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Standardised deductions may sound good, but it's not so simple

A recent proposal to allow taxpayers to claim a standard \$3,000 deduction for work-related and other personal expenses may sound good in theory, but it is unlikely to drastically change the tax return preparation process or reduce tax compliance work, says Tax & Super Australia (TSA).

Think tank the Blueprint Institute recently released a report saying that a \$3,000 standardised deduction (with the ability for those seeking more than a \$3,000 deduction to do so through substantiation) would give 80% of taxpayers a \$400 to \$1,000 annual tax cut and reduce compliance costs by \$4 billion a year. It is not clear from the report how this has been calculated.

It also suggested the move would go some way to “peeling people away from their tax accountants” and having to pay for their tax return to be prepared.

Blueprint Institute’s chief economist Steven Hamilton was reported to claim that standardised deductions would put those accounting and tax services that benefit from individual tax returns on notice.

Accountants Daily quoted Mr Hamilton as saying: “If businesses exist because of bad government regulation, those businesses should understand that their time is limited.”

Tax & Super Australia’s tax counsel John Jeffreys says the idea of standardised deductions without taxpayers having to substantiate or itemise claims is not new, with the Henry Tax Review canvassing the approach back in 2009.

“The Blueprint Institute’s report suffers a glaring omission from its panel of authors – it lacks a person who actually works in the tax system,” Mr Jeffreys said. “The addition of such a person may have resulted in a more temperate and balanced view.”

“The report seems to assume that claiming tax deductions for work-related expenses is a significant part of the cost of using a tax agent. This is simply incorrect. The work-related deductions part of the process is relatively minor. If you speak with most tax agents, you will find they have efficient ways of dealing with these deductions.”

“The biggest cause of compliance costs is the complexity of the overall tax system.”

“As the report states, the percentage of taxpayers using a tax agent has hardly changed over the last 10 years. Why is this? It is not because taxpayers have a significant need to have their tax agents work out their work-related deductions.”

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“It is because the Australian people need help dealing with (and sometimes getting referrals for other professionals) for a whole range of issues. These include capital gains, rental properties, financing, superannuation, advice on financial concepts and many other matters.”

TSA says the proposition that having a set \$3,000 deduction will automatically result in there being a corresponding reduction in compliance costs is too simplistic. Such a deduction will deliver a tax cut to a range of people, but it is doubtful this would result in a linear reduction in compliance costs as the report suggests.

TSA says it also needs to be appreciated that the lodgement of a tax return has significance beyond the mere collection of taxes. It is an important piece of information between an individual, the ATO and other branches of Government. It holds information that may also be used by other organisations, including banks, courts and businesses.

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Tax & Super Australia (TSA) is a not-for-profit organisation that provides practical tax, super and accounting information for more than 4,000 members and a broader tax community of more than 15,000 people.