Dear Sir / Madam

I have two suggestions for the panel to consider.

1. Tax deduction levy

That the GST be replaced by a modest (say 1%) levy on all tax deductions, other than deductions in relation to employing unassociated persons; to be added to income tax assessments of individuals and entities based on the total deductions claimed on the tax return.

The GST is subject to, and so exacerbates and rewards the same non-compliant behaviours as affect income tax: understatement of income, overstatement of outgoings, and characterisation of private outgoings as business-related. Thus we may expect that the GST has had a deleterious effect on income tax revenues, and places a competitive disadvantage on compliant business taxpayers. This, and the prospect of fraudulent claims for GST credits, particularly where exceeding GST on revenue, places a heavy compliance burden on tax administration.

A levy on tax deductions would provide little avenue for evasion other than non-lodgment of income tax returns and understatement of tax deductions; the latter not being effective as the benefit would not exceed the income tax saved in making the claim.

The costs, particularly superannuation, of employing staff provide a strong incentive to outsource rather than employ and so have weakened the salary base of the income tax system. Excluding the costs of bona fide employment from the levy would offset those incentives to some small degree.

As retirees, welfare recipients and employees generally have small amounts of deductions, they would generally pay a very small levy. The tax base would be broadened by assessing deductions on family trust and partnership returns to the tax deduction levy.

As very small adjustments to the levy rate would have a large effect on the resultant revenue, it would be an ideal tax to assign (the revenue) to the states and allow them to adjust their levy rate according to their revenue requirements.

2. Exemption of dividends and trust distributions

The franking credit system is unnecessarily complex. It would be simpler if franked dividends were exempt from income tax in the hands of the shareholder.

Likewise, unit trust distributions are a common form of investment these days but are quite complex to declare on tax returns—often involving income, capital gains and foreign source components, and franking and foreign tax credits. It would be simpler if the unit trust paid tax and the distributions were exempt in the hands of the unit holder.

This principle might also be applied to family trust income, putting family trusts on the same taxation footing as private companies.

Yours sincerely,

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