21 May 2002

Mr Richard Warburton
Chairman
The Board of Taxation
Langton Crescent
PARKES ACT 2600

Dear Mr Warburton

**Tax Issues – TVM and Consultation**

The International Banks and Securities Association of Australia (IBSA) values the Board’s work on the tax value method (TVM) and the tax consultation process. Both initiatives are important to the future performance of the taxation system and worthy of the attention given to them by the Board of Taxation. We have some brief comments to make in regard to both initiatives.

1. **The Tax Value Method**

We appreciate the opportunity given to us to review and comment on the tax value method (TVM) proposal. Our Taxation Committee was asked to consider the TVM and it was clear that, for a variety of reasons, the Committee did not support further work on the main TVM proposals, at least at this point in time. Therefore, we support the recommendation of the Business Coalition for Tax Reform, of which IBSA is a member, not to proceed with the broad TVM initiative.

It is not readily apparent that the benefits from TVM would outweigh its cost. Therefore, given the substantial challenges that members face in bedding down recent tax reform initiatives and introducing planned changes, including tax consolidation, it was not considered appropriate to further progress TVM now. For instance, there are unresolved practical and technical problems associated with the thin capitalisation rules introduced in mid-2001, interest withholding tax changes that have effect from last August have to be legislated and financial conglomerates must review existing group structures in the context of tax consolidation. Dealing with issues like this must be our current priority and this has limited our capacity to analyse the TVM proposal.

The valuation of financial assets and liabilities was encompassed by TVM, though it did not contain many important details of the proposal in this area. In this context, we note that the Government has outlined a timetable to implement the proposed changes to the taxation of financial arrangements (TOFA), including market valuations. The development of this reform has been ongoing for a decade now and it is important that it is brought to a conclusion without further delay, given the efficiency and other benefits that should accrue from it. We look
forward to working with the tax authorities over the next year or so to develop practical rules to implement the foreshadowed changes, like mark-to-market valuation, in a balanced and efficient manner.

2. Tax Consultation Process

IBSA welcomed the Treasurer’s announcement on 2 May last that the Government would largely adopt the Board’s recommendations to improve the tax consultation process. The Government’s decision is a significant achievement for the Board. As we indicated to you when senior Association representatives met with the Board in February, we believe that an effective consultation process is vital to secure and maintain an efficient tax system that meets the needs of business and the wider community.

The tax system plays a central role in economy through its pervasive incidence on commercial transactions and the socio-economic infrastructure that it supports. Changes to it must be carefully considered and made on an informed basis that takes account of the community’s interests and views. The Board has set out a helpful template to enable a more effective dialogue between the business community and others with those responsible for the development and implementation of tax policy. This will help to identify practical solutions to awkward policy and technical problems in taxation.

IBSA looks forward to working with the Board and the tax authorities more generally within this framework over the coming years.

Yours sincerely

Duncan Fairweather
Executive Director