Towards a new policy framework for wasting assets

A case for reform

The current taxation of wasting assets lacks a coherent and consistent framework:

- some provisions require taxpayers to be the owner of the asset while others require the taxpayer to have incurred the relevant expenditure;
- some provisions allow deductions only from the time that assets are used to produce income while others allow deductions from an earlier time;
- the cost base for deductions in some cases is actual expenditure while it is original cost in other cases;
- some assets receive accelerated rates of write-off while others do not;
- only the plant depreciation provisions allow the diminishing value method to calculate deductions — all others must use the prime cost method;
- only the plant depreciation provisions allow balancing charges to be set against the depreciable cost of other assets; and
- so-called 'blackhole' expenditures currently do not qualify for deduction.

A strategy for reform

To adopt a simplified, fair and consistent system for taxing all wasting assets under which all expenditure on wasting assets would be deductible.

Key policy issues

Who should be entitled to the deductions for wasting assets and when should deductions commence?	What should be the cost base for deductions?	What should be the period of write-off?	What should be the write-off method?	What should happen on disposal of assets?	How should blackhole expenditures be treated?
Option The taxpayer who bears the economic loss. Deductions should commence from the time the asset is used to produce income.	**Option** The actual cost of the asset to the taxpayer.	**Option** The effective life of the asset. **Possible special cases** ▪ low cost items ▪ plant and equipment ▪ buildings and structures ▪ resources sector.	**Option** Diminishing value, prime cost or taxpayer choice between the two.	**Option** In general no access to balancing charge offset. For involuntary disposals, see Chapter 13.	**Option** Deductible in manner consistent with like expenditures.

The case for accelerated depreciation

Current arrangements

Some wasting assets are eligible for accelerated depreciation. Different depreciation regimes apply to differing classes of those eligible assets. The current system is inconsistent and lacks a clear conceptual framework.

Case for special treatment

Accelerated depreciation is the most important tax preference available to business. Its removal, or a reduction in the rate of acceleration, is necessary if there is to be a significant reduction in the company tax rate. Accelerated depreciation is a feature of many overseas tax systems and is seen as important in attracting certain investments.

A strategy for reform

To review the possible rationales for accelerated depreciation and to consider issues relevant to the design of any accelerated depreciation regime.

Key policy issues

What are the relative merits of accelerated depreciation, or reductions in company tax rates, in terms of boosting Australia's economic growth and international competitiveness?	Are there externalities associated with investments in wasting assets?	Is there a bias against long-term investment?	Is accelerated depreciation needed on the grounds of international competitiveness?
Different industries will benefit from the alternative measures.	It is appropriate to consider whether a broad ranging concession is an appropriate means of addressing externalities.	The existing law favours long-lived assets. Are there grounds for continuing such treatment?	Clearly helps some industries but other industries would benefit from a trade-off for reduced company tax.

Reform options

Option 1

Effective life depreciation.

Option 2

Effective life depreciation with a loading.

Trading stock and similar assets

Current arrangements

Taxpayers currently have three options for valuing each item of trading stock on hand at year end: cost, market selling value or replacement price. This allows them flexibility to adjust timing of income for tax purposes.

Some assets, similar to trading stock, are not required to be valued at year end even though cost is deductible at time incurred.

A strategy for reform

To develop a treatment for trading stock that would result in consistent valuation.

Key policy issues

How should trading stock be valued?

Option 1
Use the accounting approach where inventories are valued at the lower of cost or net realisable value.

Option 2
All stock to be valued at net realisable value.

Option 3
Allow taxpayers to select permanently one of the current options for all stock.

What should be the treatment of assets with trading stock characteristics?

Option
Possible moves to a more consistent treatment are discussed.

Determining the appropriate treatment of goodwill

Current arrangements

Under the existing taxation law acquired goodwill is not depreciated. Capital gains or losses are brought to tax upon disposal of goodwill.

Under accounting standards, acquired goodwill must be depreciated. Some overseas countries also allow goodwill to be depreciated for tax purposes.

Key policy issues

What is the most appropriate taxation treatment of goodwill?

Reform options

Valuation of goodwill	Is goodwill a wasting asset?
Goodwill is objectively valued only in the context of a sale. Valuing acquired goodwill on an annual basis for tax purposes would not be practical.	**Option 1** To provide amortisation for the cost of acquired goodwill. **Option 2** To retain the current tax treatment of acquired goodwill.

A case for reform

The current system for taxing financial arrangements results in uncertainty and incoherence and can impact adversely on before-tax investment choices.

A strategy for reform

Adopting a comprehensive income tax base for financial arrangements would overcome these problems but would introduce its own concerns including cash flow and valuation problems.

The problems with the current system could instead be addressed by:

- adopting a timing adjustment approach where it is practical;
- allowing an elective mark-to-market approach; and
- taxing other assets and liabilities as appropriate, on realisation.

Key policy issues

If the new framework were adopted, what transitional arrangements could apply?

Option 1
New framework could apply to all financial assets and liabilities regardless of when they were entered into.

Option 2
New framework could apply to financial assets and liabilities entered into after commencement, with scope for some flexibility.

Current arrangements

The current system for taxing financial arrangements results in uncertainty and incoherence and can impact adversely on before-tax investment choices.

A strategy for reform

To address the problems with the current system by adopting a timing adjustment approach, where it is practical, and an elective mark-to-market approach. The timing adjustment would be applied to returns taking into account the degree of certainty, tax avoidance possibilities and compliance cost burdens.

Key policy issues

Issues relating to tax timing				Issues relating to disposal	
What is the benchmark measure of the timing adjustment? When should the taxpayer be allowed to deviate from this measure?		Should elective mark-to-market be allowed?	Is there a need for hedging rules?	How should the gain or loss on disposal be treated? When does disposal occur?	
Benchmark attempts to identify income as it accrues.	A commercial accounting method may be used where it is a reasonable approximation of the economic accruals benchmark.	Allow elective mark-to-market subject to entry criteria.	Special hedge rules may be required for anticipated transactions and internal hedges.	Normally gain assessable, or loss deductible, but exception in some circumstances (e.g. quarantining).	Disposal normally recognised on legal disposal, but exception in some circumstances.

Debt/equity hybrids and synthetic arrangements

Current arrangements

Current tax law often fails to tax debt/equity hybrids and synthetic arrangements according to their economic substance. This failure can result in uncertainty, tax arbitrage and compliance costs.

A strategy for reform

To develop a tax framework which does not distort normal commercial activity and provides greater certainty, while balancing compliance and administration costs against the need to protect the revenue.

Key policy issues

How should debt/equity hybrids be treated?

- Debt/equity features could be identified by a number of factors or a single determinative factor. Anti-avoidance rules may be required, but would need to be considered in context of general anti-avoidance provisions. (Chapter 24)
- Instruments could be bifurcated into separate debt and equity components and taxed accordingly; alternatively a blanket debt or equity treatment could be applied to the combined (hybrid) instrument.
- Tax timing considerations of debt/equity hybrids could be addressed by applying the timing adjustment framework.

How should synthetic arrangements be treated?

- The tax treatment of synthetic arrangements could more closely reflect economic substance, rather than legal form.

A case for reform

The current taxation of leases and rights does not tax income on a consistent basis, but instead there is a complex mix of different rules based on legal form rather than substance. This creates inconsistent outcomes, and disadvantages some taxpayers while others receive significant tax advantages. Complex arrangements also exist in relation to tax exempts.

Tax bias against certain leases and rights

Lump sum payments for the granting of some rights are taxed immediately on receipt, but are not deductible to the grantee except as a capital loss on the termination of the right.

Tax benefits from the use of leases and other rights

Some taxpayers can gain tax benefits by structuring lease and right payments differently from the cost to the grantor of providing the asset.

Low tax rate entities can obtain access to the benefits of tax preferences (such as accelerated depreciation) through leasing and other rights.

Some taxpayers can generate unwarranted tax benefits by assigning (or selling) leases to tax exempt or low tax rate entities.

Tax-exempt leasing

The ability of tax exempt entities to gain tax benefits by structuring payments and accessing tax preferences through leasing and similar arrangements is restricted by section 51AD and Division 16D.

Both provisions are complex and section 51AD is also severe in its impact where it applies.

A strategy for reform

To move towards taxing leases and rights on a more consistent basis that moves tax values closer to commercial value, subject to practical considerations. The issue of whether or not to permit transfer of tax preferences also needs to be addressed.

With respect to leases over wasting assets and similar arrangements (see Chapter 9).

With respect to leases and other rights over non-wasting assets (see Chapter 10).

Leases and similar arrangements over wasting assets

A case for reform

There is currently no consistent framework for taxing income associated with leases over wasting assets and similar arrangements. As a result, some taxpayers can access tax benefits from: structuring of lease payments, transfer of tax preferences to high-tax lessors, and lease assignments. Complex arrangements also exist in relation to tax exempts.

A strategy for reform

To move towards taxing leases and similar arrangements on a more consistent basis that brings tax values closer to commercial value, subject to practical considerations. The issue of whether or not to permit the transfer of tax preferences also needs to be addressed.

Key policy issues

How can tax outcomes be made independent of the structure of payments?	Should tax preference transfer be permitted or restricted? How could either outcome be achieved?	If tax preference transfer is restricted between taxable entities, in what circumstances should this apply?	How could tax preference transfer by tax exempts be restricted?	How should lease assignments be addressed?
Option A 'sale and loan' treatment of leases.	**Option 1** Allow tax preference transfer by applying tax preferred leasing methodology. **Option 2** Deny tax preference transfer by applying 'sale and loan' methodology.	**Option** Apply 'sale and loan' methodology to: ▪ finance leases; or ▪ potentially all leases with specified exclusions.	**Option** Apply 'sale and loan' methodology to similar arrangements undertaken by tax exempts. A number of alternative options exist to replace Division 16D. However, section 51AD can be abolished.	**Option** Implement a specific lease assignment measure.

Other leases and rights

A case for reform

No consistent framework currently applies for taxing income associated with leases over non-wasting assets and other rights. There are a number of current tax biases against certain rights and leases over non-wasting assets. In other cases, tax benefits can be generated by structuring payments, as may also occur with leases over wasting assets.

A strategy for reform

To move towards taxing leases over non-wasting assets and other rights on a more consistent basis that brings tax value closer to commercial value, subject to practical considerations. In the context of a tax system which taxes many gains on realisation, there is a need to consider in what circumstances the granting of a right over an asset should give rise to a realisation of prior gains.

Key policy issues

How could tax outcomes be made independent of any structuring of payments (including removal of biases against upfront payments)?

Option

Tax the grantor and grantee on the change in the value of the right or implicit loan relating to service contracts, under one of the following approaches:

- known changes in value;
- implicit benefits taxation approach;
- deemed benefit taxation approach; or
- possible extension of treatment to service contracts.

What exclusions should be applied?

Option

Rights and service contracts could be excluded where payments are broadly in line with benefits received, and where the overall value of the benefit is small.

When should the granting of a right be treated as the realisation of part or all of an underlying asset?

Option 1

Partial realisation approach.

Deem a realisation of the same proportion of the underlying asset as the value of the right represents of the full value of the underlying asset.

Option 2

Threshold realisation approach.

Deem a full realisation of the underlying asset if the value of the right is above a fixed proportion of the value of the underlying asset.

Towards a more competitive regime for taxing capital gains

Current arrangements

The current taxation system taxes real capital gains at marginal rates. There are some concessions for small business.

Capital gains are generally taxed more heavily in Australia than in most overseas countries and this may discourage national savings and investment and may constrain wealth creation, new business formation and employment opportunities.

Key policy considerations

Would CGT relief encourage savings and investment?	Would CGT relief produce net economic benefits?	Would CGT relief encourage long-term investment?	Would CGT relief encourage high-risk investment?	Would CGT relief attract mobile international capital?	Should small business CGT concessions be rationalised?
An increase in overall investment is likely but there will also be some influence on investment decisions.	Lower CGT rates may reduce lock-in effects and improve capital mobility.	Patient capital may be encouraged by a lower CGT.	Some high-risk investment may be discouraged by current CGT arrangements.	Australia's CGT system is seen to impede some forms of foreign investment.	Existing concessions have the same underlying objectives but are complicated.

A strategy for reform

To achieve a balance between encouragement of investment and attracting capital, on the one hand, and collecting an appropriate contribution to revenue on the other, the Review proposes for consultation a range of reform options.

Reform options

Option	**Option**	**Option**	**Option**	**Option**	**Option**
30 per cent capped rate for individuals.	Stepped rate for individuals.	Alternative approaches to lower CGT rates.	$1000 CGT-free threshold for individuals.	Scrip-for-scrip rollover relief.	Targeted concessions for certain types of investment.

Indexation, averaging and quarantining of losses

A case for reform

The current realisation-based capital gains tax system includes indexation and averaging features. Indexation contributes to tax law complexity and certain design deficiencies of averaging need to be reformed.

Capital losses are quarantined against capital gains. The quarantining of capital losses introduces a bias against some forms of investment.

A strategy for reform

To develop a simplified, fairer and less distortionary system for taxing capital gains.

Key policy issues

Indexation How could the tax law treatment of gains and losses for both appreciating and depreciating assets be made more uniform?

Averaging arrangements How could the current investment distortions and scope for tax minimisation be addressed?

Capital loss quarantining How might reformed arrangements reflect an appropriate balance between the arguments for and against quarantining?

Reform options

Indexation

Option

Removal of indexation.

Averaging arrangements

Option

Modify averaging arrangements by removing the effect of multiplying the tax-free threshold and taxing capital gains above the threshold under a 1/5 (existing) or 1/2 rule.

Capital loss quarantining

Option 1

Allow carry-forward at an appropriate interest rate.

Option 2

Carry-back of capital losses to offset earlier capital gains.

Option 3

Remove quarantining of capital losses where gains on assets are assessed on an annual basis.

Option 4

Limit quarantining of past and future losses to shares and units in trusts. This option would allow other capital losses to be offset against ordinary income.

Involuntary receipts

A case for reform

The current taxation rules for involuntary receipts do not result in consistent treatment of involuntary receipts based on a common set of principles. As a consequence, the existing taxation treatment of involuntary transactions will vary according to the nature and form of the transaction.

A strategy for reform

To pursue a simpler and more consistent treatment based on a common set of principles for taxing involuntary receipts.

Reform option 1

Make no tax distinction between voluntary and involuntary receipts.

Reform option 2

Distinguish between involuntary and voluntary receipts on an equitable and consistent basis, and defer the tax liability on the former in certain circumstances.

Key policy issues

Reform option 1

Involuntary receipts would be taxed when received. Symmetrically, losses that arise from an involuntary event would be allowable, as either an income loss (wasting assets) or a capital loss.

Advantages

- No boundary problems
- Consistent with income benchmark
- Symmetry between treatment of gains and losses

Disadvantages

- Potential cash flow problems

Reform option 2

Key policy issue	Sub-issue
What is the appropriate boundary line for determining whether a transaction is voluntary?	What constitutes 'compulsion' where the parties have scope to agree.
Interaction of the CGT and income tax provisions in relation to compensation receipts.	Treatment of involuntary receipts that may be subject to ordinary income tax.
What is a replacement asset?	If an appropriate replacement asset is not acquired, whether grounds for denying rollover relief exist.
Maintaining pre-CGT status for replacement assets.	Appropriate rules to deal with more expensive replacement assets.
Treatment of losses.	Whether losses could be realisable immediately upon involuntary disposal or be deferred.
Anti-avoidance rules.	Whether generic value shifting rules for related parties would suffice.

A case for reform

Acquisitions and disposals of *assets* by partnerships and acquisitions and disposals of *interests* in partnerships are currently treated differently under the CGT and depreciation provisions. This inconsistent treatment, especially the 'fractional interest' approach under CGT, gives rise to complexity and can be difficult to comply with. The depreciation treatment, on the other hand, provides scope for avoidance of tax.

A strategy for reform

Disposals of assets should be treated consistently, so making the law easier to comply with.

Key policy issues

- How could the transfer of unrealised losses be overcome?
- How could the transfer of unrealised balancing charges be overcome?
- How could taxpayer compliance costs be reduced?

Reform options

Option 1

Extend the current CGT fractional interest approach to the depreciation provisions.

Option 2

Apply an entity treatment to partnerships for depreciation and CGT purposes.

A fairer and more consistent treatment of entity distributions

A case for reform

The current imputation system is complex and may produce unfair results and distortions:

- the distinction between franked and unfranked dividends is complex and allows dividend streaming;
- low marginal rate shareholders are disadvantaged; and
- the s46 rebate creates unintended loopholes, including:
  - indefinite preservation of tax preferences between entities, even if unrelated;
  - distortions associated with loss deductions and capital gains tax (e.g. loss cascading); and
  - the need for specific anti-avoidance rules to deal with the distortions.

A strategy for reform

To apply to entities a redesigned imputation system delivering improved integrity, greater fairness and reduced complexity by:

Introducing full franking of all distributions or otherwise improving integrity through the entity chain		Refunding excess imputation credits	
Key policy issues			
What are the options for achieving integrity through the entity chain while recognising the impact on foreign investors?	How might the potential for double taxation of distributed tax-preferred income be addressed?	Who would have excess imputation credits refunded?	When and how might excess imputation credits be refunded?
Reform options			
Option 1 Impose a deferred company tax. **Option 2** Apply a resident dividend withholding tax (RDWT). **Option 3** Tax unfranked inter-entity distributions.	**Option 1** Refund franking account surpluses on liquidation. **Option 2** Allow the double tax to be creditable against future company tax liability. **Option 3** Allow prepayment of tax on temporary tax preferences. **Option 4** Adjust the cost base of the 'funding' asset upon distribution from unrealised gains.	Resident individual taxpayers and complying superannuation funds would be eligible for refunds. Registered charities would also be eligible to some extent.	**Option 1** Provide a refund at the entity level at the time of distribution. **Option 2** Provide a refund to the investor by instalments during the year.

The framework for reform

A New Tax System identified essentially two categories of taxation treatment for investments — individual taxation and entity taxation.

A strategy for reform

Elaborating on and consistent with this policy approach is an intermediate category of *flow-through taxation* whereby income flowing through collective investment vehicles (CIVs) is assessed in the hands of investors in the CIV, not in the CIV itself. To qualify for *flow-through taxation* CIVs would need to be widely held and make full distributions of annual profits. Widely held fixed trusts, including cash management trusts, that are required to distribute all their gains annually would qualify. Whether or not distributions of tax-preferred income from CIVs should be taxed in members' hands would need consideration.

Key policy issues

Advantages and disadvantages of taxing CIVs on a *flow-through* basis

Key characteristics of *flow-through taxation* are assessment of income in hands of investors and retention of the character of that income (for example as capital gains or interest income).

Advantages of *flow-through taxation* are:

- retention of character facilitates non-resident investment; and
- assessment in individual hands avoids cash flow detriments of entity taxation on income derived directly by the CIV.

How would 'widely held' be defined?

The current definition of a public unit trust may be broadly acceptable as a definition of 'widely held' for CIVs established as trusts to qualify for *flow-through taxation*. Modification would be necessary if other entities were to be eligible.

How would tax preferences be treated?

Option 1

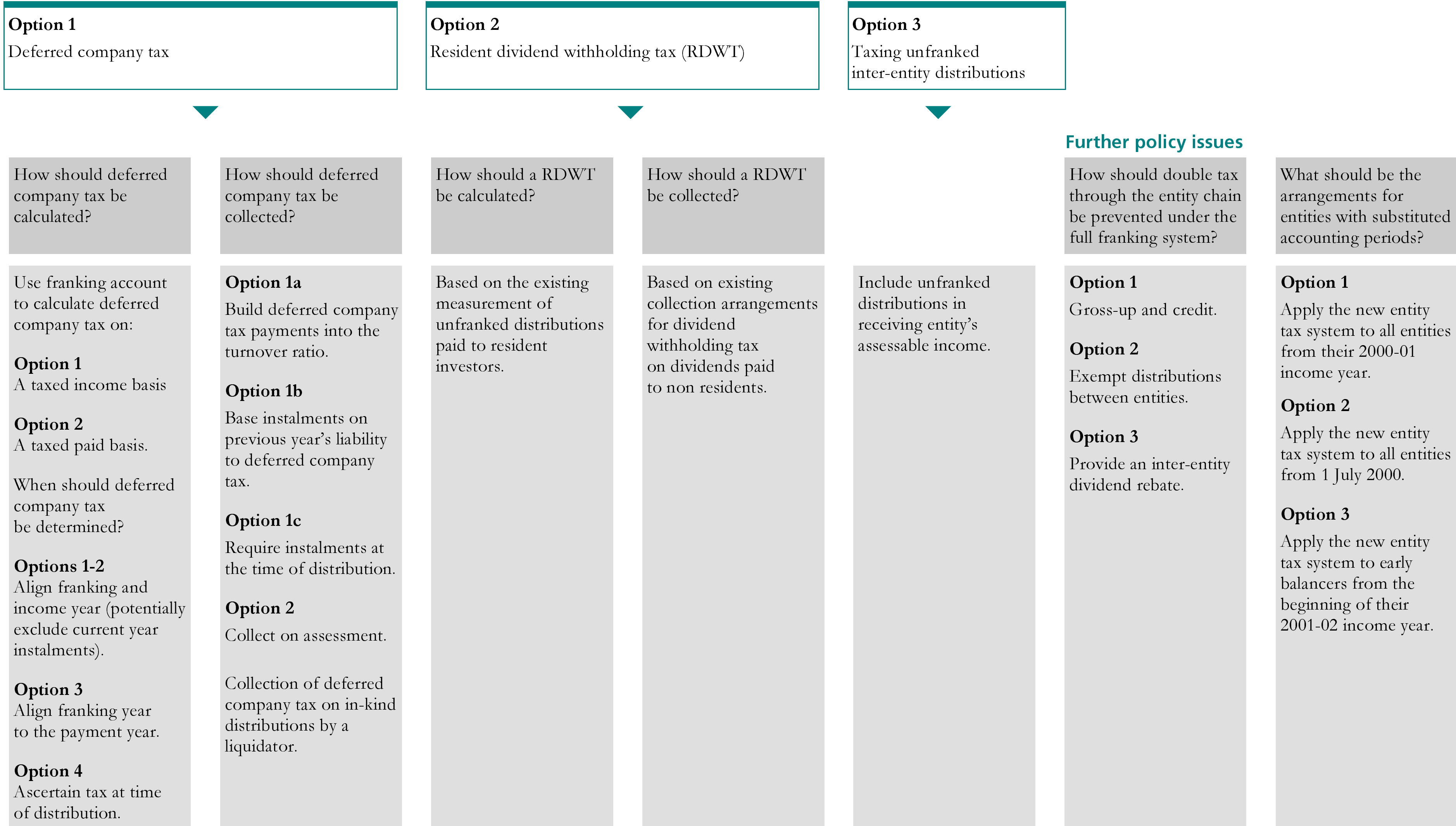
Not taxing tax-preferred income;

- preserves tax preferences as with direct investments by individuals;
- involves a revenue cost compared to the consistent tax treatment of all entities; and
- requires restrictions be placed on the CIVs' investment activities to avoid competitive advantages over other entities.

Option 2

Taxing tax-preferred income

- puts CIVs on a similar competitive footing to other entities.


Key policy issues associated with:
Option 1
Deferred company tax
Option 2
Resident dividend withholding tax (RDWT)
Option 3
Taxing unfranked inter-entity distributions
Further policy issues
How should deferred company tax be calculated?
How should deferred company tax be collected?
How should a RDWT be calculated?
How should a RDWT be collected?
How should double tax through the entity chain be prevented under the full franking system?
What should be the arrangements for entities with substituted accounting periods?
Use franking account to calculate deferred company tax on:
Option 1
A taxed income basis
Option 2
A taxed paid basis.
When should deferred company tax be determined?
Options 1-2
Align franking and income year (potentially exclude current year instalments).
Option 3
Align franking year to the payment year.
Option 4
Ascertain tax at time of distribution.
Option 1a
Build deferred company tax payments into the turnover ratio.
Option 1b
Base instalments on previous year's liability to deferred company tax.
Option 1c
Require instalments at the time of distribution.
Option 2
Collect on assessment.
Collection of deferred company tax on in-kind distributions by a liquidator.
Based on the existing measurement of unfranked distributions paid to resident investors.
Based on existing collection arrangements for dividend withholding tax on dividends paid to non residents.
Include unfranked distributions in receiving entity's assessable income.
Option 1
Gross-up and credit.
Option 2
Exempt distributions between entities.
Option 3
Provide an inter-entity dividend rebate.
Option 1
Apply the new entity tax system to all entities from their 2000-01 income year.
Option 2
Apply the new entity tax system to all entities from 1 July 2000.
Option 3
Apply the new entity tax system to early balancers from the beginning of their 2001-02 income year.

Defining 'distribution' in an entity regime

A case for reform

The current concept of 'distribution' has been developed in the context of companies, with additional rules covering distributions from private companies and issues of bonus shares. The current treatment of distributions from trusts differs markedly from the treatment of distributions from companies.

A strategy for reform

To develop a unified approach to the taxation of distributions made by entities that would achieve uniformity across all entities, reduce ambiguities, take contemporary means of distribution into account and ensure the integrity of the entity tax regime.

Reform options

What definition of distributions should be used and how should member benefits not in the definition be treated?

Option 1

Apply a broad definition of distribution to all benefits to members.

Definition would include benefit of loans provided at less than commercial interest rates. (Expand scope of existing definition, and incorporate Division 7A.)

Option 2

Apply a broad definition of distribution but exclude certain benefits provided by widely held entities.

(Existing private company treatment would apply to all closely held entities — through option discussed of simpler treatment of non-commercial loans.)

Option 3

Subject to consideration of FBT in Chapter 38:

- adopt either Option 1 or Option 2 but tax certain benefits under FBT;
- apply FBT provisions to certain non-cash benefits to person in capacity as member.

What should be the treatment of created ownership rights?

Option

Move to dividend treatment with cost base adjustment alternative for certain proportionate issues.

Distinguishing profit and capital distributions

A case for reform

Whether a distribution is from profit or capital is at the discretion of the entity. The ability of an entity to choose the source of funds creates potential for tax avoidance. That potential is addressed through anti-avoidance provisions which are inherently complex, unreliable and uncertain in effect.

A strategy for reform

To provide a more structured solution by means of a more objective test and reduce reliance on anti-avoidance provisions. Generally, distributions would be taken to be from profits, and only from contributed capital once profits are exhausted — hence a 'profits first' rule would apply. Distributions related to the extinguishment of an ownership interest in an entity would be taken to be from the slice of contributed capital and taxed and untaxed profits attributable to that interest — hence a 'slice' approach would apply.

Key policy issues

Profits first rule				Slice approach	
How would a profits first rule operate?	How would contributed capital be determined?	What exceptions would there be from a profits first rule?	What treatment would apply to distributions of contributed capital?	When would the slice approach apply?	How would the components of the slice be calculated?
Option Define distributable profits on market value basis	**Option** ▪ Generic definition as much as possible with suggested options for companies ▪ Specific rules for existing trusts and testamentary trusts	Under the slice approach: distributions arising from the extinguishment of ownership interests in entities. Under transitional arrangements for trusts: as announced in *A New Tax System.*	**Option** Cost base reduction (See Appendix A to this chapter.)	**Option** When ownership interests in an entity are extinguished.	**Option** By reference to the ▪ contributed capital and ▪ franking account balance attributable to the extinguished interest.

Preventing double taxation of buy-backs, redemptions and liquidations

A case for reform

The treatment of distributions arising from on-market buy-backs and liquidations is inconsistent with that of dividends and creates the potential for the double taxation of entity income.

A strategy for reform

To adopt a dividend-consistent treatment for distributions arising in connection with share buy-backs, liquidations and equivalent distributions from other entities, thereby removing the potential for double taxation as well as the need for complex anti-avoidance provisions. The same treatment would apply to trusts and limited partnerships.

Key policy issues

Share buy-backs and equivalent distributions				Liquidations and equivalent distributions		
What tax treatment should apply?	How should the untaxed profit component be taxed?	In what circumstances should dividend or capital gains treatment apply?	How should a market value rule apply?	What treatment should apply generally?	What treatment should apply to interim liquidation distributions?	What should be the tax responsibilities of liquidators and receivers?
Option 1 Dividend treatment. **Option 2** Capital gains treatment.	**Option 1** As for unfranked profit distributions generally. **Option 2** A different, but parallel, capital gains treatment.	**Option** Capital gains treatment would apply to on-market buy-backs. Dividend treatment would otherwise apply.	**Option** A market value rule would need to take account of whether a dividend or capital gains treatment applied.	**Option** A dividend treatment would apply with a modified slice approach.	**Option 1** Apply the profits first rule. **Option 2** Apply the modified slice approach.	**Option** Clarify the roles and responsibilities of liquidators and receivers.

Consistent treatment of entity income

A case for reform

Trusts, companies, co-operatives and limited partnerships are treated differently under the current tax system. This gives rise to complexity and increased compliance costs.

A strategy for reform

To tax trusts, limited partnerships and co-operatives at the entity level like companies.

Key policy issues

How would the taxable income of the entities be calculated?	How should unincorporated associations be treated?	How should the taxation treatment of losses be aligned?	Should entity concessions be applied uniformly?	On what basis should entities be classified for taxation purposes?	How should a tax liability be met if the entity has insufficient assets?	Which trust beneficiary should bear the economic burden of the tax paid by the trustee?
Option In line with the calculation of the taxable income of companies.	**Option** Treatment as companies would continue.	**Option** A more consistent treatment. Closely/widely held distinction. Transitional arrangements for prior year trust losses.	**Option** In principle, all entities should receive equal access. This does not, however, preclude concessions specific to particular entities.	**Option 1** Use the 'private' and 'public' distinction. **Option 2** Use the 'closely held' and 'widely held' distinction. **Option 3** Draw on the Corporations Law.	**Option** All parties to arrangement which resulted in inability to pay should be liable.	**Option** Allow beneficiaries and trustees to determine for themselves which beneficiary should bear the economic burden of tax paid by trustee.

Current arrangements

Trusts are currently taxed differently to companies.

A strategy for reform

To align the taxation of trusts as closely as possible with that of companies. However, issues specific to trusts will arise when incorporating them into a redesigned company tax system.

Key policy issues

What trusts should be excluded?	What should be the taxation treatment of minors?	How should some specific trust issues be addressed?	How should an entitlement to unpaid income or capital of a trust be treated?	When should a trust be treated as having been created or wound up for tax purposes?	How should distributions from trusts attract the benefit from primary production and FMD funds?	What other issues arise for trusts including cost bases of beneficial interests, deceased estates and testamentary trusts?
Option List of trusts subject to modified Division 6. Trusts to which beneficiaries are absolutely entitled from inception. Constructive trusts.	**Option** Division 6AA would apply to trust distributions to minors. Entity taxation could apply to child maintenance trusts. Division 6AA would apply.	▪ Trusts that have multiple purposes. ▪ Distinguishing discretionary and hybrid trusts from fixed trusts. ▪ Restructuring of trusts. ▪ Subsequent settlements on existing trusts.	**Option 1** Rebuttable presumption. **Option 2** Distribution and loan back.	**Option 1** A trust exists when the law of equity first recognises a trust relationship. A trust ends when it ceases to exist. A resettlement could be defined for tax purposes. **Option 2** Same rules as for Option 1 but a resettlement would not be defined. Value shifting rules would apply.	**Option** Primary production income would retain its character.	Cost bases of beneficial interests. Treatment of disposals of interests by 'life interests' and 'remainderman'. Treatment of asset transfers by legal personal representatives (LPRs), and asset transfers by testamentary trusts to beneficiaries.

Bringing all co-operatives into the new entity regime

A case for reform

Different arrangements currently apply to the taxation of various types of co-operatives. Some are taxed wholly like companies, others ('tax co-operatives') are taxed mainly like companies although with some differences. The alternative treatment has contributed complexity to the current system, as well as uncertainty, as co-operatives need to meet sometimes imprecise criteria to attract the alternative treatment.

A strategy for reform

To tax all co-operatives like other companies under the redesigned imputation system, which would remove the problems associated with the current alternative tax rules and improve the consistency, simplicity and clarity of the tax system.

Key policy issues

How would dividends from tax co-operatives be affected?	How would rebates and bonuses provided by tax co-operatives be affected?	Should tax co-operatives be treated differently on the basis of the mutuality principle?	How would the deduction to tax co-operatives for the repayment of government loans be affected?
The redesigned imputation system, with refundable imputation credits, would result in the same overall tax payable as now on distributions to taxable members.	Treatment of the rebates or bonuses received would differ depending upon whether they are linked to commercial operations of each individual member undertaking business with the co-operative or whether provided in their capacity as a shareholder. If received in a shareholder capacity, they would be either treated as a distribution or subject to FBT rules. Where received on a commercial basis, the general deductibility provisions would apply.	Although co-operatives are established according to broad principles of mutual involvement and participation, this does not mean that the tax principle of mutuality applies to them.	Although the deduction appears to have limited applicability, it could be maintained if tax co-operatives are taxed like companies.

Anti-avoidance provisions

A case for reform

The tax law relies on a range of specific anti-avoidance provisions. These provisions, used to address structural flaws, add to complexity, uncertainty and compliance costs.

A strategy for reform

Applied fully, the policy, legislation and administrative design principles in *A Strong Foundation* would ensure integrity in the income tax system — without resort to complex specific anti-avoidance measures. Inevitably, in practice, some specific anti-avoidance measures would be required. The need for those and their design should, however, be based on a clear and systematic process of evaluation.

Key policy issues

What should be the general approach to anti-avoidance issues?

- Examine what underpins tax avoidance activity.
- Look for structural solutions.
- If structural solution is not possible, undertake systematic evaluation of the need for specific anti-avoidance provisions.
- Introduce a robust general anti-avoidance rule.

What specific issues require further examination?

- Debt/equity issues
- Non-arm's-length transaction
- Transfer of entity losses
- Unfranked dividend streaming
- Franking credit trading
- Dividend 'stripping'
- Dividend substitution
- Capital streaming
- Capitalisation of profits
- Redeemable preference shares

A case for consolidation

Current arrangements

Special provisions apply for wholly owned group companies, resulting in a mix of grouping and separate company treatment. Some transactions within wholly owned company groups are not ignored, others can be. This structure gives rise to:

- high compliance costs;
- impediments to the commercial restructuring of wholly owned company groups;
- potential double taxation of single economic gains;
- schemes that enable companies to duplicate and cascade tax losses; and
- CGT value-shifting problems.

A strategy for reform

Within consolidation

To achieve a fairer system by taxing groups as single entities. This would:

- assist business through reduced compliance costs;
- reduce impediments to group restructuring;
- promote greater equity by:
  - eliminating double taxation; and
  - preventing loss duplication and value shifting.

Outside consolidation

To remove gain and loss duplication and to prevent value shifting.

Key policy issues

How to move to a framework for consolidation?	How to determine a cost base for disposal of equity?	How to move towards single recognition of gains and losses?	How to move towards a systemic solution to value shifting?
See Chapter 26	See Chapter 27	See Chapter 28	See Chapter 29

A framework for consolidation

Policy objective

Taxing groups as a single entity would be a progressive step towards a fairer, simpler taxation regime for companies and trusts. The proposals in this chapter provide the building blocks for most of the consolidated taxation regime. They are based on six design principles which facilitate simplification while protecting the tax revenue base.

Framework design principles

Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6
Consolidation to be optional, but if a group decides to consolidate, all its wholly owned Australian resident entities must consolidate.	Consolidated groups to be treated as a single entity.	Current group provisions to be repealed.	Individual entity losses and franking account balances able to be brought into the consolidated group.	Carry-forward losses and franking balances to remain with the consolidated group on an entity's exit.	Provisions to be established for determining the cost bases on exit.
Group consists of all wholly owned entities of the head entity. Inclusion of discretionary and hybrid trusts depends on situation. Family trusts and companies consolidate under general entity consolidated regime or modified trust loss measures. Decision to consolidate is irrevocable. Accounting treatment for consolidated group based on control test.	**Issues** ▪ benefits of single entity treatment; ▪ tax attributes to apply on entry and exit; ▪ effect on characterisation of transactions; ▪ implications for international taxation; and ▪ implications for CGT regime.	Why repeal current group concessions? ▪ Consolidation would replace grouping provisions. Grouping provisions have problems: integrity issues; and compliance costs. ▪ Should tax either as single group or as separate entities. How would non-electing groups be taxed? ▪ Taxed as separate entities.	How would entities bring in carry-forward losses on entry into a consolidated group? **Option 1** Do not allow losses into a consolidated group, apart from two limited (transitional) cases. **Option 2** Allow carry-forward losses to be brought into a consolidated group subject to a modified same business test. **Option 3** To reduce revenue costs, add a further test to Option 2. **Option 4** Allow a specific proportion of the loss to be brought in. **Option 5** Quarantine carry-forward losses within a group. **Option 6** Leave entities outside the group. What franking credits and foreign tax credits could entities bring into a consolidated group? ▪ No limitations.	What carry-forward losses could entities take when exiting a consolidated group? ▪ None. What franking credits and foreign tax credits could entities take when exiting a consolidated group? ▪ None.	See Chapter 27.

Determining the cost base for disposal of equity

Policy objective

Within consolidation all intra-group transactions, claims (debt) and ownership interests (equity) are disregarded. This means there needs to be a workable and reliable means of providing a consolidated group with a capital gains tax cost base for disposals of equity (that is, shares in a group company or units in a group unit trust). The cost base is needed to determine any capital gains or losses on the sale of that equity.

Policy options

Option 1

The entity-based model reconstructs a cost base for equity equal to the price the group paid for the entity plus the net increase of the aggregate cost base of the assets of the entity whilst in consolidation.

Option 2

The asset-based model dispenses entirely with tax recognition of separate entities within a consolidated group. Upon entry into consolidation, the sum of the cost bases for the assets of an entity is reset equal to the consolidated group's cost base for the equity of the entity. When a consolidated group sells equity, a cost base for the equity of the entity is reconstructed equal to the sum of the cost bases of its assets.

Key policy issues

How do the two models deal with loss cascading, loss and gain duplication and value shifting?

Loss cascading is precluded by withdrawing tax system recognition of equity interests within consolidation.

Duplication on the sale of equity of gains and losses realised within consolidated groups is prevented by:

- Ignoring intra-group equity interests during consolidation; and
- Taking account of net reinvested realised gains or realised losses when reconstructing the cost base for that equity.

Value shifting in relation to assets acquired during consolidation is prevented by reconstructing the cost base for equity from the cost bases of the assets covered by that equity.

For further details on these issues see Table 27.1.

Further policy issues

How do the two models deal with valuation of assets, goodwill, depreciable assets and tax preferences?

For a comparison, see Table 27.2.

How do the two models deal with transition of wholly owned groups from existing arrangements to consolidation?

For a comparison, see Table 27.3.

How do the two models deal with groups that defer consolidation, incremental acquisitions and pre-capital gains tax status?

For a comparison, see Table 27.4.

Towards single recognition of losses and gains

A case for reform

Under the present capital gains tax system, duplication of an economic loss or gain — capital or revenue, realised or unrealised — may arise on disposal of the interests in the entity that has produced the loss or gain.

A strategy for reform

To recognise an economic loss or gain only once. To integrate shareholder and entity interests. There is also a need to balance the integrity benefits of each option against the associated costs, including compliance and administration costs.

Key policy issues

How could loss cascading be prevented?	How could duplication of realised losses be prevented?	How could duplication of unrealised losses be prevented?	How could duplication of realised gains be prevented?	How could duplication of unrealised gains be prevented?
Option Implement consolidation and remove loss transfer and asset roll over concessions outside consolidation. No loss on asset transfers within same majority-owned group.	**Option** Amend existing continuity of ownership test. Remove same business test. see below	**Options** ▪ Adopt a Canadian-based approach; or ▪ Adopt a United Kingdom-based approach.	**Option** Extend current rules to allow a loss to all new equity owners. The option is made possible by the full franking of currently untaxed inter-entity distributions. see below	**Option** Extend current rules to allow a loss to all new equity owners. Again, the option is made possible by full franking (or inter-entity taxation).

Further issues

How could the proposed cost base models for consolidation be used to prevent duplication of realised losses and realised gains for majority ownership cases?

Option 1

Adjust equity cost bases as under the entity-based model.

Option 2

Adjust equity cost bases as under the asset-based model.

Towards a systemic solution to CGT value shifting

A case for reform

Value shifting is a threat to the integrity of the CGT regime by shifting the value of assets, often to other assets. Without an effective set of principles and rules, tax liability may be inappropriately deferred or avoided. The existing rules are extremely complex and neither comprehensive nor robust in operation.

A strategy for reform

To apply a coherent and targeted structural framework, appropriately balancing the objectives of equity and integrity on the one hand and lower compliance and administration costs on the other. The policy framework, brought together in a generalised model, would include design features to address both direct and indirect value shifting.

Key policy issues

Who should be the subject of generalised rules?

Option

- Affected entities that control (or are controlled by) other entities and their associates.
- Non-resident entities where affected assets are subject to tax in Australia.

How could direct value shifting (in relation to assets) be addressed?

Option

- Deem a capital gain or capital loss to be realised.
- Use an adjustment mechanism only.

Special rules are necessary where rights are created out of existing assets.

How could indirect value shifting (value shifting in relation to interests in entities) be addressed?

Design of interest in entity adjustments

Option 1

Achieve conceptual objective.

Option 2

Proportional adjustment approach.

Option 3

Loss-focused approach.

Mechanism of interest in entity adjustments. Three options are considered

- Adjust capital proceeds on subsequent realisation.
- Adjust gain/loss on subsequent realisation.
- Adjust cost base at time of value shift.
- What safeharbour rules and specific exceptions should be provided?

The challenge for taxation policy

Australia needs to obtain a reasonable revenue contribution from non-residents on Australian source income without affecting unduly the cost and level of foreign investment.

A strategy for reform

The proposed new entity regime would bring with it changes to the way that non-residents are taxed on their Australian source income. Changes would need to be made to the taxation of non-residents to ensure that foreign investment is not unduly affected. These changes will depend on the options chosen for the entity regime.

Key policy issues

How should Australian tax be levied on non-residents investing in Australian entities?	How should non-residents investing in Australian collective investment vehicles be taxed?	How should profits remitted by branches of foreign companies be taxed?	What rates of tax should apply to non-residents?	How should tax on income of non-residents be collected?	Should indirect transfers of Australian assets held by non-residents be subject to Australian tax?
Option 1 Impose full entity tax but no DWT. **Option 2** Impose DWT and refund some entity tax.	**Option 1** A flow-through tax treatment for special collective investments vehicles holding investments solely for non-residents. **Option 2** A flow-through tax treatment for all collective investment vehicles.	**Options** With deferred company tax, the tax could be applied to profits remitted. Under alternative approaches, tax equivalent to DWT could be applied to remittances.	**Option** A flat rate for non-residents (except where the treaty provides otherwise) at the company rate, with a lower rate for capital gains taxed on a gross basis.	**Option** Impose a broader non-resident withholding tax.	**Option** Tax indirect transfers of assets.

Conduit investment through Australia

The challenge for taxation policy

To consider the implications for the two types of conduit income:

- Foreign income derived by non-residents through Australian resident entities. The level of Australian tax levied on conduit income can affect the location of activities undertaken by funds managers and resident entities with substantial non-resident participation.
- Australian income derived through a non-resident company (the so-called 'triangular case').

A strategy for reform

- Allow conduit income to flow through Australia without further tax to the extent that this can be done without undermining the taxation of Australian residents or the tax bases of other countries.
- Consider allowing an appropriate proportion of franking credits on Australian income to flow through to Australian shareholders where income is derived through non-resident companies.

Key policy issues	How should conduit treatment be provided for collective investment vehicles that invest on behalf of non-resident investors?	How should conduit income derived by other resident entities be taxed by Australia?	Should franking credits be available to residents investing in Australia via non resident entities — the 'triangular case'?
Reform options	**Option 1** A flow-through treatment for all CIVs. **Option 2** Use special arrangements termed Non-resident Investment Funds.	**Option** Extend the current conduit provisions (the Foreign Dividend Account) to a broader range of foreign source income (the Foreign Income Account — FIA). **Option** Consider whether conduit income should be taxed at a comparable rate to that on Australian sourced income. **Option** Consider whether the FIA should record total foreign income or only the non-residents' proportion of the foreign income.	**Option** Allow franking credits to flow through non-resident companies.

The challenge for taxation policy

Under the proposed entity taxation arrangements, the taxation of foreign source income derived through trusts would largely be aligned with the treatment of companies. The loss of foreign tax credit flow-through for investments via trusts could have a negative impact on collective investment vehicles.

The current anti-tax-deferral rules applying to investments through foreign entities provide the scope for tax avoidance and can cause problems for taxpayers.

A strategy for reform

- To address the foreign tax credit impact of entity taxation.
- To improve the anti-tax-deferral rules.

Key policy issues

Impact of entity taxation

What are the consequences of entity taxation for income derived through trusts?

Options

Trust distributions would be treated as dividends.

Foreign tax credit flow-through would cease to be available.

Rules may be required to treat loans from foreign trusts as dividends.

How should relief from international double taxation available for companies be extended to trusts?

Options

Entities could be allowed a credit for 'underlying tax' for amounts derived from a foreign trust.

The exemption for dividends paid from comparably taxed profits could be provided to resident trusts.

The branch profit exemption could be available for offshore branches of resident trusts.

Should foreign tax credits flow through entities to resident taxpayers?

Option 1

Collective investment vehicles could be excluded from the proposed entity taxation arrangements.

Option 2

Imputation credits could be provided for foreign dividend withholding tax.

Problems with the anti-tax-deferral rules

How could problems with the active business exemption in the foreign investment fund measures be addressed?

Option 1

The active business exemption could be removed.

Option 2

The active business exemption could be replaced with an active income test for non-portfolio investments and a jurisdictional exemption for portfolio investments.

An exemption for certain foreign trusts could be considered.

How could the anti-tax-deferral rules for foreign trusts be improved?

Options

The deemed present entitlement rules could be removed.

Widely-held fixed trusts could be treated in the same way as companies.

Overlap could be reduced in the anti-tax-deferral rules for trusts.

How could the transferor trust measures be improved?

Options

Some exemptions could be removed.

The time allowed for making adjustments could be extended.

Rules could be developed for dealing with hidden trusts.

Allocating worldwide taxable income between countries

The challenge for taxation policy

The allocation of income and deductions among countries is crucial to international taxation. Australia's source rules for income and deductions lack a degree of certainty and transparency. This can impose costs on businesses without ensuring that Australia receives an appropriate share of global business tax revenue.

A strategy for reform

To improve the operation of the existing source rules to add to certainty for business and to ensure Australia receives an appropriate share of global business tax revenue that reflects value added in Australia.

Key policy issues

Should there be clearer rules to determine the source of income?	Should Australia allow deductibility of interest for offshore investments?	How should the thin capitalisation provisions for onshore investment be tightened?	What improvements can be made to the administration of the transfer pricing rules?	How should the taxable income of branches be determined?	What improvements can be made to record keeping requirements?	Should deductions be disallowed in the absence of sufficient information?
Option 1 A substance over form approach. **Option 2** A specific rule approach. Uncertainty regarding the source of gains on realisation of assets could also be reduced.	**Option** The imputation system provides an incentive to pay Australian rather than foreign tax. Nevertheless, Australia could consider rules to limit deductibility of interest in highly geared controlled cases.	**Options** Deny interest deductions if gearing exceeds: ▪ worldwide ratio (Option 1); or ▪ fixed ratio (Option 2). Both options would allow further deductions in certain instances.	**Options** Consider the application of self-assessment principles to transfer pricing. Address gaps in the current law in relation to corresponding relief. Consider how to avoid disputes and resolve those that do occur.	**Options** Replace the present single entity approach with a separate entity approach to calculating the taxable income of branch operations in Australia. Extend that approach to include withholding taxes	**Options** Standardise record keeping requirements with our major trading partners. Tie the penalty regime for transfer pricing adjustments to the level of documentation available.	**Option** Deny deductions for expenditure incurred in low tax countries that do not exchange information in the absence of the necessary documentation to validate the transaction.

A case for reform

For taxation purposes, the different types of business of life insurers are split into different classes. Life insurers are required to undertake complex calculations to determine taxable income for each class. The complexity also opens up opportunities for 'tax planning'.

The income tax base does not include all income, which results in inequities and inefficiencies in the financial markets.

The taxation treatment is inconsistent with the taxation treatment of other entities which again can lead to distortions in decisions by investors and financial institutions.

A strategy for reform

In accordance with the proposed new entity regime:

- apply the company tax rate to taxable income; and
- implement the redesigned imputation system.

Key policy issues

Calculation of taxable income				Application of the company tax rate	Application of the imputation system	
How should taxable income be calculated?	Can accounting principles be used for taxation purposes?	How should the profit on immediate annuity business be determined?	How would life reinsurance be taxed?	What are the tax rate implications for the superannuation and deferred annuity businesses of life insurers?	How would franking credits be allocated between shareholders and policyholders?	What franking account adjustments need to be made in relation to existing policies?
Option 1 Include premiums in assessable income. **Option 2** Identify components of assessable income. **Option 3** A combination of the above.	**Option** Use/adjust value of policy liabilities calculated for accounting or regulatory purposes.	**Option** Depends on type of annuity: ▪ allocated annuities; ▪ fixed-term annuities; and ▪ lifetime annuities.	**Option** Using the same principles that would apply to tax life insurance.	**Option** ▪ Implications for super business — the mechanism to provide early refunds of excess imputation credits would ensure that amounts assigned to policies held by CSFs would continue to be taxed at 15 per cent. ▪ Implications for DA business — existing business could be transferred to CSFs or ADFs or transitional arrangements could apply to continue to tax amounts assigned to existing DA policies at the rate of 15 per cent.	**Option 1** Allocate on the same basis that tax is allocated between shareholders and policyholders for regulatory purposes. **Option 2** Allocate on the same basis that investment income is allocated between shareholders and policyholders.	**Option** Depends on whether the current tax treatment or the redesigned imputation system applies to bonuses paid to policyholders on existing policies.

Life insurance policyholders

A case for reform

The taxation treatment of bonuses paid on investment policies is inconsistent with the taxation treatment of competing products. This can lead to distorted investment decisions.

Inequities arise because bonuses are rarely taxed at investors' marginal tax rates.

A strategy for reform

To change the taxation treatment of bonuses assigned to investment policies.

To apply the redesigned imputation system.

To retain the current taxation treatment of risk benefits.

Key policy issues

Taxation of new policies

When would a policyholder be taxed?	What amount would be assessable?	Could a deduction be claimed for fees paid to a life insurer?
Option 1 Calculate and pay net tax each year or when bonuses are received. **Option 2** Calculate the net tax shortfall each year and pay any tax at that time or when the bonuses are received. **Option 3** Calculate and pay net tax when bonuses are assigned (the timing of which could be flexible).	**Option** Depends on type of policy: ▪ investment-linked policies; ▪ investment account policies; ▪ whole-of-life and endowment policies.	**Option** Determine under general deduction provisions of the income tax law.

Taxation of existing policies

How should they be taxed?
Option 1 Apply the current tax treatment. **Option 2** Apply the redesigned imputation system to policies terminated within 10 years. **Option 3** Apply the redesigned imputation system to all policies.

Pooled superannuation trusts

A case for reform

The current taxation treatment is inconsistent with competing entities because investors are exempt on investment returns and PSTs are taxed at a lower rate than other entities.

A strategy for reform

Apply the redesigned imputation system to PSTs.

Key policy issues

Rate of tax

What rate of tax should apply?	Who should be able to invest in PSTs?
Option 1 The company tax rate. **Option 2** The 15 per cent superannuation fund rate.	**Option** Depends on the rate of tax that applies to PSTs: ▪ if PSTs are taxed at the company tax rate — any entity; or ▪ if PSTs are taxed at the 15 per cent rate — complying superannuation funds, complying ADFs and other PSTs.

Implications for superannuation funds and approved deposit funds

Current arrangements

The ability of superannuation funds and ADFs to transfer taxable contributions to life insurers and PSTs creates inequities and considerable complexity.

Profit on the current pension business of superannuation funds and ADFs exempt from tax.

A strategy for reform

Apply the 15 per cent rate to the profit on current pension business of superannuation funds and ADFs.

Prevent superannuation funds from transferring taxable contributions to life insurers or PSTs.

Key policy issues

Calculation of taxable income

How would the profit on current pension business be determined?

Option

On the same basis applying to life insurers in respect of their immediate annuity business.

Towards a better regime for taxing fringe benefits

A case for reform

The taxation of fringe benefits through the employer (rather than the employee) at the top marginal tax rate is seen as complex, administratively burdensome and discriminating against employees on less than the top rate. The car valuation regime also affects allocative efficiency.

A strategy for reform

To address equity issues by taxing fringe benefits in the hands of the employee.

To improve efficiency, and to avoid a significant loss of revenue, by changing the 'concessional' statutory formula for car benefits.

To consider differing treatments for entertainment and on-premise car parking fringe benefits.

Key policy issues

What method should be used to determine taxable benefits?	How should the statutory formula for cars be changed?	Should a 'de minimis' level of assigning and taxing fringe benefits apply?	When should the FBT year end?	Can the compliance costs for entertainment fringe benefits be reduced without a great call on revenue?	Can the compliance costs of on-premise car parking fringe benefits be reduced without a great call on revenue?	What approach should be adopted for FBT exempt and rebatable organisations?
Option 1 Current exclusions approach. **Option 2** Positive inclusions approach.	**Option 1** A schedular approach. **Option 2** Modify the statutory formula.	To apply the proposed $1,000 limit for reporting fringe benefits could lead to a large tax revenue loss.	**Option 1** Align with the income tax year. **Option 2** Continue to finish at March 31.	**Option** Return entertainment to pre-1995 treatment (exempt from FBT and make non-deductible) and tightly define scope.	**Option** Exempt on-premise car parking from taxation as a fringe benefit.	**Option 1** Continue concessions in personal income tax regime. **Option 2** Remove concessions and where appropriate replace with direct subsidy.