

The New *Business* Tax System

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Benefits of Business Tax Reform for the Services Sector

Australia's services sector, which accounts for around 80 per cent of jobs and almost one quarter of our exports, will significantly benefit from the reform of Australia's business tax system. In particular, the services sector will benefit from the substantial reductions in company and personal tax rates and the reforms to Capital Gains Tax (CGT). The Government's initiatives to encourage investment in venture capital will also boost growth in knowledge-based sectors such as information technology and telecommunications.

An internationally competitive company tax rate

The reduction in the company tax rate from 36 per cent to 34 per cent for the 2000-01 income year and to 30 per cent thereafter will provide Australia with an internationally competitive company tax rate. This will boost the level of investment, economic growth and jobs and will be a major benefit to Australia's services sector.

Service industries have generally not benefited from accelerated depreciation and as such have made a larger contribution to total company tax paid than other industries. The services sector will pay substantially less tax as a result of the cut in the company tax rate.

An internationally competitive tax rate is particularly important to the health of Australia's services industries in an increasingly borderless world with significant mobility of capital and labour. It is particularly important if Australia is to attract and retain knowledge based industries.

Businesses in the services sector operating as sole traders or partnerships will benefit from the legislated lower personal tax rates that take effect from 1 July 2000.

Venture Capital Investment Growth

An expansion of venture capital industries will be facilitated through an exemption from CGT for gains made by non-resident tax exempt pension funds (from countries such as the US and UK) on venture capital investments. A similar exemption will apply to gains on investments made by Australian widely-held superannuation funds through a Pooled Development Fund. Further impetus to venture capital will be provided by the Government's decision to provide scrip-for-scrip rollover relief, regardless of whether or not entities are widely-held.

These measures will assist in boosting the funding available for emerging enterprises at all stages of their development and facilitate growth in knowledge-based jobs.

The services sector benefits from capital gains tax reforms

Reductions in CGT will encourage investment and saving and ensure that the services sector continues to be a major contributor to economic and jobs growth. The reform of the capital gains tax arrangements will encourage greater levels of investment and innovation in the services sector.

For individual operators of small businesses, 75 per cent of any capital gain on active assets will be exempt from CGT and the remainder subject to significantly expanded and simplified rollover provisions and retirement exemption provisions. In addition, for small businesses which sell an active asset that has been held for 15 years or more, and the taxpayer is at least 55 years of age and intends to retire or has become incapacitated, the whole gain will be exempt from CGT.

Reduced compliance

The Government's business tax reforms will reduce the compliance costs of businesses in the services sector. Service industry businesses will gain greater simplicity, equity and certainty in the managing of their tax affairs. Many businesses in the services sector will also benefit from the Simplified Tax System, which will dramatically reduce paper work and compliance costs as well as effectively maintaining access to existing concessions.