[redacted]

From: Paul Hoggard <[redacted]>
Sent: Monday, 30 September 2024 7:41 PM
To: Deductions
Subject: Submission regarding proposed change to deny deductions for the general interest charge and shortfall interest charge.

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Dear Treasury,

As a tax accountant and member of the general public, I wished to submit a response to the consultation for the proposed amendment to make the general interest charge (GIC) and shortfall interest charge (SIC) non-deductible.

Overall, this change seems reasonable. Its core premise - that allowing a tax deduction for interest charged on late tax undercuts the intent of said penalties - is logical. I am compelled as an accountant to note that it will negatively impact some of our clients, and that applications for discretion to remit penalties rarely seem to be granted to clients who deserve it instead of the inverse, but that's ancillary to this law. I have no objections to the proposed change itself.

I must, however, raise something that is not included in the law and should be: the interest on early payments. For context, the ATO pays interest to taxpayers who lodge and pay their income tax more than 14 days before it is due. It also applies to a number of other payments, including shortfall interest charges. Please find the ATO's webpage regarding this interest for your reference: https://www.ato.gov.au/individuals-and-families/paying-the-ato/interest-and-penalties/interest-we-pay/interest-on-early-payments

This interest is assessable income. This makes sense: interest charged on late payments is currently deductible, so interest paid on early payments should be assessable.

This law, however, would change the interest charged side of that equation without changing the interest payments.

This is inconsistent with accounting practice and inconsistent with usual operations of tax law. More importantly, it's inconsistent with the intent of the proposed measure. If interest charged will be made non-deductible to avoid undercutting the fact that it's supposed to be bad, interest paid as an incentive to pay tax early should be made non-assessable. Otherwise, the same undercutting issue happens: it reduces the incentive to pay tax early because you'll be charged extra tax for doing so.

Additionally, as noted interest on early payments can also be applied on shortfall interest charges (although I confess I've never personally seen this). Were the proposed law to be enacted as it stands, this could create the farcical situation where a taxpayer would be charged non-deductible interest and then be assessed on interest income when they pay it!

The overall impact of making the interest on early payments non-assessable should be minimal. This interest is rarely applied and always far less than any interest charged. Making interest on early payments non-assessable is unlikely to have any material impact on overall tax revenues.

I would strongly recommend that the proposed measure be amended to also make interest on early payments non-assessable, to be consistent with the stated intent of the measure without any significant impact on the measure's effects.

Kind Regards,

Paul