

DEFERRING IMPLEMENTATION OF THE UNIFIED ENTITY REGIME

To reduce the potential compliance burden on business, the entity tax reforms outlined in *A New Tax System* will generally be deferred.

Key features

The Government will implement, with improvements, the reforms to achieve a unified entity regime announced in *A New Tax System*. These reforms are:

- taxing trusts, life insurers, co-operatives and limited partnerships like companies;
- simplifying the imputation system (with abolition of the intercorporate dividend rebate but without introduction of a deferred company tax);
- refunding excess imputation credits to resident individuals and superannuation funds to improve equity between taxpayers;
- providing a system of consolidation for groups of companies and trusts, while addressing value shifting; and
- achieving a consistent treatment of entity distributions.

The taxation of trusts like companies will, when implemented, provide for a flow-through treatment of collective investment vehicles (consistent with Press Release No. 9 of 22 February 1999) and the other categories of excluded trusts recommended by the Review of Business Taxation. Taxing co-operatives like companies does not involve abolishing the concession allowing a deduction to eligible co-operatives for principal repaid on certain loans.

The recommendation of the Review to adopt a comprehensive definition of distributions from entities will improve the fairness of the tax system by ensuring, among other things, that benefits provided by companies to shareholders and by trusts to beneficiaries are subject to tax. As a result, there is no need to proceed with the proposal announced in *A New Tax System* to impose fringe benefits tax on such benefits where they are not subject to income tax. The entity tax arrangements will not impact on commercially justifiable shareholder loyalty schemes such as those currently operated by some widely held public companies.

Commencement

The unified entity regime will commence on 1 July 2001, other than in respect of removing the intercorporate dividend rebate on unfranked distributions, refunding excess imputation credits and broadening the taxation base of life insurers (see Attachments L, M and N for further details on these measures).

Current arrangements

The current arrangements are characterised by an inconsistent treatment of different business entities, an inconsistent treatment of entity distributions, no coherent approach for dealing with groups of wholly owned entities, and a lack of integrity in the treatment of inter-entity distributions.

A New Tax System proposed reforms to address these problems, with implementation from the 2000-01 income year.

Why change is needed

These reforms will provide for a more consistent taxation of business entities and their members, while being fairer, simpler and having greater integrity. However, in light of other pressures on business, commencement of most of these measures has been generally deferred to 1 July 2001.