

(1) Company Tax Rate

In Australia, the company tax rate of 30% is relatively high when compared to other industrialized countries or countries in the Asia-Pacific region. I am concerned however that a reduction in the company tax rate could have a negative impact on investors in the ASX.

If the company tax rate is reduced and the after tax profits (PAT) distribution (via fully franked dividends) is maintained at the same percentage of PAT, then the gross assessable income received by shareholders remains unchanged. However, under a reduced company tax scenario, shareholders would receive an increased amount of cash on hand, while the corresponding tax (franking) credits would go down in line with the reduction in the tax rate.

On face value this result may appear attractive to individual shareholders as (albeit temporarily) they would end up with more cash on hand. However, depending on individual circumstances, some taxpayers whose main source of income is dividends, may be worse off at year end when, perhaps for the first time in many years, they will be hit with a tax bill. In effect, the additional cash on hand available to shareholders on the receipt of dividends will be entirely annulled by a tax shortfall payable at year end. An effective tax system / prudent financial management should assist taxpayers in paying taxes progressively during the year according to the PAYG principles.

(2) Fringe Benefits Tax - Car Benefits

I refer to the calculation of the FBT Liability (Motor Vehicles) by Taxpayers using the Statutory Formula Method (Section 9 of the Fringe Benefits Tax Assessment Act, 1986). Under this method, the Statutory Percentage (and FBT payable) is decreased based on the number of kilometers traveled in a FBT year. In other words, **the more you travel the less tax you pay**. A taxpayer that travels more than 40,000 km in a year (7% statutory fraction), pays nearly 4 times (!!!) less tax than someone much more environmentally friendly, traveling less than 15,000 in a year (26% statutory fraction). Taxpayers are obviously encouraged to spend more time on the road, use more petrol, and increase the greenhouse gas emissions. That is, **the Tax Legislation provides incentives that force Taxpayers to act irresponsibly and contribute to the gradual depletion of our natural resources and degradation of the Environment**. I believe the tax legislation should be amended as a matter of urgency to eliminate this abnormality. Possibly, a flat Statutory Percentage (of say 10%), could be provided, regardless of the number of km traveled.

The availability of an alternative option (i.e. the Operating Cost Method) should not be used as an excuse to maintain the current legislation unchanged because most taxpayers prefer the Statutory Formula Method, due to its simplicity.

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