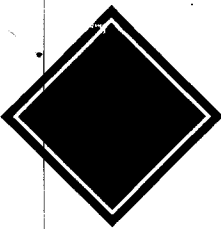


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10th May, 2002

Mr Murray Edwards
Board of Taxation
Landgton Crescent
PARKES ACT 2600

Mr Edwards,

Re: Tax Reform Tax Value Method

I have read the report about the TVM field trials issued 29th April, 2002 by the Centre of Professional Development and a summary of the ICAA TVM submission on or about 6th of May and wish to comment as under. First let me introduce myself. I have been in Public Accounting since 1951.

During my career I have spent many years teaching Accountancy and Taxation principles. In 1995/1996 I was appointed a Professor at (2) Beijing Universities lecturing in Macro-Economics, Company Law, Bankruptcy Law, and advanced Management Techniques.

During my career I developed a large and wide ranging Professional Accountancy Practice with offices throughout South Australia, the Northern Territory and corresponding offices in all States of Australia.

I am a Fellow of the Chartered Institute of Accountants; Fellow of Australian Society of CPA's; and a Fellow or Associate of many other professional organisations. I am a Registered Company Auditor, and Licensed Liquidator. Member of the Alumni of the University of South Australia, Flinders University and at present working on my Phd in China Studies.

I believe my background is quite useful in commenting on the 'Tax Reforms' from 1st July 1999. In regard to the GST, I have gained knowledge of the systems in Japan, Singapore, China, USA, UK as well as New Zealand. The system developed here in Australia, with the subsequent administration, was and is unnecessarily complicated and is still in need of quite drastic change of administration before it will work smoothly.

Since 1999 we have worked closely with our clients, the Tax office as well as Computer Software suppliers and to date not one of our many clients have been successful in completing their yearly BAS Reconciliation correctly, however our larger clients are coming to terms with the GST administration, at extra compliance cost. Our clients found sales tax easier to attend to as compared with GST.

On the other hand many of our smaller clients have just given up and lacking basic accounting and computer training are just guessing. As we are concerned we refuse to Audit or check



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their calculations; because if we do, the cost is prohibitive as well as time consuming. Furthermore by carrying out any Audit or check procedure we could become liable under common law and be forced to pay tax penalties as well as have our reputation damaged.

Proposed TVM Reform

You are referred to your own website, which had at the 1st of January, 2002 (5) five pieces of draft legislation and explanatory memorandums. At that time of the year working professionals were up to their ears in assignments for the 2000/2001 year, plus attending to on going GST returns as well as attending to various managing, auditing and other services.

Very few professionals had the time or capacity to seriously review the proposed legislation. A basic issue of the TVM is that all increases in wealth take the form of cash income, increases in the value of Assets and decreases in liabilities. While decreases in wealth operates in the negative way.

The Ralph report holds that adopting this method would reduce complexity, uncertainty and actually simplify our existing Taxation System and align tax law with accounting standards. With great respect for the Ralph Committee and its members such a hypothesis is not correct.

The whole core principle of Cash Flow/Tax Value does not equate with Accounting Standards. It is unnecessary for me to state anything else about the proposed TVM, as you and the present Board Members would have a firm grasp of this proposal. However I must point out to you that the recent field trial by my peers in the Chartered Institute verified my opinion about the system.

I strongly urge you and your board to seriously reconsider the imposition of this system onto the taxpaying public of Australia as well as upon the professionals who must train, supervise staff and clients to make such a system workable.

During the taxation year 2001/2002, over 5000 pages of information was supplied in connection with Amendments to the various Acts and specific Rulings, as well as draft Bills for consultation and Bills for Parliament Review and adoption. On top of this information our clients and offices were inundated with Australian Taxation Office practice statements, advice notes, change to various administrative actions and corrections of many errors in advice as well as issued statements.

Our practice (as are the majority of smaller practices in Australia) is mainly concerned with Small to Medium sized businesses and taxpayers. Such businesses do not employ qualified accountants to attend to their day to day operations.

Accordingly our practice, offers the expertise to supervise their business operations, management and administration. However over the past 2 years we have become more and more involved in taxation compliance and less involved in working in management to improve the operations and profit of the business, yet our clients costs have doubled to achieve this compliance. Our office is preparing financial accounts upon a more regular basis (one strike for GST) and this has proved helpful for the larger client taxpayer, but of little use to the small taxpayer.

We not only help prepare monthly, quarterly and yearly BAS tax returns as well as the yearly income tax return we are faced with much more correspondence between the Australian Taxation Office, our clients and our office and now with the implications of the Privacy Act the Australian Taxation Officers will not even speak to us about client affairs, that is if we can even get to a Tax Officer by telephone.



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Increasingly we have become bogged down with difficult to interpret Legislation and Regulation. Mr Edwards may I suggest that any thought of commencing the TVM System be delayed until well after the imposition of Group Consolidation as well as changes being effected with the International Tax Agreement Act 1953 and many other amending bills and drafts in waiting. I am of the opinion that the best Tax Reform would be to have your board and other professionals from Academic and Business (large/small) concentrate of actually simplifying the existing complicated Taxation Legislation before imposing another onion layer.

I wish to bring to the Boards attention that over 83% of all Australian Businesses in year 2000 employed fewer than (5) five people. The small business sector is the life blood of the Australian Economy and provided employment for more than 3.3 million people.

The Australian Bureau of Statistics figures establish that in year 2000 1.114600 private sector businesses employed 6.7 million people of these 96.4% were in micro-business employing 3.9 million people or 47.2% of all private sector employment. While this all important sector of our economy is constantly renewed by the prevailing spirit of Australians "give it a go" it is now struggling to cope with burdens heaped upon it by Government Red Tape, Tax Reforms (which increase work and compliance costs) and plagued with the heavy responsibility of Tax collection upon the small business sector by way of GST.

While the Ralph Committee was aware of the big end of town in proposing Tax Reforms, the plight of the small business sector has been overlooked. GST advantaged the Federal and State Governments, and big business but not small business. Group Consolidation will advantage big business. Not small business. TVM may be satisfactory for big business, but will totally confuse and burden small business. Is it the intention of Ralph Committee, the Treasury, the Taxation office and your Board to make small business operations so difficult that people will not even try to start their own business?

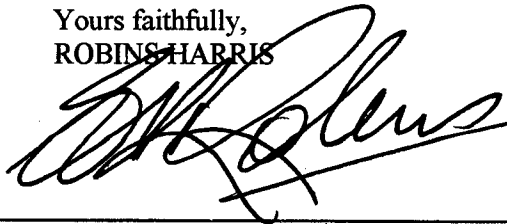
Members Experience with the Australian Taxation Office

Over the past 12 months Taxation Professionals throughout Australia have notified the office of the Chartered Institute of the many problems they have had in dealing with the Australian Taxation Office and Tax Reform.

In an issue of CA Tax Updates (which issues weekly to all Members in practice) Tuesday the 30th April contains the various comments from Members. Hopefully this will give you and your Board Members some idea of what it is like at the coal face of Tax Practice.

If the Board really wants to gauge the opinion of practitioners, I have no doubt that the Chartered Institute and the Australian Society of Certified Practising Accountants would cooperate and send out a survey to find out just how practitioners feel about Tax Reform to date and the prospects of TVM. Please remember, Members of the Ralph Committee as well as your Board Members, may not have the day to day experience out in the front line and no experience with daily frustrations experienced by the Small Business sector and professionals who service this section of Australian Economic progress.

Yours faithfully,
ROBINS HARRIS



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PR 2002/44: Clearstream Olive Project No 5

Addendum Notices

PR 2002/38: Australian Growth - Timber Project No.4

Joint Comments from Professional Bodies

The professional bodies have prepared a submission on Draft Taxation Ruling TR 2002/2: Home Loan Unit Trust Arrangement.

For a copy of the submission go to
<<http://www.icaa.org.au/upload/download/td2002-d2.doc>>

11. YOUR INPUT

On Communicating with the ATO
One member writes:

"There appears to be so many stories about the lack of communication skills from the ATO, that I must let you know of an experience I had just recently. You better sit down for this one. I actually spoke to the most helpful person from the Penrith ATO known as G. She (oops, I've already given you their gender) couldn't be more helpful in relation to one of the many BAS issues we get through our office. In fact, I wrote to the ATO and let them know how helpful one of their staff was. I now contact her when I have any BAS issue with clients. I just hope she doesn't get transferred to another section within the ATO." ✓

Another member writes:

"Recently we discovered that a huge batch of March quarter Instalment Activity Statements had not been delivered to the appropriate addresses. I rang the ATO Practitioner Help line and like so many other members, the phone answered to the now 'usual' message "Due to the overwhelming demand for this service, the lines are busy. Please call again later." I then rang 13 1142. The first time the line dropped out. The second time, I was left on hold for 10 minutes while listening to the famous "ATO Waiting album". When an agent finally answered, he advised that I should call the Tax Agent Unit on 131550. I then called this number 5 times, each time using a different combination of menu numbers (like filling in a lotto ticket) and each time the phone dropped out. (Keep an eye on Telstra's share price). So I tried the Practitioner number again and after only 5 minutes of having to endure the Waiting Album, success. The ATO would not allow me to fax a list of clients' names and tax file numbers but took one client's tax file number and said they would look into the matter and be in contact. (I can hardly wait). How long are we going to have to put up with this BS? Could the Institute please continue to pressurise these morons into getting their act together."

Another member writes:

"I think that it is absolutely appalling that the 137286 line has been jammed this week. The nerve of Carmody to stand up in front of major conferences and talk about tax administration when we are faced with not even being able to talk to our tax administrators because they can't even man the phones is absolutely breathtaking.

My sentiments are nothing new, I've read it all before, but maybe if I add my voice to the din the powers that be might have to listen, one day, I hope."

On ATO administration & competence
One member writes:

"Just thought I would quickly share my recent experience. My client is an annual PAYG instalment payer. Over the past few months I have had many notices from the ATO demanding that I lodge an Annual BAS (yes BAS) for this client. I have then contacted the ATO (in all about 10 times) to try and explain that this client has no requirement for BAS and is an annual PAYG client. My last experience took the cake. I finally got on to the lodgement area to speak to a girl who proceeded to tell me that ALL my PAYG annual instalment payers should lodge an Annual BAS and that the forms must have been sent directly to the clients. She finally agreed to go and speak to a supervisor and rang me back to confirm that she was correct. I requested that they send the Annual BAS to me (knowing there was no such thing for this client) and what do I receive? A copy of the Annual Instalment notice. I then rang the lodgement centre back and was

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hen told that the matter was finalized and no Activity Statements are outstanding. Yahoo (I think)

What I want to know is who is training these people on the end of the phone? The basics of the system are not hard and they put them on the front line to answer questions when they clearly have no idea of even the fundamentals of the system. Maybe we should be asking what training goes on and requesting a better system."

Another member writes:

"Last week we received a large number of final notices for payment of income tax on behalf of superannuation funds.

All of these funds had paid an annual instalment of tax in December equivalent to the amount that was now outstanding according to the tax office. I have spoken with some of my colleagues who also received final notices in similar circumstances.

One of my staff contacted the Tax Office to sort out this mess and had to go through each fund individually whilst the Tax Office staff member checked the records. The common problem was that the annual instalment had been credited to the BAS/IAS account (these funds are not registered for GST) and not to the income tax account. The Tax Office agreed to transfer the credit.

However, after "fixing" 3 of the many funds in question, my staff member was told that they could not "fix" any more and that we would have to ring up again (and wait to get through) to resolve the rest of the funds. I never realised that there is a limit to how many questions can be put to the Tax Office in one call.

Also, given the cause of the problem, I would have expected the Tax Office to be aware of it fairly quickly, in which case, I would have also expected the Tax Office to issue an email or similar, informing us of their error and that they would resolve the problem, without the need for us to call them. Perhaps I expect too much.

We have now wasted hours of time, none of which we can expect the client to be charged for. This is just another example of the Tax Office not taking responsibility for their own errors."

Yet another member writes:

"I would like to add to comments we face as practitioners in relation to the mal-administration of the ATO. Recently I lodged two of my client's tax returns by ELS. This was followed by amended returns which were also lodged by ELS. Lo and behold, ATO could not process my clients' amended tax returns because they told me that they could not trace the original returns. I have proof that the returns were lodged, by way of validation reports from the ATO !! They then requested for relodgement of the original returns. On relodgement, one of the returns was rejected because it was shown as already lodged (yet they could not trace the return before! On following up, the Agents Assistance Unit told me that the amended return could no longer be traced for the clients. Apparently, datacorp of the ATO had removed the amended returns from the system so that We could relodge the original returns. You can imagine the amount of precious time I have wasted on this matter alone, not to mention the utter chaos!!

So, I am back to square one and would have to relodge the amended return yet again!"

On lodgement issues

One member writes:

"I write in response to the above Bulletin and lodgement problems. It strikes me as absurd that the ATO has a large DP (EDP) infrastructure, yet cannot use this to deliver consistency on lodgement program and or extensions. For that matter, the current ("Classic"?) lodgement program only covers income tax (IT) lodgements, which now form a decreasing part of our lodgement schedule. What about all the other compliance matters we are called on to assist with and or lodge? The ATO monitors them in lots of different lists, why not bring them together? As practitioners we DO NOT have one document by which we can monitor lodgements of all matters we are called on to provide client assistance for to deliver to the ATO.

We have a mish mash of IT due dates for I, C, B, T, F returns, Superannuation Surcharge Reports due dates, IAS/BAS due dates, PAYGW (Payer Summary) due date

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(nb singular), Interest and Dividend due dates. And, of course, FBT lodgements. All supposedly due when the ATO says or we get "whacked" with a penalty unless we spent more time, per client, seeking more time with Practitioner Lodgement Support (PLS) for an extension.

For example, on IT, if you have a client who has multiple years outstanding, when you complete same you only get credit for the 2001 lodgement. It would seem logical to list or include each year individually so each return gets credit, (the ATO got the revenue didn't it, we spent time). For that matter, if IASs and BASs were added to the lodgement programme then there would be, for a quarterly lodger and monthly PAYGW remitter 12 entries for 2001 year. (Or for each year). This would start to show the number and volume of lodgements we can be called on to provide to clients from this perspective alone.

If we don't lodge a particular return or form for a client, then they could be taken off the list or merely not added - you can't really do this on the current so called 'activity list' for BASs or IASs without some fuss. If any BASs are outstanding then they should also be listed - an easier way to see what we need to do. Right now the ATO can only deal with the "current cycle" (Q3/02). If you have a client with more than 1 BAS outstanding then you can't get an extension, only lodge the outstanding return and then make application for remissions. Why not manage the process rather than generate more workflows?

Might this make a lodgement program unwieldy? Maybe, but then maybe, just maybe the ATO might start to comprehend the work load we are carrying which is just a little larger than they care to admit. We lodge CDs, CBs, CPs to change some things, letters for others, fax, email, use the ATO web site, browser plugins etc etc. Yet there is no one effective lodgement program to discuss, manage or rearrange in a cohesive manner.

Surely a commitment from the ATO to start developing a 'universal' lodgement program is called for with *one* END date of 30 June. It may take time to develop, but so has this mess we have in front of us, without a comprehensive answer being mooted. (Note by either ATO or professionals). Time to start. All the ATO seem interested in is moving due dates, right at the last moment and only after the vocal practitioners have spent time to convince the ATO it is a good idea. For example, an interim measure would be to give us 3 months to put in BASs.

Another would be to remove due dates and replace them with the 30 June end date. If need be the client pays an estimate amount of tax/GST/etc by a payment due date.

Until lodgement pressures are spread over the entire year and 30 June is the only END date, then a practitioner may be able to manage his or her workflow, bring together all the various compliance administritivia and forms etc, as much as possible, (noting not all is possible) and lodge those ones together. We would deal with a client's file less, rather than pick it up and put it down many times as what happens now. The ATO would also save an immense amount of money as it wouldn't have to send the endless pieces of paper reminding us that this BAS or ITR is due, late, final warning, missed etc.

The ATO wants revenue, not merely lodgements, so if a lodgement value was placed on each type of lodgement or on each BAS or each ITR (not unlike the provisional tax system used), then the practitioner could start to manage what is required if the ATO sets a % needed within the 30 June end date. We do not need more automatic GICs, more "FTLs" (Failure to lodge) penalties, we need an effective framework to place it all in - perhaps a universal lodgement program rather than the revenue orientated threat of more money extracted from practitioners or taxpayers when the sheer volume of work and lodgements has not fully spread out between practitioners and taxpayers yet and the due dates are missed and automatic FTLs are looming.

Does this mean that we may not be able to do all what is required within a year? Perhaps, but we have no way of knowing until an effective, consistent, and transparent measuring system is set up so we can all participate to look at the stats and judge it from there. Until a suitable and improved lodgement program is designed then a more flexible approach to end dates by the ATO, with perhaps one contact in PLS so we do not have to repeat and refax the same story for each extension with a lodgement list focus not a 'per client' focus. This may assist in reducing wasted time, leaving more time to get the work done!

Sorry for the lengthy reply, but this problem is only going to get worse until the ATO provides more resources and flexibility to the lodgement control system."

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