

TERMS OF REFERENCE

The terms of reference were announced by the Treasurer, the Hon. Peter Costello MP on 14 August 1998, and amended on 27 October 1998 and 2 and 17 June 1999.

Business Income Tax Review

Business taxation is concerned with taxing investments in physical and financial assets (and their financing) and the collective vehicles or ‘entities’ through which these investments can be made.

Objectives

The Review will pursue the strategy specified in *A New Tax System* of consultation on the framework of reform of **business entities** and on the extent of reform of **business investments** recognising the current problems and objectives for business tax reform identified in *A New Tax System*. The process of consultation will include an assessment of the design and the administration of the tax regimes affecting business to identify their main shortcomings and their impediments to productive activity and innovation.

The Review will make recommendations on the fundamental design of the business tax system, the processes of ongoing policy making, drafting of legislation and the administration of business taxation.

The recommendations will be consistent with the aims of improving the competitiveness and efficiency of Australian business, providing a secure source of revenue, enhancing the stability of taxation arrangements, improving simplicity and transparency and reducing the costs of compliance. The Review will adopt a comprehensive approach to reform driven by clear, sound principles involving a move towards greater commercial reality.

Methods

The Review of business taxation arrangements will be open and transparent.

- Mr John Ralph, AO, will chair the Review.
- The Review will be able to call on the expertise of both the public and private sectors and academic tax experts.
- The Review is to report by 31 March 1999 to allow a reasonable time period for consultation with the business community, to allow draft legislation to

be subject to consultative input from business and for the legislation to have effect from 1 July 2000.

Outcomes

1. The Review will report on the state of the current arrangements relating to business taxation.

This will involve reporting on:

- (a) the Australian business taxation system as a whole compared with international experience;
 - (b) the structural flaws in the broad design of business tax arrangements and the degree to which existing business tax systems bias and impede business decisions;
 - (c) the degree to which the current business tax arrangements meet the aims of certainty of taxation treatment, clarity of law, ease of administration and low compliance costs; and
 - (d) the administration of taxation, including the drafting of legislation and technical corrections to legislation and the adequacy of existing procedures for consultation between the taxation authorities and the business community.
2. The Review will make recommendations about the fundamental re-design of business tax arrangements. While no aspect of the taxation of business entities and investments should be precluded from the scope of the review, consultations by the Review and associated recommendations will be directed to the strategy for reform spelt out in *A New Tax System*.
 3. The Review will examine:
 - (a) in relation to **business entities**, the re-designed company tax arrangements proposed to apply to companies, trusts, cooperatives, limited partnerships and life insurers — including a move towards consolidated group taxation and the achievement of a consistent treatment of distributions of profit and contributed capital;
 - (b) in relation to **business investments**, the extent of reform in the areas of physical assets, financial assets/liabilities and intangibles and the potential use of accounting principles, taking into account the following considerations —

- (i) the need to encourage business development with an internationally competitive tax treatment of business investments;
 - (ii) the potential benefits of bringing tax value and commercial value closer together;
 - (iii) the goal of moving towards a 30 per cent company tax rate;
- (c) in relation to capital gains tax (CGT), the scope for:
- capping the rate of tax applying to capital gains for individuals at 30 per cent;
 - extending the CGT rollover provisions to scrip-for-scrip transactions; and
- (d) the Review will need to achieve overall revenue neutrality in respect of (b) and (c) with these changes.
4. The Review will make recommendations concerning the question of consultative input from the business community into the ongoing processes of policy design, drafting of legislation and the administration of taxation.
5. The Review will make recommendations concerning possible improvements in the administration and the accountability of the taxation authorities in relation to business taxation.

Notes

- 27 October 1998 The Treasurer announced the date for reporting had been extended to 30 June 1999.
- The Treasurer announced the appointment of Mr Bob Joss, then CEO of Westpac Banking Corporation, and Mr Rick Allert, AM, Chairman of Southcorp, to assist Mr John Ralph, AO in undertaking the Review.
- 22 February 1999 The Treasurer announced that cash management trusts and, in principle, other collective investment vehicles would be subject to ‘flow-through’ taxation. This issue was to be further considered by the Review.
- The Treasurer also announced that the Government would address potential exploitation opportunities before implementation of the business tax reform measures. The Government proposed action with effect from 22 February, with details to be announced having regard to the Review’s final recommendations.

Terms of reference

2 June 1999	The Treasurer referred for the Review's consideration the merits of a 20 per cent alternative minimum company tax and measures to limit the use of company structures for personal services.
17 June 1999	The Treasurer announced the date for reporting had been extended to 30 July 1999.