Telstra

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The Board of Taxation
C/- The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir,

RE: TAX VALUE METHOD

I wish to thank the Board for giving Telstra the opportunity to review and comment on the current development of the Tax Value Method ("TVM").

Telstra has been actively involved in the TVM consultation process from the initial discussions of TVM in 1999 and more recently Telstra participated in the high level evaluation of the proposal in early 2001.

Telstra's view is that the conceptual framework of the TVM could deliver the improvements needed in Australia's current income tax legislation. However, the detail contained in the prototype legislation released on 6th March 2002 requires more substantial development before it is possible to arrive at the conclusion as to whether it positively addresses the complexity, inconsistencies and volume of the current law.

While more work is required on the development of the law before a conclusive position can be taken as to whether the TVM will achieve the objectives set by Government there are a number of immediate issues that need urgent attention. These are:

1. the impact of TVM on current tax compliance systems; and

2. the delayed introduction of the rights regime recommended in "A Tax System Redesigned" released by the Review of Business Taxation ("Ralph Committee") in September 1999.

Telstra has undertaken a high level analysis of its current tax compliance systems and how they will be impacted by the introduction of the TVM. The cost of changing current systems and processes to comply with the TVM could be substantial with little identifiable cost of compliance savings in the longer term. This is a major issue that needs to be fully evaluated by the Board. There is a need to demonstrate real improvements in the cost of compliance and tax administration before Telstra can fully support the introduction of TVM.

A matter of equal importance to Telstra is the introduction of the rights regime recommended by the Ralph Committee. Telstra has made a number of representations to both The Treasury and the Australian Taxation Office about the lack of effective tax relief for rights and intangible assets.

At present where such rights are of a wasting nature with a definite economic life there is a need to engage in extensive lobbying before the Government will grant tax relief through the introduction of specific legislation. This has been the case for spectrum licences, datacasting licences and indefeasible rights of use over international submarine cable systems where separate lobbying was undertaken to secure tax relief.

The current income tax rules are inappropriate for the communications and information technology (CIT) sector. The current business tax laws were designed for primary and secondary industries and not for the emergence of the CIT sector. The lack of general rules around the provision of tax relief for rights and intangible assets has resulted in inequities and economic inefficiencies. This matter requires urgent attention.

If the recommended rights regime is tied to the successful introduction of TVM then a major reform measure that demands immediate implementation may be delayed for a number of years or worse, never introduced. This is an unacceptable situation. It is therefore our submission that the rights regime be carved out of TVM and be immediately introduced as a separate measure.

I trust that this submission is of assistance to your consideration of the Tax Value Method.

If you wish to discuss the matters raised above, please do not hesitate to contract either John Burke on (02) 9298 4851 or David Mouritz on (03) 9634 8605.

Yours faithfully

~~John Stanhope~~
DIRECTOR FINANCE