

TAXATION

Having slipped from the political agenda following John Howard's attempts to reform it, the taxation system, as distinct from some individual taxes, is again actively debated. Let us this time do something about it.

The principal brake on government expenditure and attendant waste is the political odium of raising taxes, compelling politicians to give some thought to rationing the resources they command. If we want to be rich, somehow we must get money and hence resources out of government hands and into private hands, but we must find a better way of doing this than by resort to a tax system which is unfair, uncertain, costly, and causes taxpayers to waste resources while avoiding it.

Two thirds of the Commonwealth's revenue are derived from income tax and eighty percent of all taxes are raised by the Commonwealth even though State and Local Governments spend much of it. Our income tax law is a mess because too much is asked of it. Not only is it asked to raise too much revenue with high rates of tax and high rewards for tax avoidance, but it is used as a vehicle by which politicians grant favours to people who they say deserve special consideration. The Act has 1,100 pages. It is unreasonable to expect citizens to comply with a law of such complexity, which favours well informed taxpayers over the ill informed. The tax avoidance which is most costly to the revenues is not the work of clever tax lawyers but of the loopholes which politicians have deliberately included within the law to benefit film makers, home owners and home buyers, farmers, gold miners and those who can convert income into capital gain or into superannuation. The double income family is favoured over the single income family because it has two tax-free thresholds of \$4595 instead of only one. Where households can divert income to more members the average rate of tax is reduced even further.

Professor Russell Matthews wrote, "Except for wage and salary earners the progressive income tax is a costly deceitful sham." Because of the effect of inflation on the capital sum, Granny, living on the earnings of a Building Society or other fixed interest deposit, is treated even worse than wage earners, and not all wage earning families are treated equally badly, but the Professor is right. The tax is a sham !

Income tax law reflects government extravagance and years of successful lobbying by vested interests. The only substantial virtue of the tax is that it is highly visible and hence highly unpopular. Australia's reliance on such a visible tax may be the principal reason that the Australian public sector is a little smaller than the average of industrialised nations.

The time has come when income tax is in such disarray that we must consider alternatives to it. A progressive consumption tax, taxing everything but food for home consumption, children's clothes, fares and education, levied at a rate of 20.5%, joined with a 20.5% tax on all personal and company income, would yield the same revenue as now. It could be lower than 20.5% if the discriminatory exemptions were eliminated from income tax law. If Labor were serious about tax avoidance it would start by cleaning up an income tax act which favours the more powerful vested interests and best organised voters.