

Taxation considerations 2015

A submission from Canberra Commoners confined to issues around personal tax

It is essential that the basic method of tax assessment should be acceptable to the vast majority of Australians as a fair system. It should therefore be simple and understandable.

Personal Income Tax

If we continue with a tax on personal income, the general assumption that the rate of tax should increase as income increases seems to have been widely accepted. Currently the relationship is visualised as a histogram with four brackets with rates suddenly changing at \$18,200 p.a. (from zero to 19c in the dollar), \$37,000 (32.5c), \$80,000 (37c) and \$180,000 (45c).

Many tax payers are inhibited from increasing effort if they risk entering a higher tax bracket, so that relationship is often a deterrent to increasing national production. Tax brackets should therefore be eliminated through a seamless relationship between tax payable and income. In order to meet the requirements of government, the Federal Treasurer of the day would determine the income level at which tax is first payable (now \$18,200), that at which the maximum rate is reached (now \$180,000) after which it remains constant, and the nature of the relationship between those two points on a graph. That would be presented either as a straight line or a smooth curve. This would give the Treasurer complete flexibility in securing the tax revenue wanted and provide an understandable, graphical portrayal of changes needed in successive budgets that would allow voters to consider their fairness.

Those should be the only variables available to the Treasurer. All income should be taxed according to that general relationship. It must not be corrupted by claiming that there are differences in income types, for example if earned as capital gain or through manual labour. There must be no loopholes.

Loopholes ensure that once a fair relationship between tax payable and income received has been established it will be breached by people paying less tax than that fair assessment determines. It is immediately rendered unfair. For the government to claim its required revenue, the tax avoided must be added to the tax payable by others. Overwhelmingly, loopholes are available to middle and high income earners, so much of the tax burden avoided by them must fall onto earners of lower incomes. Consequently, their tax burden overall is increased while that of the high income earners overall is decreased. The current taxation rules dictate that the gap between poor and rich must widen. They have been devised, probably without exception, by people of middle to high incomes, including politicians, to transfer legitimate tax responsibilities to those less well-off. It seems unlikely that the same decision makers will ever accept the removal of taxation loopholes that increase their wealth at the expense of others. If that is so, the personal taxation system ought to be abandoned in favour of a fairer system.

GST

There are several options that might replace income tax. Our preferred tax regime is that the Goods and Services Tax (GST) becomes a General Spending Tax that is applied to all spending with no exceptions.

For those on low incomes, the immediate increase in their cost of living could be financially crippling. In order to prevent that the government would have to compensate them completely so that they would not suffer.

For all, there would be no income tax: the amount of tax they would pay would be of their choosing, not of the government's. People would pay tax according to their ability to pay. The wealthy would not benefit differentially because they would spend far more than those less well-off, and so pay correspondingly more tax. That is as true for food as it is for wine, luxury items, entertainment, holidays, housing, transport etc. The amount that people spend each year reflects their standard of living and most people will spend as much as they think they can afford.

A commonly parroted criticism of such a tax is that it is a regressive tax hurting the poor more than the rich. To counter that, the poor should always be compensated for increased costs of living. Governments are able to do that, and do it regularly to boost low incomes.

Overall, a General Spending Tax would ease the burden on low income earners: it would eliminate the ability of high income earners to transfer to low income earners tax avoided through loopholes offered by our current income tax system. When politicians criticise the GST, they may commonly be suspected of trying to preserve tax loopholes that serve them well.

As with income tax, the federal Treasurer would adjust the rate of a spending tax to meet budget requirements. The only people who would need to fill in tax forms would be those seeking government support for low incomes. There would be no need for a huge staff of tax inspectors, and most Australians probably would never need to fill in tax forms again. A GST would be a simple tax. It would be easily understood. It would be a fair tax. It should be considered seriously.