in the way Australia sources and distributes capital, including the intermediation of savings through banks, non-bank financial institutions, insurance companies, superannuation funds and capital markets; conditional upon payment of the micro-tax and the resultant ability of government to better monitor and support all sectors, the financial institutions would acquire relative freedoms and the ability to transfer more appropriately between the various financial sectors*
  4. *changing organisational structures in the financial sector; the micro-tax would remove the need for all tax-avoidance and tax-minimisation structures and employees and this massive shift would facilitate much stronger focus on contributing to the economy*
  5. *corporate governance structures across the financial system and how they affect stakeholder interests; the micro-tax and its method of collection would allow a significant increase in consumer protection through much greater transparency of transactions and*
  6. *developments in the payment system. The need for all financial institutions to deliver efficiency of micro-tax operation would ensure ongoing competitive improvements in the core of the integrated government-banking financial system.*
  
4. *The Inquiry will recommend policy options that:*
  1. *promote a competitive and stable financial system that contributes to Australia's productivity growth; an efficient, effective and equitable taxation method would remove many of the existing restrictions and reporting requirements and lead to a much more competitive and stable system*
  2. *promote the efficient allocation of capital and cost efficient access and services for users; the allocation of capital and cost efficient access and services would become the focus with the introduction of an efficient, effective and equitable taxation method ensuring that genuine productivity replacing schemes for tax avoidance*
  3. *meet the needs of users with appropriate financial products and services; the needs of genuine users of financial services would be much better met through consideration of appropriate services without the current focus on “tax-effectiveness”*
  4. *create an environment conducive to dynamic and innovative financial service providers the introduction of such a world leading approach to financial services would facilitate dynamic and innovative service provision; and*
  5. *relate to other matters that fall within this terms of reference. The response to every item of the ToR ensures the response relates to all other matters within the ToR.*
  
5. *The Inquiry will take account of the regulation of the general operation of companies and trusts to the extent this impinges on the efficiency and effective allocation of capital within the financial system. The introduction of an efficient, effective and equitable taxation method will dramatically impinge on the general operation of companies and trusts – and will ensure vastly improved allocation of capital.*
  
6. *The Inquiry will examine the taxation of financial arrangements, products or institutions to the extent these impinge on the efficient and effective allocation of capital by the financial system, and provide observations that could inform the Tax White Paper. The introduction of an efficient, effective and equitable tax is highlighted as a necessary component of the Financial System Inquiry and would certainly inform the Tax White Paper.*

7. *In reaching its conclusions, the Inquiry will take account of, but not make recommendations on the objectives and procedures of the Reserve Bank in its conduct of monetary policy. The Inquiry would note that the introduction of a micro-tax would not interfere in the procedures of the Reserve Bank but may assist in its objectives – especially in contributing the economic prosperity and welfare of the people of Australia.*
8. *The Inquiry may invite submissions and seek information from any persons or bodies. The Inquiry is to be congratulated on the extent to which this has been facilitated – and it is hoped all such submissions are given careful consideration.*
9. *The Inquiry will consult extensively both domestically and globally. It will publish an interim report in mid-2014 setting out initial findings and seek public feedback. A final report is to be provided to the Treasurer by November 2014. The Inquiry's timelines are noted.*

*The actual operation would occur as follows. Each institution (in order to gain and retain a licence) must install software that calculates the tax on every transaction, withdraws the amount of the tax from the account from which funds are being withdrawn and deposits it immediately to the relevant account of the Australian Government. A minimal percentage {variable at the decision of Parliament} would apply on every transaction with rounding up to the next cent on every transaction. There would be no exemptions and no refunds.*

### SUPPORT and OPPOSITION

The concept has several names and several slight variations. As indicated the micro-tax is largely based on the Automated Payment Transaction (APT). Taxes such as the Financial Transaction Tax (FTT) in the European Union, the Spahn tax and the Tobin tax have some elements in common with it.

Support internationally for the general concept is very widespread (Reference 2) and includes 19 of the 24 nations which, according to Wikipedia, have a declared position. A further 4 support it conditional on some or all other nations introducing it simultaneously. (The reasoning is generally that, while recognizing that all the indicators are for there to be huge improvement, there is a reluctance to initiate such major action.) Nations in this category include the United States of America, the United Kingdom, Sweden and Canada. Only China and India have stated unilateral opposition. That opposition is predicated on concern as to the ability of their large, complex and not very efficient banking systems {already a major concern} being able to handle it.

Support within Australia has a diverse base. It has broad support across a very wide base that is generally from the lower socio-economic groups but they are generally not politically active and certainly not politically effective. One of the more public groups is The Australian Taxation Reform Group Inc. <http://www.onefairtax.org.au/index.html>. {There are some further matters raised in their presentation which will assist to understand the micro-tax.}

Opposition within Australia has largely been most effective by ensuring that proponents have little or no opportunity to present the case for the micro-tax. In particular, it should be understood that the micro-tax would redistribute wealth away from the “upper 10%” for whom “conspicuous consumption” is acceptable and accepted practice. The strongest opposition is from those in speculation such as fund managers, operators of gambling businesses and other areas where gains are made from resource allocations to “non-physical” resources. {To some, this is “market efficiency” – and to others, this is the core corruption of “the market” .}

### References

1. [http://en.wikipedia.org/wiki/Automated\\_Payment\\_Transaction\\_tax](http://en.wikipedia.org/wiki/Automated_Payment_Transaction_tax)
2. [http://en.wikipedia.org/wiki/Financial\\_transaction\\_tax](http://en.wikipedia.org/wiki/Financial_transaction_tax)
3. <http://www.rba.gov.au/publications/annual-reports/rba/2011/html/functions.html>

## SOME FURTHER NOTES ON THE MICRO-TAX

The micro-tax would apply to every financial transaction conducted by every financial institution in Australia and the funds would be transmitted to the Australian Government on an immediate basis. The rate would have massive implications for the entire economy and so would only be able to be varied by Act of Parliament. The proposed tax is very similar to Automated Payment Transaction Tax proposed for the United States of America. That tax is described (Reference 1) as follows:

The Automated Payment Transaction (APT) tax is a proposal to replace all United States taxes with a single tax (using a low rate) on every transaction in the economy. The system was developed by University of Wisconsin–Madison Professor of Economics Dr. Edgar L. Feige.

The foundations of the APT tax proposal—a small, uniform tax on all economic transactions—involve simplification, base broadening, reductions in marginal tax rates, the elimination of tax and information returns and the automatic collection of tax revenues at the payment source. The APT approach would extend the tax base from income, consumption and wealth to all transactions. Proponents regard it as a revenue neutral transactions tax, whose tax base is primarily made up of financial transactions. The APT tax extends the tax reform ideas of John Maynard Keynes,<sup>[1]</sup> James Tobin<sup>[2]</sup> and Lawrence Summers,<sup>[3]</sup> to their logical conclusion, namely to tax the broadest possible tax base at the lowest possible tax rate. The goal is to significantly improve economic efficiency, enhance stability in financial markets, and reduce to a minimum the costs of tax administration (assessment, collection, and compliance costs). There is disagreement over whether the tax is progressive, with the debate primarily centred around whether the volume of taxed transactions rise disproportionately with a person's income and net worth. Simulations of the Federal Reserve's Survey of Consumer Finances<sup>[4]</sup> demonstrate that high income and wealth individuals undertake a disproportionate volume of transactions since they own a disproportionate share of financial assets that have relatively high turnover rates. However, since the APT tax has not yet been adopted, some argue that one cannot predict whether the tax will be progressive or not. Daniel Akst, writing in the New York Times,<sup>[5]</sup> wrote "the Automated Payment Transaction tax offers fairness, simplicity, and efficiency. It may not be a free lunch. But it sure smells better than the one we eat now." On April 28, 2005, the APT proposal was presented to the President's Advisory Panel on Federal Tax Reform in Washington, DC.<sup>[6]</sup>

There is no operational difference between the Automated Payment Transaction Tax and the Micro-Tax. The micro-tax proposal recognises a need for its implementation to be phased in to allow a less disruptive introduction. Accordingly, the first phase would be aimed at collecting the equivalent of 50% of existing income tax (including corporate tax) and replacing those taxes. The second phase would replace the remainder of income tax. The third phase would replace all other forms of taxation. The fourth phase would increase the rate to the required proportion of Gross Domestic Product to facilitate the commitments to social services and infrastructure.

Factor	Advantages	Disadvantages
Administrative economic efficiency	Simple, broad base, easy to implement, easy to ensure compliance. Daily revenue provides a much more stable revenue and information source for all government planning and activity.	Reduction of employment in numerous "compliance" areas such as Australian Taxation Office, accounting firms and law firms. Reduction of income for many "powerful" groups.
Economic efficiency – level of avoidance	Avoidance will be a very, very small fraction of avoidance in the current system.	Potential to avoid through (a) greater use of cash (b) moving transactions offshore.
Economic efficiency – effect on the market	Focus of resource allocation on best use of physical resources rather than tax minimisation. Reduces appeal of speculation – as there would be a reduced ability to ignore failures. Predictability of government revenue enhances business planning.	Transition will cause huge resource allocation of the current "establishment" to seek how to maximise their situation in the "new economy".
Social efficiency	Wealth redistribution will lead to a "more equal" society and less "conspicuous consumption".	Wealth redistribution will lead to less "reward for effort".

A qualitative/quantitative cost/benefit analysis (of the above factors) will provide the justification.