



## **Australian Government**

Australian Government response to the  
House of Representatives Standing Committee on Economics  
Report on the Inquiry into tax deductibility

FEBRUARY 2018

## Government response to the Report on the inquiry into Tax Deductibility

Recommendation	Government response
<p>Recommendation 1</p> <p>The Committee recommends that the Government maintain the current personal income tax framework that allows Australians to claim deductions for valid expenses, including those related to their work. The Committee sees this as an entirely appropriate part of our taxation system. While there are opportunities to improve the operation of the system, the Committee supports the ongoing ability of Australians to claim legitimate deductions.</p>	<p>The Government notes the recommendation.</p>
<p>Recommendation 2</p> <p>The Committee recommends that the Australian Taxation Office be instructed to analyse each detailed subcategory of tax deductions and identify areas that it believes are particularly open to systemic abuse and overclaiming. The Australian Taxation Office should then rank these subcategories in order of the size of the financial risk they represent to Government revenue, and recommend amendments to law or policy where appropriate.</p>	<p>The Government notes the recommendation.</p> <p>The Government notes that the Australian Taxation Office (ATO) is an independent statutory agency, and therefore the recommendation is a matter for consideration by the Commissioner of Taxation.</p> <p>The ATO indicates that it will continue to use currently available data and investigate additional information sources that would allow tax deduction labels to be analysed and ranked, based on the financial risk they present to Government revenue.</p> <p>For areas where systemic abuse is occurring, the ATO will provide this information to Treasury to assist it in developing advice to Government on options to address those areas.</p>
<p>Recommendation 3</p> <p>The Committee recommends that Treasury be required as a matter of priority to provide a clear estimate of the actual cost to Government revenue of Work Related Expenses as necessary to properly inform policy in this area.</p>	<p>The Government agrees to the recommendation.</p> <p>A total of \$21.8 billion of work related expense deductions were reported in the 2014-15 Taxation Statistics. Those deductions reduced the amount of personal tax payable by around \$8 billion that year.</p> <p>However, denying work related expense deductions would likely raise less revenue as individuals affected and their employers could be expected to adjust their behaviour in</p>

	response to such changes.
<p>Recommendation 4</p> <p>The Committee recommends that the Australian Taxation Office review its compliance activity in relation to Work Related Expenses. The fact that \$100 million of abuse was identified in a single year through a review of one in one thousand taxpayers suggests that there is considerable scope in this area.</p>	<p>The ATO agrees to the recommendation.</p> <p>The ATO is already undertaking a range of activities to maximise the effectiveness of its strategies and existing compliance resources.</p> <p>The ATO will take account of intelligence gained from the Tax Gap Program of work and consider how compliance could be further improved.</p>
<p>Recommendation 5</p> <p>The Committee recommends that the Australian Taxation Office continue with technological development and progress on pre-filling of returns to support the implementation of the reform agenda and to simplify taxpayers' interaction with the tax system, with the eventual goal to minimise, and ultimately remove, the need for taxpayers to amend pre-filled returns.</p>	<p>The ATO agrees to the recommendation.</p>
<p>Recommendation 6</p> <p>The Committee recommends that the Government maintain the current company income tax framework that allows the deductibility of interest incurred by businesses in deriving their income.</p>	<p>The Government notes the recommendation.</p>
<p>Recommendation 7</p> <p>The Committee recommends that the Government continue its important work on the implementation of the G20/OECD Base Erosion and Profit Shifting (BEPS) recommendations to further strengthen Australia's rules addressing tax integrity.</p>	<p>The Government notes the recommendation.</p> <p>The Government will continue to take any action necessary to prevent multinationals from inappropriately avoiding tax, including through Australia's involvement in the 100-plus member Inclusive Framework on BEPS.</p> <p>The Government remains committed to the BEPS Agenda and addressing multinational tax avoidance, and is pressing ahead with reforms. To date, the Government has:</p> <ul style="list-style-type: none"> <li>extended its Goods and Services Tax to imported digital products and services, and to imported goods valued at less than \$1,000;</li> <li>implemented BEPS transfer pricing</li> </ul>

	<p>recommendations and commenced drafting of legislation on anti-hybrid rules;</p> <ul style="list-style-type: none"><li>• implemented all three tiers of Country-by-Country Reporting;</li><li>• incorporated BEPS tax treaty recommendations into Australia's recent treaty practice; and</li><li>• signed the Multilateral Instrument to adopt the BEPS treaty recommendations more broadly across our bilateral tax treaty network.</li></ul>
--	---