AUSTRALIAN TAXATION REFORM

The proposed taxation reform in my notes is made up of the following components .

Treasury will be renamed : **Australia Treasury** The Treasury board will consist of : 2 members from the Reserve Bank 2 members from Australian Treasury 2 members from ACCC 2 members from Australian Tax Office 2 members from ASIC 1 member Federal Govt Treasurer 1 member each State Govt Treasurer Departments within Australia Treasury 1 member Australia Future Fund 1 member Housing Australia Fund	The **Australia Treasury Board** will meet quarterly and : Asses changes to the economy both domestic and internationally. Examine funding requirements for infrastructure and Government Services . Inspect and monitor Australia's funds under management including the Future Fund and Housing Australia Fund . Set the RBA cash rate for 1 quarter. Importantly fiscal decisions impacting all Australians will be taken out of the Cabinet room of the presiding Govt and no longer will adjustments to fiscal policy be used as a political tool.
RBA a division of Australia Treasury will set the RBA base cash rate as follows : **1: Base Domestic Cash Rate 1.50 %** **plus Housing Australia Levy 0.50 %** **Total domestic base rate = 2.00 %** **2: Base International cash rate 2.00 %** **Changes in the EST INDEX will be applied quarterly to base rates 1 and 2** **The Housing Australia Levy will be reviewed annually by Australia Treasury** It is important to note that bank interest rates are set by the banks who operate in a free market.. To dictate interest rates is price control. Refer to explanatory notes 1	**The RBA cash rate will be split** **A:** International 2% fixed base rate. Basis point adjustment to align with international interest rates and bank swap rates. **B:** Domestic 2% fixed base rate. Adjusted with basis points movement in the **EST Index.** Quarterly Basis points changes in the index will be applied 50% to the RBA RBA cash rate and 50% to the EST base . Refer to explanatory notes 2
EST economic sustainability tax will be a Federal Tax and replace GST a State tax. **It will eliminate tax churning and remove the burden of State payroll tax , Land tax and Stamp duty that impacts housing affordability.**	Refer to explanatory notes .3
Amendments to **PAYG TAX** will be a part of tax reform going forward and will have 2 components **FEDERAL PAYG** **STATE PAYG** State PAYG will replace GST Refer to explanatory notes 4	State PAYG will replace state taxes such as payroll tax and land tax which impacts employment , housing affordability and rental rates. The matter of tax churning needs to be inspected . Refer to explanatory notes 4

Explanatory notes :

no 1 : **The RBA base rate and basis points adjustments are advisory only .**
Base rates are set at a 2 % and are indicative of a healthy economy that will enables a competitive bank to provide loans at a margin that would see a satisfactory return on customers deposits and shareholders capital applied.

Housing Australia Levy is a federal tax applied to interest charged to mortgage holders. The levy introductory rate half of 1% is small but very substantial dollar wise when applied to the total mortgage rolls of all banks.
The tax charged to mortgage holders will be directed to the Housing Australia Fund to be allocated as directed at the quarterly Australia Treasury board meetings.
Importantly the fund will pay a fixed interest rate of 3% on deposits to the fund by Australian Superannuation funds . Those funds to support the introduction of Kick Start low interest rate loans to first home buyers.

no 2 : **RBA basis point adjustments .**
Basis point adjustments are advisory and may be applied at the banks discretion.
A large proportion of a banks mortgage roll is funded by investing shareholders funds.
When rates rise the interest earned on existing mortgages increases and conversely when rates are reducing return on shareholders funds return to the base contrived target interest margin of the big 4 banks 2%..

EXAMPLE : a 25 basis points interest rate increase improves the the banks return on shareholders funds invested x 12.5%
a 50 basis points interest rate increase improves the the banks return on shareholders funds invested x 25.0% That is significant.

Banks applying basis points increases to interest rates charged to existing loans will receive an injection of funds that is returned to the bank via offset accounts and provides liquidity in the application of capital. Refer to note re offset accounts explained ..

no 3 problem with GST . EST will replace GST a tax that is static and inflexible and designed before trade became global .EST is flexible in its application and is a tool to adjust the economy and spread the burden of belt tightening across the whole economic landscape and a source of revenue for the ATO Refer to note EST explained

no 4 **Housing Australia Levy** is a tax added to interest charged to mortgage holders.
The levy is small but very substantial dollar wise when applied across the total mortgages outstanding held by all banks . The tax received will be directed to the Housing Australia Fund to be allocated as directed by Australia Treasury and importantly will fund interest payments on deposits received from Superannuation funds that in turn will fund Low interest Kick Start Loans to assist first home buyers enter the market.
The Government proposal to enable members funds to be withdrawn to pay deposits on home purchases is flawed as is the 15% guarantee to cover losses on 5% deposit loans.

To be continued ...a work in progress .