



AUSTRALIAN  
INSTITUTE OF  
COMPANY  
DIRECTORS

ABN 11 008 484 197

*Professionalism in Directorship*

**Submission**

**To**

**The Board of Taxation**

**On**

**Tax Value Method**

**10 May 2002**

## **Australian Institute of Company Directors**

Australian Institute of Company Directors (AICD) is the peak organisation representing the interests of company directors in Australia. Current membership is over 16,500, drawn from large and small organisations, across all industries, and from private, public and the not-for-profit sectors. Membership is on an individual, as opposed to a corporate basis.

Australian Institute of Company Directors is a federation of seven State divisions, each of which is represented on a National Council. Overall governance of the AICD is in the hands of its National Council which is comprised of the seven division Presidents, plus a National President, two National Vice-Presidents and a National Treasurer. Australian Institute of Company Directors has several national policy committees, focusing on issues such as law, accounting and finance, environment, taxation and economics, and national education, along with task forces to handle matters such as corporate governance.

The key functions of AICD are:

- to promote excellence in director's performance through education and professional development
- to initiate research and formulate policies that facilitate improved director performance
- to represent the views and interests of directors to government, regulatory bodies and the community
- to provide timely, relevant and targeted information and support services to members and, where appropriate, government and the community
- to maintain a member's code of professional and ethical conduct
- to uphold the free enterprise system
- to develop strategic alliances with relevant organisations domestically and internationally to further the objectives of the AICD

## **Recommendations**

- (1) AICD recommends against implementation of the TVM. See reasons detailed below in “The basis of the recommendation against TVM”.
- (2) AICD recommends against further development of the TVM. See reasons detailed below in “The basis of the recommendation against TVM”.
- (3) AICD supports the consultative approach pursued in relation to investigation of the TVM.
- (4) AICD agrees with the view that there are more pressing areas of tax reform than the approach to business tax methodology.
- (5) AICD recommends a limited period of high level evaluation and analysis of alternative options and approaches to business tax methodology. This should be restricted to a six month period and not allowed to run over. The focus should be on what reform might realistically and practically be achievable and beneficial. Grandiose theories and legislative rewrites should be avoided. The object should be to establish whether a superior and more sustainable business taxation system could be developed in Australia in a realistic timeframe, in tandem with acceptable transition costs.

## **The AICD way forward**

In principle, AICD fully supports reforms and improvements to business taxes.

Further, the present business income tax laws would undoubtedly benefit from wholesale reform

The key issue to determine is:

1. What system might be preferable?
2. Whether such a system could be developed in a realistic timeframe? And
3. Whether this could be achieved in tandem with acceptable transition costs?

AICD believes that this key issue should be investigated, scoped and assessed.

It is important to use the now successfully developed "best practice" approach to consultation.

Vitality, AICD advocates that the period of analysis should be *limited to no more than six months*.

AICD believes that any proposed reforms must be realistic and practical from an overall business perspective, and should be implemented in a practical and attainable timeframe.

AICD is committed to a productive and supportive role alongside the Board of Taxation. We look forward to participating constructively, both directly and through our membership of the BCTR, in further work.

## **The basis of AICD's recommendation against TVM**

AICD supports the conclusions reached by the Business Coalition of Tax Reform in its submission to the Board of Taxation.

Thus, AICD does not support the TVM because:

- a) The TVM legislation is very complex.
- b) The TVM calls for the identification of assets and liabilities that are not currently identified in accounting records.
- c) The net income formula has proved difficult to understand and to explain and will give rise to considerable confusion.
- d) There are risks to the integrity of the tax base through opportunities for arbitrage around liabilities involving cross-border transactions. These risks will, in turn, give rise new areas of complexity, instability and uncertainty.
- e) Uncertainty and potential additional complexity may arise from international tax arrangements.
- f) The changes proposed under the TVM apply only to the core rules and significant complexity will remain in the many specific policy measures that exist outside the core rules.
- g) There would be significant transitional costs over an extended period.
- h) The benefits of the TVM are not sufficient to warrant the adoption of TVM.