



Australia's tax system is too complex

Governments in Australia should consult more with relevant stakeholders in the early stages of developing tax policy, a parliamentary committee has recommended in a new report on tax administration. The Public Accounts and Audit Committee report was tabled in federal parliament today by committee chair Sharon Grierson.

According to the committee, simple, widely agreed tax policy will deliver simpler legislation and a simpler tax system. This will reduce taxpayer risk. The federal government's current tax review, *Australia's Future Tax System*, is an obvious vehicle for achieving this.

Tax administration involves striking a balance between efficiency and fairness. The report concludes that the Tax Office is reasonably successful in this. "The Committee received evidence that the Tax Office is a world leader in tax administration," Sharon Grierson said. "Certainly, we were impressed by their professionalism. The Committee concluded they are doing a good job overall."

"However, the level of service that the Tax Office gives to taxpayers is constrained by the complexity of the tax laws. Governments and the Parliament need to spend more time in developing simple, coherent tax policies and legislation. Better tax policy will deliver a simpler tax system and decrease the tax burden."

Under self assessment, taxpayers must accept some tax risk because the Tax Office can amend their assessment later on. If there is a tax shortfall, the Tax Office can apply penalties and interest. Complex tax laws increase the chance of taxpayer error and increases their risk. In 2004, Australia had the third most complex tax system of the 20 largest economies in the world (largest by GDP).

The report also recommends that the Tax Office accept court decisions, either at first instance or on appeal. The recommendation arises out of the *Essenbourne* case, decided in the Federal Court in late 2002. Instead of appealing, the Tax Office stated that it did not accept the decision and would bring another test case to determine if *Essenbourne* was correct. In early 2007, the Full Federal Court published its decision in *Indooroopilly*, confirming *Essenbourne*. The Tax Office's actions therefore prolonged uncertainty for taxpayers for a period of over four years.

Ms Grierson said "an important initiative from this inquiry has been the agreement of the Commissioner of Taxation to appear before the Committee twice each year, to answer questions about developments in tax law administration. Three of these hearings have now been held. As one of the few occasions where the Commissioner answers questions in public about the tax system, the hearings are developing into an important accountability mechanism for the Parliament and the community".

For more information: please contact the Committee chair, Sharon Grierson MP, on telephone 0412 291 654 or the inquiry secretary on telephone (02) 6277 4574 or visit the inquiry's website at www.aph.gov.au/house/committee/jpaa/taxation06/index.htm.