



GSAT

Simple, Fair & Efficient
Progressive Income Tax
Collected at a
Flat Rate
on
Expenditure

25 Reasons Why a GSA Tax is good for Business, Government & You

1 The Australian Government has asked us to “Re:Think Tax”.

The reason is simple: tax is horrendously complicated, costly to administer, and often inequitable. In many cases, it distorts decision making and misallocates resources.

With over 26,000 pages of regulations and volumes of case law, and multiple authorities administering multiple taxes across multiple jurisdictions; there is little to argue.

Re:Think also claims: “The rise of the digital economy and globalisation presents significant challenges for the effectiveness of the tax system”. As competitor countries act to improve their systems: “Australia can’t risk falling behind”.

For these reasons, Re:Think suggests: “Comprehensive tax reform may have the potential to lift Australia’s gross domestic product *more than any other government reform*”¹.

We agree.

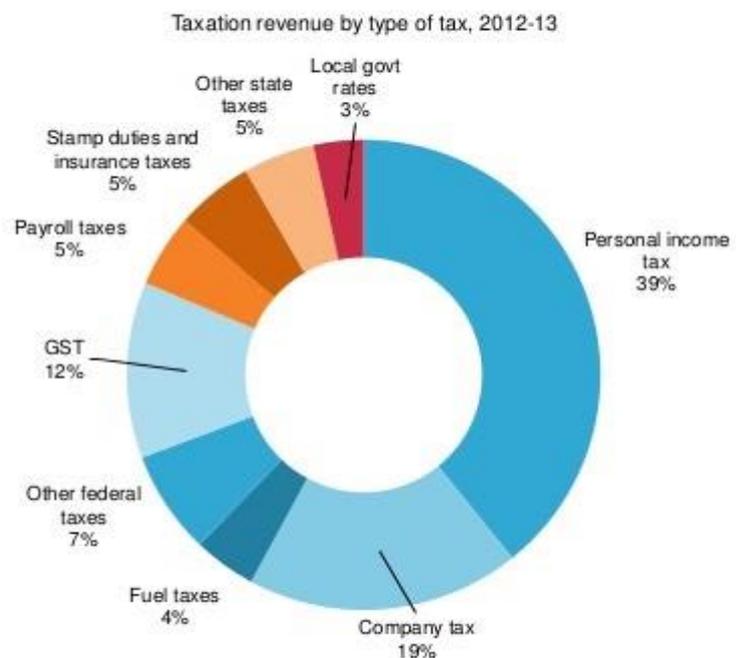
2 Here’s how it looks now.

Major sources of tax revenue

In Australia, most tax revenue is raised through personal and corporate income taxes and taxes on consumption (particularly the GST and fuel taxes), but there are many other taxes in the system.

In 2012-13:

- the **federal Government** collected around **81%** of taxes
- **states and territories** collected around **15%** of taxes
- **local governments** collected around **3%** of taxes



Source: ABS, Taxation Revenue, Australia.
Percentages may not sum to 100 per cent because of rounding.

Re:think

2

In all, there are around 125 taxes; although no one knows for sure, *not even government*²

¹ Emphasis added. [Better Tax, Australian Federal Government Brochure, p3.](#)

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3 GSAT: A Universal Tax System.

3.1 Here's how it could look.

200 pages of legislation to spell out a Single tax system: 'Goods, Services and Assets Tax' (GSAT)

GSAT is based on the philosophy that tax should not be a disincentive to create value. Nor should it distort spending to acquire any asset, good or service. In keeping with these ideas:

GSAT would be like a broad based GST – with some major differences:

1. *All income would be paid gross* (wages, rent, dividends, interest, capital gains, etc.).
2. Tax would be paid at a *flat rate on ALL expenditure* (inc. for assets, interest and labour).
3. Instead of being collected by business, it would be *collected via the banks*.
4. The *tax on expenditure would be translated into a tax on real income* through a simple system of rebates. These would apply to *all spending that does not represent final consumption, eg all business expenditure, the purchase of assets, loans & gifts, etc.*
5. **Combined with these rebates, a flat weekly payment to all Residents over 15 would turn the flat tax on expenditure into a progressive tax on income.**

Table 1 Tax Table showing the link between: Income and Expenditure Rates, a Flat Rebate and Net Tax Paid

Rate & Formula	ANNUAL INCOME LEVEL				
	Zero	Breakeven	Low	Median	High
A. Annual Earned Income	0	20,000	40,000	100,000	1,000,000
B. Annual Flat Rebate (paid in weekly instalments) 6,667*	6,667	6,667	6,667	6,667	6,667
C. Disposable Income A + B	6,667	26,667	46,667	106,667	1,006,667
D. Tax on Total (as spent) 25% of C 33.33% of E	1,667	6,667	11,667	26,667	251,667
E. Expenditure D - C	5,000	20,000	35,000	80,000	755,000
F. Net Tax Paid on Earned Income A - E	-5,000	0	5,000	20,000	245,000
Net Tax Rate on Earned Income F/A x 100	n.a.	0.00%	12.50%	20.00%	24.50%

* The actual rate would be a policy decision at the time of implementation.

As the table shows, based on a rebate of \$6,667 and 33.33% expenditure tax; the net tax paid varies smoothly from a net contribution below an income of \$20,000, up to 25% of income.

² http://taxreview.treasury.gov.au/content/Paper.aspx?doc=html/publications/papers/report/section_2-03.htm

25 Reasons Why a GSA Tax is good for Business, Government & You

Other rebates are required to ensure there is no 'tax on tax'. The Rebates fall into 3 categories:

- a) tax paid on the cost of sales - like the GST; *plus*
- b) tax paid on all assets when re-sold, and
- c) tax paid on all payments made for no consideration (eg loans and gifts)

Essentially, the rebates leave you in the same position 'as if' you had paid tax on your *real* income, rather than on expenditure. Tables 2 and 3 at the end of the paper show how the rebates work to tax asset purchases and sales exactly as if any real capital gain is taxed as income.

4 System in Detail

The system is explained in detail in the full 84 page paper: GSAT - 'A Universal Goods, Services and Assets Tax' available at world2-0.com. Comments can also be addressed through that site.

5 One Tax - with Many Rates that add to One Rate

The principal objection to a universal system is that it centralises control of revenue. This is not the case with GSAT. As the tax is collected via the banking system; each Local, State and Federal Government can set its own expenditure tax rate to fully fund its electoral mandate.

Your tax rate would be the sum of your local, state and federal rates. This tax would be deducted from your bank account - as and when any withdrawal was made - *according to your place of residence*. You can't get simpler than that.

GSAT could therefore replace most other taxes, including: income, company, payroll, GST, stamp duty, capital gains, superannuation, rates, land tax, etc.

It would not replace royalties for minerals, water or forestry as these represent payment for a right; or excise (eg for fuel, gambling and alcohol) as these taxes are designed to modify usage through pricing; and ideally should go to mitigate impacts. Also, GSAT would not replace government charges directly related to a specific activity (eg port charges, or third party insurance), as these relate to a service that directly benefits the user.

The top rate of tax (local, state and federal combined) is estimated at around 25% of income from all sources (including real capital gains). This estimate is based on the total tax-take now around 27.3% of GDP (including excise and charges)³; and subject to the amount of the flat rebate. An income tax rate of 25% translates into a 33% tax on expenditure, as per Table 1 above. This table also illustrates how the General Rebate makes the *net tax* Progressive.

6 The Challenge of Change: Lessons from History

³ <http://bettertax.gov.au/publications/discussion-paper/chart-data/chpt2/>

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6.1 Widespread Tax Change seems impossible, yet it's been done in other areas

In the 1960's and following decades, Australia progressively changed from Imperial to Metric measures. This involved changing equipment, instruments, tools, product specifications and containers, as well as our money from pounds, shillings and pence to dollars and cents. These changes impacted almost every area of the economy and most business processes at great cost. It also involved re-education of the community. Despite this, the change was worth it. Over time, the simplicity of working with metric has delivered huge productivity savings that continue indefinitely.

It is the same with the GSAT. The simplicity is worth it, with its benefits accruing forever into the future. And, because GSAT requires no hardware changes (and *eliminates* a huge amount of complexity), the actual change should be much simpler than the switch from Imperial.

The question remains: how quickly can we do it? Metrification took over two decades to complete.

6.2 To make really Big Changes we must engage with everyone who is Negatively Impacted

Toyota provides a good case study. Prior to moving the last of its Australian operations from Port Melbourne to Altona in 2006, Toyota gave employees an unprecedented 4 years warning of the old plant's closure, including hundreds of redundancies.

In other companies, redundancies at the time were announced as late as possible - to limit resignations of good people, and sabotage by those who felt betrayed.

Yet over four years, Toyota had no sabotage and very few resignations. The plant also achieved all its KPI's in the year it closed. These were not relaxed because it was closing. Each year the KPI's were more challenging than the last - with very little money for improvements that none-the-less had to be achieved.

Ian Jones, Federal Secretary of the FVIU at the time said it was the best managed closure he had witnessed in 35 years of industrial relations.

It was achieved very simply: by respecting the impact it would have on people. Toyota not only gave its employees many years to adjust to their new reality, it provided help with planning for the next stage in their lives, and importantly, generous termination packages.

In the case of GSAT, the impact will be on all people and businesses employed in paying, collecting, advising and litigating the 125 or so taxes now in force. Most will be out of a job.

With Toyota's experience in mind, perhaps we could aim for GSAT to be enacted in (say) 5 years, but not come into effect for another 10. While this sounds a long time in prospect, looking back, it is already 15 years since the turn of the century. Had the process begun then, we would be enjoying the benefits of the new system today.

During this lengthy transition, the community can be educated, software and business systems adapted and people prepared for the change.

25 Reasons Why a GSA Tax is good for Business, Government & You

Importantly, we must also take care of those adversely impacted, who have given great service within the current system.

With \$billions p.a. of administrative savings in prospect (every year into the future), we can afford to set aside (say) ten years of future savings to fund generous payouts for all individuals and businesses engaged in tax administration, in both the public and private sectors. Done right, Toyota's experience tells us people will come on board.

7 25 Reasons Why GSAT is Good for Business, Government & Everyone Else

7.1 Good for Business

1. No business would expense tax. All tax paid would be an asset of the business, fully recoverable upon sale of its goods and services, or upon liquidation. This ensures there is no disincentive to invest.
2. It also means that tax would cease to be a factor in decision making.
3. The elimination of all other taxes (company, group, capital gains, payroll, GST, etc) would hugely reduce the administrative burden.
4. All prices would be quoted ex-tax, making accounting straightforward.
5. With no Australian Business expensing tax (combined with ex-tax pricing), our exports and tourism would be in the best possible competitive position vs other tax regimes.
6. All rebates can be automatically and immediately paid into a nominated bank account - as claimed - assisting cash flow.

7.2 Good for Government

7. GSAT can be collected with very little administration or cost – with all tax automatically deducted from each bank account as money is withdrawn, and all rebates paid automatically as claimed (subject to audit). *This is a crucial difference with GST.*
8. Different tax rates can be applied depending on the residence of the account holder, enabling each government to retain full control over their own income and expenditure.
9. Comparative tax data between jurisdictions would be easy to tabulate, enhancing competition and cross government learning.
10. Tax would grow in line with the economy, without any need to change the rate.
11. GSAT ensures all expenditure is caught, including for on-line and overseas purchases, as money is withdrawn to pay accounts.
12. Changes to the rate would be non-inflationary (due to ex-tax pricing).
13. As GSAT would be paid on all expenditure (business and private) with appropriate rebates; it would not distort asset allocation.
14. Importantly, with all adjustments to tax done via specific rebates with simple rules, the system is very easy to audit and very difficult to evade. While there is still room for evasion, especially using cash, the extent would be no greater than now and could be reduced due to the resources freed for auditing cash businesses. As well, the incentive to evade tax would be less, as no business would expense tax.
15. Overall, it would deliver a much more productive economy.

25 Reasons Why a GSA Tax is good for Business, Government & You

7.3 Good for You

16. No individual would be required to submit a tax return.
17. Your net rate of tax would max out at 25% of income; in most cases much less.
18. All tax paid on assets would also be an asset – refunded on resale. So you only pay tax on the *real* value ‘consumed’ over the period of ownership.
19. You would never have to think about tax again.
20. There would be no more bracket creep pushing you into higher and higher tax brackets.
21. As the table shows, *everyone* would pay the *same Percentage Tax Rate on all Expenditure*, and be rebated the *same Flat Amount* each week – so no one could complain they are being treated unfairly.
22. As well, there would be no disincentive to work, invest or trade - *as every dollar earned would attract the same marginal income tax rate (25%) when spent*.
23. Yet, the *net tax rate on Earned Income* would vary smoothly from zero at \$20,000 pa (based on a rebate of \$6,667), up towards 25% of income (the higher the income)... *with a net contribution to anyone earning less than \$20,000 pa*. That is, GSAT is fully *progressive*.

7.4 Good for Banks

24. As for the banks, GSAT cements their role in both the payments and tax system at a time when new technologies are threatening to undermine their value proposition. Even so, traditional banks will still need to lift their game; if they are to compete with new entrants able to operate with far less overhead.

7.5 Good for Tax Professionals

25. With a lengthy transition period, generous payouts and assistance to move into other fields, every tax professional can look forward to both a rewarding career, and a rewarding retirement; or new endeavours. With most people now moving jobs many times in their lives (likely to increase given the rate of change now occurring as a result of automation) - many people will face similar prospects, perhaps without the level of support we can offer our tax professionals.

8 Add a ‘Like’ and ‘Share’

If you would like to see a much simpler, fairer and lower cost tax system that will directly benefit you and everyone else. And if you agree GSAT is worth exploring in more depth, and would like to see it more widely debated, please add a ‘like’ and ‘share’ this article with your network.

All revolutions start small. In the end, only you can make it happen by lending your support.

25 Reasons Why a GSA Tax is good for Business, Government & You

Table 2 Comparison of 25% Tax paid on Income vs. 33.33% Tax on Expenditure - for Real Gains and Losses on Assets

	Rate	LOSS	BREAKEVEN	PROFIT
A. TAX PAID ON INCOME				
Income		1,000	1,000	1,000
Income Tax Paid	25.00%	250	250	250
Money in Bank at the Start (After-Tax)		750	750	750
PURCHASE of ASSET out of AFTER-TAX INCOME				
Original Purchase Price		750	750	750
TAX ON REAL (LOSS)/GAIN ON RE-SALE				
Inflation over period during which asset is held	10.00%			
Original Purchase Price adjusted for Inflation		825	825	825
Re-sale Price		500	825	1,750
Real (Loss)/Profit		(\$325)	0	\$925
Tax Payable only on Real Gain	25.00%	0	0	231
NET CASH POSITION after Sale and Tax Paid				
Proceeds of Sale		500	825	1,750
Less Tax Paid of Real Gain		0	0	231
Net Available Expenditure at End (after Inflation)		500	825	1,519
B. GSA TAX PAID ON EXPENDITURE				
Income (received Gross)		1,000	1,000	1,000
Money in Bank at the Start (Pre-Tax)		1,000	1,000	1,000
PURCHASE of ASSET out of PRE-TAX INCOME				
Original Purchase Price		750	750	750
Tax Paid upon Purchase	33.33%	250	250	250
Re-Sale Price		500	825	1,750
TAX REBATE on re-sale is Lesser of:-				
- Rebate calculated based on tax paid (adjusted by inflation)	10.00%	275	275	275
- Rebate calculated by applying the rate to re-sale proceeds	33.33%	167	275	583
Tax Rebate Paid (Lesser of the two rebate calculations)		167	275	275
NET CASH POSITION after Sale and Tax Rebate				
Proceeds from Sale		500	825	1,750
Plus Tax Rebate		167	275	275
Proceeds from Sale and Rebate (Money in Bank)		667	1,100	2,025
Tax payable on Expenditure	33.33%	167	275	506
Net Available Expenditure at End (after Inflation)		500	825	1,519