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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

NEW BUSINESS TAX SYSTEM (INCOME TAX RATES) BILL (No. 2) 1999

EXPLANATORY MEMORANDUM

(Circulated by authority of the

Treasurer, the Hon Peter Costello, MP)

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Glossary

The following abbreviations and acronyms are used throughout this Explanatory Memorandum.

Abbreviation	*Definition*
A Platform for Consultation	*Review of Business Taxation: A Platform for Consultation*
A Tax System Redesigned	*Review of Business Taxation: A Tax System Redesigned*
ANTS	Government's Tax Reform Document: *Tax Reform: not a new tax, a new tax system*
CGT	capital gains tax
Integrity and Other Measures Bill	New Business Tax System (Integrity and Other Measures) Bill 1999
ITAA 1936	*Income Tax Assessment Act 1936*
ITAA 1997	*Income Tax Assessment Act 1997*
ITRA 1986	*Income Tax Rates Act 1986*
the Recommendations	*Review of Business Taxation: A Tax System Redesigned*
the Review	Review of Business Taxation
the start time	11.45 am, by legal time in the Australian Capital Territory, on 21 September 1999

General outline and financial impact

Removal of CGT averaging

This Bill amends the income tax law so that averaging of CGT no longer applies.

Date of effect: The amendments apply to CGT events (such as the disposal of an asset) occurring after 11.45 am by legal time in the Australian Capital Territory, on 21 September 1999.

Proposal announced: The proposal was announced in Treasurer's Press Release No. 58 of 21 September 1999 (in particular, refer to Attachment D of that Press Release).

Financial impact: The financial impact of this measure is part of an overall estimate undertaken for this measure and the following measures:

- limiting indexation of cost bases of CGT assets; and
- CGT concessions for individuals and other entities.

The provisions relating to these measures are included in the Integrity and Other Measures Bill.

The overall financial impact of these measures is set out in the following table:

2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
$130m	$170m	$90m	$30m	–$70m

Compliance cost impact: This measure is expected to reduce compliance costs, as the removal of averaging will simplify the calculation of tax liabilities arising under the CGT regime.

Summary of Regulation Impact Statement

Regulation Impact on Business

Impact: The measure in this Bill is part of the Government's broad ranging reforms which will give Australia a New *Business* Tax System. These reforms are based on the Recommendations of the Review that the Government established to consider reforms to Australia's business tax system.

The New *Business* Tax System is designed to provide Australia with an internationally competitive business tax system that will create the environment for achieving higher economic growth, more jobs and improved savings, as well as providing a sustainable revenue base so the Government can continue to deliver services for the community.

CGT reforms, including the removal of averaging, are a critical component of the New *Business* Tax System. These reforms will remove impediments to efficient asset management, improve capital mobility, reduce complexity and compliance costs and make Australia's CGT regime internationally competitive.

Main points:

- The potential compliance, administrative and economic impacts of the measure contained in this Bill have been carefully considered, by both the Review and the business sector. The Review focused on the economy as a whole and concluded that there would be net gains to business, Government and the community generally from business tax reform.
- Removing averaging will impact on individuals and trustees with CGT assets.
- The removal of averaging part of the way through a financial year may create some transitional compliance costs. However, this will be more than offset by the overall CGT reforms, which will reduce compliance costs and simplify the CGT provisions.
- Administration costs are not expected to significantly increase as a result of the implementation of the measure in this Bill.

Chapter 1
Removal of CGT averaging

Outline of Chapter

1.1 Schedule 1 to this Bill amends the ITRA 1986 to remove the CGT averaging concession from the 1999-2000 income year. In the 1999-2000 year there will be a reduction in basic income tax liability to eliminate, as far as practicable, any resulting extra tax for CGT events happening until the start time.

Context of Reform

1.2 The tax payable on capital gains by individuals and certain trustees is calculated under the CGT averaging concession. Broadly, the net capital gain for the income year is divided by 5 to determine the rate of marginal tax that would apply to that amount when added to other income. That rate of tax is then applied to the entire gain.

1.3 The Review recommended the removal of CGT averaging from the date of announcement. It identified the concession as doing little to encourage investment or remove inflexibilities in capital markets.

1.4 This amendment gives effect to recommendation 18.1(a) of the Review.

Summary of new law

1.5 The ITRA 1986 applies the same averaging treatment to both net capital gains and the 'above-average special professional income' of authors, inventors, performing artists, production associates and sportspersons. These concessionally taxed amounts are referred to in the ITRA 1986 as the 'capital gains amount' and the 'abnormal income amount' respectively. Together they go to make up the 'special income component'.

1.6 For individuals and certain trustees, the income tax on the special income component is worked out under specific rules in the ITRA 1986 schedules. Their general effect is that the amount of income tax payable on the top 4/5 of the special income component is 4 times the amount payable on the bottom 1/5 of that income at basic rates.

1.7 With effect from the 1999-2000 income year, the amendments will remove references to the capital gains amount and related terms from the ITRA 1986. As a consequence, the concessional rules for working out tax on the special income component will only apply in relation to the abnormal income amount.

1.8 In the 1999-2000 income year, the transitional measures in this Bill will provide a reduction to basic income tax liability. It will reduce additional tax from the removal of CGT averaging, to the extent that it relates to CGT events happening at or before the start time.

Comparison of key features of new law and current law

New Law	*Current Law*
Concessional averaging treatment will not apply to net capital gains from the 1999-2000 income year. In the 1999-2000 income year, there will be a reduction in basic income tax liability for CGT events at or before the start time.	Concessional averaging treatment applies in relation to both: • Individual and certain trustee taxpayers' net capital gains ('capital gains amount'); and • the above-average special professional income of authors, inventors, performing artists, production associates and sportspersons ('abnormal income amount').

Detailed explanation of new law

Which taxpayers are affected by the changes?

1.9 The amendments will potentially affect those taxpayers subject to personal income tax rate scales. The taxpayers currently entitled to CGT averaging are:

- individuals; and
- trustees, for assessments under sections 98 and 99 of the ITAA 1936 that apply individual stepped tax rates.

Changes to ITRA 1986 provisions

1.10 This Bill will modify the definitions in subsection 3(1) of the ITRA 1986 to ensure that averaging treatment no longer applies to net capital gains. The definitions of 'capital gains amount', 'capital gains component' and 'reduced share' will be repealed. These will no longer be needed as they only relate to the averaging of net capital gains. ***[Items 1, 2 and 4]***

1.11 The definition of 'eligible part' will be repealed and replaced. Paragraph (b) of the definition of 'eligible part' will no longer be needed, as it only relates to the averaging of the capital gains component of trust net income. ***[Item 3]***

1.12 The definition of 'special income component' will be altered to remove references to the 'capital gains amount'. The special income component will now only relate to abnormal income amounts. ***[Item 5]***

1.13 Division 5 of Part II of the ITRA 1986 deals with the Family Tax Assistance concession, which usually takes the form of an increase in the tax-free threshold. However, in cases where the taxable income includes a special income component, Family Tax Assistance is provided as a rate reduction under section 20F. Otherwise, the concession's value could be inappropriately affected by interaction with the averaging calculations.

1.14 The section 20F rate adjustment will continue to operate where there is a special income component, but as a result of the amendment to the 'special income component' definition in subsection 3(1), the adjustment will only apply in respect of abnormal income amounts.

1.15 Subsections 20F(2) and 20F(2A) will be repealed (with consequential alterations to subsection 20F(3)), as they will no longer be relevant. The 2 subsections only apply where a share of trust net income includes a capital gains component. ***[Items 6, 7, 8 and 9]***

1.16 Schedule 12 has rules for working out the rates of tax on certain trustee assessments under section 98 of the ITAA 1936, where Division 6AA of Part III applies to a part of a share of the trust estate's net income. In contrast to Schedule 11, the Schedule 12 rules provide an averaging concession only in relation to the capital gains component, and not the special income component. Therefore, averaging will no longer be available under this Schedule.

1.17 This Bill will remove references to the capital gains component from clauses 1 and 2 of Part I and clauses 1 and 2 of Part II of Schedule 12. Clause 3 of Part I and clause 3 of Part II of the Schedule will be repealed. The formulas in these clauses only apply where there is a capital gains component in relation to a share of trust net income. Accordingly, they will have no further operation once CGT averaging is removed. ***[Items 10 to 15]***

Application and transitional provisions

Date of effect

1.18 The removal of CGT averaging will apply to assessments for the 1999-2000 income year and later income years. ***[Item 16]***

Reduction in basic income tax liability in the transition year

1.19 It is not feasible to amend the law to directly remove CGT averaging part way through the year of income. To do so would effectively require the calculation of 2 taxable incomes for the one year, with different tax rates applying to each. In its implementation year, the removal of CGT averaging will have effect in relation to CGT events taking place before and after the start time.

1.20 However, this Bill's transitional measures provide for a reduction in basic income tax liability in the 1999-2000 income year. The reduction is a special provision and applies as the last step in working out basic income tax liability. Its purpose is to ensure, as far as practicable, that the income tax payable in relation to capital gains made up until the start time is the same as it would have been if CGT averaging had not been removed.

1.21 The reduction will apply to individuals, and to trustees for assessments subject to individual tax rate scales under Schedules 10 and 12 of the ITRA 1986. For the reduction to apply, the taxable income for the 1999-2000 income year must include a net capital gain. In the case of trustee assessments, the relevant share of net income must, to some extent, be attributable to a net capital gain included in the net income of the trust. ***[Item 19]***

1.22 No reduction is available if there is no capital gain in the income year from a CGT event that happened before the start time. ***[Items 19 and 20]***

Explanation of the reduction

1.23 The reduction is worked out as follows. Firstly, calculate any additional tax for the whole of the 1999-2000 year that is attributable to the removal of averaging. This is the ***gross adjustment amount***. This amount is multiplied by a percentage (the 'capital gain adjustment percentage') that represents the extent to which the gross adjustment amount is attributable to CGT events happening in the 1999-2000 year before the start time. The result is the amount of the reduction. ***[Item 24]***

1.24 The 'pre-announcement net capital gain amount' is used to work out the capital gain adjustment percentage. If either the gross adjustment amount or the pre-announcement net capital gain amount are not greater than zero, there is no additional tax from the removal of averaging, or none of any additional tax is attributable to CGT events before the start time. There is no reduction in these circumstances. ***[Item 21]***

1.25 The 'gross adjustment amount' is worked out by comparing the tax payable for the year with, and without, CGT averaging. Any difference represents the additional tax attributable to its removal. The tax calculations at steps 1 and 2 of the method statement in item 22 of the ITRA 1986 are made as though the changes to indexation,[1] the CGT discount[2] and the small business CGT concessions[3] had not been made. For the purposes of these tax calculations the *actual* net capital gain is deducted from the taxable income, and replaced with a *notional* net capital gain. This is calculated as though the new rules did not apply. ***[Item 22]***

1.26 A recalculated net capital gain is used so it is possible to identify only the additional tax from the removal of averaging, rather than the combined effect of several different measures. Furthermore, it allows the tax on capital gains throughout the year to be measured on a consistent basis. Consistent measurement allows a meaningful apportionment of the additional tax. In all gross adjustment amount calculations, disregard the indexation changes and the CGT discount. This means that capital gains throughout the year are worked out using the indexation rules applying in the first part of the year, and without using the proposed CGT discount rules.

Example 1.1

Sally bought 2 CGT assets in 1990. She sold one asset in July 1999 when it had a cost base of $2,200, including $200 indexation worked out using the September 1999 indexation number. The capital proceeds were $3,000, giving a capital gain of $800.

She sold the second asset in November 1999 for $3,200. Sally chose not to include indexation in the cost base, and had no capital losses. The cost base without indexation was $2,000, and she made a discount capital gain of $1,200. She reduced the capital gain by 50% to $600 under the new rules.

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1 Inserted by the Integrity and Other Measures Bill, introduced into the House of Representatives on 21 October 1999.

2 Inserted by the Integrity and Other Measures Bill, introduced into the House of Representatives on 21 October 1999.

3 Inserted by the New Business Tax System (Capital Gains Tax) Bill 1999, introduced into the House of Representatives on 25 November 1999.

When she works out her gross adjustment amount, Sally does not need to recalculate the July gain of $800, because it was not calculated under the new rules. The November gain was calculated under the new rules, and she recalculates it to include indexation in the cost base. She uses the indexation number for the December 1999 quarter when the CGT event happened. She does not reduce the gain by any discount percentage.

If no other CGT events happened during the year, the sum of the July capital gain and the recalculated November capital gain would be Sally's *notional* net capital gain for the year. She would use this amount instead of her actual capital gain in steps 1 and 2 of the method statement in section 22 of the ITRA 1986.

1.27 The same recalculated taxable income is used at steps 1 and 2 of the method statement. At step 1, the basic income tax liability is worked out using the applicable rates of tax for the 1999-2000 year, which do not include CGT averaging. At step 2, the tax is worked out using the CGT averaging rules removed by this Bill. Under step 3, subtract the amount at step 2 from the amount at step 1 to give the ***gross adjustment amount***.

1.28 The 'gross adjustment amount' is multiplied by the 'capital gain adjustment percentage' to give the amount of the reduction. The capital gain adjustment percentage identifies the portion of the gross adjustment amount attributable to CGT events happening before the start time. It is worked out by dividing the 'pre-announcement net capital gain amount' by the 'modified net capital gain amount'. ***[Item 24]***

1.29 The 'modified net capital gain amount' is worked out in the same way as the *notional* net capital gain used to calculate the gross adjustment amount, but with 2 further changes. Firstly, any net capital losses from earlier income years are disregarded. These are treated as relating to the year as a whole, and irrelevant for apportionment purposes. Also irrelevant are gains and losses making up any portion of the *notional* net capital gain attracting the higher tax rates applying to certain children's income. These amounts have never attracted the CGT averaging concession, and are not linked to any additional tax from removing CGT averaging. ***[Item 23]***

Example 1.2

Peter was 17 at the end of the 1999-2000 income year. He is a 'prescribed person' under the rules in Division 6AA of the ITAA 1936. Accordingly, unless his income is 'excepted' under Division 6AA rules, it will attract a higher rate of tax. He sells one asset in July 1999 and another in November 1999, making a capital gain from each CGT event. He acquired the first asset with earnings from a part time job. The second was a gift from his parents. He makes a capital gain from both sales. The first gain is excepted from the Division 6AA rates but the second is not. In working out his net capital gain Peter applies a net capital loss from the previous income year.

In working out his gross adjustment amount, Peter recalculates his capital gains in the same way as Sally did in Example 1.1, and subtracts his loss from the previous year. In working out his modified net capital gain amount, his starting point is the recalculated *notional* net capital gain. However, he adds back the previous year's loss, and subtracts the recalculated capital gain from the November CGT event because it did not qualify for CGT averaging.

1.30 The 'pre-announcement net capital gain amount' is worked out in the same way as the 'modified net capital gain amount', except that capital gains and losses from CGT events happening *after* the start time are ignored. *[Item 23]*

Example 1.3

The starting point for Peter's 'pre-announcement net capital gain amount' is the 'modified net capital gain amount' in Example 1.2. If he had no other CGT events for the year, it would need no further adjustment. The recalculated capital gain from the November CGT event has already been subtracted. If that gain had also been 'excepted' from the Division 6AA rates, he would have retained it in his modified net capital gain amount, but subtracted it from his 'pre-announcement net capital gain amount'. He would do this because it related to a CGT event after the start time.

Peter's 'pre-announcement net capital gain amount' is divided by his 'modified net capital gain amount' to arrive at his 'capital gain adjustment percentage'. His 'gross adjustment amount' is multiplied by this percentage to give the amount of his reduction. As the last step in calculating his basic income tax liability for the 1999-2000 year, the reduction is subtracted from what would otherwise be the basic income tax liability on his taxable income. His taxable income uses his *actual* net capital gain, and not the recalculated *notional* net capital gain used in working out the reduction.

Application to trust distributions

1.31 If a beneficiary is assessed on a share of the net income of a trust, and that share is, to some extent, attributable to the net capital gain included in the trust's net income, the beneficiary may be entitled to the reduction. When working out the gross adjustment amount, ignore any capital gains from trust distributions made under proposed Subdivision 115-C[4] of the ITAA 1997. This is one of the new rules disregarded in the calculation. Instead, include in the *notional* net capital gain a share of the *notional* net capital gain of the trust. The proportion included is the same as the proportion of the trust's net capital gain attributable to the beneficiary's share of net income. *[Item 26]*

[4] Inserted by the Integrity and Other Measures Bill, introduced into the House of Representatives on 21 October 1999.

1.32 When working out the 'capital gain adjustment percentage', this same amount is included in the modified net capital gain amount, less any portion that would be excluded from averaging under the rules in Division 6AA of the ITAA 1936. There is no need to add back any prior year net capital losses applied by the trustee at this step.

1.33 If the trust's net capital gain includes gains from CGT events happening before the start time, some of the *notional* capital gain from the trust would generally be included in the 'pre-announcement net capital gain amount' as well. The amount to include could be worked out as follows, assuming that an undifferentiated portion of the trust's net capital gain is attributable to the beneficiary's share of the net income of the trust.

1.34 Multiply the *notional* net capital gain from the trust by the trust's 'capital gain adjustment percentage'. Include the result in the 'pre-announcement net capital gain amount'. If the result represents, to any extent, trust income to which Division 6AA applies, and that is attributable to CGT events before the start time, reduce the result to that extent before including it.

Example 1.4

James is over 18 and owns units in a unit trust. The trust has an actual net capital gain of $15,000 and a notional net capital gain of $20,000. The share of the net income of the trust estate assessable to James under paragraph 97(1)(a) of the ITAA 1936 includes one half of the actual net capital gain of the trust estate, or $7,500.

In working out a *notional* net capital gain for his gross adjustment amount calculation, James disregards any Subdivision 115-C capital gain/s. Instead, he includes a *notional* capital gain of one half of the *notional* net capital gain of the trust, or $10,000.

The trust has a modified net capital gain amount of $28,000, worked out by adding back $8,000 prior year net capital losses applied in its *notional* net capital gain of $20,000. Before the start time, the trustee made a capital gain of $12,000 and a capital loss of $5,000. Therefore, the trust has a 'pre-announcement net capital gain amount' of $7,000 ($12,000 – $5,000). The trustee works out the trust's 'capital gain adjustment percentage' of 25% by dividing the 'pre-announcement net capital gain amount' of $7,000 by the 'modified net capital gain amount' of $28,000.

James multiplies the $10,000 *notional* capital gain from the trust included in his *notional* net capital gain (and hence in his 'modified net capital gain amount') by the trustee's 'capital gain adjustment percentage' of 25%. The resulting amount of $2,500 is taken into account, along with any of his own capital gains and losses made before the start time, in working out his 'pre-announcement net capital gain amount'. In practice, the trustee could perform the necessary calculations and simply tell James how much to include in his 'gross adjustment amount' and 'pre-announcement net capital gain amount' for his share of the net income of the trust.

Application to trustees

1.35 Beneficiaries may need to know figures worked out by reference to the trust's *notional* net capital gain, 'capital gain adjustment percentage' and any relevant Division 6AA adjustments. This could be so even if none of the net income is assessed to the trustee.

1.36 If trust distributions pass through other trusts, the interposed trustees could make calculations similar to those shown in Example 1.4.

Example 1.5

Assume that the trustee of another trust (T2) also owns units in the trust in Example 1.4 (T1). The entire net income of T2 is assessed to individual beneficiaries. The T2 trustee works out a *notional* net capital gain and a capital gain adjustment percentage for T2 to enable the T2 beneficiaries to calculate their reductions. The T2 trustee makes the same type of calculations as James in relation to its interest in T1.

1.37 The reduction may also affect trustee assessments under sections 98 or 99 of the ITAA 1936, where the tax rates in Schedules 10 or 12 of the ITRA 1986 apply. It is worked out as if the trustee was an individual being assessed on the relevant share of net income. In the 'gross adjustment amount' calculation, the relevant portion of the trust's net capital gain would be replaced by the equivalent proportion of the trust's *notional* net capital gain.

1.38 If Division 6AA of the ITAA 1936 did not apply to the share of net income of the trust, the trustee could use the 'capital gain adjustment percentage' for the trust as a whole, instead of calculating one for the particular assessment. This assumes that the share of net income relates to an undifferentiated portion of the trust's net capital gain. As with individual assessments, there would be no need to add back prior year net capital losses applied by the trustee.

1.39 If Division 6AA applied, a separate adjustment percentage would be needed, worked out along the lines applying to individuals with trust distributions. The trust's percentage is not suitable because of the need to exclude Division 6AA amounts from the modified and pre-announcement net capital gain amounts.

Interaction with the small business CGT concessions

1.40 When working out the gross adjustment amount, assume that the new small business CGT concessions in proposed Division 152 of the

ITAA 1997[5] have not been enacted. This means that the *notional* net capital gain is calculated using the former small business relief in Subdivisions 118-C and 118-F of the ITAA 1997 (the goodwill and small business retirement exemptions) and Division 123 of the ITAA 1997 (the small business roll-over relief). Apply those provisions as though any necessary choices had been made. ***[Items 22 and 25]***

1.41 The concession notionally applied must be such that it would have been available in the actual circumstances.

Example 1.6

> Jenny, aged 40, disposed of her business assets, including goodwill, in November 1999. Regardless of how she applied the proposed new small business CGT concessions in determining her *actual* net capital gain, she may work out her 'gross adjustment amount' as though she had chosen some other form of relief under the earlier rules. However, she must have satisfied the relevant requirements. For example, she could not notionally apply the Subdivision 118-C goodwill exemption if the business exemption threshold was exceeded. Any notional Subdivision 118-F retirement exemption would depend on the necessary ETP roll-over actually being made. The amount of any notional Division 123 replacement asset roll-over would depend on the choice of a replacement asset.
>
> As in any other reduction calculation, Jenny also recalculates her November 1999 capital gains (before notionally disregarding any amount) using full indexation where applicable and without any CGT discount.

1.42 When working out the 'modified net capital gain amount', add back any prior year net capital losses in the usual way, even if they had been notionally applied under the loss application rules in Subdivision 118-F or Division 123 of the ITAA 1997. There is no need to perform a further notional application of the concessions on the assumption that there were no prior year net capital losses.

1.43 In the 'pre-announcement net capital gain amount', ignore capital gains and losses from CGT events happening after the start time, including current year losses made after the start time that have been notionally applied against gains made before the start time. There is no change to the amount of the gains notionally disregarded in working out the gross adjustment amount.

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5 Inserted by the New Business Tax System (Capital Gains Tax) Bill 1999, introduced into the House of Representatives on 25 November 1999.

Chapter 2
Regulation Impact Statement

Policy objective

The objectives of the New *Business* Tax System

2.1 The measure in this Bill is part of the Government's broad ranging reforms which will give Australia a New *Business* Tax System. These reforms are based on the Recommendations of the Review that the Government established to consider reforms to Australia's business tax system.

2.2 The Government established the Review to consult on its plan to comprehensively reform the business income tax system (as outlined in ANTS). The Review made 280 recommendations to Government designed to achieve a more simple, stable and durable business tax system.

2.3 The New *Business* Tax System is designed to provide Australia with an internationally competitive business tax system that will create the environment for achieving higher economic growth, more jobs and improved savings, as well as providing a sustainable revenue base so the Government can continue to deliver services for the community.

2.4 The New *Business* Tax System also seeks to provide a basis for more robust investment decisions. This is achieved by:

- improving simplicity and transparency;
- reducing the costs of compliance; and
- providing fairer, more equitable outcomes.

2.5 This Bill represents the second phase of legislation to implement the New *Business* Tax System. The first phase involved the following Bills, which were introduced into the House of Representatives on 21 October 1999:

- the New Business Tax System (Integrity and Other Measures) Bill 1999;
- the New Business Tax System (Capital Allowances) Bill 1999;
- the New Business Tax System (Income Tax Rates) Bill (No. 1) 1999; and

- the New Business Tax System (Former Subsidiary Tax Imposition) Bill 1999.

The objectives of the measure in this Bill

2.6 The New *Business* Tax System will promote investment through a fundamental reform of Australia's CGT regime.

2.7 This Bill contains a measure to remove averaging of capital gains for individuals.

2.8 Other important CGT reforms include:

- the CGT discount for individuals and superannuation funds and the phasing out of indexation on CGT asset cost bases, which are contained in the Integrity and Other Measures Bill; and
- expanded small business relief measures, exemptions on investments in venture capital by non-resident tax exempt superannuation funds and scrip for scrip roll-over relief, which are contained in the New Business Tax System (Capital Gains Tax) Bill 1999, to be introduced contemporaneously with this Bill.

2.9 Together, the Government's CGT reforms will remove impediments to efficient asset management, improve capital mobility, reduce complexity and compliance costs and make Australia's CGT regime internationally competitive.

Implementation options

2.10 The Review's recommendations, including the one on which this measure is based, have been the subject of extensive consultation.

2.11 The implementation options for the measure are to be found in *A Platform for Consultation* (see pp. 304-311) and *A Tax System Redesigned* (see Recommendation 18.1(a), p. 595 and pp. 599-603).

Assessment of impacts

2.12 The potential compliance, administrative and economic impacts of the measure contained in this Bill have been carefully considered, by both the Review and the business sector. The Review focused on the economy as a whole in assessing the impacts of the Recommendations (including that relating to the measure in this Bill) and concluded that there would be net gains to business, Government and the community generally from business tax reform.

Impact group identification

2.13 The removal of averaging will impact on individual taxpayers with CGT assets.

Analysis of costs / benefits

Compliance costs

2.14 The removal of averaging part way through a financial year may create some transitional compliance costs. However, overall it and the Government's other CGT reforms will reduce compliance costs and simplify the CGT provisions, thereby providing a more consistent and easily understood business tax system.

2.15 Further details on how the removal of averaging will impact on affected taxpayers are contained in Chapter 1 of this Explanatory Memorandum.

Administration costs

2.16 The implementation of the measure in this Bill is not expected to give rise to any significant increase in administration costs.

Government revenue

2.17 The revenue impact of this measure is dealt with in the General Outline for this Explanatory Memorandum.

Economic benefits

2.18 The New *Business* Tax System will provide Australia with an internationally competitive business tax system that will create the environment for achieving higher economic growth, more jobs and improved savings.

Consultation

2.19 The consultation process commenced with the release of ANTS in August 1998. The Government established the Review in August 1998 and since that time the Review has published 4 documents on business tax reform, in particular *A Platform for Consultation* and *A Tax System Redesigned* in which the Review canvassed options and issues and sought public comment.

2.20 Also during this period, the Review held numerous public seminars and focus group meetings with stakeholders in the taxation system. It received and analysed 376 submissions from the public on reform options. Further details are contained in paragraphs 12-16 of the Overview of *A Tax System Redesigned.*

2.21 In analysing options, the published documents frequently referred to, and were guided by, views expressed during the consultation process.

2.22 The measure in this Bill has therefore been subject to extensive consultation, given that the measure arose directly from a Recommendation of the Review.

Conclusion and recommended option

2.23 The measure contained in this Bill should be adopted to reduce complexity under an internationally competitive CGT regime, designed to improve incentives to save and invest.