



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

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STATEMENT OF PRIORITIES

Throughout the current tax reform process, the ABA has maintained that there should be no large-scale changes in the way that Australia levies tax, particularly with respect to businesses. Rather, as a mid-level economic power, Australia should determine its general direction for tax changes based on international consensus as reflected in country practice and international agreements, while ensuring that Australia remains an attractive destination for inbound investment and a significant base for outbound investment.

Importance of the financial system

The importance of the Australian financial system and its stability to the Australian economy has been much in the news recently. In the light of the ongoing problems in the global financial system we consider that the need for our general approach of staying in the mainstream has increased.

The ABA emphasises that the tax system should not place greater stress on the financial system and should not obstruct the effective operation of that system.

Incentives to work and fairness

The ABA agrees that the tax system should not create undue disincentives for work (all taxes on labour will have some disincentive effect) and that the tax system should be fair as between individuals.

Incentives to save and invest

The ABA supports an exemption for deposit accounts of residents which is simple and does not entail significant compliance costs for banks or individuals, an exemption from interest withholding tax for non-residents with retail domestic deposit accounts, and an exemption from interest withholding tax for wholesale borrowings from non-residents.

Business income taxation and competitiveness

Australia needs to remain in the mainstream so far as the corporate tax rate is concerned, both for general competitiveness reasons and to reduce incentives for income shifting. The ABA considers



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that the 25% rate indicated as a target by the Henry Review is a sensible medium term goal.

We do not consider that Australia needs further reform of its corporate tax arrangements at this time, such as the tax treatment of equity as raised in the Tax Forum Discussion Paper. In the last decade there have been very significant changes including the debt equity, thin capitalisation, consolidation, simplified imputation and TOFA rules which have not yet been fully bedded down.

State taxation

By contrast to the corporate income tax, State tax arrangements in Australia are out of line with international norms, particularly the heavy reliance on stamp duties on land transfers and insurance. The ABA has been involved in commissioned research in this area modelling a number of possible changes to state tax arrangements that would be revenue neutral and increase economic efficiency with considerable payoffs.

The ABA does not support a new cash flow style tax as the alternative revenue source for states. Although often advocated in the economic literature, such taxes are rare internationally and would involve Australia moving into unknown waters.

Tax administration

Companies with purely Australian operations would have reduced compliance costs if they only had to deal with one tax administration, and such a framework will facilitate harmonisation of the tax base rules, while leaving States with freedom in relation to rates and exemptions.

Australia also has too many overlapping anti-avoidance rules in many of its taxes, effectively leaving many tax outcomes to administrative discretion that is not exercised in a consistent way.

LIST OF ATTACHMENTS

Document #109836 attached - ABA submission to Tax Forum:

ABA Tax Forum 2011