

**From:** Suryan Chandrasegaran  
**Sent:** Friday, 12 April 2002 5:53  
**To:** taxvaluemethod@taxboard.gov.au  
**Subject:** Submission on proposed Tax Value Method

Dear Sirs,

I am a tax agent and solicitor practising in country Victoria.

In my view, there is a need to address the complexity, inconsistencies and volume of Australia's current income tax legislation and related materials.

I thought that the TLIP Tax Law simplification project was a worthwhile venture in making the tax laws more coherent, and less inconsistent and voluminous. However, the problem the TLIP project faced was that the project did not have a brief of changing and simplifying the substantive tax law. I believe a great volume of tax law could be abolished by abolition of the various different taxes and regimes (in particular, anti-avoidance regimes such as the personal services income provisions and Division 7A) and reliance on strengthening of the general anti-avoidance provisions of Part IVA. Such a measure should not result in reduced revenue, whilst saving compliance costs.

I also believe that our taxes need to be more diversified, especially in light of Australia's high levels of foreign debt and worsening current account deficit. Continued major reliance on income tax is unsustainable (a point made during the GST debate). However, reliance on the GST to fund future spending is also unsustainable since a drop in consumer demand in a recession will reduce revenue at a time when increased government spending is warranted. Facing a recession with falling GST and income tax revenues, coupled with a high foreign debt (most of it incurred by the private sector but regarded by international capital markets as Australian debt) and a large current account deficit could trigger a crisis resulting in falling investment confidence and a prolonged recession.

It is my view that taxation should be diversified and taxation policy reviewed now in order to address the above dangerous factors.

To encourage private sector reduction of foreign debt and reduce the component of the current account deficit relating to interest flowing offshore, I propose that tax deductions be removed on interest paid to foreign lenders. There would still be sufficient competition in the local financial market to keep interest rates at their current levels.

To address the component of the current account deficit relating to imports, I recommend introduction of a temporary primage on all imports. Such a primage is permitted under the GATT rules where a country has a significant current account deficit (such as Australia). The revenue raised from the primage would reduce reliance on income tax as the major source of Commonwealth government revenue.

Whilst such a primage duty is permitted under the GATT rules, some in Treasury might argue against such a duty on the basis that it contravenes the principles of 'free trade', 'free markets' and 'zero tariffs'. In response, I point out that these principles are not adhered to by the vast majority of our trading partners (for example, the European Union still has excessively high tariffs applied to Australian agricultural produce, the

United States has recently introduced significant tariffs on imported steel products, Japan's domestic rice market is highly protected). The tariffs raised by our trading partners is used for a range of purposes (including protection and income support for their domestic industries). Whilst we do not need to use the revenue collected by a primage duty in a similar manner, it does seem illogical for Australia to miss out on the extra revenue generated by such a duty without any corresponding benefit (since the existence (or otherwise) of an Australian primage duty will not convince our trading partners to remove their tariffs against Australian products).

A third source of additional revenue would be a Tobin tax on financial transactions. This tax should be set at a sufficiently low level so that it does not impact on one-off commercial or personal transactions (including defensive hedging strategies for exporters) but significantly adds to costs incurred by financial speculators and 'hot money' which have produced real instability for the Australian dollar. A relatively stable exchange rate is necessary to give long-term confidence to Australian export industries.

In relation to the TVM concept, my understanding of the concept is that it will simply result in a different way of producing the same result. The TVM concept will not change underlying tax policy or liability in anyway, with the net tax result remaining the same (as a result of the proposed adjustments to the taxable income formula).

As such, the TVM concept is not revolutionary; it seems merely to be another way of reaching the same net tax result attainable under the current system. If the TVM concept does not really change the end result or reduce compliance costs, I query whether it is of any benefit compared to the status quo. The TVM concept only appears likely to be an additional source of increased compliance costs, with no benefit to either taxpayers, their advisers or government (since no extra revenue will be collected, but taxpayers will incur increased compliance costs adapting to the TVM system).

Therefore, I fail to see any specific benefits the TVM would have for taxpayers or their advisers, but I would predict increased compliance costs in adapting to the TVM if it is adopted.

Accordingly, I submit that the Board would be best advised to devote its resources in pursuing tax reform which would be in the long term interests of all Australians by focusing on one or more of the 3 alternative tax measures I have raised earlier in my submission.

If you have any queries, please do not hesitate to contact me.

Yours faithfully,

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