One of the major contentions in the White Paper is that continued steps to boost productivity and encourage higher workforce participation will be critical to driving economic growth.

I suggest reducing the number of marginal tax brackets in our personal income tax system, to only two or three brackets above the tax free threshold (retain the tax free threshold for resident taxpayers), and consider applying those thresholds to couples rather than on an individual basis, e.g. couple annual earnings below say $40,000 should not be taxed. $40,000 to $120,000 should be taxed at say 30%, and above $120,000 should be taxed at say 40%.

To encourage retirement savings, a flattened (eg half rate) marginal system should apply to all taxpayers over retirement age, eg 70 and over, eg they should get a double tax free threshold, eg $80,000 (couple threshold), and to avoid horizontal equity / distortion this should apply to all sources of income, including any super pension income.

Australia's high corporate tax rate can deter investment, ultimately leading to lower wages and prosperity. Our corporate tax rate needs to be reduced in order to encourage business investment and to be more competitive internationally, eg to a flat rate somewhere between 20% and 25% across the board. Retaining a small business income tax discount, eg up to 5% below the above general flat rate, also seems a good idea.

In order to maintain revenue despite the anticipated smaller corporate tax take from corporate taxation resulting from the above reform, and in order to be more in line with tax regimes overseas, I recommend that we consider abolishing dividend imputation. Shareholders should be taxed on distributed after-tax corporate profit according to their own tax profiles, in addition to the corporate tax already paid. If imputation is retained, consider at least removing franking credit refunds.

Per current law, a return of corpus or capital (as opposed to capital gains) should reduce the cost base of the investor's shares for CGT purposes, and trigger CGT to the extent it exceeds cost base, in the same way as if capital proceeds were received on disposal of the shares.

Under the current law, individuals and entities willing to engage with complexity in the tax system can structure
their affairs so as to minimise their tax liability. This can involve using different legal forms or structures to take advantage of opportunities presented by concessions or gaps in the structure of the law. Trust taxation needs to be simplified. It's the most common structure in Australia. Trusts should be taxed more simply, like companies. Trust earnings including capital gains should be taxed at a single corporate tax, eg somewhere between 20% and 25% as above. Beneficiaries should also be taxed on distributed after-tax profit according to their own tax profiles.

Return of corpus or capital (as opposed to capital gains) should not be taxed in the hands of discretionary trust beneficiaries, but investors that buy units in a unit trust or some other fixed interest trust should be treated for CGT purposes in the same way as shareholders on a return of capital.

If entity taxation is adopted, presumptions like a profits first rule should be avoided, leaving distribution type up to each entity.

I recommend removing distortionary features of our tax system like negative gearing, eg quarantine interest deductions to the specific income from the asset (or class of asset) acquired, and apply this to all types of investment, not just real estate, include shares. We should learn our lesson from the GFC. It does not make sense (some would say it promotes speculative investment risk) to have a tax system that encourages people to leverage beyond their anticipated earnings from investment. Abolishing negative gearing would also bring Australia back level with many of our trading partners.

CGT for entities should be taxed as described above. No CGT discount (eg as currently applies to trusts). The CGT Small Business concessions are complex and are a source of expensive compliance activity as well as a loss to the revenue. If a small business tax rate discount is granted as I indicate above, then I suggest there is a case for also removing the CGT Small Business concessions.

Australia's tax system treats alternative forms of saving differently. At one end of the spectrum, savings held in the family home are taxed at average effective tax rates approaching zero.

The 50% CGT discount for trusts and individuals is distortionary and should also be removed. With respect to individuals, capital gains should be taxed in the same way as other investment income, eg at marginal rate. In order not to penalise taxpayers who invest personally, tax on all investment income by individuals, including capital gains, should be capped (consider applying the corporate rate per above or alternately a lower rate such as 15% as for super fund income per below) and this should help soften the impact on such investors of removing the 50% CGT discount.

All income and capital gains within a super fund account should be subject to a flat tax rate of 15%, whether accumulating or in pension mode. The general pension exemption should be removed. The non-concessional contribution cap for super should also be removed. Superannuation savings needs to be encouraged and protected.

As politically unpopular as this may sound, we should also consider removing distortionary CGT concessions like:

The main residence exemption; and

The CGT rollover on death.

There is also a case for increasing the rate of GST, to say 15% (to both increase the tax take and to bring Australia more in line with our trading partner so), and to remove as many zero rated categories as possible, in order to reduce the level of complexity and distortion in the tax system.

Commonwealth revenue grants to the States should be more closely aligned to per capita distribution equality. State taxes are disparate, and the different tax treatments can create distortions in the Australian economy, as well as administrative inefficiency in the collection of taxes around Australia. The disparate tax treatment can also lead to unwanted arbitrage or preferential treatment of one state over another by trading partners such as China negotiating deals with Australia on a state by state basis, potentially lowering Australia's overall bargaining position. More dependence is being placed by the states on property based taxes. States need to be encouraged to hand over their tax collection responsibilities to a single Commonwealth agency. The first step in doing this will be ensuring a fair agreed method of revenue sharing. This is likely to prove very difficult, if not impossible, as might deciding on the applicable rates across Australia for property taxes such as stamp duty and land tax.

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