

Easytax resurrected

A look at One Nation's economic and taxation policies

Pauline Hanson's February 2017 announcement that One Nation will again campaign for a flat-rate 2 per cent turnover tax takes her back to a policy position she first adopted nearly two decades ago.

Initial analysis suggests that a shift from the current taxation mix to a 2 per cent turn over tax as proposed by Senator Hanson would produce a catastrophic reduction in government revenue of some \$232 billion or 13.3 per cent of GDP. The consequence would be massive cuts in government spending which would have to include health, pensions and most other categories of expenditure.

A turnover tax is likely to hit lower income groups much more than higher income groups. Australia's "battlers" would feel the brunt of One Nation's tax policies most heavily.

Report

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8 March 2017

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Summary

Pauline Hanson's February 2017 announcement that One Nation will again campaign for a flat-rate turnover or expenditure tax returns her party to a policy position she first adopted nearly two decades ago.

This paper examines Senator Hanson's One Nation party's economic policies with reference to the so-called "Easytax" plan of 1998 and its apparent 2017 reincarnation.

Initial analysis suggests that a shift to a 2 per cent turn over tax as proposed by Senator Hanson in 1998, and apparently reaffirmed as her current policy, would produce a catastrophic reduction in government revenue of some \$232 billion or 13.3 per cent of GDP. The savings would go to the rich with someone on a million dollars per annum saving \$419,632.

An expenditure tax is also likely to hit lower income groups much more than higher income groups who tend to spend higher proportions of their income on imports and services. The CEO of Australia Post could save \$2.2 million per annum. Having given tax cuts to the rich the consequence would be massive cuts in government spending which would have to include health, age pensions and most other categories of expenditure. Young families would be hard hit by cuts to Medicare and the Family Tax Benefit. Commonwealth payments to the States and Territories would be eliminated or slashed.

To recover that revenue shortfall without cutting spending One Nation would have to increase the rate of its proposed turnover tax to 5.16 per cent. This would increase the serious distortions in the market associated with such a scheme and would radically eliminate the remaining progressive features of the Australian taxation system. The tax on a bushel of wheat would be 42 per cent by the time it ends up as bread on the kitchen table.

One way or another Australia's "battlers" would feel the brunt of One Nation's tax policies most heavily.

Nor would such a tax change achieve One Nation's declared objective of increasing taxation of foreign companies operating in Australia. Foreign-owned company Shell could receive a \$660 million tax cut. On the other hand a turnover tax encourages companies to produce in-house and so squeezes small businesses that supply other companies.

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Rear vision: One Nation's economic and taxation policies

"What we are saying about our tax policy is that we are prepared to put it on the table. Let everyone have a look at it, let the Australians have a debate about it because it is not something that should just be brought in, you either accept or you don't."

Pauline Hanson, September 1998¹

"I don't change my tune, whichever way the polls are going. If you look at what I said 20 years ago, it's exactly what I'm saying today."

Pauline Hanson, February 2017²

Pauline Hanson's One Nation campaigned in the 2016 federal election with a modest economic and taxation platform that lacked detail and largely focussed on political declarations. In large part Australia's current economic circumstances were attributed to engagement with the United Nations and international financial bodies. One Nation rhetorically committed itself to "bring back federalism and restore Australia's constitution so that our economy is run for the benefit of Australians instead of the UN and unaccountable foreign bodies that have interfered and have choked our economy since the federal government handed power to the International Monetary Fund in 1944."³

One Nation declared its desire to review the role of the Federal Government and restrict it to areas narrowly defined in the Australian Constitution and "hand all other current federal activities back to the states or back to the people..⁴

To address what it does not define but sees as "deep structural flaws developed in our economy since 1944", One Nation wants to scrap the International Tax Agreements Act 1953, the legislation that gives effect to Australia's agreements with other countries to

¹ Pauline Hanson on Channel 9 Today Show, 3 September 1998, <http://www.gwb.com.au/gwb/news/tax/index1.htm>,

² "Pauline Hanson outlines One Nation's blueprint for Australia", *The Australian*, 5 February 2017, <http://www.theaustralian.com.au/national-affairs/pauline-hanson-outlines-one-nations-blueprint-for-australia/news-story/4697844183eb01c4aa903c005722f6ce>.

³ Pauline Hanson's One Nation: Economics and Tax Policy, <http://www.onenation.com.au/policies/economics>

⁴ Pauline Hanson's One Nation: Economics and Tax Policy, <http://www.onenation.com.au/policies/economics>

prevent double taxation of the same income , and make foreign companies pay an undefined "fair share" of tax.⁵

More broadly, One Nation indicated a strong preference for a simple taxation system that harks back to the early decades of the Australian Commonwealth, and arguably back to colonial times⁶:

[I]n Australia's early decades there was no income tax and all taxes were reasonable. Yet back then we managed to invest in massive infrastructure projects that got our country going successfully. We must develop a tax system that levies tax based on independent objective assessment and not on accounting measures like profit and loss that can be fiddled. ... As part of bringing back federalism and restoring our constitution we will explore removing federal taxation and bring back the right of states to levy tax instead and give a portion to the federal government. Removing the direct and indirect taxes on employment will lead our manufacturing industry to create jobs and increase people's spending on Australian made products to keep our cash in Australia to pay off debt.⁷

One Nation also campaigned to "bring back a people's bank" to build infrastructure for future benefit to all households." One Nation opposes government borrowing and instead favours "issuing money as a credit and funding infrastructure as we did in our early decades when Australia grew without federal income tax and levied only low state taxes."⁸ Overall there is a strongly nostalgic theme with repeated references to Australia's early economic development and to the world before the Second World War.

It is not intended here to critique these statements other than to note that with all One Nation's economic and taxation related "policies" published prior to the 2016 federal election, no detail was provided beyond broad statements of political intent and desire.

⁵ Pauline Hanson's One Nation: Economics and Tax Policy, <http://www.onenation.com.au/policies/economics>. Note that Australia's double taxation agreements do not involve any concessions for foreign companies on the part of the Australian government. Foreign companies and individuals pay their Australian taxes under ordinary arrangements applying to everyone. However, the double tax agreements protect Australians to the extent that income taxed overseas is not again taxed in Australia.

⁶ Queensland introduced income tax in 1902 with the *Income Tax Act of 1902*. Federal income tax was first introduced in 1915, in order to help fund Australia's war effort in the First World War. Between 1915 and 1942, income taxes were levied by both State and federal governments. In 1942, to help fund increased military and other expenditure in the Second World War, the federal government took over the raising of all income tax, to the exclusion of the States.

⁷ Pauline Hanson's One Nation: Economics and Tax Policy, <http://www.onenation.com.au/policies/economics>.

⁸ Pauline Hanson's One Nation: Economics and Tax Policy, <http://www.onenation.com.au/policies/economics>.

Consequently it was of some significance that in an interview with the News Corp Australia's *Sunday Mail* (Queensland) in February 2017 Senator Hanson chose to highlight her commitment to "a flat two per cent tax rate for everyone - even welfare recipients." Such a tax is apparently a key part of her vision for a "better Australia" if the One Nation leader were to become Prime Minister.

Although Senator Hanson provided no details other than an intention to dump Australia's Goods and Services Tax (GST), she clearly signalled a large measure of continuity with her 1998 "Easytax" scheme. "I don't change my tune ...", Senator Hanson said, "If you look at what I said 20 years ago, it's exactly what I'm saying today."⁹

⁹ "Pauline Hanson outlines One Nation's blueprint for Australia", *The Australian*, 5 February 2017, <http://www.theaustralian.com.au/national-affairs/pauline-hanson-outlines-one-nations-blueprint-for-australia/news-story/4697844183eb01c4aa903c005722f6ce> and "Pauline Hanson: How I'd run the nation", *Sunday Mail*, 5 February 2017, <http://www.couriermail.com.au/news/queensland/hansons-blueprint-for-australia-under-one-nation/news-story/84b647417dec44e42ff580a22f622b4c>.

Easytax 1998 and after

Launched in September 1998, Pauline Hanson's "Easytax" proposal was a key part of her 1998 federal election campaign. Easytax was designed as an alternative to both Prime Minister John Howard's advocacy of a GST to replace a range of state and territory taxes and the Labor Opposition's rejection of that approach to tax reform on the grounds that a shift to indirect taxation would undermine the progressive nature of Australia's taxation system.

One Nation's Easytax policy appears to have been largely orchestrated by Peter James Hanson's campaign manager and One Nation Party Queensland state director, and was based on the 1998 book *Your future in your hands: Total tax reform: the Easytax way to prosperity and job creation*, by Indooroopilly-based civil engineer and publisher John McRobert; an occasional adviser to mining magnates Lang Hancock and Gina Rinehart.¹⁰ In his book, published by his own company CopyRight Publishing, McRobert argued the Australian economy was blighted by a "complex and punitive" Australia's taxation system that was "concocted on the run by politicians bulk buying votes from large blocks of the electorate at the expense of a dwindling group of producers". Indeed McRobert went as far as to assert that Australia's taxation system, especially its income tax regime, amounted to a "dreadful affliction" that was best likened to a cancer or virus: "The current system is a self-propagating, rapidly spreading, wasting disease that is eating away Motivation, the mainspring of human progress, and paralysing Capital, the battery or accumulator of human potential."¹¹

McRobert claimed that his Easytax "cure" was the product of thirteen years research and work. He had indeed been thinking about taxation issues since the mid-1980s and had focussed on the idea of a flat rate tax as the "logical solution to the economic ills that are ruining this country."¹² However significant work was also undertaken by accountant and flat-tax advocate Derek Smith of Tewantin, QLD. Easytax was promoted under the banner of Tax Reform Pty Ltd, a five dollar shelf company formed

¹⁰ John McRobert, *Your future in your hands: Total tax reform: the Easytax way to prosperity and job creation*, CopyRight Publishing, Brisbane, 1998. See also "Revealed: billionaire Gina Rinehart's secret corporate adviser", *The Australian*, 11 December 2010, <http://www.theaustralian.com.au/business/revealed-billionaire-gina-rineharts-secret-corporate-adviser/news-story/2141519caa34e0c65dea72cd94b89171>, and "Publisher John McRobert bankrupted", *Courier Mail*, 11 November 2016, <http://www.couriermail.com.au/business/city-beat-publisher-john-mcrobert-bankrupted-eagle-farms-service-woes/news-story/95a1ebd012c422f0c6e47a1873f132b6>.

¹¹ McRobert, *Your Future in Your Hands*, pp. iii-iv, viii.

¹² See John McRobert's biographical details: <http://www.onlineopinion.com.au/author.asp?id=5937>.

in 1997 with single shares held by McRobert, Smith, accountant and tax agent Brian Davis of Tweed Heads NSW, Brisbane lawyer Gino Milani and chartered accountants Ross and Donald Steele of Jindalee.¹³ Later associated with Tax Reform Pty Ltd were prominent Brisbane businessman Arthur Scurr, and former National Party Senator Glen Shiel.¹⁴

On 3 September 1998, One Nation unveiled what it declared to be "a totally new approach to taxation based on a 2% Easytax conceived in 1985 and researched over the last 13 years - a product of Tax Reform Limited." One Nation declared there was "no point tinkering with a tax system". Instead the party committed itself to a "revolutionary approach" and a "completely fresh start" through radical simplification of Australia's taxation system which was seen to be too complex to understand and implement. "Most of us cannot generally understand our tax laws, and many accountants struggle to keep up to date with changes", the party's Easytax policy paper observed. In contrast One Nation claimed that Easytax would provide incentives for economic growth and employment prospects "while also being visible and easy to understand".¹⁵

The 2% Easytax is essentially a turnover tax of the sort that had been common in European countries until the early post-war periods. For example, during the Second World War Nazi Germany operated a two per cent turnover tax. Unlike the Easytax the German tax had some exemptions and differential rates as is suggested by the following account:

... the [German] turnover tax was 2 per cent upon all sales of goods and professional services. The tax was paid at each step of production. It was not, however, paid by the wholesaler. Imports and exports were exempt as were the wholesale exchanges of raw materials such as cotton, fuel, gasoline, milk, etc. House rent, water, gas, electricity, and heat were also exempt. The rate was only 1 per cent in the case of the sale of agricultural products. The rate was increased to 2½ per cent if the sales- of a single firm during the previous year were greater than 1,000,000 marks. The tax [was] payable quarterly.¹⁶

¹³ ASIC Current and Historical Company Extract for Tax Reform Pty Ltd, ACN: 077 793 152.

¹⁴ See Tax Reform Pty Ltd, "The Structure and Distributive Effects of the Australian Tax System", Submission to the Senate Economic References Committee, 11 April 2003, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Completed_inquiries/2002-04/tax_effects/submissions/sublist.

¹⁵ Pauline Hanson's One Nation Tax Policy, Press Release, 3 September 1998, <http://www.gwb.com.au/onenation/press/tax.html> and Pauline Hanson's One Nation Tax Policy, 3 September 1998, <http://www.gwb.com.au/onenation/policy/taxdoc.html>.

¹⁶ RW Lindholm, "German finance in World War II", *American Economic Review*, Vol 37(1) 1947, p. 126.

It should be noted however that the German turnover tax was a significant but not a dominant contributor to total receipts generating 3.9 billion marks or 13 per cent of the total taxation receipts of 29.5 billion marks in 1940.¹⁷

In advocating its Easytax proposal, One Nation also put strong emphasis on getting multinational companies to be transparent and pay "their fair share of tax". It was also argued One Nation's policy would "provide incentive for Australian companies using offshore tax shelters to cease these activities and start working within our domestic environment."¹⁸

The core elements of One Nation's Easytax scheme were summarised as follows:

2% Easytax will reduce prices of all goods, services and employment costs by removing existing personal income tax, company tax, sales tax, fringe benefits, capital gains tax, provisional tax and withholding tax; the 2% tax is applied to the sale price at each change of ownership of property, goods and services and is the only tax on wages. There are no exemptions or thresholds.

In the case of wages, the employer pays the 2% tax on the take home pay. The current take-home net pay of employees will be preserved at present levels and any pay rises or additional income earned e.g. overtime, will be taxed at only 2%.

In the case of business, the 2% tax on gross sales turnover is collected at the point of sale and in addition, the wages drawn (their nett profit) by businesses operated by sole traders or partners are taxed at 2% as will profits distributed to company directors or shareholders - all tax on profits businesses paid under the old system will be used to reduce the cost of goods and services and to employ more staff.

In the case of financial investments, including bank interest, annuities and pensions of self-funded retirees, the 2% tax is collected by the investment manager at the time pensions, annuities and interest are paid to the investor.

...

The 2% tax does not apply to money deposited in or withdrawn from a bank account.

¹⁷ TAI calculations based on Lindholm *op cit*.

¹⁸ Pauline Hanson's One Nation Tax Policy, Press Release, 3 September 1998, <http://www.gwb.com.au/onenation/press/tax.html>.

Annual tax returns will be limited to a simple single page that will be able to be completed without the assistance of taxation specialists.¹⁹

The Easytax proposals were drawn up before the introduction of the GST in 2000 and so was not mentioned.

One Nation envisaged that Easytax would be implemented over a three year transition period with the benefits flowing in the first year. It claimed that by lowering the cost of property, goods, services and labour Easytax would reduce the cost of living for Australians by an average of 17 %.²⁰

One Nation claimed that the 2% tax would reduce Commonwealth budget outgoings as a result of cost reductions for all goods and services and a reduction in social security costs: "Progressively, as provident funds grow, and self-funding increasingly provides better retirement benefits for aged contributors, older Australians' reliance on government welfare will be reduced to that necessary to provide welfare in special cases only."

One Nation envisaged a wide-ranging review of Commonwealth/State financial relationships and, through consultation with the States, that the Commonwealth government would "facilitate the abolition of payroll tax by using the elimination of PAYE tax to offset the loss of State payroll tax revenue."

Overall it was claimed that Commonwealth revenue including that raised by the 2% tax would provide budget surpluses which would enable the elimination over five years of the then \$69 billion of Commonwealth public sector net foreign debt. Just what share of Easytax revenue would be shared with the States and Territories was not indicated.²¹

At a private briefing of One Nation candidates, Derek Smith of Tax Reform Pty Ltd argued that income tax was a disincentive to employment and that under the Easytax scheme the prices of "some" goods would be cut by between 30 to 40 per cent. Significantly Smith envisaged that Easytax would be accompanied by major reduction of social welfare with the aim "to shift services out of the public sector and into a user pays private sector".²²

In her remarks to One Nation candidates, Hanson admitted the Easytax policy announcement had been pulled together in a rush, saying "Once we have the

¹⁹ Pauline Hanson's One Nation Tax Policy, 3 September 1998, <http://www.gwb.com.au/onenation/policy/taxdoc.html>.

²⁰ Pauline Hanson's One Nation Tax Policy, Press Release, 3 September 1998, <http://www.gwb.com.au/onenation/press/tax.html>.

²¹ Pauline Hanson's One Nation Tax Policy, 3 September 1998, <http://www.gwb.com.au/onenation/policy/taxdoc.html>.

²² Account of One Nation 2%EasyTax -information meeting held in Ipswich, 30 August 1998, <http://www.gwb.com.au/gwb/news/tax/index1.htm>.

resources and the research people we will cover all our bases. We will admit we are wrong if we are - but ... we think that it is a winner." Hanson declared that "income tax is destroying this country, destroying the incentive to work." In Easytax was, she insisted, simple and easy to understand: "Easytax cascades - even if there are seven levels of processing for the final sale that is just 14% - the GST can go as high as 28%."²³ In doing so, however, she revealed a fundamental misunderstanding of the difference between the operation of a turnover tax that cascades or compounds with each transaction and the GST which allows businesses to claim a credit for any GST included in the price of any goods and services bought for the business. Because business can obtain a refund for the GST included in their purchases, it is only the final consumer who ends up paying the GST on final sales at 10 per cent.²⁴

Speaking on the Channel 9 Today show, however, Hanson expressed confidence that Easytax would survive scrutiny: "What we are saying about our tax policy is that we are prepared to put it on the table. Let everyone have a look at it, let the Australians have a debate about it because it is not something that should just be brought in, you either accept or you don't."²⁵

Easytax proved to be a political disaster for Pauline Hanson and her 1998 election campaign. One Nation's tax policy was immediately savaged by both the Coalition and Labor. Hanson and her candidates were revealed to be confused about many of Easytax's features, especially the implications of the cascading nature of a 2 per cent tax on turnover and the plan's dubious estimates of the potential impact on government revenue. At the election on 3 October 1998, Hanson failed in a bid to win the Queensland seat of Blair (which incorporated part of her former electorate of Oxley). One Nation won only one Senate seat in Queensland.²⁶

Subsequent analysis of One Nation's electoral decline identified the Easytax initiative as a key factor in eroding public support for Pauline Hanson and her party. University of Queensland political analyst Rae Wear later observed "Polling in Queensland and New South Wales after the release of the Party's ill prepared 'Easytax' proposal showed a fall in support from which it never recovered." Significantly, in contrast to the 1998 Queensland state election in which One Nation won eight of its eleven seats with the

²³ Account of One Nation 2%EasyTax -information meeting held in Ipswich, 30 August 1998, <http://www.gwb.com.au/gwb/news/tax/index1.htm>.

²⁴ In fact a 2 per cent turnover tax compounds to 14.86 per cent across seven transactions. See also https://www.ato.gov.au/uploadedFiles/Content/ITX/downloads/how_gst_works.pdf for the Australian Taxation Office's simplified explanation of how the GST works.

²⁵ Pauline Hanson on the Channel 9 Today Show, 3 September 1998, <http://www.gwb.com.au/gwb/news/tax/index1.htm>.

²⁶ One Nation's only elected candidate in the 1998 federal election, Heather Hill was disqualified from sitting as a Senator in 1999 on the grounds of her United Kingdom citizenship. She was replaced by One Nation's second listed Senate candidate, Len Harris, who served in the Senate until 2005.

help of Coalition preferences, in the Federal election the Coalition directed its preferences against One Nation, putting the party as last preference in all but a few seats. Critiques of the Easytax scheme proved a key element in Coalition efforts to woo voters who had previously drifted to One Nation: “For a charismatic leader like Hanson, the failure to win Federal Lower House seats, especially her own seat of Blair, was disastrous.”²⁷

Federal Liberal Party campaign director Lynton Crosby later observed that “The clue to dealing with One Nation was always in its policies. Ultimately, it was policies like a 2% easy tax and, the advocacy of printing money to fix your problems coupled with unacceptable attitudes on other issues which drove people away.”²⁸

The 1998 federal election did not mark the end of the 2 per cent flat tax idea. Tax Reform Pty Ltd continued to advocate variations of the Easytax scheme, including in a submission to a Senate Economics References Committee inquiry in April 2003.²⁹ Less than a month later, however, the company was de-registered and its website www.tax-reform.org became inactive.³⁰

Despite the demise of Tax Reform Pty Ltd, Derek Smith continued to push his ideas. In November 2005, in the context of Coalition Government debate on proposals to lower the top personal income tax rate, Smith joined with another flat-tax promoter, corporate security expert Andrew Pullen, to brief then Liberal backbencher Malcolm Turnbull on a proposed “real tax reform” package that included a reduction of the top personal income tax rate to 15 per cent, as well as implementation of fringe benefits, business income, and capital gains tax rates at a flat 15 per cent rate. At the same time Smith argued that “further research can be expected to open the gate to understanding 2% Tax and how it can be progressively implemented for maximum benefit to the Australian Economy and People.”³¹ Turnbull quickly identified what he saw as considerable flaws and disadvantages in the scheme and demonstrated little interest.³²

²⁷ Rae Wear, “One Nation and the Queensland Right”, in Michael Leach, Geoffrey Stokes and Ian Ward (eds), *The Rise and Fall of One Nation*, University of Queensland Press, St Lucia, 2000, p. 69.

²⁸ Transcript of Lynton Crosby Address to National Press Club, 23 October 1998, <http://australianpolitics.com/1998/10/23/lynton-crosby-1998-election-analysis.html>.

²⁹ See Tax Reform Pty Ltd, “The Structure and Distributive Effects of the Australian Tax System”, submission on to the Senate Economic References Committee, 11 April 2003, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Completed_inquiries/2002-04/tax_effects/submissions/sublist.

³⁰ ASIC Current and Historical Company Extract for Tax Reform Pty Ltd, ACN: 077 793 152.

³¹ Private and confidential discussion paper for meeting with Malcolm Turnbull on 18 November 2005, copy kindly provided by Andrew Pullen.

³² Telephone discussion with Andrew Pullen, 27 February 2017.

In 2014 Smith wrote to Prime Minister Tony Abbott to warn, in Smith's words, that "the World Economy is out of balance, with grave threat to World Peace." In that context Smith urged Abbott to embrace the idea of a 2 per cent expenditure tax as an alternative to the existing taxation regime and increases in government expenditure that "deny Australians their standard of living and democratic freedom of choice." In Smith's view, an Australian 2 per cent tax would "start the ball rolling to re-balance the World Economy and refocus on World Peace ... [and] Stop Australian cash flowing to China etc."³³ Abbott's response to this impassioned plea is not known but it was presumably not supportive.

Smith continues to promote his ideas through his "like2percenttax" website.³⁴ The 2 per cent expenditure tax has attracted support from the right wing, Resurrect Australia Party which describes Smith as "our associate".³⁵

Pullen separately promotes the idea of a 2 per cent turn-over or expenditure tax through his "AbetterTax" website and on Twitter @abettertax.³⁶

John McRobert was bankrupted in November 2016 owing to debts incurred by his business CopyRight Publishing.³⁷

³³ Derek Smith to Tony Abbott, "Private and Confidential" letter, 13 July 2014, <http://like2percenttax.com.au/wp-content/uploads/2014/12/Letter-NO-1-of-13-July-2014-to-PM.pdf>.

³⁴ See <http://like2percenttax.com.au/>.

³⁵ See <http://www.resurrectaustralia.com.au/2016/11/23/you-are-invited-to-our-party/>.

³⁶ See <http://abettertax.com.au/> and <https://twitter.com/abettertax?lang=en>.

³⁷ "Publisher John McRobert bankrupted", *Courier Mail*, 11 November 2016, <http://www.couriermail.com.au/business/city-beat-publisher-john-mcrobert-bankrupted-eagle-farms-service-woes/news-story/95a1ebd012c422f0c6e47a1873f132b6>. In November 2016 McRobert ceased to be a director and company secretary of CopyRight Publishing and was replaced by Lily McRobert. ASIC Current and Historical Company Extract, CopyRight Publishing Pty Ltd, CAN 010 737 149. CopyRight Publishing's website was online in March 2017: <http://www.copyright.net.au/>.

Easytax 2017: An initial estimate of revenue implications, distributional impacts and consequences for foreign companies

In the absence of announced details of Pauline Hanson's 2017 2 per cent flat tax proposal it is difficult to offer a precise evaluation of its potential implications for revenue, economic activity and employment. However given Pauline Hanson's strong emphasis on the continuity of her thinking over the past two decades, it seems reasonable to offer an initial estimate based on the features of the 1998 Easytax scheme. As noted previously, the 1998 Easytax proposals were drawn up before the introduction of the GST in 2000. Since the Easytax was supposed to replace all other major categories of taxation we assume a modern version would also seek to replace the GST. Senator Hanson's February 2017 remarks suggest that is indeed her intention.

Here we try to estimate the revenue that might be collected by a 2 per cent turn over tax expressed both an absolute value as well as a share of GDP.

As discussed above, One Nation's 1998 Easytax scheme was supposed to operate in the following way:

In the case of business, the 2% tax on gross sales turnover is collected at the point of sale and in addition, the wages drawn (their nett profit) by businesses operated by sole traders or partners are taxed at 2% as will profits distributed to company directors or shareholders - all tax on profits businesses paid under the old system will be used to reduce the cost of goods and services and to employ more staff.³⁸

So sales attract two per cent as do payments to workers and owners of businesses. Not included of course would be any profit retained in the company. Also the use of the phrase 'nett profit' to describe 'wages drawn' is interesting as profit is a net concept

³⁸ Pauline Hanson's One Nation Tax Policy, 3 September 1998, <http://www.gwb.com.au/onenation/policy/taxdoc.html>.

anyway but also it need not be the case that small businesses will draw down as wages all of their profit in any year.

As in 1998, Hanson has also indicated that the two per cent tax on incomes would extend to 'welfare recipients'.³⁹

Given this description we can proxy the whole of One Nation's tax `proposal with:

- A two per cent tax on total turnover,
- A two per cent tax on household income receipts and
- A two per cent tax on property transfers.

We now explain our method and attempt to estimate how much those elements of the tax proposal would actually raise if they applied in the present financial year, 2016-17.

A two per cent tax on total turnover

Calculating the two per cent tax on turnover is relatively simple. We know the latest GDP figures and based on the latest input output tables⁴⁰ turnover was 3.29 times GDP in 2013-14.⁴¹ If that remains true then in 2016-17 turnover should be \$5.766 trillion.⁴² Two per cent of that is \$115.3 billion. This is an upper estimate since the Easytax would tax transactions between different entities while some economic transactions occur within a company and so would not give rise to a taxable transaction. For example, an accounting firm would be liable for the two per cent tax on its sales while a company using in-house accounting services would not thereby generate a taxable transaction.

Incidentally, as mentioned above One Nation claims that their policies of tax reduction would reduce the price level. That is not in dispute, but to facilitate comparisons between the present and the hypothetical alternative we assume the same price level. Basically our interest is in comparing the real level of taxes now with the *real* level of taxation that would occur in the hypothetical alternative.

³⁹ "Pauline Hanson outlines One Nation's blueprint for Australia", *The Australian*, 5 February 2017, <http://www.theaustralian.com.au/national-affairs/pauline-hanson-outlines-one-nations-blueprint-for-australia/news-story/4697844183eb01c4aa903c005722f6ce>.

⁴⁰ Australian Bureau of Statistics, *Australian National Accounts: Input-Output Tables, 2013-14*, Cat no 5209.0.55.001, 29 June 2016.

⁴¹ The difference between turnover and GDP might be best appreciated by using the example of a petrol station. Its turnover is the value of its sales which might be (for the sake of the argument) \$10 million per annum. However, the service station has to pay for petrol from the wholesaler and there are other expenses. If we deduct those we are left with the income (including the staff wages bill) generated by the petrol station. That might be \$1 million. The \$10 million is the turnover that would be included in the national accounts but the \$1 million is the value added by the petrol station and that is the amount that would be included in the estimate of GDP.

⁴² Australian Bureau of Statistics Cat no 5204.0 used for GDP and is updated by MYEFO estimates of growth in nominal GDP for 2016-17. The MYEFO is normally published each December as an update of the government's fiscal policy settings and the relevant estimates of revenues and expenditures together with updated economic forecasts.

A check on the calculation of tax on turnover can be made based on the figures behind the GST collections. Note that the GST is not like a turnover tax because credit is given to businesses for the GST paid on inputs purchased by business. Tax Office data gives us not only the GST collections themselves but also the gross figures before netting out the input tax credits. Gross figures have a similar tax base to the 2% Easytax. The latest gross GST figures are for 2014-15 and amount to \$272 billion for a net collection of \$54 billion.⁴³ Updating for the growth expected in the budget papers gives a gross figure of \$295 billion. If the tax was two rather than 10 per cent the collection would have been \$59 billion. That figure seems well below the above estimate of \$115.3 billion. However, the GST tax base excludes health, education, food, financial services, rent, some other essential items and exports on the one hand and on the other hand it excludes the proceeds of businesses with turnovers less than \$75,000 per annum. Add in a bit for fraud and the cash economy and it is quite feasible that the total could be around the earlier estimate of \$115.3 billion. But thinking of the reasons for the differences alerts us to the fact that the \$115.3 billion is likely to be the theoretical maximum value of the Easytax collection and actual collections would be a good deal less.

A two per cent tax on household income

Calculating the two per cent tax on household income is slightly more complicated. As described, all wages, dividends, interest and similar income is taxed under the Easytax proposal. So too are welfare payments. This means almost anything that goes into the Australian Bureau of Statistics (ABS) figures for household income is included. However, from the total household income we have to deduct the 'gross operating surplus' generated by 'dwellings owned by persons'.⁴⁴ This used to be called 'imputed rent' and refers to rental equivalent in income that home owners receive when they own a residence. Since imputed rent is not defined in the discussion of the Easytax, and it is not a market transaction we assume One Nation would not bring it into the tax net. Hence we deduct that item from our household income measure and take two per cent of the adjusted household income which is \$21.1 billion.

We should point out that we assume here that the income of unincorporated businesses would be included in the tax base. There is nothing that explicitly states unincorporated business income will be taxed apart from the wages 'drawn down'. But of course small businesses such as sole traders do not draw down wages in any formal way that might be identified as a taxable item—they just use their income. The Easytax proposals would only attract a tax payment with the actual payment of a wage or

⁴³ Australian Tax Office, *Taxation Statistics 2013-14, 2016*, <https://data.gov.au/dataset/taxation-statistics-2013-14>.

⁴⁴ Australian Bureau of Statistics Cat no 5204.0 used for household income measures updated by MYEFO estimates of growth in nominal GDP for 2016-17.

dividend. Unfortunately the ABS figure do not allow us to adjust for unincorporated business income so we have to proceed as already discussed and recognise that we will be overestimating the tax base and hence the likely tax take.

A two per cent tax on financial and property transactions

The documents suggest interest and other returns on financial assets will be taxed at two per cent. Those are included in household disposable income discussed above. There is also a two per cent tax that 'applies to margins on speculative paper transactions, all financial market transactions and foreign currency loans or trading'.⁴⁵ If by 'margin' One Nation's 1998 documents refer to the costs charged by the financial institutions concerned then the figure is already included in the total turnover figure. On the other hand if it refers to the 'speculator's' trading profit then that should be included in the household income estimate. Hence we think our figure should be a comprehensive estimate of the One Nation two per cent tax proposal.

Capital gains are not addressed in the One Nation proposals. Indeed, the documents highlight that they would be one of the taxes to be abolished. However, the two per cent tax applies to property transactions⁴⁶ to which we now turn.

The Easytax documentation simply says 'the 2% tax is applied to the sale price at each change of ownership of property'.⁴⁷ That makes our task relatively simple. In 2013-14 the Commonwealth Grants Commission estimated that the value of taxable transactions for sales tax purposes was \$418.5 billion.⁴⁸ On the assumption that that figure can be updated by the residential property price index⁴⁹ that figure would now be \$521.7 billion. We can assume that this aggregate should fairly closely approximate the Easytax proposal. In that case the two per cent tax will be equal to \$10.4 billion.

⁴⁵ Pauline Hanson's One Nation Tax Policy, 3 September 1998, <http://www.gwb.com.au/onenation/policy/taxdoc.html>.

⁴⁶ Pauline Hanson's One Nation Tax Policy: Implementation Examples: <http://www.gwb.com.au/onenation/policy/study.htm>.

⁴⁷ The 2% tax would be applied to the sale price at each change of ownership of property.

⁴⁸ Commonwealth Grants Commission (2015) *Report on GST revenue sharing relativities: 2015 Review Volume 2 – Assessment of State fiscal capacities, 2015*.

⁴⁹ The weighted average of eight capital cities: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6416.0Sep%202016?OpenDocument>

Adding it all together

Our discussion of how the two per cent tax would apply to the magnitudes mentioned in the On Nation documentation can be brought together as we do in Table 1. Table 1 shows the revenue two per cent tax would collect if it were in force in 2016-17. By comparison the bottom line in Table 1 shows present collection based on the 2016-17 *Mid-year Economic and Financial Outlook (MYEFO)*.⁵⁰

Table 1 Two per cent ‘Easytax’: indicative figures for 2016-17

	Tax, \$ billion	Tax share of GDP (%)
Tax on turnover (upper estimate)	115.3	6.59
Tax on income	21.1	1.2
Tax on property	10.4	0.6
Total	146.8	8.39
Taxation receipts estimates (MYEFO)	378.8	21.6

Source: TAI calculations.

Table 1 clearly shows the One Nation’s tax plan falls seriously short of the present official estimate for total taxation receipts.⁵¹ On these calculations One Nation falls short by \$232 billion, over half of all outlays (\$450.6 billion) or 13.3 per cent of GDP. This would have severe implications for a wide range of government functions from social security to defence expenditure. It is perhaps of significance that One Nation's enduring interest in flat tax schemes has always been in the context of a desire to radically reduce the role and expenditure of the federal government and, in the case of government income support, to reduce social welfare to provide for “special cases only.” Those statements are very vague and have not been seriously examined in questioning from the media. But we have to admit the possibility that the authors of the Easytax proposals knew what they were doing; knew their proposal would raise only a fraction of the revenue required in Australia but had the hidden agenda of massively reducing the size of the government in Australia.

At the very least we know that if the two per cent tax were to ever proceed, massive cuts would have to be made in the areas set out in Table 2 which is constructed by

⁵⁰ The MYEFO is normally published each December as an update of the government’s fiscal policy settings and the relevant estimates of revenues and expenditures together with updated economic forecasts.

⁵¹ We make the additional assumption that non-taxation receipts such as dividends from the Reserve Bank would be unaffected.

going through the top Commonwealth programs and stopping when have made the necessary savings.

Table 2: Top Commonwealth programs that would have to be cut or severely slashed, \$billion.

Commonwealth Payments to the States	116.5
of which WA receives	8.0
Income support for seniors	45.4
Medical benefits (Medicare)	22.0
Family tax benefit	19.3
Income support for people with disabilities	17.1
Residential and flexible care	11.3
TOTAL	231.6

Source: Australian Government (2016) *2016-17 Budget: Budget Paper no 1*.

Table 2 shows the programs that would be vulnerable. To make savings of the sort required One Nation would have to eliminate these programs or severely slash them. People of Western Australia already complain that they do not get enough in Commonwealth payments but those would be bound to be a casualty of One Nation’s apparent intended assault on Commonwealth revenue. Likewise income support for seniors would be in their firing line as their strong hints suggest. One Nation would also have to slash Medicare and family tax benefits, both of which provide essential support for young families. Income support and in-kind support for people with disabilities would be threatened as well.

The evidence so far is that One Nation would want to severely cut government services but it is possible instead they may want to modify their tax proposal. If instead of cutting government spending it is assumed that One Nation wishes to keep government outlays at approximately current levels, and not increase government debt – something they are strongly opposed to – then to recover that revenue shortfall on our calculations One Nation would have to increase the rate of their proposed flat tax from two to 5.16 per cent. At those sorts of rates there would be serious distortions in the market.

Distortions

It is useful to take a loaf of bread. Typically the farmer sells the wheat harvest to a wholesale grain handler. That handler sells wheat to the distributor. The distributor then sells wheat to the flour mill which then sells the flour to the baker. The baker then makes the bread and sells it to the wholesaler. The wholesaler then sells to the local

delicatessen or supermarket. The retailer then sells to the consumer. All in all there are seven sellers and a 5.16 per cent tax would then compound into a 42.2 per cent tax on the original bread. The latter is the implied value of the tax on wheat grown by the farmer by the time it reaches the consumer as bread.

By contrast a top-of-the-range BMW motor vehicle imported by a car dealer would be taxed once when the dealer imports it and second when a wealthy purchaser buys it.⁵² Generally people who buy imports would be advantaged compared with those who buy domestically produced goods.

Services would generally only be taxed once. For example a facial involves the simultaneous production and delivery and there are no prior stages in the production of facial services. However, there would be small amount of other inputs that would be taxed. Apart from the latter there is really only one item and only one stage that would be subject to taxation.

These examples show how different goods and services are affected differently. Economist refer to the 'cascading' effect of the turnover tax which means a modest turnover tax at two per cent can grow to 13.2 per cent penalty.

In European countries that operated a turnover tax the cascading effect had been a problem. It favoured vertically integrated companies rather than 'outsourcing' from independent companies. By discouraging outsourcing innovative small businesses are also discouraged while big businesses that can do more in-house are favoured.

Distributional impacts

A full distributional impact analysis is likely to show that such a turnover tax is likely to hit lower income groups much more than higher income groups who tend to spend higher proportions of their income on imports and services.⁵³ On top of that by eliminating income tax One Nation would eliminate the main feature of the Australian tax system that maintains some progressivity.

As a first foray into a distributional analysis we have to stress that under present arrangements someone with a taxable income of \$1 million per annum would pay \$439,632 in tax.⁵⁴ Under the two per cent Easytax they would pay just \$20,000. That is a massive \$419,632 cut in tax for those with million dollar incomes – equivalent to a tax cut of 42 per cent of income. We do not know how much the CEO of Australia Post is taxed but his \$5.5 million income could attract the theoretical maximum of \$2.3

⁵² One Nation is not clear on how the Luxury Car Tax would be treated.

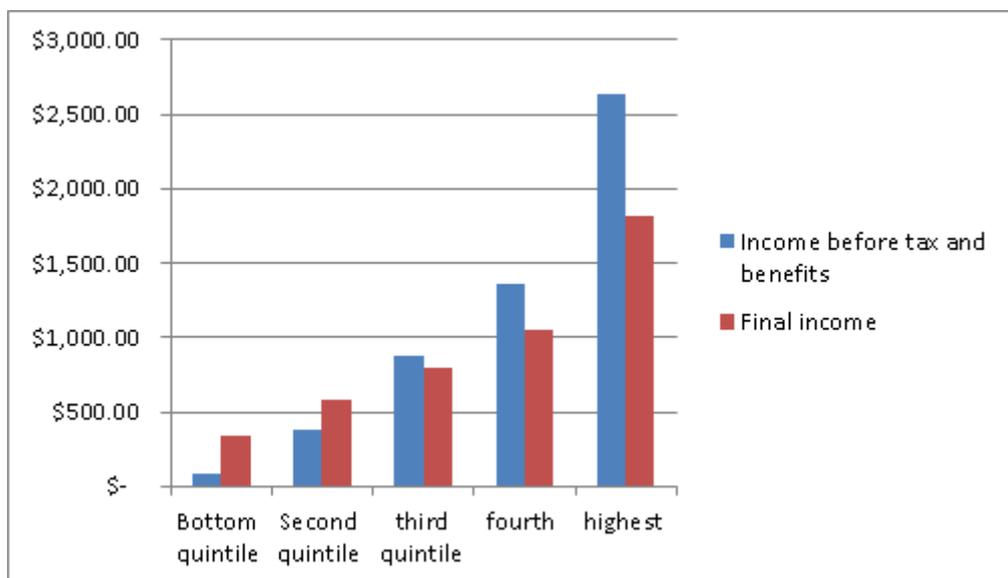
⁵³ Typically for services there is only one transaction to be taxed between production and sale. It is not known whether One Nation has given thought to the shift of the Australian economy towards services over the past two decades.

⁵⁴ This calculation ignores the deficit reduction levy of two per cent on incomes over \$180,000 due to end on 30 June 2017.

million in tax under the status quo but only \$100,000 under the two per cent tax, giving him a saving of \$2.2 million per annum.

One Nation makes it clear that its welfare system would be a very minimalist system providing for 'special cases' only. ABS data allow us to make some estimates about the extent to which Australia's tax and welfare system redistributes income. Those estimates are summarised in Figure 1 which shows the income quintiles before and after the effects of taxation and government pensions and allowances.

Figure 1: Income distribution before and after the tax and transfer system, Australia 2011-12



Source: Richardson D and Denniss R (2014) 'Income and wealth inequality in Australia'. *Policy Brief no 64*, July.

Figure 1 clearly shows that income after the tax and transfer system is so much 'flatter' than it is prior to redistribution. Low incomes are significantly higher, while high incomes are dramatically reduced. By getting rid of existing income taxes and introducing the Easytax the top end of the income distribution would be closer to the blue than the red bars. Likewise at the bottom of the income scale the picture would again go from red to blue with low income earners losing a large proportion of their present incomes.

Those changes would be reinforced by the changes to indirect taxation. We mentioned that the two per cent tax would cascade depending on the number of stages involved. In Table 3 we explore this further by examining some consumer expenditure items by household income quintiles. That allows us to compare household income with spending on particular categories. As we saw with the example of the wheat to loaf of

bread, food undergoes a good number of steps and tends to be predominantly sourced from Australia. Hence the cascading effects are likely to be relatively heavy for that category of expenditure.

Table 3 attempts to present some of the main categories of spending by households. Some of the categories chosen here for illustration are likely to be made in Australia and would experience a lot of cascading taxation.

Table 3: Household share spending by category by income quintile

	Lowest	Second	Third	Fourth	Highest
Share of income	4	9	15.8	24.6	46.6
share of spending on:					
Food and non-alcoholic beverages	10	14.6	19.2	24.1	32.1
Household furnishings and equipment	9.3	13.5	16.9	23.2	37.2
Recreational and educational equipment	7.7	13.2	17.4	26.8	34.9
Misc goods	7.2	13.4	18.3	24.4	36.7

Sources: TAI calculations based on ABS (2011) *Household Expenditure Survey, Australia: Summary of Results, 2009-10*, Cat no 6530.0, 6 September, and ABS (2015) *Household Income and Wealth, Australia, 2013-14*, Cat no 6523.0 4 September.

As we saw, food and non-alcoholic beverages (just ‘food’ from now on) are likely to be heavily affected by cascading under an Easytax regime. Now Table 3 shows that low income earners spend a disproportionate share of their income on food. While the lowest household quintile by income earns 4 per cent of income they account for 10 per cent of the spending on food. At the other extreme the highest income households receive 46.6 per cent of the income and only account for 32.1 per cent of expenditure on food. Similarly the other categories chosen here are likely to be subject to a good deal of cascading and in each case, lower income households spend more on these items than is suggested by their share of income.

Of course a full assessment of the likely distributional impact on expenditures of the lower income groups will have to await elaboration of One Nation’s policies relating to other taxes. However, we note that the introduction of the GST was accompanied by a compensation package on top of the indexation of government payments. Some comments suggest that the GST compensation would go along with much of the rest of the income support system in Australia.

Foreign companies

We saw earlier One Nation intends to make foreign companies pay their fair share of tax. That is not defined and there is no mention of any mechanism that would have

that affect other than the general two per cent tax. In the absence of any other information we must assume that One Nation must be relying on the Easytax to ensure foreign companies pay their fair share.

The Tax Office now publishes the total income, taxable income and tax payable by the top 1,904 companies in Australia.⁵⁵ This list of companies includes the major foreign companies in Australia; Shell, Chevron, Amazon and the rest. However, apart from the obvious ones it is not possible to identify exactly which are foreign owned and those that are jointly foreign/Australian owned (eg BHP Billiton) present even greater difficulties.

Looking at all companies we find that total revenue is \$1,781 billion and two per cent of that would be \$35.6 billion. Yet the company tax raised more than that at \$41.9 billion. Obviously there will be some foreign companies worse off with two per cent Easytax but it is likely that many will be much better off. For example we might take Shell Energy Holdings Australia Ltd with revenue of \$18.5 billion in 2014-15. Easytax on Shell would be \$0.37 billion but they actually paid \$1.03 billion in income tax. So a foreign company like Shell would be much better off under Easytax. Likewise Rio Tinto which is majority foreign owned would have seen its tax bill fall from \$2.7 billion to \$0.6 billion. On the other hand Amazon would have seen its tax bill increase from \$146 million to \$167 million while Google Australia's tax would have fallen from \$12 million to \$9 million.

Despite One Nation's declared aim of increasing the tax take from foreign companies, the Easytax proposal would likely be very lenient with big tax cuts for some of the biggest multinationals operating in Australia.

⁵⁵ Australian Taxation Office, 2014-15 Report of Entity Tax Information, 2016, <https://data.gov.au/dataset/corporate-transparency/resource/1e8c8ae0-81d1-4780-a669-9e4a2a6ba1a4>. 'Total income' is closer to what we would prefer to call 'revenue' because it is the amount received by companies before making any deductions for purchases, the wages bill and so forth. In the text we will refer to revenue to be clear.

Conclusion: Old wine in new bottles

There is a strong element of nostalgia in One Nation's economic thinking, a yearning to return to an earlier, less complicated economy in which the role of government was less and taxation was simple. One Nation has a strong desire to reduce the size of government and public expenditure and has demonstrated a deep ideological opposition to the imposition of income tax. In 1998 John McRoberts described Australia's income tax system as a cancer or a virus while Pauline Hanson told One Nation candidates that "income tax is destroying this country". Nearly two decades later Australia has not been "destroyed", but Senator Hanson remains determined to radically change Australia's taxation system.

Both the Coalition and Labor have quickly identified Senator Hanson's resurrection of her Easytax scheme as a point of potential political vulnerability. Industry Minister Arthur Sinodinos observed on the ABC Insiders program in February 2017 that "the bloke who came up with [One Nation's] 2% tax policy years ago has just gone bankrupt. If this is economic policy these characters are going to be running, I think it is going to be very important for us to make sure the public understand the implications of One Nation's policies where they exist."⁵⁶ Similarly Queensland Labor Senator Anthony Chisholm was quick to declare Senator Hanson was "treating voters as mugs" by serving up 20-year-old policies: "The fact that the chief spruiker of this policy has gone bankrupt tells you all you need to know about its credibility. ... It's a dangerous proposal that was severely discredited 20 years ago."⁵⁷

Senator Hanson presumably expects strong political opposition to any resurrection of her 1998 Easytax proposal. She has, however, long opposed Australia's broadly progressive income tax system and appears determined to reaffirm the policies she took to the Australian electorate two decades ago. It would be a significant backwards political step for Senator Hanson if, having announced her renewed commitment to the 2 per cent flat tax idea, she does not proceed to elaborate a new version of Easytax in 2017. In this regard it should also be recognised that Easytax-like proposals may have a significant measure of political appeal, especially for some older Australians

⁵⁶ Transcript of Interview with Arthur Sinodinos, ABC Insiders, 12 February 2017, <http://www.abc.net.au/insiders/content/2016/s4618483.htm>.

⁵⁷ "One Nation policy would collapse the economy", Courier Mail, 13 February 2017, <http://www.couriermail.com.au/news/queensland/one-nation-policy-would-collapse-the-economy/news-story/a9b99e7a752699fc217b71bae5b5988a>.

facing the complexities of tax returns and welfare payment systems. The Coalition and Labor may find it insufficient to reflect on the current financial status of one of the initial proponents of the 2 per cent flat tax idea.

Consequently it is necessary to look afresh at the potential implications for revenue, taxpayers and consumers and society more broadly. This initial examination strongly suggests the impacts on government revenue, consumers and welfare recipients are most likely to be heaviest on those who could afford them least, the so-called “battlers” that Senator Hanson sees as her core constituency.

Nor would such a tax change achieve One Nation’s declared objective of increasing taxation of foreign companies operating in Australia.

Finally, the revival of One Nation's 2 per cent flat-rate turn-over tax scheme may well take place in the context of other radical proposals for economic deregulation, tax reduction and simplification, as well as financial privacy measures advocated by American conservative think-tanks. In this regard the philosophical and policy outlook of Senator Hanson's new economic advisers may significantly influence the further development of One Nation tax policies.⁵⁸ For example One Nation's new economic adviser Darren Nelson has been associated with the Washington based Centre for Freedom and Prosperity that, apart from lobbying for offshore tax havens and financial privacy, has been a keen promoter of flat income tax schemes.⁵⁹

Further development of One Nation’s economic and taxation policies will require close scrutiny.

⁵⁸ See Philip Dorling, “Pauline Hanson's 'Neo-Austrian' economic brain”, Australia Institute Report, 27 February 2017, <http://www.tai.org.au/content/pauline-hanson%E2%80%99s-%E2%80%98neo-austrian%E2%80%99-economic-brain>.

⁵⁹ See for example, comment by Center for Freedom and Prosperity founder Dan Mitchell: <http://freedomandprosperity.org/2016/blog/the-flat-tax-now-more-then-ever/>.