10 April 2002

Mr R Warburton  
Chairman  
Board of Taxation  
C/- Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Warburton

TAX VALUE METHOD PROTOTYPE 4

The Taxation Institute of Australia (the Taxation Institute) welcomes the release for public comment on 6 March 2002 by the Board of Taxation of Prototype 4 of its draft Tax Value Method (TVM) legislation and accompanying explanatory material. We appreciate the opportunity to provide a considered response to this draft legislation and material.

By way of introduction, the Taxation Institute was established in 1943 and has a membership of 11,000 tax practitioners throughout Australia. Our members range from small rural and suburban accountants to senior members of the bar specialising in tax. Taken together with their clients, our membership base reflects the opinions and concerns of many tens of thousands of small, medium and large businesses throughout Australia.

The Taxation Institute is firmly committed to the ongoing improvement and reform of Australia’s tax regime as is evidenced by our long involvement as a reasoned voice in the continuing process that is the evolution of Australia’s tax regime. Our contributions to and support of the bedding down of some of the most significant tax reforms (e.g., GST, consolidation, and imputation reforms) is illustrative of this commitment.

We have brought this wealth of experience to the TVM project from its origins in the 1999 Review of Business Taxation. Since that time, the Institute has actively participated in numerous consultations and the TVM working group.

This significant involvement in the TVM project over this period of time has enabled the Taxation Institute to consider carefully the current Prototype 4. We have assessed this Prototype both from the perspective of its overall contribution to the improvement of the current tax system, and more specifically, its impact on taxpayers and businesses.
Given this approach to assessing TVM, the Taxation Institute is of the considered opinion that it does not contribute positively to the improvement and reform of Australia’s tax regime.

TVM will result in significant, real and substantial costs to the community without clearly demonstrated or quantified benefits. It will place Australia at conceptual and administrative odds with its major trading parties who do not operate on a TVM basis. In addition, the status of a considerable volume of current tax precedent based on years of experience is immediately cast in doubt by TVM, with all the attendant costs and time to re-write existing precedent such as rulings and determinations. As it stands, TVM will impact in an unwarranted and adverse manner on taxpayers and businesses affecting their domestic and international competitiveness without any proven revenue benefits.

Therefore, the Taxation Institute recommends that the Board of Taxation advise the Treasurer to bring a halt to any further work on TVM in its current guise.

It should be immediately stressed, however, that our recommendation does not mean that the reform of Australia’s tax regime should be abandoned or, more importantly, that the work undertaken by the TVM project has been of no value.

On the contrary, the Taxation Institute’s recommendation provides an opportunity for the Board of Taxation to evaluate the cost of resources currently dedicated to the TVM project and to channel the funds into alternative opportunities for reforming the current tax regime, under the auspices of the Board. For example, Australian business cannot afford to wait until the anticipated start date of TVM in 2003 (or a later date such as 2005) for a resolution to the numerous “black hole” issues, or for a conclusion to the ongoing uncertainty surrounding the taxation of financial arrangements. Reform in these areas is needed now and would benefit from the attention and guidance of the Board of Taxation.

Despite our calls to halt TVM, the Taxation Institute firmly believes that Australia’s tax system is in need of further review and reform, and that the Board of Taxation has a pivotal role to play in this process. The Taxation Institute urges the Board of Taxation and the Government to push forward with change, but not the fundamentally flawed TVM which will at best deliver further complexity and cost to Australian business, particularly small and medium and enterprises.

The Taxation Institute remains committed to participating in the reform process and looks forward to being involved in any future consultations.

Yours faithfully

Barry Low
President