

HIGH LEVEL REFORM AND ONGOING CONSULTATIONS

The concept of the cashflow/tax value approach as recommended by the Review has been given in-principle support by the Government. It has the potential to substantially simplify the law and to improve its integrity and operation. However a workable system needs to be developed so that the new approach can be implemented with minimum disruption.

Consultations

A working group consisting of business representatives and officials from the Treasury and Australian Taxation Office will be formed to progress the practical application of the cashflow/tax value approach. Mr Dick Warburton, Chairman of the Business Coalition for Tax Reform, will lead the business representation in these consultations.

In addition to considering the implementation issues of the cashflow/tax value approach, other core concepts — discussed in *A Tax System Redesigned* — and their translation into workable law would benefit from further consultation. These issues include (but are not limited to):

- determining tax values of certain assets;
- a definition of the cost of an asset;
- defining assets receiving CGT and loss quarantining treatment;
- the treatment of private or domestic items;
- deductibility of interest;
- the treatment of trading stock;
- provisions that would be recognised as liabilities; and
- the extent to which future tax legislation could more closely align the tax treatment of a transaction with its accounting treatment.

Other recommendations that are supported in principle

Other areas to be further developed through consultation include:

- the taxation of buildings and structures, financial arrangements and leasing and rights;
- a high-level standardised ‘arm's length value’ rule for calculating taxable income;
- standardising the taxation of partnerships and other joint activities;
- international tax measures relating to a withholding tax regime (including the rate of tax applying to non-residents), branch taxation, transfer pricing, non-residents Australian source salary and wages; and
- aspects of Australia’s international tax regime, including foreign source income rules and the design of the international tax legislation.