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The Board of Taxation
C/- The Treasury
Langton Crescent
PARKES ACT 260

Dear Sir,

RE: FEASIBILITY OF INTRODUCING THE TVM

Thank you for forwarding the comprehensive package of documents comprising the overview, the information paper, prototype legislation and explanatory material in relation to the possible implementation of the TVM method of calculating taxable income.

It is understood that the proposal involves the replacement of the ITAA 1936, ITAA 1997 and the Capital Gains Tax legislation. I envisage that the Goods & Services Tax and the Fringe Benefits Tax legislation will not be greatly impacted.

EXISTING INCOME TAX CONCEPTS

A key feature of our existing income tax legislation is the nexus of expenditure and income as clearly prescribed in Section 51(1) of the original 1936 act and restated in like terms in the 1997 re-write with appropriate qualifications for expenditure of a capital or domestic nature.

This concept of comparing income with expenditure is logical and derives from the fundamental accounting concept of "matching income with related expenditure". Accordingly accounting systems (both manual and automated) have traditionally been developed to yield a net profit figure, which in the vast majority of small business situations also doubles as taxable income. The situation with large corporates (i.e. reporting entities) is somewhat more complex with the need to append a "reconciliation statement" to adjust for differences between accounting and tax concepts. However even with these entities the fundamental starting point is the "net accounting profit".

The operation of this matching concept is well established and supported by an extensive array of judgments and rulings. The discarding of this fundamental and well understood principle will be very difficult to justify.

TVM OPTIONS UNDER CONSIDERATION

It is understood that four TVM options are under consideration viz:-

- a) Direct Preparation Approach,
- b) Reconciling from Profit & Loss Approach,
- c) TVM Formula Approach Version 1, and
- d) TVM Formula Approach Version 2.

If the STS and Non STS options are counted there are in fact a total of eight different methods of deriving taxable income under TVM.

A) Direct Preparation Approach

This option is based on the deduction of expenses from income with due allowance for tax losses. The changing tax values of assets and liabilities is ignored and this approach appears to mirror the existing basis of determining taxable income. I cannot see how this option can be regarded as TVM.

B) Reconciling from Profit & Loss Approach

This starts with the accounting profit and loss and takes up the changing book values and changing tax values of assets and liabilities together with upward, downward and tax loss adjustments. It is considered that the worksheet provided is an oversimplification and that in the real world a worksheet for the worksheet would be necessary. I can see little to recommend this convoluted approach which without doubt would significantly increase taxpayer compliance costs.

C) TVM Formula Approach Version 1

This option does not commence with the accounting profit of an entity, but rather with the net receipts and payments of the business. This net figure is then adjusted to account for changes in the tax values of assets and liabilities.

It is assumed that this option is available to businesses currently using the "cash basis" of accounting rather than the "accruals basis" which has even been adopted by government departments as the appropriate basis of accounting. For those small businesses using the "cash basis" I envisage they would much prefer option 1 (Direct Preparation Approach) which is what they are doing now.

C) TVM Formula Approach Version 2

This approach is based on "money at the end of the year" less "money at the start of the year" with adjustments for the changes in the tax value of assets and liabilities, upward and downward adjustments and tax losses.

Unfortunately I do not understand this option and can only assume that it must be accompanied by a comprehensive set of worksheets to enable a result vaguely similar to taxable income to be ascertained.

THE LEGISLATIVE TARMAC

While the 2001 Corvette is a high performance vehicle best suited to a smooth tarmac with "no gaps or overlaps", the '57 Chev is a classic which has a proven track record in all conditions.

I think the above comparison best sums up my attitude to TVM. The existing taxation system may not be perfect and has grown significantly over recent years, but it works relatively well, is supported by a wealth of case law and precedents and is in harmony with established accounting concepts.

IMPLEMENTATION TIMETABLE

This firm prepares hundreds of business taxation returns each year and given the fundamental and far reaching changes incorporated in TVM, an implementation timetable of four to five years would appear necessary.

RECOMMENDATION

In conclusion it is my view that the effort involved in implementing TVM cannot be justified and I do not believe the impact on government revenues of such a fundamental change can be easily forecast.

Conversely it is considered that more pressing reforms comprise the adoption of a joint tax return option for married taxpayers, the full deductibility of superannuation contributions, the abolition of the superannuation surcharge and the alignment of the top marginal individual tax rate with the corporate tax rate.

Yours faithfully,



J.K. LAWRY

J.K. LAWRY & ASSOCIATES