

Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

19 January 2016

Dear Sir/ Madam

Standing Committee on Economics: Inquiry into Tax Deductibility

I am writing to provide a submission concerning the abovementioned inquiry. I apologise for the fact that the submission is a few days late but I was unaware of the Committee's study into this matter until seeing media reports over the last few days. In light of my extensive work in the past concerning simplification of the personal tax system and, in particular, the rationalisation of deductions for work-related expenditure, as well as my relatively unique international experience on tax system administration, I seek the Committee's agreement to accept my late submission.

In the interests of providing my input quickly to the Committee, I am enclosing a copy of my submission to the Governments 'Rethink' tax reform initiative in 2015. Under the heading 'Personal Income Tax', the submission provides an account of issues and relevant data concerning some of the more common deductions in the personal income tax system, in particular deductions for work-related expenses, and proposes measures to rationalise the system with a view to major streamlining of the personal tax system for the bulk of Australian taxpayers.

An issue concerning deductibility at large concerns the extent to which specific tax deductions (e.g. work-related and rental income deductions) are overstated by taxpayers and their advisors, either deliberately or through arbitrary, careless and reckless actions that result in over-claimed deductions, and which are not generally detected by the Australian Taxation Office (ATO) given the very low rate of audit coverage achieved in practice with personal taxpayers. On this particular matter, I strongly urge the Committee to seek relevant input from the ATO in order to guide its findings and conclusions.

I am happy to answer any written inquiries or if necessary provide input in person to the Committee.

Yours sincerely

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Richard Highfield is an advisor on tax system design and administration and, over the last year, has undertaken assignments with the OECD, World Bank, and Asian Development Bank. He is also currently a member of an Expert Panel (with Chris Richardson, Deloitte, and Professor Neil Warren, University of New South Wales) advising the ATO on its tax gap research program. Previously, he was a senior advisor with the OECD's Centre for Tax Policy and Administration from 2003 to end-2014, and with the IMF's Fiscal Affairs Department from

1997 to early-2003, and a Second Commissioner of Taxation (1993-1997) with the Australian Taxation Office where he worked for over 28 years.