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Dear Sir/ Madam

Subject: The digital economy and Australia's corporate tax system

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

The comments provided in this submission consider the high-level themes raised in the discussion paper. CPA Australia may provide additional comments on the topic at a later date.

Multilateral approaches are the best option to addressing tax issues arising out of the digital economy

CPA Australia supports the government to first and foremost, seek multilateral agreement on policy actions in response to the tax issues that have arisen as a consequence of the digitisation of the economy.

We therefore recommend that Australia be a leading proponent of such a multilateral approach, and to work within existing international frameworks to progress debate on reform options.

A unilateral approach is the least preferred option

CPA Australia acknowledges that a multilateral approach will be difficult to achieve.

We also recognise the revenue implications of doing nothing and the community expectation that governments will act to preserve their revenue bases to enable them to provide the services they demand.

Accordingly we would welcome further dialogue on any targeted unilateral tax policy considerations that are undertaken with a view to ensuring that, should a government choose to go down this path, that at least the response is well designed and implemented. However, this remains our least preferred option.

In deciding whether to pursue a unilateral approach, we recommend that the government model/ evaluate the second-round impacts of such policy suggestions to ensure that policymakers get a fuller picture of

the possible consequences of various policy options. This must include consideration of the impacts policy initiatives may have on the development of Australia's digital economy and the country's competitiveness

If the government does decide to take unilateral action those actions should be interim until a multilateral approach is agreed upon. Further, Australia cannot get too far ahead of international consensus as the negative impacts on the development of Australia's digital economy may start to outweigh the benefits.

As alluded to in the discussion paper, one of the reasons why the development of the digital economy is a potential negative to the revenue in Australia is that arguably no large multinational digital company has emerged from Australia. While outside the scope of this discussion paper, the government should consider whether Australia has the right environment to encourage and nurture the development of local large multinational digital companies.

The digital economy and the need for holistic tax reform

The challenges presented by the digital economy is another reason why Australia needs to undertake holistic tax reform. The aim of such reform should be to alter the tax mix so that the revenue is less exposed to the tax risks highlighted in the discussion paper. That is, reducing the government's reliance on corporate taxes and increasing the revenue's share of consumption and land taxes.

Australia's current approach is already robust

Australia has a very robust anti-avoidance regime and a world class revenue collection authority. Further, there have been several recent reforms in this general area (for example the multinational anti-avoidance legislation and the diverted profits tax to name but two) and that these reforms should be given time to bed down and be tested. It may prove that the existing law and recent changes may prove sufficient to address any mischief.

Development of policy proposals in other jurisdictions

We note that legislative proposals in other jurisdictions to address the issues raised in the discussion paper are in their infancy. It may therefore be prudent for the government to allow these developments to evolve further before decisions are taken on their potential effectiveness in Australia.

Reforms to taxing rights

Regarding potential reforms to taxing rights, we suggest that the government release a further consultation paper with detailed reform options and their impacts. To encourage international debate, such a consultation paper could be released in conjunction with the OECD or other jurisdictions.

Positive impacts of digital economy on the tax system

It should be acknowledged that the application of digital technologies by business such as digital payment systems and sharing economy applications can assist the ATO to better track, disrupt and deter some black economy activity, which in turn should result in increased tax collections.

It should also be acknowledged that digital technologies offer the ATO considerable scope to substantially improve its capability to administer the tax system in a cost-effective way. This will have benefits for the revenue and may reduce compliance costs for low risk taxpayers

Small business and the digital economy

While not directly relevant to the discussion paper, we note from the findings of our [Asia-Pacific Small Business Survey](#) that Australian small businesses are in general a considerable way behind their counterparts from Asia in their engagement with the digital economy. Any tax policy initiatives must therefore consider how it may assist address this digital divide; or at least not have the perverse impact of widening the gap.

Conclusion

In summary, CPA Australia strongly prefers a multilateral approach to address the issues raised in this discussion paper. We do however recognise that such an approach may not be possible, and that the government may need to respond unilaterally in the meantime. This is however our least preferred approach and should be subject to a detailed analysis of second-round impacts.

We would also suggest a 'wait and see' approach be taken to adopting policy options being debated in Europe – that is, it is too early to say whether such policy options are the most appropriate.

Finally, we suggest that the concerns raised in the discussion paper highlight a broader issue - the pressing need for holistic tax reform, including a shift in the tax mix towards taxes less prone to disruptions from the digital economy.

If you have any queries regarding this submission, please do not hesitate to contact Gavan Ord, Manager – Business and Investment Policy on +613 9606 9695 or gavan.ord@cpaaustralia.com.au.

Yours faithfully

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