Revenue Law Journal

Volume 9 | Issue 1 Article 1

January 1999

Editorial

Duncan Bentley
Bond University, Duncan_Bentley@bond.edu.au

Jim Corkery
Bond University, Jim_Corkery@bond.edu.au

Editorial

Abstract
[Extract]Change is exciting. Change is challenging. We find it especially interesting to contemplate the opportunities it brings while relaxing by the pool with a glass of good red wine.

We are less enthusiastic about it when it changes the changes that we are in the process of making. Australian business has to cope with that and more.

EDITORIAL- Volume 9

Change is exciting. Change is challenging. We find it especially interesting to contemplate the opportunities it brings while relaxing by the pool with a glass of good red wine.

We are less enthusiastic about it when it changes the changes that we are in the process of making. Australian business has to cope with that and more.

This volume of the Revenue Law Journal is late. The main reason for the delay was that we had three good articles ready for publication. Unfortunately, the law changed and we could not publish them after all. An article on the operation of the capital gains tax ("CGT") retirement exemption is undergoing its third rewrite in a year.

If the author has the fortitude, we hope to publish it in the next volume.

We have great sympathy with the view of the Taxation Institute of Australia, that any introduction of Option 2 of the Ralph reforms should be delayed until at least 2002.

For non-Australian readers, in its simplest form, Option 2 will determine taxable income using a cashflow/tax value approach and align taxation law more closely with accounting principles. It will radically alter the current business tax system.

A committee chaired by John Ralph proposed Option 2 in a comprehensive report on the Australian tax system. The current government favours its introduction on 1 July 2001, following consultation with business. Many other proposals from the report have already been introduced, particularly a major overhaul of the CGT.

A value-added-tax, the Goods and Services Tax ("GST"), also comes into effect from 1 July 2000.

The introduction of the Ralph reforms and the New Tax System will stretch the resources of business, the tax profession and the Australian Taxation Office ("ATO") to the limit.

There needs to be at least two years before another fundamental change is made to the tax system. Otherwise there is a real risk that the system will not be able to cope. That does not mean it will fall over in a crumpled heap.

It means that businesses will not make a proper job of introducing the further changes into their already overstretched systems. It means that advisers will not have the resources to ensure that the implementation takes place. It means that the ATO will not be managing an efficient changeover, but responding desperately to an increasingly belligerent "clientele".

There are political problems with any delay.

If the Government does not introduce the changes from 2001, it will be too close to an election to do it any later. Option 2 does not have the unequivocal support of the Federal Opposition. It is quite likely that Option 2 will be dumped unceremoniously in the aftermath of a Labor election victory.

Experience suggests that the Government may lose the next election. Most governments that introduce a consumption tax are voted out at the election following the tax's introduction.

Politically, any introduction of Option 2 will be, as Sir Humphrey Appleby would say, "a courageous decision".

A concern for the taxpaying community is that the Federal Opposition is already campaigning for a roll-back of the GST.

The Shadow Treasurer recently praised the British budget cuts of the VAT rate, including cuts on installation of energy saving materials in all homes and various other energy saving measures for the less well-off.

He concluded his press release by praising the European Union for cutting the VAT in some labour intensive service industries to help create more jobs and crack down on the black economy. Why is a roll-back of the GST a concern? First, because it creates more change and, as we said in our last editorial, there may be better ways to deliver benefits to the less well-off than through the tax system.

Try telling that to a politician of any colour. Second, because it will make the GST even more complex.

Peter Wilmott, a former Director General for Indirect Tax in the European Commission and VAT Commissioner in the UK's Customs and Excise, speaks about the VAT system in a book review.

Its basic principles are easily obscured by the complexities forced on politicians by the pressures of lobbies and interest groups, a process that makes VAT much less suited to the needs of developing and emerging economies than its rapid spread would suggest.

Nor is there always a clear vision of the needs of the tax itself. It works best when allowed to shift the whole burden of the tax forward to the final consumer.

However, technical difficulties and political opportunism combine to frustrate this beneficial effect of the tax, by setting aside very significant sectors of economic activity as areas where the deduction of VAT is "blocked", and the transparent forward shifting of the burden is stopped in its tracks.

The result is a cascade tax that is hard for the final consumer to see and impossible for businesses like banks and insurance companies to deduct. The only visible response is the blossoming avoidance industry, growing fat on fees from companies eager to restructure in "VAT efficient" ways.

Change is one of the key factors that make a tax system complex. Another is tinkering with the existing system to cater to specific interest groups.

If Australia needed a major overhaul of its tax system, its politicians have a moral duty to introduce any further changes so that they fit within the basic principles that underlie the new system. Otherwise, we simply revert over time to the imbroglio of rules that we have just replaced. Plus ça change, plus c'est la même chose.

Duncan Bentley
Jim Corkery

General Editors