

*SUBMISSION TO THE
REVIEW OF BUSINESS TAXATION*

BY THE AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

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SUBMISSION TO THE REVIEW OF BUSINESS TAXATION

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations.

In the reform of business taxation in Australia, ACCI believes specific objectives should be to:

- Improve the overall competitiveness of Australian businesses. Taxes imposed on business need to reflect the economic imperative of Australia remaining internationally competitive, should not impede job growth and should encourage investment
- Make the tax system more neutral between different industries, types of business and activities and remove impediments and distortions which reduce productivity
- Raise revenue more efficiently with lower collection and compliance costs

ACCI has been actively involved in the development of the submission by the Business Coalition for Tax Reform (BCTR) and the themes that run within it. ACCI believes the BCTR submission is a genuine and realistic response to the issues raised in *A Platform for Consultation*.

The depth of discussion contained in, and generated by, the paper have highlighted the complexities involved in reforming Australia's business tax system.

It will be crucial that detailed ongoing consultation is held with the business community to ensure that reform measures create appropriate incentives for investment and employment growth while satisfying revenue requirements. The consultation process must not end with the Review of Business Taxation.

The intricate inter-relation of issues means that all reform measures must be consistent with the broad direction of reform. While there have been some differences between the views of various constituents, the BCTR submission offers a sense of direction and momentum building on the identification of issues resulting from the consultation paper and process.

The BCTR submission has identified benchmarks against which the proposed reform measures can be assessed.

As Australia's largest representative of small and medium size business ACCI emphasises the need to minimise the burden which changes to business taxation may place on smaller enterprises. This relates particularly to the range of adjustments which businesses must make in the period to 1 July 2000 to accommodate the *A New Tax System* (ANTS) package.

Care should be taken in the timing of introduction and transition arrangements connected with business taxation reforms.

While not suggesting that the process of consultation be "slowed down" it may be appropriate for the RBT to recommend to the Government a lagged implementation to equate with the capacity of business and professional advisers to absorb changes.

We note that the BCTR Submission has reflected the specific requirements of smaller business in recommendations made in relation to the treatment of trusts as companies, wasting assets and goodwill and the taxation of capital gains.

In addition, there are four other matters in relation to which ACCI would wish to make additional comments:

- Compliance Costs
- R&D Tax Concession
- Payroll Tax
- Oversight of Implementation and Policy Review.

Compliance Costs

Some areas of business taxation notably FBT and Capital Gains Tax have created heavy compliance cost burdens for small business. It is critical that the RBT emphasise ways to ameliorate the tax compliance burden in these areas.

R&D Tax Concession

This measure must be retained and enhanced. It would be totally inconsistent with industry innovation and competitiveness policies to abolish or erode the concession. ACCI has stressed in the past that a grant system, whilst useful for some, is not a satisfactory alternative because of its much greater compliance burdens and bureaucratic overlay.

The relationship between the Research and Development tax concession and innovation must be emphasised. The concession

has been universally regarded as a successful and necessary element of policy.

Payroll Taxation

While it is recognised that the issue of payroll tax as a state matter is not specifically in the RBT brief – it is a vital area of business taxation. ACCI commissioned consultancies undertaken in 1998 demonstrated *inter alia* that the loss to the economy through the inefficiencies of payroll tax is more significant than losses from the wholesale sales tax system. We will continue to pursue changes to the payroll tax regimes.

Oversight of Implementation and Policy Review

There needs to be a distinction between what the RBT can do in setting down a blueprint for comprehensive reform of business tax and the implementation of the policy measures involved.

To this end ACCI considers it is essential that the government establish an Independent Board of Directors or Advisory Board with adequate private sector representation to guide the ATO and Treasury in terms of interpretation, implementation and ongoing policy fine-tuning.

This would be an enhanced version of the proposal set out in the first RBT discussion paper, *A Strong Foundation* (page 108). There must be a mechanism to ensure that policy, legislation and administrative design are implemented in a manner consistent with the principles set out in the RBT discussion papers.

ACCI together with the BCTR will continue to play an active role in further developing the proposals for change set out in the BCTR Submission.