



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

The Institute of Chartered Accountants in Australia is the professional body representing Chartered Accountants in Australia.

Our reach extends to more than 70,000 of today's and tomorrow's business leaders, representing more than 57,000 Chartered Accountants and 13,000 of Australia's best accounting graduates currently enrolled in our world-class Chartered Accountants postgraduate program.

Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 109 countries around the world.

As at the end of June 2011, the two main segments of the Institute's members comprise:

- 39 per cent who operate as public practitioners providing advice to millions of individual and business taxpayers, and
- 33 per cent who work in corporate businesses across a wide array of industry sectors.



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In advance of the Tax Forum, the Institute will be formally releasing a joint tax policy position paper outlining its views on the preferred direction of tax reform over the course of the next decade. A copy of that paper will be provided to the Government and the Treasury Department as soon as it is available.

However, for the purposes of this initial statement of priorities, the Institute makes the following remarks about the preferred pathway towards long-term tax reform in Australia.

Personal tax

- Investigate the possibility of providing social and economic initiatives through alternatives to the taxation system, allowing the taxation system to effectively and efficiently perform its core role of revenue collection.
- Examine whether it is possible to minimise the negative impacts that effective marginal tax rate inequities have on work practices to alleviate any barriers to participation in the workforce. Specifically, the possibility of increasing the income levels at which these inequities occur should be considered as those who are currently working are less likely to be discouraged than those who are not working. Simplified personal income tax rate thresholds may assist.
- Consider the merits of issuing default tax returns for taxpayers who have all their income subject to withholding or reporting at source.
- Consider whether more comprehensive withholding from source rules are appropriate to bolster revenue integrity into the future, alongside a streamlining of deductions eligible to be offset against assessable income.

Fringe benefits tax

- Complying with the FBT regime is costly. In the medium-term, to assist in reducing business compliance costs and ease the transition to the longer-term objectives described below, consideration should be given to:
 - Winding-back some aspects of the FBT regime that give rise to high compliance costs but deliver immaterial revenue outcomes.
 - More extensive use of thresholds and safe harbour-type principles in respect of the provision of certain key categories of fringe benefits.
- As a longer-term objective, Australia should move towards a regime where fringe benefits are taxed in the hands of employees and subject to tax and prevailing marginal tax rates, with clear and simple rules relating to ascertaining the taxable value of such benefits at a personal income tax level. Such benefits should also be included in the determination of aggregate income for transfer system purposes. This transition would likely need to be assisted by:



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- reducing the reportable fringe benefits threshold to zero;
- deeming benefits that cannot be allocated to an individual employee to be non-deductible to the employer, and
- aligning the FBT year to the more standard 30 June income tax year for compliance purposes.

Superannuation and retirement incomes

- Priority should be given to implementing improvements to the superannuation system that deliver greater efficiencies and enhance retirement income outcomes for all Australians.
- The use of deferred annuity products and a longevity insurance mechanism to fund health and aged care should be examined in the future.

Savings

- Further analysis should be undertaken across a range of savings products to evaluate what options exist for a more equal tax treatment of savings mechanisms.

Business tax

- Reduce the company tax rate to 25 per cent in the medium-term, with the view to achieving an aspirational 20 per cent corporate tax rate in the longer-term. This will help bolster Australia's capacity to attract capital investment in the global marketplace.
- Ensure the integrity of the tax base is maintained through undertaking a comprehensive review of tax concessions with a view to identifying potential 'trade-offs' where some existing features of the corporate income tax system could potentially be handed back in exchange for achieving the medium or longer-term headline rate targets. An economic efficiency review into concessions may also serve the purpose of identifying circumstances where investment decisions may be distorted as a result of existing policies; such a process would be consistent with ensuring that our business tax system is appropriately calibrated with Australia's desire to be a highly competitive global economy.
- Facilitate investment in Australia's emerging trading partners in the so-called 'Asian Century' by modernising double tax agreements with key trading partners in the Asia-Pacific region, and resolving key tax interaction issues with foreign jurisdictions.

Goods and services tax

- To reduce compliance complexity in the short-term, steps should be taken to design a framework within which the transactional compliance costs of business-to-business transactions can be minimised through more extensive use of GST-free and/or reverse charging principles.
- In the longer-term, consideration will need to be given to an expanded GST system which plays a more significant role within Australia's future tax mix.



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State and Territory tax regimes

- Inefficient state taxes should be repealed and resulting revenue gaps filled via an expanded role for more economically efficient and simple-to-administer tax bases, such as payroll and land taxes.
- The allocation of expenditure responsibilities as between States/Territories and the Commonwealth should be re-assessed with a view towards achieving a closer correlation between those obligations and each jurisdiction's revenue-raising capability.

Small business taxation

- In the medium-term, further analysis of the merits of a limited loss carry-back regime for small businesses should be carried out. The analysis should take into account the economic benefits that are likely to be realised from adoption of such a regime, as compared to arrangements that already exist around timing of tax payments to the ATO.
- To enable small businesses to fully embrace the major structural changes working their way through the economy, Australia should introduce an entity flow-through tax regime for micro small businesses.

Social and environment

- An overarching review of the tax system should be undertaken to identify any areas of inconsistency as between existing policy and the overarching drive towards more environmentally responsible business activities. This process should look at the opportunity to eliminate, modify or add tax concessions that aim to correct market failures.

Regional Australia initiatives

- Undertake a review into the role that a more modernised zone tax offset regime could play in helping to diffuse the concentration of communities around major capital cities.

Tax system governance

- Improvements to the tripartite law design model must be implemented in the short-term to help reinstate confidence in the policy and law-making processes surrounding the introduction of changes to the tax law.
- Consideration should be given to the efficiencies that could be realised by amalgamating the resources of the existing offices of the Inspector-General of Taxation, Taxation Ombudsman and elements of the Australian National Audit Office to create one central ATO scrutiny body.



Australian Government



A tax plan for our future
Stronger • Fairer • Simpler

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LIST OF ATTACHMENTS

No attachments are included at this point. The Institute will make available a comprehensive 'pathway to tax reform' policy paper just prior to the holding of the Tax Forum.