During the Howard years adjustments to the taxation system, both the introduction of the GST and the application of across-the-board same-percentage tax cuts that benefited the financially privileged far more than the ordinary people, together with an industrial relations regime designed to reduce real wages, were the opposite of what is needed to maintain a viable monetary economy in the long term.

In contrast to this, the Rudd Government's emergency measures demonstrate an understanding of a fundamental economic truth that John Howard's "Government for the privileged" clearly did not understand, the fact that the health of a monetary economic system depends on the majority of ordinary people having enough money to spend on the products of industry and commerce to keep the system viable.

However the trend for the past few decades (at least), since well before Howard gained power, has been towards a much greater concentration of wealth in the hands of the financially privileged, the exact opposite of what is needed to keep the economy viable in the long term.

The taxation system therefore must be regarded as the primary instrument for correcting this destabilising trend, by redistributing money from the financially privileged to the less privileged in order to keep money circulating so as to maintain the general spending power that keeps commerce and industry viable and maintains the real value of the assets and income of everybody, the financially privileged included.

I also believe that the taxation system should be an instrument of social equity, administered in such a manner as to compensate to some extent for inequities in economic opportunity resulting from differences in people's individual abilities and circumstances (e.g. IQ, personality, health, physical or mental disability, social status, education, etc.). However it should not be too blunt an instrument, there is a need for the financially super-privileged to be taxed at a much higher level than they currently are in order to maintain long-term economic viability and to provide greater socio-economic equity but the taxation regime should not be so severe as to provide a disincentive to entrepreneurial activity, especially at the small business level, the economic system must be such as to offer people a genuine prospect of improving their financial circumstances as a result of individual initiative and effort, whatever their abilities and circumstances.

In line with these general principles I would like to make the following specific suggestions:

1. Raise the Tax-free income threshold:

Low income Australians still have not been genuinely compensated for the effects of the GST. Labour's "fight-back" at the time the GST was introduced was clearly bogus, it was just fiddling with the details, the only genuine fight-back, other than repealing the GST, is to raise the income threshold below which income-tax does not have to be paid, not just by an overdue inflationary adjustment as Howard did but by an amount genuinely sufficient to compensate low income earners for the effects of the GST. The tax-free margin should be comfortably above the level of income needed to provide the basic essentials for living, I would suggest close to twice what an age or disability pensioner currently receives per annum, putting the tax-free threshold at about $15,000 or $20,000 in our current economic situation, not the mere $6,000 that currently applies.

2. Add extra "tax brackets" to increase the top marginal tax rate for people on very high and obscenely high incomes:

The top marginal income-tax rate for people on obscenely high incomes, however those incomes are derived, should be much higher than the current rate. In our current economic situation 45 cents in the dollar is probably appropriate for people with incomes from $150,000 to $500,000 but the rate from $500,001 to $1,000,000 should be around 60% and for incomes of $1,000,001 and over it should be around 80% (or even higher). Nobody truly "earns" income at these levels so those who have the good fortune to obtain such generous incomes should be made to contribute proportionally more in taxes to provide for the common good and to keep money circulating so as to ensure the long-term viability of the economic system.

3. Regular automatic adjustment of "tax brackets" and income tax rates to compensate for inflation:

Adjustments to the "tax brackets" and/or income tax rates to compensate for inflation should be made annually by the Taxation Office according to an established formula based on the actual cost of living and the principle that people barely able to meet their survival needs should not have to pay any income tax, these adjustments should not be left to the discretion of the Government of the Day. Any future politically determined income tax adjustments beyond the scope of the automatic annual adjustments should also be provided by adjusting the thresholds of the various "tax brackets" rather than by across the board same-percentage variations, with such adjustments made in such a manner as to provide the greatest benefit to low and middle income earners in the interests of social equity and to keep the economy robust – across-the-board same-percentage tax cuts such as those applied during the term of the Howard Government benefit the wealthiest and provide negligible benefit to those on lower incomes and negligible benefit to the economy and therefore should not be applied.

4. Combine (or "average") the incomes of individual family members to provide taxation equity:

Where applicable, family units should be taxed instead of individuals, to enable families to average out the earnings of individual family members for taxation purposes. This would remove the inequity that currently results in situations where one member of a family earns all or most of the family's income and the family therefore pays more tax than another family with a similar total income earned jointly by two or more family members and therefore having each income earner, and the family as a whole, in a lower "tax bracket" and paying less tax per dollar and less overall than a family with a similar total income from a single income earner.

For taxation purposes a family should be defined as any couple who normally live together in an open and committed personal relationship and their children under 18 years old or under 25 years old and still undertaking full-time study. Persons simply sharing a residence would not be regarded as a family, they must be in the equivalent of a marriage relationship to qualify for family taxation status. Dependent adult relatives or other persons permanently living with an individual or a family (or on family rotation) might also be allowed to claim family status with that individual or family (to cover disabled adult children, aged parents, persons in care, etc.). Dependent non-adult children living at home might be regarded as half an adult for taxation purposes, in which case the "tax bracket" for a family with one dependent child living at home would be determined by dividing the total family income by 2.5, etc., though to minimise errors separate tax-tables should be provided to show what amount of tax families with different numbers of children would have to pay.

5. Include all income from all sources for tax purposes, no "tax-free" concessions whatever (See also point 6, below):

No personal income of any kind, pensions included, should be tax-free, the only tax free amount should be that below the standard tax-free threshold.

Tax free pensions etc. result in people on the same income paying different rates of tax depending on how that income is obtained, i.e. whether from a pension or other tax-free income or from normal employment or business activities, which is fundamentally unfair. So all income, however it is obtained, should be taxable. However the bottom tax threshold, below which no tax is payable, should be increased (as suggested in point 1, above) to ensure that persons entirely dependent on pensions do not pay tax on those pensions, but that they do pay tax on their whole income if they have other income supplementing their pensions. (I am currently a Disability Pensioner and will soon be an Age Pensioner so this proposal does not come from an anti pensioner or anti social security perspective, I propose it as a matter of principle.)

This same principle should apply to fringe benefits, they should be taxed on the basis of their whole value to the recipient, e.g. vehicles authorised for private use to be taxed at their full market value (or annual write down value) or cost of leasing, plus operating costs, with genuine business use claimed back on a cents-per-kilometre basis as for the use of private vehicles; bonus shares etc. to be taxed at their full market value on the day they were transferred to the recipient (not just at their face value); travel and accommodation etc. for family accompanying an employee on business to be taxed at its full value; etc.

[I actually believe that executive bonuses should be made illegal, and that if productivity bonuses are paid they should be paid to every employee of a company, right down to the lowliest cleaner, because no company can make profits without the workers on the shop floor or the support people who assist them, so singling out senior executives for special rewards is wrong. However this is an issue that is outside of the scope of the taxation system.]

6. Eliminate all personal tax concessions, rebates, and loopholes (See also point 5, above):

All personal tax concessions, rebates, and loopholes should be eliminated, each individual or family (see point 4, above) should pay the same tax on personal income as other individuals or same sized families on the same income regardless how that income is obtained.

If incentives really are required to assist particular Australian industries such as the film industry then some other means of providing those incentives should be found, e.g. by direct Government investment in (and profit from) the industry being assisted, they should not be provided via unfair tax advantages for people already fortunate enough to have spare money to invest.

Similarly, if remote area allowances are necessary or desirable then means-tested payments should be made to eligible persons, the payments should be independent of the taxation process except to the extent that a person's or a family's taxable income would provide the basis for the means testing.

Spouse and dependent child rebates could also be eliminated if taxation is "averaged" across a family unit as proposed in Point 4 (above), and the current "Family Tax Benefits" should be replaced with a means-tested "Low Income Family Assistance" payment for low income families with children.

Another example that comes especially to mind is the tax free status of certain income from stocks and shares etc. ("franked" shares?). If I understand correctly these are currently regarded as tax free because company tax has (supposedly!) already been paid on them, but Big Business is generally the biggest dodger of taxes (perhaps I should rephrase that to say it is "the most effective at tax minimisation"?) so it is highly doubtful that an appropriate amount of tax has actually been paid on this income, and if the tax responsibility was transferred to the shareholders as much as possible that would make it much more difficult for businesses (big or small) to avoid paying their full share of taxes because the only way to avoid doing so would be by not paying dividends to shareholders, which would hardly be a popular tax minimisation tactic.

7. Apply the Medicare levy exclusively to public health care:

The Medicare levy should be applied exclusively to health care, not skimmed off into general revenue as I have been told is the case at present, and given how run-down the public health and dental system currently is there is a strong case for supplementing the public health budget with income from general revenue over and above that obtained from the medicare levy.

In fact there needs to be a major review of the public health and education systems and the (currently almost defunct) public housing system but that is largely outside of the scope of a review of the taxation system, except to the extent that tax rates need to take into account the amount of money required to adequately fund the public health and education and housing systems.

8. Regard all capital gains as normal income and tax accordingly:

Capital gains, however derived, should be regarded as normal income and taxed accordingly, with only two concessions. Firstly, the rate of inflation during the period of an investment resulting in capital gains, as determined by the Taxation Office, should be applied to determine the true gain as distinct from just the apparent gain, but with the resultant amount applying to the taxation year in which the capital gain was actually received rather than trying to recalculate tax for every year during which it was accruing. Secondly, capital gains tax paid on the sale of a person's or family's principal place of residence may be refunded to offset the cost of a replacement residence of similar or greater inflation-corrected value if purchased within 10 years of the sale of the original residence, with a pro-rata refund applying on the purchase of a replacement residence of lesser value. (In cases where an individual who paid capital gains tax on the sale of a shared property seeks a refund towards the purchase of a replacement property only that person's share of the CGT will be refunded to him/her individually.)

A received inheritance or large gift should be regarded as a capital gain, except that an amount received by any one beneficiary up to the the equivalent of the value of a "normal" (i.e. average or median priced) home and contents may be regarded as tax free.

9. Apply an added punitive capital gains tax to the proceeds of stock market speculation:

Although concessions and variations generally should not apply because the taxation system needs to be simple and consistent to remove the loopholes currently used for "legal" tax minimisation and avoidance, there is a very strong case for applying a higher rate of capital gains tax to stock market gains. For long-term economic stability the stock market needs to focus on genuine productivity, i.e. on dividends derived from operating profits, but the focus on share prices rather than on dividends makes the stock market simply the world's biggest legal gambling den, and the issuing of executive bonuses based on share prices instead of on profits further skews the market (e.g. Enron and others). So there is a strong case for applying a punitive capital gains tax to stock market gains in order to reduce the gambling and shift the investment focus to genuine productivity and dividends instead of on capital gains (which those who guess wrong generally pay for when the inevitable "correction" of the market eventuates) so as to stabilise the market and the economy.

10. Minimise Company / Corporate Tax evasion:

a. Transfer the primary taxation responsibility from Businesses, Companies, Corporations etc. to the persons benefiting from their activities:

Appropriate transfer of the primary taxation responsibility from Companies and Corporations etc. to the persons benefiting from their activities, especially the shareholders and senior executives, as would result if the above personal taxation principles were applied, would probably be the most effective way to minimise corporate tax evasion.

However a "personal tax only" regime could not be implemented without some means of taxing shareholders resident in other countries (a one-world taxation system? hardly likely at present!) so means must be devised to ensure that businesses pay an honest tax, with issues such as those raised in the October 2008 "New Internationalist" especially needing to be addressed, e.g. combating the use of offshore tax havens and taxing currency transactions, etc. (making money from money is fundamentally non-productive and inflationary so it is especially important that the proceeds of financial manipulation be taxed).

b. Tax Company / Corporate funds transferred overseas:

If the primary taxation responsibility is transferred from business entities to the people who profit from them there must be a means of taxing overseas beneficiaries (shareholders etc.) on profits earned in Australia.

It has also been common in the past for companies to disguise true Australian profit levels and the level of profits being remitted overseas by paying excessively high prices for materials and components sourced from the parent company overseas or from overseas subsidiaries of it, so that the profits actually made in Australia are secretly transferred overseas and are not taxed here.

To deal with this the net amount of money transferred out of the country per annum by any company should be taxed at normal company tax rates.

c. Require no-cost public shareholding and payment of dividends on those shares instead of taxing company profits:

Perhaps one way to make large corporations more responsible taxpayers would be to require a set percentage of non-transferrable public shareholding (the percentage required being proportionate to the company tax rate that should be paid) in all businesses above a certain size to be provided by the company without payment by the Government, with operations in Australia not being allowed without these public shares being provided, and then instead of taxing companies on the basis of possibly fiddled books the Government would simply receive dividends at the same rate per share as every other shareholder, making non-payment of dividends, which would not be at all popular with normal shareholders, the only way for companies to avoid paying tax.

d. Punish the use of offshore tax havens:

Creative Taxation Office accountants should be able to find a formula for taxing non-resident companies that would make it more attractive for them to register and comply in the countries in which they are operating than to maintain the fiction that they are "offshore".

For example, companies registered "offshore" might have to pay a flat tax at a very high rate on their total Australian turnover, regardless of profit or loss, or a transaction tax at a very high rate on every Australian banking transaction they make, credit or debit, including overseas transactions (Australian registered businesses would be able to supply exemption numbers to avoid paying this tax) – this is primarily a technique to prevent the use of offshore tax havens, so if the penalty for using them is excessive it should achieve its purpose, and if it doesn't achieve its purpose then the tax revenue received should exceed what would have been received had the business been registered in Australia.

To close the loophole allowing pop stars or businesses etc. to avoid paying Australian tax on foreign earnings, tax should be payable on money remitted to persons or organisations in Australia from business entities registered offshore. However in cases like this there should be provision for the Australian Taxation Office to negotiate a tax sharing agreement with the country in which the income was actually earned, on the explicit understanding that the offshore tax haven is not included in any such negotiations, any tax paid there would be in addition to that shared between the country in which the income or profit was earned and the country of residence of the person or organisation that had earned it.

e. Tax non-productive "money from money" transactions such as foreign exchange transactions:

Any financial investment involves making money from money, but when the investment is in a productive enterprise it strengthens the economy. But transactions that make money from money without contributing to overall productivity do exactly the opposite, they are inflationary (the profits made from them are not based on increased productivity so are actually paid for by a decrease in the value of the currency or currencies involved) and they weaken the economy. Such non-productive profit taking should therefore attract an extra tax over and above normal personal and company taxes. The most obvious area where such a "non-productive transaction tax" is required is in the area of foreign exchange transactions but the tax should not be limited to them, it should apply to any transaction or speculation that results in profit without contributing to productivity.

Conclusion:

Any taxation system should be used for two purposes, to promote a strong and stable economy, i.e. a productive economy rather than merely a speculative one, and as a means of improving social equity.

The Australian Taxation system needs to be drastically simplified to remove all the deductions and loopholes that enable people on higher incomes to reduce the amount of tax they have to pay; to ensure that businesses, large corporations especially, are denied the means of "tax minimisation" that they currently employ; and to ensure that creative accountants cannot devise any other tax evasion schemes in the future. The more complex the taxation system is the more scope there is for tax evasion, so the most fundamental changes currently needed are for the taxation system to be simplified and for it to be made consistent across-the-board.

I believe that if the proposals I've made above were implemented Australia would have a much fairer and more effective taxation system and one that would ensure the continual re-circulation of money that is essential for the long-term health of any monetary economy.

Peter Schaper