**The foundation of our tax system: a mixture of direct and indirect tax**

**Foundation of Tax system**

Australian tax law is founded on a complex system made up of 125 taxes and various organizations playing several different roles in the system ensuring integrity of the tax system (Woellner et al., 2016). Here the power to impose taxes is given by the Australian Constitution including exclusive powers (customs and excise), concurrent powers (income tax) and residual powers (State taxes). Traditionally, every Australian State was able to levy income taxes and the revenue obtained by Commonwealth came from customs and excise duty. However, after World War I, different taxes came from State and Federal with different rates among the States. Later States were given the right to levy tax but it depends on grants and revenues from Commonwealth and therefore never attempted to levy income taxes. Hence, the Commonwealth in Australia levies income tax (Woellner et al., 2016).

**Different between direct and indirect taxes**

The Australian taxation system is a mixture of direct and indirect taxes where Commonwealth as well as State Governments levy tax depending upon the type of tax. The direct tax generates major taxation revenue for Australia through income tax on personal income, company income and excise and custom duties (Vazquez et al., 2009). Direct taxes come in the form of taxes on income of people through worldwide sources while for non-residents; the tax is levied only on Australian sourced income (Vazquez et al., 2009). It comprise of taxes on income, taxes on capital gains, taxation of individuals and business entities on income and capital gains, taxes on consumption of goods and services (GST) and several other taxes including fringe benefits tax, Medicare levy, superannuation tax and luxury car tax (Australian Government, 2014).

Further, there are indirect taxes coming under the State and Territory taxes. Here, the state has the jurisdiction to levy tax on transactions that are state-based in nature (Gleeson, 2017). This is the section of indirect taxes in Australia that generally does not grow as quickly as income tax due to policy decisions made by the government for bringing reforms in the base of indirect taxes of the region. Under this category there is consideration of transactions that are carried out within the borders of a particular State or have a direct connection with the State that is responsible for putting tax on a particular transaction (Freebairn, 2002). These include taxes in the form of stamp duty, payroll tax, land tax and motor vehicle duty.