31 October 2013

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***Submission on the exposure draft of the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 and explanatory memorandum*.**

The Institute of Public Accountants (IPA) is one of the three professional accounting bodies in Australia, representing over 24,000 accountants, business advisers, academics and students throughout Australia and internationally. The IPA prides itself in not only representing the interests of accountants but also small business and their advisors.

The IPA welcomes the opportunity to provide a submission on the aforementioned exposure draft. The above Bill removes the Minerals Resource Rent Tax (MRRT) with effect from 1 July 2014. The Bill also discontinues or re-phases the measures that were intended to be funded by the MRRT. It is this aspect of the Bill that the IPA will specifically provide comments on, rather than the repeal of the MRRT.

Whilst we acknowledge that the repeal of the MRRT will result in changes in a number of other tax measures which were to be funded from revenue expected from the MRRT, we are particularly disappointed with the repeal of one of those tax measures. Namely, the loss carry-back provisions in the income tax laws. Loss carry-back allows companies to offset current period losses against previously paid taxes. The loss carry back provisions recently introduced struck the right balance between allowing losses and limiting the exposure to government revenues by placing a quantitative cap in conjunction with a two-year carry-back period. The quantitative cap reduces the government's exposure to large losses incurred by

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eligible companies. This reform measure was one of the few tangible outcomes from the 2011 Tax Forum which followed on from the work done in 2010 on the review of the Australian's Future Tax System (Henry Review). Both the Henry review and Business Tax Working Group both recommended the adoption of loss carry-back.

Australian businesses are under pressure to adapt and change their business models to overcome challenges and make the most of opportunities arising from structural changes underway within the economy. It is for this reason that the tax system should encourage rather than get in the way of businesses wanting to invest and innovate. Without loss carry-back, our tax system penalises investments that have some risk of failure through its treatment of losses. This penalty against risk taking can influence the kinds of investments undertaken and how much investment occurs which can impact on productivity and employment.

Loss carry-back encourages Australian businesses to undertake innovation and entrepreneurial activity. As well as offering the prospect of improving incentives for investment it also acts as an automatic stabiliser during an economic downturn. Small businesses operating through a corporate structure that experience sudden downturn would receive invaluable cash flow benefit to help them ride them out economic downturn caused by external factors such as Global Financial Crisis (GFC). Loss carry-back will help assist the continual survival of viable companies during similar downturns in future years.

While recognising that businesses operate through a range of legal structures, loss carry only helps small entities that operate using a company structure. Nonetheless, there are 760,000 small business entities that could benefit from having loss carry-back as part of our tax system.

Loss carry-back supports Australia's future growth prospects and it is for this reason that it should be part of our tax system. The loss carry back provisions struck the right balance between allowing losses and limiting the exposure to government revenues by placing a quantitative cap in conjunction with two-year carry back period. Having gone through all the effort of putting in place a good tax reform measure to support investment, it seems unwarranted to repeal such a measure that supports structural changes in our economy on the basis that its cost was to be funded from MRRT. Many OECD countries have already adopted carry back rules.

The IPA welcomes the opportunity to discuss further any of the matters we have put forward in our submission. Please address all further enquires to myself (tony.greco@publicaccountants.org.au or 0419 369 038).

Yours sincerely

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