from Ken Goodwin

each of us accountants could write a book on how the tax system can be improved, mostly by dramatic simplification.. this can be achieved by a process of lateral thinking, in which radical/innovative/outrageous ideas are often the best

i demonstrate this concept now, by writing in lower case only.. mass adoption of this, ie abandonment of capital letters, would reduce the alphabet from 52 to 26 characters and produce other simplifications, which i won't go into at this time

however, there are forces at work with vested interests in maintaining tax complexity.. these include bureaucrats and members of my own profession, whose perpetual generation of income depends on virtually nobody understanding what is loosely titled "the tax system"

one hopes that there are not too many in the review panel, enabling said panel to embark objectively on a process of major surgery, including the elimination of many, many inefficient taxes

notwithstanding the above and at the risk of being accused of joining those who "play around at the edges", i will limit myself to a few specific tax reform suggestions:

(1) whilst the gst has been deliberately excluded from the review, it still seems appropriate to make comments:
(a) a higher gst rate would effectively produce social benefits, due to gst-free exemptions and the resulting widening price gap between taxable and non-taxable goods
(b) a higher gst rate could be fine-tuned upwards or downwards, to deliver more or less social benefits according to the policies of the government of the day
(c) this would reduce the need to impose complicated/incomprehensible benefits, via the social security system (ie, reduce 'churning')
(c) the world trend appears to be towards less direct and more indirect taxation; i suspect this has a dramatic effect on the efficiency of tax collection methods, as the focus on tax collection sources changes from individuals to businesses
(d) the gst purports to be a tax on consumption, such that a higher rate would presumably discourage consumption and produce environmental benefits as well as savings
(e) the gst collection/compliance structure is already in place; it's relatively efficient and would not increase or be more complicated by the introduction of a higher rate
(f) points of gst collection are limited to businesses, so those not in business have no bureaucratic burden to shoulder
(g) compliance audits would be more efficient, as audit work input would connect to larger tax amounts
(h) gst is broad-based and should produce sufficiently stable revenue to justify abolishing a large number of more complicated and revenue-instable imposts

(2) there is no point in imposing a combination of excise tax, gst and (effectively) carbon tax on fuel, each with its own truckload of legal/compliance rules
(a) a carbon trading price, sufficiently heavy to achieve its environmental aims, would produce considerable revenue
(b) this would justify abolishing the fuel excise tax and gst on fuel, thus simplifying the compliance process

(3) capital gains tax has been in force for 2 decades and inflation indexing abolished about a decade ago.. inflation over long periods is considerable and taxation of capital "gains", with no inflation relief (albeit at a lower tax rate) amounts to a non-equitable wealth tax.. furthermore, the compliance burden on capital gains is proportionate to the complexity of the legislation x period of capital gains accumulation.. the latter contains no sunset clause, such that holders of capital assets must potentially keep the paperwork forever.. here is a suggestion:
(a) have a sunset clause of (say) 5 years and tax, as income, capital gains occuring only within this period
(b) this would eliminate the absurdly complex and archaic interface between the pre- and post-capital gains period
(c) it would also dramatically reduce the need to maintain paperwork for long periods, currently needed to accumulate proof of "cost-base"
(d) it would eliminate the arbitrary period of 1 year, which currently marks the effective border between a revenue asset and a capital asset
(e) it would majorly reduce the incidence of transfer of a tax-free asset into a taxable asset, for example the family home which subsequently becomes an investment property
(f) it would reduce the incidence of taxation of ficticious gains, caused by inflation

(4) some relief should be available for the inflation component of interest income:
(a) this could perhaps be achieved in a simple way, by comparing the underlying interest rate earned with an inflation index and only taxing the difference
(b) conversely, interest payments should only be tax-deductible to the extent that they exceed inflation
(c) this latter feature would discourage the temptation to incur excessive debt, during inflationary times
(d) individuals should be allowed to offset interest income with all types of interest cost, to determine if there is a net taxable result

(5) reduce the need for a considerable number of individuals to submit a tax return; minimise the myriad of baby bonuses, family allowances and "churning" in general, for instance:
(a) allow a generous tax-free threshold (eg: $15,000 pa) on an individual-by-individual basis, irrespective of age
(b) reduce income tax, above this threshold, to a single rate of (say) 25%
(c) allow families of dependents to accumulate the threshold for all individuals in the family, such that they are taxed as a single unit and then only if the group income exceeds the threshold; eg: a family of 4 would be taxed only on income above $60,000
(d) this would eliminate the practice of families paying a different amount of tax, depending on which family member(s) earn(s) the income and where it comes from; ie there would be no benefit from attemptimg to split income

(6) recognise the fact that there are considerable overlaps between income tax and gst, in terms of the taxable base:
(a) in simple terms, the gst is levied on sales less purchases of external goods and services; this equates to added value, which is (largely) wages + profit
(b) income/company tax is also levied on wages and profit, but currently at a number of different rates each also being different to the gst rate
(c) this overlapping of tax base could be dramatically curtailed by applying a bit of logic, eg by increasing the gst rate to replace company tax and being more selective on the application of income tax to individuals (see 5, above)
(d) abolish franking credits
(d) i have not worked out a model for this, but am convinced that it wouldn't be difficult once the overlapping base of gst and income/company tax is recognised