Introduction:

In August 1998, the Government released details of tits plans for reform of the Australian taxation system. In the same month, the Treasurer appointed Mr John Ralph as chairman of the Ralph Review of Business Taxation, which was to make recommendations on the fundamental redesign of the business tax system. (Australian Tax Handbook 2004 P790) The Ralph report made a radical recommendation that, for all taxpayers, the existing system of determining taxable in come by replaced by a " cash flow/ tax value" method. Originally referred to as " option 2", this became know as the Tax value Method. One of the key recommendations of the Ralph Review of Business Taxation --- the adoption of a new method of calculating taxab le income, called the Tax Value Method. The tax value method was recommended by the Review of Business Taxation as a better way to calculate your taxable income. Under the tax value method taxable income is calculated on the basis of annual changes in the tax values of assets and liabilities, and it is include cash. In brief, it would be calculated as net cash flows plus or minus as appropriate, changes in the tax value of tax assets and tax liabilities. The Tax Value Method is classified as two characters: 1.The tax value method is not a new tax. 2. The tax value method would not mean an increase in tax revenue. It would have involved recognition of the two components of a taxpayer's income: (a) the net annual cash flows from the use of relevant assets and liabilities; and (b) the change in tax value of those assets and liabilities. (Australian master tax guide 2004 P327) In the other hand, the Tax Value Method is in contrast to the current income tax law, which relies on legal definitions of in come and de ductible expenses. In many ways the tax value method replicates the current system, but in a way that is potentially much simpler and more logical. But in August 2002, the Government's decision not to proceed with the Tax value Method followed a recommendation from the Board of Taxation. Instead the Government intends to develop a systematic tax treatment of rights and black hole expenditures, with a view to implementing these changes by 1 July 2005 (Australian master tax guide 2004 P327)

Body:

Arguments of the Tax Value Method:

The one of the issue is why wouldn't tax law drafted using the tax value method become just as cumbersome and clumsy as the current tax law. The reason is the income tax law drafted using the tax value method wouldn't grow the way the current tax law has grown over time, because the tax value method provides superior design and policy principles to determine taxable income.

The second issue is whether the tax value method is a cash flow tax or not. Some people think that the tax value method is about taxing money flows. The fact is that the tax value method is not a cash flow tax. The tax value method is really about taxing net changes in the tax value of assets and liabilities. Cash is just another asset. Accounting treats cash in the same way as other assets, it measures the difference between opening and closing cash. For non-individuals, the annual cash flow would equal the difference between the opening and closing cash in their accounts. They would be able to deal with cash in the same way as any other asset.

The third issue is whether the tax value method cause problems for Australia's double tax agreements or not. The Tax Value Method would not cause problems for Australia's double tax agreements. This view was supported by the issue at the tax value method consultative conference at Coogee in July 2001. The Tax value method taxes income, it is like the current system and uses the same conceptual basis as accounting to calculate profit. The double tax agreements apply variously to taxes on income or profits.

Tax Value Method Advantages:

Simplify:

The Australian income tax law clearly has become much less simple over time. For example, it has become much more voluminous: the original 1915 Act contained 24 pages, while the 1936 Act originally comprised 265 sections and was a mere 126 pages in length, By 1992, the Act had grown to 4200 pages, and continues to expand. It also become inherently more complicated. (Australian Taxation Law 2005 P28) The Ralph review considered income tax laws to be very complicated and, in some areas, difficult to administer and comply with. The simpler and transparent tax laws would make their operation more certain. The overall aim of the tax value method is to simplify income tax law with standard tax rules. The Ralph committee observed that because of the inherent complexity in many business transactions, the business tax system will always contain complex provisions. In its view, the objective of simplification therefore needs to be approached from two perspectives: 1. Te business tax system should be designed in as simple a manner as possible recognizing economic substance in preference to legal form. 2. Where the tax treatment of particular transactions is likely to be complex, such additional complexity in the tax law should be justified by the improvement in the equity or economic growth that may be ac hieved. (Australian Taxation Law 2005 P29) In the Tax Value part, it could simplify the income tax system because the tax value method is based on as few, and as simple, concepts and mechanisms as possible. The current law income tax has many different ways of assessing gains and recognizing losses for tax purposes. The tax value method would have one standard way. The tax value method can reduce the consistencies between different tax systems (e.g by using the same concepts and definitions in GST and income tax) to help reduce complexity. In another side the Tax Value Method would help to reduce the size of the income tax law. The reduction in the size of the law would come in two ways: 1. the tax value method's core rules and standardized concepts would automatically deal with what is now covered by many disparate rules scattered throughout the current law. 2. The Income Tax Assessment Act 1936 has to be rewritten any way, to complete the work of the Tax Law Improvement Project, whether or not the tax value method proceeds ---this project halved the size of those provisions which were rewritten. (www.ato.gov.au)

Certainty:

In the Ralph Committee, the report said "the compliance should be fostered by making the business tax system as simple, inexpensive and certain in its application as possible."(Australian taxation law 2005 P32) Four aspects of "certainty": (1) *Certainty of incidence*: the degree of certainty with which taxing authorities can predict who will actually bear the burden of the tax. (2) *Certainty of liability*: the ease and accuracy with which liability to tax can be assessed. Retrospective legislation causes particular difficulties in relation to certainty. (3) *Evasion ratio*: the extent of evasion and avoidance. (4) *Fiscal marksmanship*: the certainty with which taxing authorities are able to predict the revenue which will be collected in a particular year. (Australian taxation law 2005 P32) In some points of view, the Tax laws should be designed from the perspective of those who must comply with and administer them. The Taxation laws should be concise and clear, also the law must be made as certainty as possible. There should base upon a consistent set of stated design principles. In the other hand, the structure should be able to continuing change. In the Tax Value Method part, it could add to certainty in the income tax system, because it would replace the different approaches, the current income tax law takes the different transacti ons with one standard treatment, and deals with all transactions in the same way. Another reason is there would be fewer variations; it would be easier to reliably predict how the tax law would treat any particular transaction.

Equitable:

In this part, the first problem will be the “equitable” could be considered a wide diversity of views, and these views will cause the differ on whether a particular system is sufficiently fair. But in the other hand, the equity is consisted by horizontal equity and vertical equity. --- # The horizontal equity is the persons with the same taxable income can be required to pay the same amount in income tax. However, also have some other difficulties facing those attempting to increase fairness. In instance: (1) It is difficult to determine the appropriate taxing unit. (2) Persons whose incomes are the same may be dissimilar in other respects. (3) The effects of inflation may also reduce the actual equity of a system which is conceptually fair. --- # The Vertical equity is also intrinsically meritorious, but it too is often difficult to achieve in practice. It is often quite difficult to structure a taxation system in such a way as to ensure that both horizontal and vertical equity are simultaneously maximized.(Australian Taxation Law P27) In the Tax Value Method part, it could make the income tax system more equitable, because it would treat different taxpayers with the same economic circu mstances in the same way. It would do that because it deals with every transaction in one main way. The current income tax law provides many different ways of treating a transaction depending on how it is characterized.

Compliance costs:

In the compliance costs, it has a significant impact in the taxation system. The taxpayer's compliance costs will include costs of collecting tax revenue, accounting for it and remitting it to the collecting authority. Some compliance costs can be "regular", such as ongoing, some of them can be "temporary" or "commencement". In the other hand, it may be offset to some extent by benefits flowing from compliance. In the Sandford point of view, it identifies several key aspects of compliance costs: #they tend to be more diffuse, less visible and more likely to be overlooked than administrative collection costs; #they are often capricious in their incidence, and regressive in their impact; #they tend to be resented more by the taxpaying population than administrative costs. In the Tax Value Method part, it can improve compliance because there would be fewer ways to avoid tax. The first reason is that the tax value method deals with all transactions in one standard way and treats different taxpayer with the same economic circumstances in the same way. The second reason is that there would be a smaller variety of different regimes, so there would be less incentive to re-characterize a transaction to move it to a more favorable regime. The last reason is that there would not be any timing anomalies to allow one party to a transaction deduction for a loss before other party was assessed.

Conclusion:

In conclusion, this essay has discussed the some issues and arguments about the 'cashflow/ tax value' approach. In my point of view, the Tax Value Method will be operated in the future. The four main reasons as above are "simplify", "certainty", "equitable" and "compliance costs". In the other hand, the Board of taxation has developed prototype legislation and other supporting material to evaluate and test the tax value method. The review of Business Taxation stated that the tax value method has a number of benefits. The tax value method can be an effective and good way to solve the current Taxation problems.

Reference:

Australian Tax Handbook 2004 P790

Australian master tax guide 2004 P327

Australian Taxation Law 2005 P27 P28 P32

www.ato.gov.au

www.findlaw.com