It seems that everyone has had enough of tax reform—and no wonder! The most visible signs from our new reformed tax system include:

- an administrative system burdened by the weight of having over-extended itself for years;
- tax practitioners feeling so over-tired that they are at risk of collective chronic fatigue syndrome, with worse to come as the tax professions haemorrhage with their best and brightest looking for an easier life; and
- the business community, big and small, less satisfied than ever with the work required just to comply with their tax obligations.

That is not to say that there may be some enduring benefits from tax reform. But in securing those benefits, somewhere along the tax-reform road the whole show went off the rails.

So what went wrong, and what can be done about it?

**BIG DREAMS, BIGGER LET-DOWNS**

One of the reasons for the current malaise with our tax system is undoubtedly the expectation built up by such a long public debate on big-picture tax reform, where it became all things to all people, before any detail was announced. In the inevitable compromise that comes with any reform requiring Parliamentary approval, it was never going to be able to deliver.

Worse still, because reform is so difficult to achieve, there was enormous pressure to include all elements in one package and to get it through on a timeline that matched the three-year Parliamentary term. It was an understandable, and perhaps even necessary, step given the constraints, but it created the seeds of discontent.

The initial tax package was going to see the introduction of a GST, a whole restructuring of the administration of income-tax payments through the Pay As You Go system and a raft of business tax reforms, that were all, on the original timetable, to be introduced from 1 July 2000. The GST on its own was a massive undertaking. Adding so much more on to the agenda was inviting system burn-out.

The scope was truly breathtaking. The intentions were good, but the outcomes never could have been in such a pressure-cooker environment. Some elements of the package were delayed, others were altered beyond recognition, and still others turned out to have rather different implications once the legislative fine-print became available.

**THE CLOCK IS RUNNING**

Time constraints are Public Enemy Number One when it comes to valuable tax reform. Some time pressure can be a good thing to get the wheels of bureaucracy turning. But when the pressure becomes a straitjacket that dictates the outcomes to a point where they are degraded, it is time to find a better way of doing things.

In the rush to legislate, impossible timelines are set. Exhausted people toil to turn out draft legislation so that other exhausted people can try to apply the emerging barrage in practice. There is little or no time for quality control and peer review of legislative drafting, little or no time for meaningful consultation, and little or no time to educate administrators and practitioners about the new law before it comes into force. Often, in fact, the law is applied before final legislation is passed.

There is little acknowledgement of the problems this creates for systems development or business planning and advice. It also tends to lead to verbose law which, in turn, increases administrative and compliance costs.

**IMPROVING THE PROCESS**

As unexciting as it may sound, the key to a better tax environment lies in a better tax policy and law-making process. A structured process can help put the brakes on when required, and ensure that simplicity is not lost in the maze of competing reform objectives. Getting this process right should be the next tax frontier to be tackled.

There is some prospect of useful progress in this area. The GST industry partnerships, the Small Business Consultative Committee...
The last two major tax reform efforts in Australia promised simplicity but delivered quite the opposite.

Terms of data collection costs for taxpayers, has been established. As a result, a complicated end result can emerge, even when all the players wanted something simple. The policy-makers sign on the dotted line when things look simple—but having made an irrevocable commitment, they are forced to live with, and try to defend, the complex implementation consequences.

The idea of integrated teams (from the Office of Parliamentary Counsel, ATO and Treasury) working within the bureaucracy to develop tax law was recommended by the Ralph Review and is still being considered. It gives some hope that the same people who generate the policy ideas in Treasury will actually get their hands dirty filling in the forms that the policy change requires, and vice versa. Seeing the compliance cost fruits of a policy idea is probably the best way of ensuring those compliance costs are minimized in future.

An example of the way in which tax arrangements are adding to compliance costs might help. A simple formula can be used to establish income tax deductions for motor vehicle running expenses. This greatly reduces the compliance costs for taxpayers by relieving them of the need to keep every invoice relating to car expenses throughout the year. (If a taxpayer chooses to keep a log book rather than use a formula, invoices must be kept, but petrol and oil expenses can still be estimated.)

Then the GST was introduced. The easy way to allow for input tax credits on motor vehicle running expenses would have been to allow for a proportion of the income tax deduction to be claimed. Instead, every taxpayer has to keep every invoice for car expenses through the year. (If a taxpayer chooses to keep a log book rather than use a formula, invoices must be kept, but petrol and oil expenses can still be estimated.)

A log book rather than use a formula, invoices must be kept, but petrol and oil expenses can still be estimated. Instead, every taxpayer has to keep every invoice for car expenses through the year. (If a taxpayer chooses to keep a log book rather than use a formula, invoices must be kept, but petrol and oil expenses can still be estimated.)

The key point is that while so much effort is put into maximizing the efficiency of the tax system, more needs to be done to recognize compliance costs. These costs impose the same kind of economic burden as efficiency costs. What’s more, any Government prepared to tackle simplifying the tax system head-on may find an electorate that is eternally grateful.

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