

Treasurer flags business tax losses priority at Tax Forum

The Tax Forum was held at Parliament House in Canberra on Tuesday October 4 and Wednesday October 5. It would be fair to say that it was the tax summit we had to have - at least the Gillard Government had to have as part of its post-election deal with independent MP Rob Oakeshott.

Prior to the Forum, many groups were critical of the Government's decision to leave GST off the agenda, and its failure to act on the Henry Tax Review recommendations. So, apart from paying a political debt, what was achieved?

In his closing speech, the Treasurer said the business tax discussion was dominated by ideas about how to respond to the pressures of a patchwork economy. Different views were expressed on an across-the-board company tax cut. A number of people noted that the company tax rate doesn't matter so much for small business; others noted that given Australia has had a full dividend imputation system in place for many years, a lower company tax rate will ultimately only benefit foreign shareholders.

The Treasurer concluded there seemed to be more of a consensus on more targeted measures to help struggling businesses. In this regard, he has asked a business tax reform working group to look at business tax responses to a patchwork economy, and how to fund them.

The first priority of this group is to identify options for losses and options for savings to fund them. It will provide an initial report in November, and a final report by March next year.

The Treasurer said "we need to consider things like loss carry back,

uplifting losses, and what happens to the value of losses when businesses change composition or ownership".

The Treasurer said the second priority for the working group "is to look at longer term company tax options, and report during 2012". "This should look at broader questions of working up if and how an equity allowance could work," the Treasurer said.

In broad terms, an equity allowance would provide a tax deduction (i.e. allowance) for corporate equity at the corporate level, equivalent to that provided for interest on debt.

Other points made by the Treasurer include:

Small business

The Treasurer has asked Treasury, the ATO and the Council for Small Business "put their heads together ... to identify the best ways to reduce complexity, in the coming months".

Individuals

Mr Swan proposed that the Government's "first priority in further personal tax reform will be to increase

the tax-free threshold further, to at least \$21,000, and remove the Low Income Tax Offset entirely”.

This would extend the tax changes started in the government’s carbon tax package, which lifted the tax-free threshold from \$6000 to \$18,201 from July next year and promised a further increase to \$19,401 from July 2015.

The initial carbon tax threshold rise would mean about 1 million people would not have to pay tax; the second tranche would take a further 100,000 out and yesterday’s flagged threshold rise would take out another 100,000.

The full suite of tax changes would mean a tax cut of about \$500 a year for wage earners on \$60,000.

Consistent with the requirement of the Forum for outcomes to be revenue neutral in totality, the discussion was not just about tax cuts.

Many participants suggested some of the tougher ideas, things that close what they see as tax “loopholes” (though the Treasurer did note that there is no agreed definition of a loophole).

In this regard, the Treasurer expressly singled out the Living Away From Home Allowance as a loophole “definitely worth exploring”, a concession the ATO has always had difficulties with.

On superannuation-related issues, Mr Swan said the Government will consider “drawdown phase options like annuities and deferred annuities”.

State taxes

The Treasurer acknowledged that state tax reform produced the most passionate discussion at the Forum. It was widely accepted that many state taxes were inefficient; unsurprisingly, there was less agreement on who should fund reform.

The NSW and Qld Treasurers have agreed to work with the Council of Australian Federation “to develop a state tax reform plan, for further discussion with the Commonwealth”.

The Treasurer has also asked the GST distribution review taskforce headed by former Victorian premier John Brumby to look at the efficiency of state taxes and incentives to reform state tax systems further.

Independent Tax Studies Institute

Mr Swan said the Government will “contribute around \$1m per year to create an independent Tax Studies Institute” which will “look at things like the design and simplification of the tax-transfer system”.

In his speech to the Forum, Assistant Treasurer Bill Shorten flagged the government would set up a tax advisory board to give

strategic advice to the ATO, and in a surprise move it would be given an independent chair.

The verdict

Fringe Benefits Tax, CGT dividend franking and GST are all now well established parts of the Australian Tax System.

They may be complex and are certainly not perfect in terms of how they operate but they do demonstrate that changes to the tax systems can be implemented and maintained.

It will be interesting to see if the Government has the drive, determination and political backing following the forum to make any sort of major changes.

The alternative, unfortunately, could turn out to be more discussion groups and working parties, but not the clear and significant changes that the forum might have hoped for.

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