Our Ref: RGL/NV/r/dept treasury

The Secretary
Review of Business Taxation
Department of the Treasury
Parkes Place
CANBERRA ACT 2600

15 March 1999

Dear Sir

This submission proposes a simple, fair, efficient and compelling basis for business taxation in Australia.

In *A Platform For Consultation* (Vol II), at paragraphs 15.2, 15.3 and 15.15 your review has succinctly identified the fundamental problem with the present system of business taxation – it varies with the choice of entity.

The answer, with respect, is NOT to propose an entity tax system, such that trusts, partnerships, co-operatives or whatever are taxed like companies. That is to enshrine complexity (which the Treasury and ATO have a vested interest in doing) and perpetuate tax planning.

The proper and compelling answer is to say it doesn't matter what sort of entity derives a business profit, each dollar of profit will be taxed the same. The answer is simple. Move the taxing point back to business profits. Have a business profits tax. There is no reference to who derives the profits, so arbitrage and planning around entities is to no avail.

To complete the income tax framework, FBT aside, my proposal is for a salaries tax. A business profits tax and a salaries tax is all that is required to tax income. This (ironically for the ATO and Treasury which I can see doing cartwheels at the suggestion) is to adopt the Hong Kong system. And, like Hong Kong, the Government will collect more than they will know what to do with, because the understanding, appreciation and certainty that simplicity brings, ensures collection and proportional with lower rates reduces taxpayer reticence to paying.

The next question is – how do you measure business profits? Profits of a business, and taxable income should be calculated as they are in the UK, ie the net profits per the accounts prepared in accordance with accounting standards should be the starting point, with specific adjustments for income tax issues as may be prescribed eg exclude non taxable items, adjust for provisions, capital items, depreciation, etc. Hasn't the Tax Commissioner been advocating close alignment with accounting standards? And look at all the UK precedent law at our disposal.

Because Australia has a social security bill, it cannot be expected to adopt the low Hong Kong rates. Perhaps 30% is the appropriate rate. But consider a case for differentiated rates on the following basis. Monopolies/duopolies/
consumer sector dominants have a privileged position in Australia and should pay (say) 5% higher. Prescribed manufacturing, farming and mining taxpayers, rather than being provided with assistance through deductions for capital expenditure and accelerated depreciation (which reduce taxable income) could pay a lower rate (on business profits as universally calculated) for (say) 5 years eg a 25% tax rate allows these taxpayers to retain 75% of profits to fund investment/service debt.

This submission is aimed at identifying the one concept that answers the fundamental issues raised in your review of business tax. I hope the penny drops with you re taxing the dollar earned and not the person who earns the dollar, and that a serious analysis of its merits and consequences is invited. My further suggestions above imply that the calculation of "business profits" (= taxable income) can be as narrowly based as the Government wishes. Industry assistance is through rate differentiation, not deductions since a % of a narrowly defined (and therefore certain) sum translates for business directly, simply, alluringly into the same % increase in retained profits.

(The circulation indicated below is in accordance with recent discussions with the persons concerned).

Yours faithfully
GRANT THORNTON

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cc Hon Peter Reith
cc Hon Senator Warwick Parer