

## The Case Against the Tax File Number

*John Hyde*

The charging of an Australian Taxation Office (ATO) employee with stealing (information) from the Commonwealth, and the bungled mailing of tax file numbers to deceased people, has again brought into question the security of information held by the ATO. Fears that the data banks could not be made secure from private people motivated by objectionable curiosity and malice have been shown to be well founded. But these concerns miss, and probably obscure, the real danger, which lies in the government's ready access to data about each of us. Legal restrictions on the use of ATO data are unlikely to restrain the sort of governments we would have most reason to fear.

It is no coincidence that Eastern European migrants were implacable in their opposition to the ID card. They, or people known to them, owed their freedom, or even their lives, to ineffective record-keeping. Naturally, they were not impressed when told that the card would make the government efficient.

In the face of objections to an ID card, the natural Australian reaction was that, unlike Eastern Europeans, we have no reason to fear our Government. At the moment that is true, but complacency may not be warranted. The Weimar Germans did not envisage National Socialism; the Argentinians did not envisage the excesses of Peron and Galtieri. The Russians, the Cambodians and others all realised too late that governments can turn murderous. And, of course, a conquering power usually acquires the loser's official records---contemplate the fate of those thousands of Polish military officers murdered by their Russian allies at Katyn.

Unfortunately, history shows us that in times of crisis, including economic crisis, power often falls into the hands of those who will misuse it.

Although people who have submitted income tax returns already have a tax file number, the new system is, in essence, the ID card without the piece of plastic. Its objectionable features are the comprehensive nature of the records necessary to raise a tax on income, and the difficulty that will now be

experienced in earning a living without linking oneself to records at the ATO.

From April 1, the incomes of people who do not submit tax file numbers to their employers will be taxed at source at the rate of 50.25 cents in the dollar. A refund may be claimed later, but people who choose not to identify themselves to the government will lose more than half of what they earn and they will be conspicuous at their place of work. This won't matter much unless the government turns rotten. Even then, it would probably matter only to a few thousand lives and yours might not be one of them.

There is, moreover, another side to the story. Australia relies too heavily on income tax. And income is a lousy tax base. Not only can it not be taxed without the sort of personal records with which no government should be trusted, but it discriminates against investment--a harmful practice in any country, but particularly so in a country that is maintaining living standards by accumulating foreign debt.

Because Australian governments tax and borrow about 38% of all that we produce, because they rely so heavily on income taxation, and because there is a threshold below which no tax is levied, marginal income-tax rates are high. Tax rates of 41 and 50 cents in the dollar invite avoidance and evasion. So does the belief that taxes are wasted by building useless monuments--the new Parliament House won't produce better legislation--and by subsidising the wilfully idle.

The income-tax system has relied on self-assessment, spot checks and severe penalties for failure to disclose income. Most taxpayers avoid some tax--the major problem is that some avoid a lot more than others. Some incomes are less easily traced than others and some taxpayers are happier than others about signing false declarations. I know of shearers who shear under a different name in every shed and of people who collect unemployment benefits under more than one name. I also know of people who, when paid \$20 in cash, declare it as income.

Since effort is taxed and idleness subsidised, any tax and welfare system tends to be unfair. But taxes which are levied at high rates and often avoided, such as the Australian income tax, are doubly so. They are also inefficient because resources are dragged from more productive activities into activities conducive to tax avoidance.

The new tax-file law will not prevent the more sophisticated avoidance schemes, nor will it tax the cash economy. Nevertheless, the combined effect of a withholding tax levied at the top marginal rate (now 50.25 cents) and positive identification (via a tax file number) will reduce avoidance. Many people believe this advantage is worth the risk, which they have barely considered, of ATO records falling into malign hands.

So long as Australians continue to rely on income tax, they will be faced with excessive intrusion by the government

into private affairs and a tax that some people don't pay--- with some trade-off between the two evils. Both Mr Keating and Mr Howard have tried to change to a more efficient tax base, only to be defeated by an unholy alliance of welfare lobbyists, who believe in big government, and the National Party, who believe in office. The Nats say that a consumption tax raises tax too easily. It is too efficient, whereas income tax is not. Consumption tax therefore gives a government insufficient incentive to reduce outlays.

Having to rely on income tax may have encouraged the Hawke Government to reduce outlays as a proportion of GDP, but it had no such beneficial effect on the Whitlam and Fraser Governments.

Income tax is a lousy tax---its administration is intrusive, it penalises investment and it is particularly uncertain and unfair. It is past time that consumption tax was placed back on the political agenda.

ENDS