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From: Edward Crossing
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To: Business Tax Working Group
Subject: A Better Plan for Company Tax

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A BETTER PLAN FOR COMPANY TAX

Small scale cuts in the rate of company taxation will be of little benefit to the corporate sector and at a substantial cost to government revenue.

This submission proposes that -
Instead of tinkering with the company tax rate, Companies be allowed a tax deduction on the amount of profits distributed as dividends to shareholders, and The dividend imputation credits scheme be abolished.

The current scheme - whereby the company pays tax on the whole of its profits and shareholders are allowed credit for the amount of tax related to their dividends - is bad in every aspect and is contrary to the principles of the Australian tax system. It is cumbersome, involving accounting complexity for companies, the Tax Office and shareholders. It creates the impression that company customers, rich or poor, are subsidising the tax of wealthy shareholders.

The past and current tax treatment of company profits is based on the claim that dividends are not a cost but a distribution of profit. This is not realistic because companies must endeavour to cover the expected rate of dividend in the prices charged for their products.

Share capital is more expensive to raise and to service that loan capital. The fact that interest on borrowed funds is tax deductible whereas dividends are not widens that difference. It creates a strong incentive for companies to rely more heavily on borrowed capital than they should. In times when thes business cycle is buoyant companies will want to raise funds to enlarge their capacity. Borrowing will appear a good option. When a downturn occurs dividends can be reduced or passed, but inability to meet loan obligations can destroy the company. In my recollection many company failures have been attributable to loan defaults.

This new proposal makes the tax structure more direct. The tax liability rests where it ought rightly to be. The company pays tax on its profit and is allowed a deduction for dividends in the year in which they are paid. The investor is assessed on the amount of dividend received. It would give the company somewhat more flexibility in its pricing and improve its competitive position in overseas markets.

I commend the proposal for you consideration.

Edward Crossing

when the current scheme is viewed in relation to consumer goods such as groceries it becomes apparent that the consumers of these goods be they are rich or poor are paying more than they need to in order to finance the credit distribution to shareholders for companies trading overseas bette consumers of the Company r tax treatment of company profits would improve the company's competitive position and no foreign markets and give them more flexibility in the prices they charge a glance of company failures over a long period of time will show that most of these failures have been caused by excessive reliance on debt capital I do not have the resources to research and deliver specific examples but I have lived long enough to have seen them time and time again when interest rates are on the increase