

Our Plan

The current income tax system is complex, unfair and highly inefficient due to significant churning effects and unnecessary tax concessions. The Democrats plan would improve equity, simplicity and efficiency.

The then Rudd Government commissioned a 'root and branch' review of the tax system by Treasury but declined to adopt the vast majority of its recommendations, singling out just four measures for implementation, the most significant of which was the super tax on mining and the 2 percentage point cut in company tax.

Another opportunity for systemic reform has been lost because both Government and Opposition lack the capacity to properly debate the issues and the political courage to deliver.

Australia's tax-free threshold of \$6,000 has not been increased since 2000. Had the 1980 personal threshold of \$4,041 kept pace with earnings, it would now be close to \$25,000. There are over 2 million Australians paid less than \$25,000 a year who could all be taken out of the tax system. Many of these are casual and part-time workers, mostly women, who should not pay income tax at all.

Raising the tax-free threshold to \$25,000 would lower the effective marginal tax rates for low and middle income earners, simplify the tax system and, together with removing taxation traps for people on welfare, deliver far greater equity in the system.

- Increase the **tax-free threshold** from \$6,000 to \$25,000 (indexed over time) so that the lowest earners are not taxed and low income earner tax rebates and offsets are made redundant

- **Index income tax** rate thresholds to maintain their present value

- **Broaden the income tax base** by:

- Removing unnecessary tax deductions and concessions such as FBT concessions for company cars and other salary packaging, and negative gearing deductions

- Remove the perverse FBT 'liability' rate that diminishes once thresholds are exceeded, encouraging employees to travel more to increase the total number of kilometers travelled each year in their company car

- Reforming capital gains tax so it is highest for speculative gains and lowest for long-term, productive investment

- Closing tax loopholes

- Simplifying the tax system

- Review and remove the **taxation traps** that lock people into the welfare cycle, by lowering effective marginal tax rates

- Deliver more equity in the **superannuation** system by lowering taxes at the lower end of the earning scale and increasing them for the wealthy

- Use the savings to lower tax rates and/or increase tax thresholds sustainably and over time