

**Business
Coalition for
Tax
Reform**

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SUBMISSION TO THE 2009 FEDERAL BUDGET PROCESS

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The Business Coalition for Tax Reform (BCTR) is a forum that brings together the views of the business community on tax reform issues. BCTR members share a desire to provide a unified approach to building a better taxation system that enhances both international and domestic business competitiveness and fairness, and which assists in creating a business climate that is conducive to investment, growth, job creation and private saving.

The members of the BCTR believe that Australia should continuously aim for an optimal tax system, and to that end the BCTR promotes ten principles for Australia's taxation system. These principles are set out in Appendix A.

The BCTR believes that if we are to meet the objectives outlined above, Australia cannot afford to rest here, but must continuously strive for improvement.

The best taxation system for sustained long-term economic growth requires that all levels of taxation in Australia are working efficiently and facilitating Australia's international competitiveness. Furthermore, the tax system must be capable of meeting not only the challenges of today but those likely to arise in the future.

The BCTR also maintains an active interest in the implementation of previously announced tax reforms and endeavours to both promote understanding of the reasons for reform, and provide input into the implementation process.

A list of BCTR member organisations is contained in Appendix B.

Australia has seen significant, laudable, tax reform in recent years to enhance Australia's international competitiveness. However, the BCTR notes that other countries, including many of Australia's key competitors, are continually fine-tuning their business and personal tax rules, which means the international tax landscape is continuously evolving.

This means in turn that Australia must be prepared to continually review its own taxation arrangements, in order to avoid losing ground. With this international context in mind the BCTR makes the following budget submission. The BCTR very much hopes that the government will take the unique opportunity afforded to Australia in the current favourable economic climate to address the following important tax issues that Australians face.

Tax reform priorities

The BCTR believes that priority should be given to the following tax reform objectives:

- a reduction in the corporate tax rate;
- tax policy development and consultation processes;
- the tax bias which arises from the double taxation of dividends paid out of taxed foreign earnings;
- reform of inefficient state-based taxes; and
- an overhaul of Australia's personal tax system.

BUSINESS TAXATION

Tax policy development

The BCTR acknowledges the Federal Government's role in determining the policy settings for Australia's taxation system. However, notwithstanding recent improvements by the Treasury in its consultation process around new tax measures, the BCTR has some concerns about the way tax policy is developed.

The BCTR believes that new taxation policy could often benefit from earlier consultation at all stages of development, even at the conceptual stage before the government announces proposed changes to the tax system. This would enable a more careful consideration of the practical implications of tax policy proposals, and could result in simpler and more effectively targeted measures.

A recent example of where this consultation process did not take place and resulted in unwarranted disruptions in the operation of Australia's capital markets is the proposed changes announced by the previous Assistant Treasurer and Minister for Revenue in his Press Release No. 124 dated 12 October 2007 on scrip for scrip rollovers in a tax consolidated environment.

This announcement was made without prior consultation with external stakeholders. Aside from the direct tax implications that the proposed changes will have on taxpayers, the announcement has had a major impact on capital markets in that all but a few scrip financed deals have been put on hold pending the resolution of this issue.

The BCTR believes that some limited and strictly confidential consultation with selected externals prior to this announcement might have better addressed whatever revenue concerns the Government has with these scrip for scrip arrangements, without the detrimental impact that the announcement has had on capital markets. Prior consultation with externals would also ensure that Treasury's interpretation of the issue is clear, that they have a clear statement of policy intent and that the resulting government announcement and draft legislation is consistent with this policy intent.

Improving the consultation at the detailed policy formulation level would, in the BCTR's view, greatly reduce the subsequent consultation times on the draft legislation, once it is completed. It would also contribute to developing legislation that is simple, clear, more certain and easier to comply with and instil a greater level of faith in taxpayers that the tax system achieves its policy intent.

The recommendations that the BCTR make are consistent with the outcomes of the Board of Taxation's review in February 2007 which identified various improvements to the Australian tax consultation system.

An additional aspect of tax policy consultation relates to the revenue impact of proposed tax measures. The BCTR is concerned that at times it has been difficult for externals to engage on aspects of tax policy proposals because Treasury has felt constrained about disclosing its methodology and assumptions.

The BCTR acknowledges that second or subsequent round effects of tax policy proposals may not be sufficiently precise to warrant inclusion in the Federal Budget's forward estimates. However, they will often be an important driver behind tax policy decision making. As a result, the BCTR believes they should be explicitly factored into the consultation process and any materials published in relation to tax Bills. The BCTR believes that greater transparency around revenue estimates can only assist in the consultation process.

Recommendation 1

Improved and earlier consultation with selected externals should take place around detailed tax policy development, before government announcements are made.

Recommendation 2

The potential revenue impact of proposed taxation measures should be disclosed in a more transparent and consistent way, to enable fuller and more effective consultation.

Tax administration

The BCTR believes that, in order for the tax system to operate efficiently and effectively, there must be a clear separation between the formulation of tax policy and administration of the law. It is Treasury's role to establish tax policy and the ATO's role to administer the law. It is not the ATO's responsibility to devise tax policy. However, the BCTR believes that, at times, the ATO strays into the area of policy formulation. A recent example of this is in the *Indooroopilly* court case¹ where the Commissioner ignored the view of the courts in administration of the law and stepped into the policy formulation area.

Further, we refer to the Labor Party's media statement of 2 March 2007 in relation to its savings plan and in particular its plan to reduce duplication in tax administration by abolishing the Inspector-General of Taxation's role. We firmly believe that this role should remain as it is crucial to the continued efficient operation of the tax system. The preservation of the current powers of the Inspector-General (including access to ATO internal systems and documentation, and its ability to undertake reviews of ATO issues and processes) is vital in ensuring that improvements are made in taxation administration which will benefit all taxpayers.

Recommendation 3

The Government should make clear the role of the Commissioner in administration of the tax law.

Recommendation 4

The BCTR strongly recommends that the Inspector-General of Taxation's role should not be removed as it is crucial to the continued integrity of the tax system.

Tax law simplification aimed at increasing certainty and reducing the cost of compliance

A taxation system should be simple, transparent, and minimise uncertainty. Complexity in the tax law creates uncertainty for business and imposes compliance costs, and reducing complexity should be a guiding principle of tax law development and administration. The BCTR considers that the most significant and critically important challenge lies in reducing the complexity and uncertainty in the current operative provisions, as well as the new law that is created every year.

Also, we note that policy initiatives that require legislative amendment often take too long to be implemented after announcement, sometimes leaving both the ATO and taxpayers in limbo. For instance, a Ministerial announcement of a law change may be made (that may

¹ *Commissioner of Taxation v Indooroopilly Children Services (Qld) Pty Ltd [2007] FCAFC 16*

apply from the date of announcement), but it may take years for the law to be drafted and introduced into Parliament. Allied to this, minor technical issues may be left unattended for long periods to make way for higher priority issues. This delay in addressing accepted problems leads to greater uncertainty and increases tax compliance costs.

Recommendation 5

Further work should be done to reduce the level of unnecessary complexity in Australia's tax laws.

Recommendation 6

The Government should provide adequate drafting and other resources to the policy development and implementation process

Statutory Privilege for protection

BCTR has been a supporter of a form of statutory privilege to protect the confidentiality of the communications between suitably qualified and regulated non-legal tax advisors and their clients for some time. We believe that such a statutory privilege should encourage clients to openly share information with their advisers, and promote the need for full and frank disclosure of information to their accountants. This would subsequently avoid unnecessary litigation and encourage compliance with taxation laws. If accountants and their clients could rely on the doctrine of client legal professional privilege, this would support a more transparent and open relationship between a client and their accountant which should result in reduced litigation and better compliance with the law. In the context of Australia's highly complex tax environment where members of the accounting profession are called on regularly to provide advice, it only seems fair that the doctrine of legal professional privilege be extended to the accounting profession.

The recent review by the Australian Law Reform Commission ("ALRC") into Client Legal Privilege has had the full support of the BCTR. We support a proposal in the ALRC's Discussion Paper of September 2007 to effectively formalise an improved version of the "accountant's concession" contained in the ATO's Access and Information Gathering Manual by having it included in the statute.

Our submission dated 2 November 2007 supports the ALRC's proposals in respect of LPP and suggests a number of improvements to the proposals. We hope that our suggestions are reflected in the ALRC's recommendations to the Attorney-General.

Accordingly, we urge the Government to consider our request for this form of statutory privilege and make resources available to enable the development and, ultimately, the enactment of the necessary legislation.

Recommendation 7

The Government should consider granting a form of statutory privilege to protect the confidentiality of the communications between suitably qualified and regulated non-legal tax advisors and their clients, and enact legislation accordingly.

Addressing the bias against taxed foreign income

The Federal Government has expressed concern at the current disincentive for Australian businesses to expand offshore through double taxation of foreign source income in its publication "Fresh ideas for Australian manufacturing - Background paper for the National

Manufacturing Roundtable". The BCTR is also concerned that the double taxation of dividends paid out of taxed foreign earnings creates a bias against Australian-based multinationals. In a global marketplace, where most large and an increasing number of smaller listed companies operate offshore, this situation is unsustainable. As the Labor Government noted in its background paper for the National Manufacturing Roundtable, Australia's tax system will impede the development of Australian owned businesses which seek to grow internationally if urgent action is not taken to resolve this double taxation issue.

Earlier this year the BCTR commissioned Ernst & Young to undertake some research into this double taxation issue, a copy of which we attach for your information. The Ernst & Young report highlights the need for appropriate recognition for imputation purposes of foreign source income which has borne foreign tax. Other countries, such as the US and UK have recently moved in various ways to reduce taxes on dividends generally, and Australia cannot afford to fall too far behind.

Recommendation 8

The Federal Government should reconsider the Board of Taxation's 2003 recommendation of a 20 per cent partial imputation credit in respect of taxed foreign earnings. The question of streaming foreign income to foreign shareholders should also be reconsidered.

Amortisation of intangible assets

Australia's tax treatment of most acquired intangible assets is less favorable than that of a number of major competitor countries, including the United States and the United Kingdom. This can distort investment decisions by placing Australian-based companies at a relative disadvantage when making strategic acquisitions, as well as inhibiting investment in business processes.

Recommendation 9

Tax relief should be made available in respect of acquired intangible assets. A 15-year tax amortisation regime, applicable to future acquisitions from date of announcement, would place Australia into a competitive position on this issue.

Tax losses and bad debt deductions

In the context of the forthcoming budget, the Government should consider making a number of changes to overcome the harshness of the company loss usage rules. In particular, the BCTR recommends:

- the introduction of loss carry back rules as recommended by the Asprey Report and in the 2006 Warburton-Hendy Report. The introduction of such rules give companies that have previously been profitable some opportunity to utilise subsequent losses which might otherwise be "stranded"; and
- the introduction of consortium company flow-through loss relief, in a manner similar to the UK relief.

The BCTR supports the recommendation that such rules be developed in consultation with affected stakeholders

Recommendation 10

The loss usage rules should be improved by:

- *introducing limited loss carry back rules; and*
- *the introduction of consortium company flow-through loss relief, in a manner similar to the UK relief.*

Research and Development (R&D)

Discussions with some BCTR members suggest the 175% premium R&D concession may not be as effective in driving business behaviour as was initially hoped. The BCTR believes that, while the idea of encouraging incremental R&D activities is attractive, the current premium regime does little to encourage companies to consistently maintain a high level of R&D expenditure.

Further, the integrity rules designed to prevent inappropriate manipulation of the concession at times produce arbitrary and unexpected outcomes which the BCTR believes are inconsistent with the policy objective.

Recommendation 11

The BCTR recommends the Federal Government review the premium R&D arrangements with the view of determining:

- *whether they are achieving their intended objectives; and*
- *whether there is scope for further improving the regime to encourage sustained higher levels of R&D activity.*

The BCTR also recommends that the Federal Government consider restoring the 150 per cent concessional deduction for R&D expenditure.

Effective life caps

The BCTR acknowledges changes to double the diminishing value uplift for depreciation from 150% to 200% effective for depreciating assets that a taxpayer starts to hold on or after 10 May 2006. However, although this represented a welcome across the board improvement to Australia's capital allowance regime, Australia's capital tax depreciation rules for long-life assets remain unattractive compared to many competitor countries.

Under our historical cost depreciation rules, the real value of depreciation deductions for long-life assets is significantly eroded during the later years of the lives of those assets. The situation has been further complicated in recent years through the ad hoc introduction of effective life caps for some industries but not others.

The time is right for a more comprehensive way of addressing the problems confronting industries investing in long-life assets by introducing a 20-year effective life cap across the board.

In addition, from 8 May 2007, the head company of a consolidated group or Multiple Entry Consolidated (MEC) group is taken to have acquired assets of a subsidiary member at the time that those assets were acquired by the subsidiary. Accordingly, where a subsidiary entity acquires an asset before 10 May 2006 and subsequently joins a consolidated group on or after 10 May 2006, the head company of the consolidated group will be taken to have acquired the assets of the subsidiary entity at the date that the subsidiary entity acquired the assets. Therefore, the consolidated group will not be permitted to depreciate the relevant assets at the 200% rate. The BCTR believes that this does not achieve the correct result as it goes against one of the fundamental principles of the tax consolidation regime that an asset acquisition is treated in the same way as a share acquisition.

Recommendation 12

The BCTR recommends there be a 20-year effective life cap on depreciating assets other than buildings.

Recommendation 13

The BCTR recommends where a subsidiary entity is acquired by a tax consolidated group on or after 10 May 2006, the deemed acquisition rule that is contained in the tax consolidation provisions allow an entity to access the 200 per cent depreciation rate for existing assets that it holds.

Corporate tax rate

Although Australia's headline corporate tax rate is broadly comparable to the tax rate of key competitors, the Warburton/Hendy *International Review of Australia's Taxes* released in April 2006 notes that Australia has the highest corporate tax burden in the OECD-10 grouping of countries (chosen by the Review panel as those most appropriately comparable to Australia).

This has been underscored by the most recent OECD statistics, which show Australia's corporate tax burden is continuing to increase. The BCTR believes the principal reason for this outcome is the significant strengthening of Australia's business tax base as part of the Review of Business Taxation measures introduced from 1999 onwards. Comparative countries, such as Canada are starting to bring down their corporate income tax rate and the pressure is building for something to be done to reduce the income tax burden on Australian businesses.

Throughout the election campaign, the Labor Party raised concerns about the international competitiveness of Australia. Australian businesses need a strong base from which to compete in global markets, and the level of domestic tax is an important ingredient in driving productivity and ensuring that Australian businesses remain competitive.

Combined with the current resources boom and inflation/interest rate environment, the macro-economic context of the 2008-09 Budget may be such that large personal income tax cuts are not economically desirable. The BCTR believes measures should be taken to reduce the corporate tax burden.

Recommendation 14

The BCTR believes the corporate income tax burden should be reduced through either:

- *modifying the base by adopting the business taxation recommendations outlined in this submission; or*
- *reducing the corporate tax rate.*

FBT and Child care

Workforce participation rates in Australia, particularly those of women, are well below those in many other OECD countries. One of the major factors contributing to this less than adequate workforce participation rate is the lack of availability and rising cost of childcare for Australians with children.

The BCTR acknowledges that employers have an important role to play in developing appropriate work and family policies. However, eligibility rules for FBT exemption in respect

of employer provided child care currently discriminate between employees on the arbitrary basis of whether the employer is willing and able to provide on-premises child care.

The BCTR believes this discourages many businesses from offering employer-based childcare options, with flow-on effects for the welfare-to-work issue.

The BCTR recommends that the scope of the existing FBT exemption for on-site childcare be increased so that effectively all employer-sponsored childcare is FBT free. This initiative should help to ease the pressures on the childcare system, by:

- (a) increasing the number of childcare places available overall, including those in regional centres;
- (b) allowing smaller employers, not just large companies to offer childcare;
- (c) increasing competition in childcare generally;
- (d) providing greater access to 'long day' and 'after hours' childcare; and
- (e) reducing the substantial cash-economy childcare industry.

The BCTR believes that increasing the availability of childcare, should have a flow on effect for workforce participation which is a key element in boosting productivity and subsequently economic growth rates.

Recommendation 15

The BCTR believes that employer-sponsored childcare should be made more viable by removing the on-premises requirement for employer-sponsored childcare.

Further, consideration should be given to extending the FBT exemption to include expense payment fringe benefits.

Withholding tax on distributions to non-residents from Australian managed funds

The BCTR welcomes the Government's commitment to developing Australia as a global financial services centre. We believe that there will be significant benefits to the Australian economy, by investing in and developing the export potential of the financial services sector.

During his budget reply speech in May 2007, Mr Rudd said that a Labor Federal Government would halve the withholding tax rate on distributions from Australian managed funds to non-residents from 30 per cent to 15 per cent. The BCTR supports this initiative as it will enhance Australia's competitiveness as a financial centre and create a more efficient and internationally competitive business tax system. A reduction in the withholding tax rate to a flat and final 15% rate is an important first step as it:

- puts Australia's withholding tax rates on a similar footing to other advanced Real Estate Investment Trust markets, in particular the United States;
- places foreign pension funds on an equal footing to domestic superannuation funds;
- aligns the withholding rate for distributions of rental income to dividend distributions under Australia's tax treaties;
- is administratively efficient; and,
- protects Government revenue.

We also look forward to participating in the Board of Taxation's review of listed property trusts and managed funds, as we believe there would be considerable benefits from streamlining the tax administration of these investment vehicles.

Recommendation 16

The BCTR submits that Australia needs a flat and final withholding rate that is both competitive, and removes the need for complex tax administration. Accordingly, we would support an initiative for a flat and final withholding tax of 15%, but would recommend 12.5% as a more competitive rate.

Capital Gains Tax Taper Relief

With the removal of indexation for all taxpayers effective from 21 September 1999 and the introduction of the CGT discount for trusts, individuals and superannuation funds, corporate taxpayers have been at a disadvantage when it comes to the assessment of capital gains in Australia. In order to put companies on an equal footing with other taxpayers, and to more closely align Australia's tax system with that of other countries and be more internationally competitive, the BCTR recommends that consideration be given to providing CGT taper relief for business assets held for the medium to long term. This would broadly reduce assessable capital gains according to the period of ownership of the relevant asset. The longer the asset has been held, the lower the percentage of the gain that is assessed to capital gains tax. This should encourage long term-investment in business assets subject to capital gains tax.

Recommendation 17

The BCTR submits that the Government consider the benefits of introducing taper relief for assets held for the medium or long term.

Budget night lock up admissions

We understand that the Treasurer's Office issues invitations to business groups prior to Budget Night, inviting them to send representatives from their organisation to participate in a Budget Night "Stakeholders' Lock-up". The BCTR are not invited, nor allowed entry upon request, to participate in the Lock-up.

As a major business group that has participated constructively in the tax reform process over the past ten years, the BCTR believes that it (and other business organisations alike) should be afforded the opportunity to participate in the "Stakeholders' Lock-up".

Recommendation 18

The BCTR submits that in the interests of equity, business groups such as the BCTR should be afforded the opportunity to participate in the "Stakeholders' Lock-up".

PERSONAL TAXATION

Personal tax regime

Given Australia's strong reliance on the personal taxes as a source of revenue (as recently affirmed in the Federal Government's *International Comparison of Australia's Taxes* report), the BCTR believes further personal tax reform is warranted if we are to develop and maintain a system that is simple, fair, efficient and internationally competitive.

The BCTR welcomes the Labor Government's recent pre election announcements which reduce personal taxes through a combination of both threshold and rate modifications. However, we call for something more substantial than a tinkering of the income tax thresholds and rates.

It is clear that Effective Marginal Tax Rates ("EMTRs") and the welfare to work transition remain an ongoing challenge. However, if Australia is to develop a personal taxation system that is fair, efficient and simple, they are a challenge that must be met.

The BCTR acknowledges that both the incidence and impact of EMTRs have been reduced over the last few years. Further, the BCTR supports the Federal Government's approach of targeting welfare to those most in need, and acknowledges that in these circumstances EMTRs can never be entirely eliminated.

Notwithstanding this, we encourage the federal Government to continue to seek improvements in EMTRs as an ongoing agenda item.

As noted in the BCTR's *Personal Income Tax Public Discussion Paper*, released in February, there is no automatic solution to problems with Australia's personal tax system. Instead, these issues would be best addressed via thorough debate and a comprehensive public consultation process. To that end, the BCTR called on the Federal Government to establish a thorough and dedicated review process.

Recommendation 19

The Federal Government should commission a comprehensive review of Australia's personal taxation system. That review should be conducted by a prominent Australian, and tasked with developing a clearly structured tax reform plan that will take Australia forward. Such a process would need to address not only costs but also the distributional impacts of potential change.

Recommendation 20

Consideration should be given to additional measures that would increase both the capacity of and the incentives for Australians to save including promoting a culture to support sensible life-time saving through improved policies to encourage children to save. Options that could be considered include further changes to the taxation of superannuation arrangements.

Employee Share Scheme provisions

The BCTR has a number of concerns with the operation of Australia's employee share plan provisions.

The BCTR's first concern is with an ATO view that the CGT employee share scheme provisions in Division 130 of the Income Tax Assessment Act 1997 do not extend to provide CGT relief to the transfer of a share from an employee share trust to an employee. If this

view is correct, then an additional taxing point arises on the exercise of a relevant option acquired under an employee share plan for the trustee of the employee share trust. This represents an unwelcome departure from the taxing points within the scheme of employee share plan provisions in Division 13A of the Income Tax Assessment Act 1936.

Accordingly, in the BCTR's view, Division 130 of the Income Tax Assessment Act 1997 will need to be amended to make it clear that an employee acquires a share under an employee share scheme for the purposes of the employee share plan provisions when the employee acquires the share upon the exercise of a right acquired under an employee share scheme.

The BCTR are also concerned with the taxation of share rights and options where an election is not made to be taxed up front on the grant of the right or option. In such a scenario, the taxing event may be when the relevant employee leaves their employment with the employer. The relevant shares have often not vested at this time, with the result that the employee is unjustly required to pay tax on an unrealised gain. In some cases, the full amount of this gain is never realised as the relevant share price falls between the cessation of employment and the time that the share vests or is sold. Therefore, on the basis of equity and international competitiveness, the BCTR recommends that the law be amended to remove the cessation of employment as a taxing event.

Recommendation 21

The BCTR recommends that Division 130 be amended to make it clear that an employee acquires a share under an employee share scheme for the purposes of the employee share plan provisions when the employee acquires the share upon the exercise of a right acquired under an employee share scheme.

Recommendation 22

The BCTR recommends that the law be amended to remove the cessation of employment as a taxing event.

STATE TAXATION AND THE INTERGOVERNMENTAL AGREEMENT (IGA)

The BCTR supports the Labor Government's point of view that Australia urgently needs a new way for federal and state governments to work together. Australia's current federal structure does not economic and social reform that Australia needs to raise productivity over the coming decades and the BCTR believes that the pattern of Federal/State financial relations should be transparent, efficient and sustainable.

The BCTR considers reform of inefficient state-based taxes to be a key element in developing an effective and competitive taxation system for Australia.

With the introduction of the Commonwealth Goods and Services Tax (GST) in 2000, the Treasurers of each state and territory agreed to abolish nine state-based taxes in exchange for additional GST revenue under the IGA.

The BCTR acknowledges the important reform role the Federal Government has played in this regard, particularly in respect of its offer in March this year to extend the period under which it guarantees no state or territory will be disadvantaged under the IGA to 30 June 2009.

Although all states and territories have now agreed to the revised timetable to reduce many of the taxes cited in the IGA, the BCTR notes that:

- the state and territory timetables for complete abolition of some of these taxes stretch into 2011; and
- no state or territory has timetabled the abolition of non-residential conveyancing duty proposed in the IGA.

The BCTR is encouraged by Federal Treasurer's confirmation that stamp duty on commercial conveyances should remain a part of the reform program.

However, there is concern that without continued pressure from the Federal Government, the state and territory governments will balk at meeting their full IGA commitments and therefore the agreed objectives of the IGA.

Similarly, without pressure from the Federal Government, the state and territory governments will be reluctant to bring forward the timetabled abolition of the IGA taxes, even as GST windfalls increase.

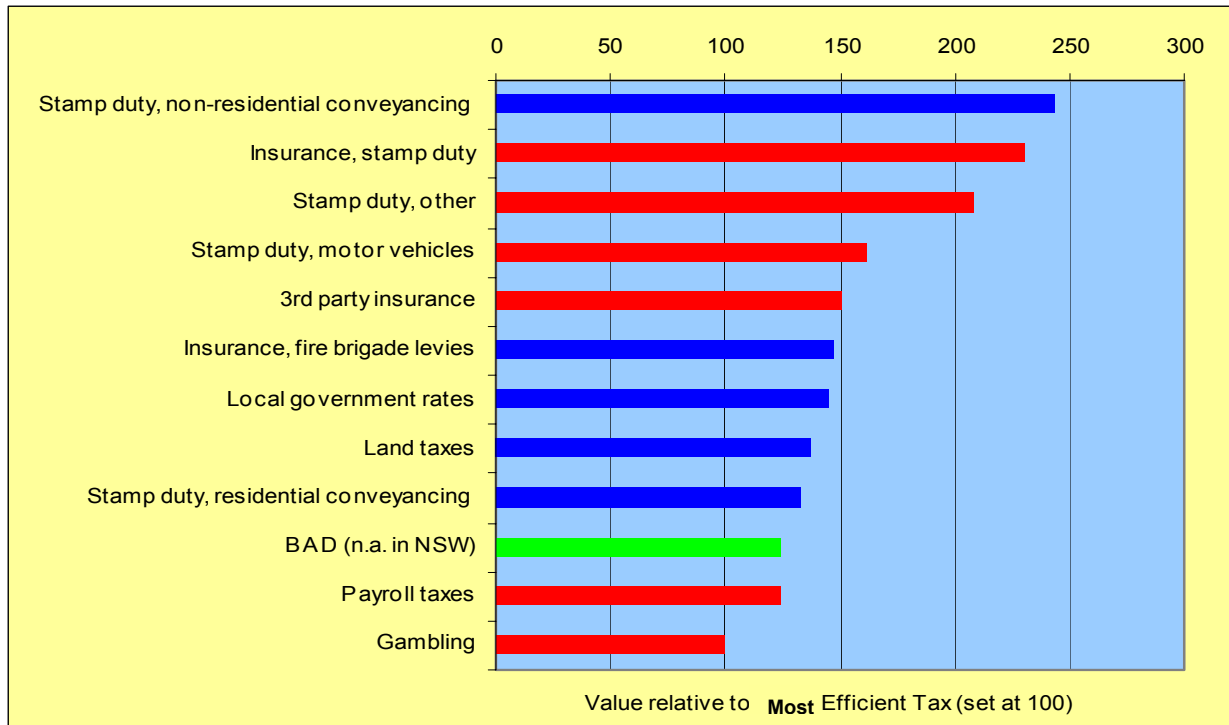
These delays are a source of considerable frustration for Australian businesses, particularly those operating in more than one state or territory.

It is clear that state and territory governments stand to gain from reducing and abolishing inefficient taxes. The BCTR's 2004 report, *Axing the Alcabala: A program for 21st Century State Tax System* prepared by Access Economics, shows that state and territory economies stand to gain major dividends from meeting the IGA commitments.

These dividends include higher real investment, increased employment and production, and higher real incomes and living standards. This in turn creates a more competitive business environment that attracts increased capital, greater business activity and more jobs.

The report also lists a number of other inefficient state taxes which will give similar advantages to state and territory governments that embrace ongoing reform beyond the scope of the IGA. These include land taxes, local government rates, stamp duty on residential conveyancing, stamp duty on insurance contracts (including life insurance and life insurance riders) and fire services levies. An updated Access Economics table of inefficient state and territory taxes is included below.

(In)Efficiency Ranking for State Taxes



The BCTR urges the Australian Government to continue to encourage the states and territories to embrace an ongoing program of reform in line with increasing GST revenue flows.

Recommendation 23

The Federal Government should continue to exert pressure on the states to:

- *honour the original IGA and abolish all agreed taxes including non-residential conveyancing duty; and*
- *bring forward the timetabled dates for abolition of each IGA tax in line with increasing GST revenue flows.*

Recommendation 24

The Federal Government should seek a commitment from the states and territories to establish a program of continuing reform designed to eliminate all inefficient taxes within the bounds of fiscal responsibility.

APPENDIX A**BCTR Tax Principles**

1. The tax system should be simple, transparent and should minimise uncertainty.
2. The design, administration and operation of the tax system should be undertaken with full and effective consultation with relevant stakeholders including the business community.
3. The tax system should fairly balance the need to protect the taxation revenue base with the principles of a good tax system, i.e. efficiency, fairness (horizontal and vertical equity), simplicity, clarity, certainty and low compliance costs.
4. The tax system should enhance competitiveness by providing a climate conducive to improved investment in Australia and from Australia for Australian-based entities and individuals.
5. Indirect taxation at the state and territory level should be more efficient and competitive.
6. The pattern of Federal/State financial relations should be transparent, efficient and sustainable.
7. The tax treatment for savings should be consistent with an overall savings policy that encourages the sustainability of strong, ongoing growth.
8. The tax, and social security, treatment of personal income and fringe benefits should conform to the principles of fairness, efficiency and simplicity.
9. The tax system should avoid the double taxation of business income and provide relief for all business expenses.
10. The tax system should not impede organisational restructuring.

APPENDIX B**BCTR Members**

Australian Beverage Council Limited

Australian Financial Markets Association

Australian Institute of Company Directors

Business Council of Australia

Corporate Tax Association of Australia

CPA Australia

Council of Small Business Organisations of Australia

Institute of Chartered Accountants

Insurance Council of Australia

Investment and Financial Services Association

Minerals Council of Australia

National Institute of Accountants

Property Council of Australia

Real Estate Institute of Australia