
Chairman's introduction

We are living in a time of unparalleled change. Australia must have a taxation system which equips it for the coming decades, not for those that have passed. If we do not achieve this, Australians will not enjoy the standard of living that this nation has the potential to deliver.

The overarching objective of the Review has been to design a taxation system that will contribute best to economic growth – the source of common wealth from which comes the funding of the services desired by the community. Education, health, welfare and the security of the nation are functions that governments fund from revenue collections, mainly via the taxation system. The vitality of the economy and its ability to grow must not be unnecessarily impaired by the inevitable strain these collections impose.

Meeting the demands upon it in the decades immediately ahead poses some significant challenges for the Australian government and the Australian community. Increasing globalisation will translate into an increasingly competitive environment for Australian business. The impact of the telecommunications revolution and associated technologies, in diminishing the significance of national boundaries, will make more businesses feel the chill wind of much stiffer competition. We may remain an island geographically but we will not be able to hide from the forces generated by globalisation.

While these challenges are being faced, other factors will be increasing the cost of the services required by the community. An aging population and growing sophistication in medical technology will inevitably mean higher medical costs. An aging population and advancing longevity will decrease the proportion of working population to those dependent on welfare. Such forces drive the imperative that the Australian taxation system contribute as best it might to the international competitiveness of the economy and the opportunities for growth.

All Australians have a stake in this, not just business.

Reform needs to be developed within the context of enhancing economic performance, and a well-functioning taxation system must be seen to be operating fairly, efficiently and transparently. It should provide certainty, be as simple as possible and generate compliance costs as low as practicable. The system must have integrity and be neutral as between taxpayers. Importantly, taxpayers must feel that all are paying their fair share and there is equity in the system.

With these objectives before us, we have set out to build upon the proposals of *A New Tax System* to accomplish a number of outcomes.

- A structure that is robust and based upon explicit principles so that the architecture of business tax legislation is durable and capable of future modification without doing damage to the framework on which it is based.
- An integrated design process, reflected in the accountabilities of a Charter of Business Taxation, that ensures that business tax policy, the legislation to give effect to that policy and the systems to administer it are compatible and integrated.
- An ongoing process of external involvement, including a Board of Taxation with specific accountabilities towards ensuring the integrity of the processes are maintained, to build upon the more constructive relationships that have been established during the review process.
- A more neutral system where similar activities, investments and entities are taxed similarly — and where taxpayers feel they are treated equitably, with the burden being shared fairly across the community.
- A tax system which is easier to understand and comply with, and makes fewer demands on the time of ordinary taxpayers.
- A far simpler system for small businesses, with a more concessional approach to writing off their capital expenditure and a reduced record keeping load.
- A flow-through basis of taxation which puts individuals, who pool their resources to invest collectively and obtain the benefits of diversification, on an equal footing with wealthier individuals who can invest directly.
- A more competitive capital gains regime to encourage investment, particularly to attract highly mobile international capital for which there is strong and increasing competition, to encourage entrepreneurs to start new businesses in Australia, and to achieve a better functioning capital market.

Australia has the opportunity to adopt and implement a *more certain, equitable and durable* taxation system to deliver lasting benefits for all Australians. Every Australian has a stake in how well the economy performs. It determines how many people have jobs and what standard of services the nation can ultimately

support. The tax system has a very significant influence on the competitiveness of the economy through the incentives or disincentives inherent in its provisions and its functioning.

The intensive review carried out over the last eleven months, building on the Government's proposals in *A New Tax System*, has seen the business tax system redesigned. The result is a set of recommendations that, in my opinion, can give this nation a much improved taxation system — and one which addresses the demands we will encounter as we enter the new millennium.

John Ralph, AO

