

**The Geelong Chamber of Commerce**  
*Advancing Business and Industry in the Geelong Region*

Victorian Business Centre 69-71 Moorabool Street GEELONG VIC 3220

Tel: 03 52222234

E-mail: [admin@geelongchamber.com.au](mailto:admin@geelongchamber.com.au)

Fax: 03 52222235

**SUBMISSION TO THE  
AUSTRALIAN TAX REVIEW  
FOR  
AUSTRALIA'S FUTURE TAX SYSTEM**

10 October 2008

**1. INTRODUCTION**

On behalf of its Members, The Geelong Chamber of Commerce is pleased to have this opportunity to have input into the review of the Australian Tax System.

The Chamber has made a number of submissions relating to taxation including a major submission to the Review of Business Taxation – *A Strong Foundation* – in December 1998 and the final *Ralph Review of Business Taxation* – in June 2000.

The Geelong Chamber was the only Chamber of Commerce in Australia to make a submission to the first review.

The Chamber fully supports a total review of taxation and strongly supported the Commonwealth Government's business taxation review in 2000.

The Chamber also supports major taxation reform.

The Chamber strongly submits that a bold and innovative approach should be taken by the government to simplify taxation laws rather than merely simplifying the expression of the present very complex laws.

The Chamber believes that, despite a number of attempts to bring this about, the complexity of the present taxation system virtually makes it impossible for business managers to understand its requirements of business and this places them at a serious disadvantage.

These and other aspects are further discussed in this submission.

**2. THE CHAMBER**

The Geelong Chamber of Commerce has, as its primary roles, the fostering and advancement of commercial and industrial activity and being the effective and independent voice of business for the Geelong region.

The Chamber is a totally independent non-profit business organisation and has operated continuously since its establishment in 1853 and represents all business and industry sectors in Geelong.

It is non-political and is funded solely by members' subscriptions and is answerable only to its members - currently 700 - who are drawn from a wide diversity of large, medium and small business enterprises and organisations operating in Geelong, and include, for example, Alcoa

Australia, Ford Australia, Deakin University, Barwon Health, City of Greater Geelong, etc., to individuals and it speaks on their behalf.

The Chamber's Vision is:

*The Geelong Region will be recognised nationally and internationally as one of Australia's strongest and most prosperous centres of commerce and industry and the Chamber as its leading organisation representing and supporting business.*

The Chamber's Mission is:

*The Geelong Chamber of Commerce will advance business and industry in the Geelong Region through creative and innovative leadership, advocacy, co-ordination and promotion of business interests.*

The Geelong Chamber, in representing the community's interests as well as business and industry members, sees itself as an important stakeholder providing regional leadership. This has been the recognised and accepted role of the Chamber over the past 155 years.

### **3. BACKGROUND**

As mentioned earlier, the Chamber is very familiar with all aspects of tax laws and the methods of levying tax on businesses and individuals.

The Chamber has made a number of submissions to the Federal Treasurers, the Treasury, and the Victorian Treasurers on taxation policy.

The Chamber's recent submissions to the Federal Treasurer/Treasury have included:

- Fringe Benefits Tax
- Capital Gains Tax
- Superannuation surcharge
- Tax deductions on Goodwill
- Plain English Tax Law
- Discretionary Trusts
- Concessions for Small Business
- Depreciation
- Tax deductions in Agribusiness and Managed Investment Schemes
- Board of Taxation – Proposed changes to Tax Law

The Chamber has also been periodically interviewed by Federal Treasury officers on the Geelong region's economy and the state of regional businesses.

The Chamber is also invited by the Reserve Bank of Australia to attend quarterly briefings on the RBA's *Statements on Monetary Policy* in Melbourne given by the RBA's Assistant Governors or RBA's Senior Economic Policy Advisers.

### **4. CHAMBER'S PROPOSALS**

#### **4.1 Joint Income Tax Returns for Married Couples**

The Chamber recommends that the income tax legislation be amended to allow married couples a choice of lodging a joint income tax return and being taxed either as if the couple was a single individual taxpayer, or at least at a rate which would be significantly less than that which would apply if all the couple's income was derived by one of them only.

The Chamber is aware that this option is available in some other countries.

The Chamber believes that its introduction in Australia would overcome the handicap currently borne by single income families.

The tax offsets presently available for dependants and the family tax benefit do not adequately compensate the single income family in which one spouse cares for young children while the other works and derives the family's income.

The introduction of this option would partly obviate the need for some small business owners to create partnerships or operate through discretionary trusts, thus complicating their businesses and creating what are in some cases artificial structures in which the "stay at home spouse" is portrayed as being active in the business.

The option may encourage some parents (mostly mothers) to stay at home to care for young children instead of having to earn money by working.

This could also enable some jobs to become available for people currently unemployed.

#### **4.2 Reducing the Gap Between Company and Individual Tax Rates**

There is much economic waste caused by highly qualified legal and accounting practitioners devoting time to creating complex business structures for clients to overcome the current disparity between income tax rates for companies and individuals.

One of the direct consequences has been the need to introduce Division 7A, with all the consequent waste of professional time in trying to avoid its punitive application, and, on the part of Tax Office staff, investigating and challenging taxpayers on complex arrangements arising from that Division.

This is only one consequence of the disparity of rates.

Many other tax avoidance strategies have arisen for the same reason, occupying Tax Office staff and professional advisers.

The Chamber recommends the narrowing, and eventual elimination of the gap between the company income tax rate and the top personal tax rate.

#### **4.3 Tax on Carbon Trading Permits**

The Chamber recommends that:

##### **4.3.1 Carbon Trading Permits should be GST-Free.**

The introduction of such permits was not envisaged when the Goods and Services Tax was introduced in 2000.

The Chamber believes that its application to Carbon Trading Permits will aggravate the effects on liquidity for businesses required to pay large amounts to meet their commitments under carbon credit trading.

##### **4.3.2 Tax Deductions**

Tax deductions should be available when emissions occur rather than when permits are surrendered. This will help to "smooth" the tax implications of the Carbon Pollution Reduction Scheme and help businesses' cash flows by aligning the tax deduction more closely to the liability.

##### **4.3.3 Accelerated Tax Deductions on Research & Development**

Accelerated tax deductions should be allowed for expenditure on research and development into ways to reduce greenhouse gas emissions and carbon capture and storage.

#### **4.4 Pay-Roll Tax**

The Chamber recommends the continuing reduction in the rate of Pay-Roll Tax charged by the States.

The Chamber believes that this tax discourages employers from employing more employees and encourages attempts by employers to avoid the tax by artificial and complex means.

The introduction of the GST and the consequent boost in State revenue should have been used to reduce Pay-Roll Tax as well as stamp duty and some “peripheral taxes”.

The Chamber firmly believes that employers need all the encouragement possible to provide more jobs.

Reducing Pay-Roll Tax is one way to help achieve this.

#### **4.5 Stop Using Tax Laws to Achieve Social Welfare Objectives**

The Chamber recommends that the practice adopted over many years of using income tax concessions to achieve social welfare and political objectives be terminated.

The practice not only distorts the tax system but conceals the financial cost of the concessions. It also results in poorly targeted outcomes.

In addition, tax deductions favour individuals on higher tax rates (and, therefore, on higher incomes) who least need the help.

The objectives should be achieved in a transparent manner instead of being hidden in tax statistics.

In the case of separated couples and the entitlement to family tax assistance, the Chamber believes that the current practices can be unfair.

The Chamber believes that where a partner cares for the dependent children for a specified time, their entitlement to family tax assistance should be on a pro-rata basis and without the need for consent from the other partner.

#### **4.6 Simplify the Tax System**

The Chamber recommends that, to diminish the appalling complexity and enormous volume of tax laws – in particular the Income Tax assessment Act – the above recommendations 4.2 and 4.5 be adopted, and that the 1936 and 1997 Acts be merged immediately, using as simple and non-technical language as possible.

The Chamber submits that there are two main reasons for the growth in size of the Income Tax Assessment Act: (1) the introduction of additional sections to close “loopholes” including those created because of the disparity between the company tax rate and the top personal tax rate; and (2) the use of tax laws to achieve political and social objectives. The Chamber submits that tax law should be purged of all extraneous sections based on such objectives, and that these objectives should be achieved in a more transparent manner, such as through CentreLink transactions.

### **5. FINAL COMMENTS**

The Chamber is pleased that the Australian government is carrying out this major review of the Australian Tax System.

The Chamber is also pleased to have this opportunity to have input into the review.

The Chamber asks that the comments made in this submission are carefully considered as part of the review process.

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Submitted for and on behalf of The Geelong Chamber of Commerce by resolution of its Council.

The Chamber agrees that the contents of this submission can be made public.



Lawrie Miller  
Executive Director

T: 03 52222234

F: 03 52222235

M: 0412 961 761

E-mail: [lawriem@geelongchamber.com.au](mailto:lawriem@geelongchamber.com.au)

Website: [www.geelongchamber.com.au](http://www.geelongchamber.com.au)

Address: Victorian Business Centre, 69-71 Moorabool Street, Geelong Vic 3220