TAX REFORM SURVEY 2015
Have we waited too long?
“The long-term picture needs to be at the forefront in order to achieve reforms which will allow the country to be competitive.”
ABOUT BDO'S TAX REFORM SURVEY

Have we waited too long for genuine tax reform? Australians have spoken and think GST and State taxes are the most in need of attention.

BDO is heavily engaged in the tax reform process and committed to broadening the debate to involve more than just those who have a vested interest in the status quo.

This is the fourth year BDO has gathered responses from the tax-paying public in relation to the state of tax reform in this country. As such, we see this survey as a chance for us to tap into the community’s feelings about tax reform in Australia. Your responses also allow us to bring a wider perspective when we participate in consultative forums and enable us to properly represent your views to those in positions of influence.

The number of responses to the survey has increased by more than 61% this year. Respondents are from all walks of life and work across all types of businesses. They include employees, the self-employed, representatives of small, medium, and large businesses, those who operate overseas as well as domestically, and not-for-profit entities.

We would like to thank all respondents for their participation. The future of the tax system in this country is too important and too far-reaching to be considered behind closed doors by only those who have traditionally been engaged in this debate.

The survey results indicate that the Australian taxpaying public is asking yet again for more action and less talk in relation to tax reform and the highest items on their list is reform of the GST and state taxes.

The upcoming debate over the parameters of the Tax Reform White Paper will hopefully give some credibility that the Government is serious about tax reform. It is hoped that the process on debating the issues for the Tax Reform White Paper is seen as wide ranging and transparent, otherwise, based on our survey sentiment, the Australian taxpaying public may doubt the ability of the Government to deliver real tax reform.
"I think a 1.5% cut in the company tax rate is not enough to align Australia with the OECD company tax rate of 24% and will still leave Australian companies in an uncompetitive position, especially if a 1.5% levy is imposed on large companies."
This is BDO’s fourth annual tax reform survey. The consistent message from all four of our surveys is that Australians are tired of waiting and want the Government to get on with the business of reforming Australia’s tax system.

The survey results show the Australian taxpaying public agree with the recent OECD Economic Survey on Australia, which was released in December 2014. Both our survey respondents and the OECD see the reform of the GST and State taxes as two of the most important tax reform issues facing Australia.

The Federal Government has been delaying any real action on tax reform while it waits for the finalisation of its Tax Reform White Paper, which will not be released until late 2015 or early 2016. The White Paper’s tax reform recommendations will not be implemented until after the next Federal election (assuming the Government is re-elected). Assuming the election is in late 2016 and the Government is re-elected, it is likely that we will not see any material tax reform from this Government until 2017 at the earliest.

Last year’s BDO Tax Reform Survey was undertaken soon after the Federal election in late 2013. In that Survey we asked you to tell us what message you wanted to send to the new Government about tax reform. The overall message for the Government was:

You have raised our expectations of a real, effective conversation about tax reform. You need to make sure that you have that conversation and then act on it. The years of talk need to come to an end. The years of action must begin.

The last meaningful reform of the tax system was 15 years ago with the introduction of the GST and the Pay as you Go system, the implementation of various capital gains tax concessions, and the abolition of various state taxes and duties in 1999/2000. Fifteen years before that it was the introduction of Capital Gains Tax, Fringe Benefits Tax, and dividend imputation between 1985 and 1987. It’s the 15-year tax reform itch and Australian sentiment is clear, we have waited far too long.

We have not yet seen any effective conversation or action on tax reform. Since the release of the Henry Report in 2010, to date all we have seen is more talk without any action. The results of the BDO 2015 Tax Reform Survey indicate the continuing frustration with the delay of meaningful Australian tax reform. The unnecessary and unhelpful complexity found throughout the system is becoming a greater burden on business. Hopefully with the release of the Issues Paper for the Tax Reform White Paper we will at least see the start of an effective conversation on tax reform, but it appears any real action will not be for many years. The question have we waited too long now becomes – how long do we have to wait?
In all four BDO tax reform surveys more than 75% of respondents agreed or strongly agreed that the Henry Review recommendations should be revisited. Taxpayers’ patience in relation to action on tax reform is again being tested with 93.1% agreeing or strongly agreeing that there is too much talk and not enough action on tax reform.

Of the more than 100 recommendations in the Henry Review, less than 15% have been fully or partially implemented. This highlights the previous Government’s limited action on tax reform since the release of the Henry Review and appears to be the impetus for the survey participant’s responses. It is interesting to note that many of the remaining Henry Review recommendations, if implemented, may not be welcomed by parts of the business community, for example the recommendation to reduce the small business CGT concessions. However, despite this, there is still strong support for revisiting these recommendations. We see this as showing that the Australian business community is ready to put everything on the table in the process of a thorough consideration of the tax reforms needed to bring the Australian Tax System into the 21st century.

The glaring omission from the Henry Review was any consideration of GST (because of the limitation of its terms of reference). The survey responses to GST reform indicate that Australians want GST well and truly on the table for tax reform (see response to GST questions on page seven). In this regard we welcome that the Government has stated that reform of the GST will be part of the Tax Reform White Paper.

While most of the Australian community is frustrated with the slow pace of tax reform, at least we will have a process in place with the release of the Issues Paper for the Tax Reform White Paper, which we expect will consider most of the remaining recommendations from the Henry Review.

**YOUR COMMENTS**

“There is too much short-term thinking in relation to tax reform.”
WE ASKED

A review of the GST is essential to any discussion of tax reform.

The responses to this question were very positive with more than 90% of respondents agreeing that GST must be considered in any tax reform discussion. As we did last year, we asked a series of further questions to try to break this down further. Our findings were:

- 62% of respondents disagreed when presented with the statement that ‘the GST rate should never exceed 10%’ (compared to 18% who agreed that it should never exceed this percentage)
- 71% agreed that the GST rate should be increased to fund the abolition of state payroll taxes and stamp duties (17% disagreed with this proposition)
- 49% agreed that changing the GST rate was a good idea in order to enable a cut to personal tax rates (29% disagreed)
- 66% of respondents agreed that ‘all GST exemptions should be abolished to simplify the system’ (23% disagreed).

The responses reflect an emphatic assertion that GST must be addressed in any review of the tax system and, as such rejects the exclusion of GST from the terms of reference of the Henry Review.

The responses also provided strong indications of what the result of such a review should be, with strong support for:

- An increase in the GST rate (representing a substantial increase in responses compared to last year)
- A broadening of the tax base of the GST through the abolition of GST exemptions, and
- The application of the resulting increase in tax revenue to the removal of dysfunctional state taxes such as payroll tax and stamp duties (again representing a substantial increase in responses compared to last year).

It is noteworthy that while the use of increased revenue from the GST to fund reductions in personal taxes got some support, this was dwarfed by the support for the use of such increases to fund the reduction of state taxes.

Of additional note is that the OECD in its recently released Economic Survey of Australia 2014 advocated Australia increasing its indirect taxes (such as the GST) and the use of such increases to fund decreases in the company and personal income tax rates and the abolition of distorting state taxes.

YOUR COMMENTS

“It was promised that with GST all other taxes would go. This never happened. All the hidden taxes are costing jobs.”

“GST was meant to replace State transaction taxes when it was introduced.”

“In order to kick start the economy why not increase the rate of GST and cut ...all other taxes, retaining a safety net for pensioners.”
WE ASKED

The complexity of the tax system is a significant barrier to operating an efficient business.

Australian businesses are spending an increasing and unreasonable amount of time and resources on tax compliance.

Over the four survey years there has been a consistently high proportion of respondents (between 70% and 92%) who have agreed or strongly agreed that the complexity of the tax system is a significant barrier to operating an efficient business and they were spending too much time and resources on tax compliance.

This result, when combined with all survey years shows a rate of about 90% of respondents that have disagreed or strongly disagreed that the tax system is easy to understand. This represents a significant frustration the Australian community has with the current tax system. Australian taxpayers have a strong appetite for consideration and implementation of real tax reform by Australian Governments (Federal and State).

However, these results also imply that taxpayers will not be happy with reforms that do not simplify the tax system. Reforms that involve complex compliance requirements or require difficult tax technical interpretations will not be welcomed.
Our tax system is easy to understand and compliance is easy.

YOUR COMMENTS
“Tax is far too complex.”
“Simplify the tax system.”
WE ASKED

The current tax system adequately caters for the Small Medium Enterprises (SME) sector.

The current tax system adequately caters for larger public and private companies.

The questions about how well the current tax system caters for various types of taxpayers demonstrates a split between attitudes towards the adequacy of the tax treatment of SME compared to the tax treatment of large companies. There were 63.3% of respondents who disagreed or strongly disagreed that the tax system adequately caters for small medium enterprises; whereas only 29.8% disagreed with this question for large companies. These differences could be attributed to the number of respondents from public companies being 12.4% compared to 53.7% from private companies.

Given the differences in the proportions of respondents from small and large companies, it is reasonable to interpret from these results that respondents for small, medium and large entities are not happy with the way the current tax system caters for their business needs.
YOUR COMMENTS

“The general compliance regime for small businesses (of which tax compliance is a component) is a significant barrier to growing small business participation in the economy.”
WE ASKED

Australia’s tax system is competitive with those of our international counterparts.  

The tax system promotes Australia as a desirable location for regional headquarters and investment.

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A large majority of respondents disagreed or strongly disagreed with both these statements, which is consistent with the results in the previous three surveys.

Australia is increasingly integrated into the international economy but Australia’s corporate tax rate of 30% (perhaps 28.5% in 2015/16) is higher than the OECD average of 24%. This would indicate Australia is not competitive when attracting foreign investment. Also Australian enterprises would find it difficult to compete with foreign entities that are taxed at lower rates in foreign countries.

This is exacerbated by the lack of effective interaction of the Australian tax regime with the tax regimes of foreign countries, which can result in inappropriate double taxation (even where Australia has double tax agreements with other countries). This is particularly so for Australian shareholders in Australian resident companies that have foreign investments. This is because the foreign tax that companies pay is not creditable against the income tax the shareholders have to pay on dividends paid out of the foreign income of the company.
While Australia provides tax relief to companies for many forms of foreign income, this relief does not flow through to the company’s shareholders when the company pays out the foreign income as unfranked or partially franked dividends. Commonly, the company will pay no or reduced Australian tax on the foreign income. This can result in the company not having enough franking credits to frank or fully frank dividends paid to shareholders. The foreign tax paid by the companies cannot be used by the shareholders as a credit against their Australian tax on the unfranked or partially franked dividends. This can result in effective overall tax rates on foreign sourced profits of more than 75% in some cases.

We would support a mechanism that allows some form of tax relief for the foreign tax paid in the situations described above to be considered in the Tax Reform White Paper.

In relation to the question on Australia as a desirable location for regional headquarter and investment, Australia has introduced a conduit tax regime that allows Australian companies to repatriate foreign income tax free to foreign shareholders. However, this does not attract foreign investors seeking Australian sourced profits, as they will be taxed at Australia’s relatively high corporate tax rate.

The higher corporate tax rate in Australia is likely to be one of the main detractors from corporate investment in Australia. The proposed 1.5% reduction in corporate tax rate is unlikely to affect this issue in a significant way. The Henry review’s proposal to reduce the company tax rate to 25% would bring Australia’s corporate tax rate more in line with the OECD average.

**Your Comments**

"The long-term picture needs to be at the forefront in order to achieve reforms which will allow the country to be competitive."
WE ASKED

There are too many different forms of taxes being paid by Australian businesses.

State payroll taxes and stamp duties are a significant impost on business.

The results of the survey suggest that it is not just the complexity of the taxes charged in our economy that bothers taxpayers. The number of different taxes, and the number of registrations and reporting requirements of the various jurisdictions is also of concern.

It is evident from the responses to our question on the taxes most in need of reform, that there are a number of state based taxes that are perceived as inhibiting business growth and business transactions. The elimination of taxes such as payroll tax and stamp duties raised in previous surveys continues to dominate the comments gathered by this year’s survey.

The means of addressing such inefficient state taxes was addressed in the responses to our questions in respect of GST. Respondents to our survey strongly advocated an increase in the rate and broadening of the base of GST as a means of funding the removal of inefficient state taxes. The responses to our question on the taxes most in need of reform placed GST as a clear number one, with state taxes a clear second.

At the Federal level, it is strongly debatable that the Fringe Benefits Tax is an unnecessary tax. As addressed elsewhere in this report, this tax could be removed by simply assessing fringe benefits to recipient employees, as is done in the vast majority of other countries.

YOUR COMMENTS

“Payroll tax is the greatest company demotivator in respect of employment.”

“Paperwork is the real burden of small business that must be reduced.”
WE ASKED

The proposed reduction of the corporate tax rate by 1.5% is a necessary reform.

It is appropriate to fund paid parental leave by imposing a 1.5% levy on large corporates.

The support for the proposed 1.5% reduction in the corporate tax rate has reduced from 60.4% in the 2014 survey to 50% in the 2015 survey. While this is still significant support, the reduced support may have been influenced by a new question on the appropriateness of imposing a 1.5% levy on large companies to fund the proposed paid parental leave. It is significant that 71.6% of respondents disagreed or strongly disagreed with the 1.5% levy for paid parental leave.

The reduction in support for the company tax rate reduction could be a result of some participants thinking the 1.5% paid parental leave levy tainted the 1.5% company tax rate cut by complicating the tax system and negating the rationale for the corporate tax rate cut. One of the main reasons to implement a company rate cut is to make Australia more attractive for large multinationals to operate in Australia. The paid parental leave levy on large companies would mean this aim would not be realised in relation to the large multi-national companies we are trying to attract, as it would increase their tax rate to 30%.

YOUR COMMENTS

“I think a 1.5% cut in the company tax rate is not enough to align Australia with the OECD company tax rate of 24% and will still leave Australian companies in an uncompetitive position, especially if a 1.5% levy is imposed on large companies.”
WE ASKED

The highest personal marginal tax rate and the company tax rate should be aligned.

The Government should consider taxing trusts as companies.

The support for the alignment of the top marginal individual tax rate and the company rate remains at about 50%. This refers back to the days when we had the company rate and highest marginal individual rate aligned at 49%. It is not clear whether the respondents want the company rate to go up to the individual rate, or the individual rate to come down to the company rate, or for them to meet somewhere in between. It is interesting to note there are very few countries that align the corporate tax rate with the individual tax rate. In most cases the corporate rate is lower than the individual highest marginal tax rate.

The OECD’s recent report on the Australian economy concludes there is room for a reduction in both the corporate tax rate and the individual rate, but the OECD suggests that this would be dependent on a broadening of the tax base in other areas, particularly GST, land taxes and payroll taxes. This gives support for a wide ranging review of the Australian tax system in the upcoming Tax Reform White Paper.

The number of respondents who agreed with the proposition that trusts should be taxed as companies has reduced from 50% last year to 42.2% this year. While the reason is unclear, the decrease may be attributed to the expectation that the tax laws for trusts will be dealt with in the Tax Reform White Paper. While some of the complexities of taxing trusts may be dealt with in the Tax Reform White Paper, we understand the proposed rewrite of the law for taxing trusts that was suggested by the Henry Review is unlikely to be included in the Tax Reform White Paper.

It will be interesting to see what reaction there is in next year’s BDO tax reform survey if the Tax Reform White Paper does not adequately deal with the current complexities of the tax laws for trusts.

Over the last few years we have called for a debate on a compromise solution that allow trusts to be taxed as companies on an elective basis.
Reform of the taxation of companies to allow taxation on an immediate ‘flow through’ basis to shareholders should be considered.

We consider this to remain an appropriate solution. In fact, we would go further and suggest that:

- Trusts should be able to elect to be taxed as companies, and
- Companies should be able to elect to be taxed on a flow through basis to their shareholders (i.e. they should be able to elect to be taxed ‘like trusts’).

The responses to the survey question of allowing companies to be taxed as a flow through entity had more respondents agreeing (38.1%) compared to those disagreeing (10.1%). However there was a very large proportion that neither agreed nor disagreed (51.8%) which implies that while there is strong support for the idea, the concept may not be well understood.

We suggest to the Government that the concept should at least be considered and the option should be part of the Tax Reform debate.
WE ASKED

The capping of superannuation contributions is inconsistent with the original policy of the superannuation scheme of Australia.

![Pie chart showing responses to the question about the capping of superannuation contributions.](image)

The Government has so far kept its pledge that it will not introduce negative changes to superannuation in its first term. However, our respondents still have concerns that the current system will not provide adequate retirement savings for many people. The main concern is the low levels of contributions that are allowed to be made to superannuation funds each year.

The capping of concessional contributions to superannuation at $30,000 per year, and the penal effect on taxpayers who exceed this, raises further concerns. The issue is that most individuals are not in a position to save at the maximum rate until late in their careers. Therefore, the cap limits the ability of individuals to save for their retirement at a time in their career when they can most afford to do so.

The complexity of the superannuation laws is also of concern. This complexity makes it very difficult for most taxpayers to understand how to make the most of the system, and leaves them susceptible to potential manipulation and inappropriate actions with their superannuation by a small number of unscrupulous promoters such as property spruikers and those who offer illegal early access to superannuation savings.

The message from our respondents is clear. The Government needs to address the complexity of the superannuation system and allow taxpayers to contribute adequate amounts for their retirement savings.
The support for reform of the FBT system by making benefits taxable to employees, rather than employers continues to be strong with 56% approval from respondents. Australia is one of very few countries that imposes FBT on employers, with New Zealand being the only one of our major trading partners that also does so. Most other countries do not have such complex systems for taxing fringe benefits.

The responses indicate there is strong support for Australia to follow the vast majority of our trading partners and change the FBT system so that fringe benefits are taxed to employees. In the process, the system for taxing fringe benefits should also be simplified.

It is interesting to note that although the previous Government simplified the calculation of car fringe benefits on motor vehicles by introducing a flat 20% statutory formula rate, there is a large proportion (61.9%) of respondents who consider this calculation is still in need of reform. This result is likely to be due to the large number of respondents from small and medium enterprises, where the main fringe benefit that they provide to employees is motor vehicles. Although the statutory formula calculation has been simplified, the other FBT rules in relation to motor vehicle benefits are still relatively complex.
WE ASKED

Companies exploiting and avoiding taxation in their home countries by pushing activities abroad to low or no tax jurisdictions, undermine the fairness and integrity of the tax system and should be addressed by the OECD and G20.

With 92.2% of respondents strongly agreeing or agreeing to this proposition it clearly supports a strong response to the base erosion and profit shifting (BEPS) activities of some multi-national companies. The G20 has, at its recent meeting in Brisbane, given strong support for the OECD’s BEPS project (which was initiated by the G20) that is producing guidelines for all OECD members to follow to obtain consistent treatment in combating cross border profit shifting. The Australian Government has indicated its support for this process. The answers to this survey question indicate that the Australian public overwhelmingly supports the Government, OECD and G20 initiatives in this area.

It will be interesting to see how successful these initiatives will be given it will be up to each of the OECD members to put the initiatives into practice and to encourage non-OECD members to also implement them. It is possible that particular countries may not fully implement all the initiatives if they adversely affect their resident companies.
WE ASKED

What do you consider the three tax measures in most urgent need of reform?

Of the taxes nominated by respondents there were obvious tiers that were of most concern.

In the first tier were GST and state taxes (e.g. payroll tax, stamp duties and land tax). Based on answers to other questions in the survey, our respondents see the same issues around GST as have been evident for some time – the base of GST could be broadened by removing complex exemptions and the rate of GST should not be considered to be set at 10% for all time.

State taxes are seen as a drag on business activity. Asking a business to pay further tax for looking to expand either by taking on more staff (payroll tax), acquiring complementary operations (stamp duty) or expanding to new premises (stamp duty) is, in the eyes of our respondents, destructive. The responses to our questions would indicate that respondents to our survey saw the GST and state taxes to be related issues, with an increase in the GST rate and broadening of its base being seen as a means of funding the removal of dysfunctional state taxes.

We note that the OECD’s recent report on Australia recommended an increased rate for GST and broadening of its base in order to fund the abolition of inappropriate State taxes, particularly stamp duty. The OECD also recommended the reform of payroll tax and land tax by broadening their base and thus allowing a reduction in the rates of both payroll tax and land tax. The introduction of a broad based land tax was also recommended by the Henry Review as a viable alternative to stamp duty as a tax resource for the states. Such a tax is claimed to be relatively efficient and will minimise drag on the economy. The comments from our respondents indicate that the thoughts of the

YOUR COMMENTS

“There is too much short-term thinking in relation to tax reform. The long-term picture needs to be at the forefront in order to achieve reforms which allow the country to be competitive.”
Australian community are in line with the thinking of the OECD, and reform of GST, stamp duty, land tax and payroll tax are the important tax reform issues. These issues need to be part of the debate in relation to the Tax Reform White Paper.

In the second tier of taxes our respondents thought are in need of reform are personal income taxes, superannuation, and the company tax rate. Superannuation, as already discussed in this report, is subject to tight restrictions, particularly in the area of concessional contributions. Ongoing debate about the right mix of personal income taxes, company income taxes and the GST is healthy and should be encouraged.

Our respondents have taken the time to point out to the Government where they think the Government should focus their efforts in considering tax reform. We thank them and we trust the Government will also take the time to consider the issues.
YOUR MESSAGE TO THE GOVERNMENT

With the release of the Issues Paper for the Tax Reform White Paper, the Government will restart the tax reform debate.

One of the important differences between the Tax Reform White Paper process and the Henry Review, is that it will be addressing reform of GST. GST reform has been the ‘elephant in the room’ that the previous Government refused to acknowledge. The importance of GST reform is confirmed by the responses to our survey.

The key message for the Government from the respondents of the BDO tax reform survey is that taxpayers are tired of waiting and are ready for action. While there needs to be some debate about the parameters and options available for the Tax Reform White Paper, they are looking to see a full and frank discussion on tax reform. The Government needs to be courageous and not pander to special interests groups at the expense of real and effective tax reform.

It has been 15 years since the last meaningful reform of the tax system with the introduction the GST, and the sentiment from Australian taxpayers is clear - we have been waiting too long.
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