Committee Framing Question:

How could taxpayers engage in the future? – Application to the derivation of Capital Gains

How do other tax systems operate and how do they compare to Australia?

Background

In the HM Revenue and Customs 2015 document "Making Tax Digital" there is a reference on page 8 to the proposal, for UK tax purposes, of bringing Capital gains Tax in line with Income Tax and to have that tax paid within 30 days of completion of any disposal of residential property.

In Australia it is misleading to say that we have a Capital Gains Tax. There is no separate tax on Capital Gains made by a taxpayer. Any net capital gain made by a taxpayer is included in the assessable income of the taxpayer via section 102-5 Income Tax assessment Act 1997. It is unclear how much tax will actually be paid on that net capital gain, until the taxpayer has completed a tax return for the relevant year and the overall taxable income of the taxpayer determined (Taxable Income = Assessable income less Allowable deductions).

On this basis taxpayers in Australia only have to report capital gains once a year and after they have lodged their return of income. So for an individual any net capital gain derived in say the year ending 30 June 2016, they will have until 31st October 2016 to lodge their return (or later if they use a tax agent).

From a taxation collection perspective there can be a long lag time between the actual capital gains tax event, normally a disposal and the accounting for that capital gain. A capital gain crystallises on the contract date. So if a contract for the disposal of a residential property was entered into on July 1 2016 then the taxpayer does not need to account for that gain (and therefore the tax payable) until, the earliest of 31st October 2017 and possibly February 2018. It is important to note that the actual flow of money to the taxpayer would be 6-8 weeks post 1 July 2016 contract date. On this basis the taxpayer retains the money from around September 2016 until October 31st 2017 at the earliest.

Submission

Taxpayers now have a digital access to their tax, social security information through MyGov.

There should be a link established through MyGov for taxpayers to account for any capital gain, not net capital gains, within a 3 month period after settlement of a residential property.

This should only apply to individuals and only to investment properties and not a principal residence (which there is an exemption). It should not be extended to businesses, which utilise the roll over provisions for active assets that are disposed of.

A tax credit provided at year end for the tax that has been paid on any capital gain to determine whether there is to be a refund or debit needed to the taxpayer, based on their overall tax liability.

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