

The Budget is not far away.

I think we could achieve a wide range of benefits by reconsidering one specific aspect of personal taxation.

The current Australian system is described as a Graduated Personal taxation system. This concept is well accepted by all Australians and is very close to Labor core values. The concept being that for the very lowest income earners their taxation should be minimal, but as income and affluence rise, the proportion of taxation increases. This occurs using several marginal rates, covering bands of income. Everyone get their first \$6000 tax free, the next band is taxed at 17.5 % and the marginal rates increase to 45% for the highest income levels.

There doesn't seem to be any argument from any quarter for this principle, although higher income earners would like their marginal tax rate lowered! Surprise, surprise!

Personal Taxation covers not just the income side of the equation, but also the expense aspect of work. Normally referred to as 'Deductions' for work (and income) related expenses.

Legitimate work and income related expenses, are subtracted from Total Income, to give a Taxable income. It is this taxable income that is used to calculate the amount of graduated taxation to be applied. This sounds fair and reasonable at first glance, but when it is investigated more thoroughly some serious anomalies exist. Some easy examples demonstrate the major issue.

Lets assume that several workers all on different pay levels have the exact same Work/Income related expenses. Something most employees require is a work diary, lets assume it cost \$10 to make the arithmetic easy.

1. Case 1: Gross income \$6000, a pensioner say. Pays no tax and hence pays the full \$10 for the diary
2. Case 2: Part time mum earns \$17000, pays \$10 but gets 17% back in a tax refund, hence effective cost of the diary is \$8.30
3. Case 3: Federal Politician earning at the maximum marginal tax rate, pays \$10, but gets 45% back as a tax refund, effect cost for the diary is \$5.50.

Of course this is the complete antithesis of a Graduated system. The poorest actually pays the highest price for their work related expense!

Even worse the Porsche owning IT Salesman doesn't buy a \$10 diary but instead gets a new laptop for the same purpose every 2 years, depreciating it over two years and gets 45% of its \$3000 cost in refund, actually getting \$1350 back! Obviously the pensioner and part time mum cant even afford the laptop let alone get the government to subsidise it to the tune of 45%.

Higher paid affluent earners also have lots of other expenses they claim, like investment properties, and negative gearing. There is no ceiling to the limit of these expenses. The outcome is that their effective actual taxation level is closer to 30% not the higher graduated marginal level of 45%. The consequence is that the underlying principle, that is so well accepted by all Australians, has been watered down to such a level as to longer be 'graduated'.

The solution is equally simple:

Work and Income expenses should also be graduated to reflect the underlying principle. Hence: these expenses would also have bands or marginal rates.

The first band would provide the greatest retax relief, eg, say the first \$500 of expense would get the highest tax rebate, say 40%; hence in all the examples above they would get an identical refund of \$4 for the \$10 diary; the next band 501 – 1500 maybe 30%, 20%, 10% and so on until reaching a point, a ceiling, where no further tax relief would apply. The number of marginal rates and their respective % would need to be calculated by an Actuary, based on the coffer requirements of the government. But it would more fully reflect the principle of a graduated Personal Taxation scheme. It would cushion low income and low expense earners, whereas the higher more affluent earner would actually pay closer to the top rate marginal rate. It also has the neat by-product of capping deductions, not just from work but also from investment.

In many ways this approach uses the same calculation approach to another standard part of Personal Taxations, ie, Rebates/Offsets. So it shouldn't be difficult to implement.

Please could you raise this idea with the Prime Minister and Federal treasurer.

Regards

Paul Loring