

Tax Review Committee

Corporate Tax

Gross Income Tax (GIT)

My proposal is to combine the current corporate net income tax, payroll tax and GST into a single tax that removes the incentive to engage in the imprudent business practice of over-leveraging while eliminating the subjective elements of determining tax deductible expenses.

Quite obviously, this can be achieved by way of a flat rate tax on gross business income in the same way that GST is levied but without credits for GST paid.

As an incentive to export and to attract export orientated foreign business to Australia, thereby creating new employment opportunities, export income would be tax free.

As many producers do not export directly, every commodity would be allocated a specific tax rate based the percentage of the product's exports. For instance, if 50% of the total Australian production of a particular commodity was exported in the prior year, the tax applicable for that product would be 50% of the Gross Income Tax rate, irrespective of whether a specific producer sold domestically or exported directly. Commodities qualifying for the lower GIT should be required to reach an export threshold of say 25% of total Australian production for that particular commodity.

The current global credit crisis and its dire ramifications is largely due to the corporate incentive to increase ROE and EPS by using debt in lieu of equity and the more attractive nature of debt due to the tax deductibility of interest. Had home mortgage interest been tax deductible in Australia as it is in the US, our financial situation would be in much worse shape.

Australia has the opportunity to be the world leader in Corporate tax review. The only question is whether we have the fortitude to take a giant leap forward.

Brian McNiven