

AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

March 20, 2002

Mr Dick Warburton Chairman Board of Taxation C/ Treasury Langton Crescent PARKES ACT 2600

Dear Mr Warburton

At the meeting of our General Council on March 15, ACCI endorsed a resolution prepared by ACCI's Tax Committee which had come to the conclusion that the Tax Value Method contains too many unanswerable questions and that its introduction would pose far too many risks to the operation of the economy than it is willing to accept. ACCI had endorsed the TVM in principle but in examining the detail had come to the conclusion that the benefits were far outweighed by potential risks. The ACCI General Council therefore believes that there should be no further work done on the TVM and that instead the Board of Taxation should examine other options for business tax reform which are within the present framework of the Tax Act.

But in rejecting the Tax Value Method, ACCI's General Council agreed that the work of the Board of Taxation in assessing TVM and in clarifying the issues has raised the process for the examination of proposals for tax change to new heights. ACCI believes that the work done in setting out the issues and in allowing a full debate on the proposal to be conducted, that the business community has been able to reach an informed decision on the relative merits of the proposal in comparison with a more limited, and therefore less hazardous change.

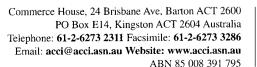
I have attached a copy of the decision reached by the ACCI General Council for the information of the Board.

Let me also, however, note that Council has asked me to raise with you the problem of the limited time allocated for commentary on the fourth draft legislation on the Tax Value Method. It is a serious concern that a detailed response to such an important issue will be impossible in the time provided. ACCI will nevertheless provide the Board with a more detailed explanation for our rejection of TVM within the time frame set.

Yours sincerely

Lyndon Rowe

Acting Chief Executive





Resolution on the Tax Value Method Passed by the ACCI General Council March 15, 2002

"In an earlier decision Council indicated its support for the Tax Value Method (TVM) in principle but made it clear that the TVM could only be accepted as a replacement for the current methodology used to calculate business income for tax purposes if the evaluation process conclusively demonstrated that the TVM would offer greater certainty and simplicity and would deliver significant economic benefits over and above the compliance costs arising from changing to the new system. It has now become clear through the evaluation process undertaken by the Board of Taxation that no such assurances are possible.

"ACCI is not convinced that there are sufficient benefits to taxpayers in recompense for the transitional costs of moving to the new system. Moreover, the evaluation process has not demonstrated long-term benefits to individual firms nor to the economy in general. There is instead evidence of major increases in compliance costs especially amongst small business.

"The Board of Taxation has now revealed its fourth revision of the legislation but in doing so has not allayed the concerns of business. The benefits remain uncertain and the problems continue to appear large. While in a global sense the TVM may be tax neutral, it would not be neutral for individual firms. The transitional cost remain large and there are many problems posed by the TVM for small business that would make the shift to the TVM extremely risky.

"ACCI therefore opposes the introduction of the Tax Value Method. It believes business tax reform should remain high on the Government's agenda but that this particular proposal should be abandoned and instead efforts made to find an alternative through changes made within the existing framework.

"ACCI does, however, note that the time and effort spent on the evaluation process has been a major step forward in tax design. The process has presented a model of how such tax reform should continue to be undertaken where there is a full consideration of all of the issues. The Board of Taxation should be commended for its extraordinarily thorough examination of the issues and should be encouraged to seek solutions to the current problems of the tax system.