

LEGISLATING AGAINST TAX AVOIDANCE

Table of Contents

ABSTRACT

1 INTRODUCTION

- 1.1 Purpose of the thesis
- 1.2 Context of the thesis
- 1.3 Structure of the thesis

2 STATUTORY GENERAL ANTI-AVOIDANCE RULES – ADVANTAGES AND DISADVANTAGES

- 2.1 Tax and tax avoidance
 - 2.1.1 What is tax avoidance?
 - 2.1.2 What is tax evasion?
 - 2.1.3 Tax evasion as a crime, and tax avoidance as a breach of a social contract?
 - 2.1.4 Tax avoidance and legitimate tax planning
 - 2.1.5 Conclusions
- 2.2 Avoidance of taxation in Australia
 - 2.2.1 Income tax
 - 2.2.2 Goods and Services Tax
 - 2.2.3 State Stamp Duties
 - 2.2.4 Conclusions
- 2.3 Consequences of tax avoidance
 - 2.3.1 Consequences of tax avoidance for governments
 - 2.3.2 Consequences of tax avoidance for taxpayers
 - 2.3.3 Consequences of tax avoidance for the economy
 - 2.3.4 Consequences of tax avoidance for tax avoidance
- 2.4 Examination of statutory GAARS
 - 2.4.1 Purpose of statutory GAARS
 - 2.4.2 Nature of statutory GAARS
 - 2.4.2.1 The general form of a statutory GAAR
 - 2.4.2.2 The Role of Tax Advisors and Scheme Promoters
 - 2.4.2.3 The Ralph Report
- 2.5 Advantages and disadvantages of statutory GAARS
 - 2.5.1 Advantages of statutory GAARS
 - 2.5.2 Disadvantages of statutory GAARS
 - 2.5.2.1 Uncertainty
 - 2.5.2.2 The Rule of Law
 - 2.5.2.3 Conclusions
 - 2.5.2.4 Do Statutory GAARS stop or slow avoidance?
- 2.6 Conclusions

3 ASSESSMENT OF ALTERNATIVES TO GENERAL ANTI AVOIDANCE RULES: THE JUDICIARY, THE ADMINISTRATION AND THE LEGISLATURE

- 3.1 The judiciary
 - 3.1.1 Judicial Anti-Avoidance Doctrines in the US
 - 3.1.1.1 Re-characterisation
 - 3.1.1.2 Economic Substance Doctrine
 - 3.1.1.3 Statutory anti-abuse provisions
 - 3.1.1.4 Conclusions on the direction of US judicial doctrines
 - 3.1.1.5 Application of the US Doctrines in Australia
 - 3.1.2 The *Ramsay* Principle in the UK
 - 3.1.2.1 Development of the *Ramsay* Principle
 - 3.1.2.2 *Collector of Stamp Revenue v Arrowtown Assets Ltd*
 - 3.1.2.3 Barclays and Scottish Provident decisions
 - 3.1.2.4 Application of the *Ramsay* Principle in Australia
 - 3.1.2.5 Conclusions
 - 3.1.3 “Substance over Form” and the Australian High Court
 - 3.1.3.1 The *Dick Smith* decisions
 - 3.1.3.2 Implications of *Dick Smith* for taxpayer certainty
 - 3.1.4 Conclusions
- 3.2 The Administration
 - 3.2.1 Administrative Powers
 - 3.2.1.1 Powers of Administrators to gather information
 - 3.2.1.2 Reciprocal Powers Legislation
 - 3.2.1.3 Conclusions
 - 3.2.2 Rights of Taxpayers against Administrative Powers
 - 3.2.2.1 Legal Professional Privilege
 - 3.2.2.2 Estoppel
 - 3.2.2.3 Common law duty of reasonableness
 - 3.2.2.4 Administrative decisions (Judicial Review) Act 1977 (Cth)
 - 3.2.2.5 Ombudsman Act 1976 (Cth)
 - 3.2.2.6 Freedom of Information Act 1982 (Cth)
 - 3.2.2.7 Taxpayers’ Bill of Rights?
 - 3.2.2.8 Conclusions
 - 3.2.3 Use of investigative powers where a GAAR exists
 - 3.2.3.1 *PS LA 2005/24*: Application of General Anti-Avoidance Rules
 - 3.2.3.2 Use of administrative powers to build a common law avoidance case
 - 3.2.3.3 Appearing before the GAAR Panel or continued roving inquiry
 - 3.2.4 Use of Taxpayer Alerts and Rulings
 - 3.2.5 Conclusions
- 3.3 The Legislature
 - 3.3.1 Requirement of disclosure of schemes by promoters
 - 3.3.1.1 United States
 - 3.3.1.2 Canada

- 3.3.1.3 United Kingdom
- 3.3.1.4 New Zealand
- 3.3.1.5 Australia
- 3.3.1.6 Conclusions on the requirement of disclosure
- 3.3.2 Legislation abrogating legal professional privilege
 - 3.3.2.1 James Hardie legislation
 - 3.3.2.2 Use made of information gathered through the abrogation of legal professional privilege by the legislature
- 3.3.3 Retrospective SAARS
 - 3.3.3.1 Retrospective SAARS: example of the *Finance Act 1978* (UK)
 - 3.3.3.2 Partially retrospective SAARS
 - 3.3.3.3 Making statutory GAARS more certain
- 3.3.4 Interference by the legislature with advice by practitioners
 - 3.3.4.1 Case study: US circular 230 and taxpayer certainty
 - 3.3.4.2 Conclusions on interventions by the legislature in practitioner advice
 - 3.3.4.3 Conclusions on the legislature
- 3.4 Case study: *Hart* case
 - 3.4.1 The *Hart* case
 - 3.4.2 The Judiciary
 - 3.4.3 The Administration
 - 3.4.4 The Legislature
 - 3.4.5 Conclusions

4 **STATUTORY GAAR IN AUSTRALIA'S INCOME TAXATION legislation**

- 4.1 Introduction
- 4.2 Former Section 260
 - 4.2.1 The Choice Principle
 - 4.2.2 Extension of the Choice Principle
 - 4.2.3 Revival of Section 260
 - 4.2.4 Conclusions
- 4.3 Part IVA of the ITAA36
 - 4.3.1 Introduction
 - 4.3.2 Scheme
 - 4.3.2.1 Statutory definition of "scheme"
 - 4.3.2.2 Judicial limitations on the meaning of scheme?
 - 4.3.3 Tax Benefit
 - 4.3.4 Purpose
 - 4.3.5 Cancellation of Tax Benefit
 - 4.3.6 Penalties
 - 4.3.7 Objections and Appeals against a determination
 - 4.3.8 Part IVA and recommendations of Review of Business Taxation Committee
 - 4.3.9 Is Part IVA of the *ITAA36* sufficiently general?
- 4.4 Does Part IVA impose sufficient limits upon the Commissioner?

- 4.5 Response to arguments that *Hart* expanded Part IVA
- 4.6 Response to arguments for the abandonment of Part IVA
 - 4.6.1 Requirement of a purposive approach to statutory interpretation
 - 4.6.2 Expanding the judicial function
 - 4.6.3 Changing Community Values
 - 4.6.4 Conclusions
- 4.7 *PS LA 2005/24*
 - 4.7.1 Application of GAARS
 - 4.7.2 Application of GAARS in Rulings
 - 4.7.3 Role and operation of the GAAR Panel
 - 4.7.4 Other initiatives in *PS LA 2005/24*
- 4.8 Addressing the supply of tax avoidance schemes
 - 4.8.1 Link between promoters and avoidance
 - 4.8.2 Promoter Penalties Legislation
 - 4.8.2.1 Nature of the Promoter Penalties
 - 4.8.2.2 Improving Taxpayer Certainty: Part IVA and Promoter Penalties
 - 4.8.2.2.1 Legal Professional Privilege
 - 4.8.2.2.2 Reduction of promoter penalties for a tax adviser cooperating with the Commissioner
 - 4.8.2.2.3 Discretionary exercise of part IVA of the *ITAA36* and Division 290 of the *TAA53*
 - 4.8.2.3 Conclusions
 - 4.8.3 *PS LA 2005/25*
 - 4.8.3.1 Nature of *PS LA 2005/25*
 - 4.8.3.2 Recommendations with respect to *PS LA 2005/25*
 - 4.8.4 Conclusions: Part IVA, promoter penalties, *PS LA 2005/25*
- 4.9 Case Study: the *Hart* case
 - 4.9.1 Similarities between the GAAR with regulations for its administration and Part IVA
 - 4.9.2 Differences between the GAAR containing regulations for its administration and part IVA
 - 4.9.3 Conclusions on the case study
- 4.10 Conclusions

5 FORM OF A STATUTORY GAAR

- 5.1 Introduction
- 5.2 International Comparison of Statutory GAARS
 - 5.2.1 New Zealand
 - 5.2.1.1 Judicial interpretation of the New Zealand GAAR
 - 5.2.1.2 Administrative policy for the application of the New Zealand GAAR
 - 5.2.1.3 Promoter Penalties in New Zealand
 - 5.2.1.4 Comparison of the New Zealand GAAR with part IVA of the *ITAA36* - Conclusions
 - 5.2.2 Canada

- 5.2.2.1 Judicial interpretation of the Canadian GAAR
 - 5.2.2.2 Administrative policy for the application of the Canadian GAAR
 - 5.2.2.3 Promoter Penalties in Canada
 - 5.2.2.4 Comparison of the Canadian GAAR with Part IVA of the ITAA36 -
Conclusions
 - 5.2.3 South Africa
 - 5.2.3.1 South African GAAR operating until November 2006
 - 5.2.3.1.1 Perceived problems with section 103 of the *Income Tax Act 1962*
 - 5.2.3.2 The SARS proposal for a new GAAR
 - 5.2.3.2.1 Preliminary issues
 - 5.2.3.2.2 The SARS proposal
 - 5.2.3.3 Enactment of a new GAAR
 - 5.2.3.4 Conclusions
 - 5.3 Australian GST GAAR
 - 5.3.1 Differences between Part IVA and Division 165
 - 5.3.1.1 Preamble to Division 165
 - 5.3.1.2 Part of a scheme
 - 5.3.1.3 Factors to refer to in determining the dominant purpose of a
scheme
 - 5.3.1.4 Conclusions
 - 5.3.2 Division 165 Rulings
 - 5.3.3 VCE and Commissioner of Taxation
 - 5.3.4 Division 165
 - 5.3.5 Conclusions
 - 5.4 Australian Fringe Benefits Tax GAAR
 - 5.5 Stamp Duty GAARS
 - 5.5.1 New South Wales and Tasmania
 - 5.5.2 Queensland
 - 5.5.3 Victoria
 - 5.5.4 South Australia
 - 5.5.5 Western Australia
 - 5.5.6 Australian Capital Territory
 - 5.5.7 Northern Territory
 - 5.6 Conclusions
- 6 A UNIFORM STATUTORY GAAR**
- 6.1 Introduction
 - 6.2 Uniform legislation
 - 6.2.1 Spain and Germany
 - 6.2.2 Uniformity in Australia
 - 6.2.3 Uniform Evidence Legislation in the Commonwealth of Australia
 - 6.3 Uniform administration
 - 6.3.1 *PSLA 2005/24*
 - 6.3.1.1 Rulings with respect to the GAAR
 - 6.3.1.2 GAAR Panel
 - 6.3.2 Uniform GAAR Panel

6.3.2.1	Proposed form of the GAAR Panel under a Uniform GAAR
6.3.2.2	Composition of the GAAR Panel
6.3.2.3	Advantages of a Uniform GAAR Panel for state/territory and Federal Governments
6.3.2.4	Proposed operation of the GAAR Panel under a uniform GAAR
6.4	Proposed uniform GAAR
6.4.1	Elements of a uniform GAAR
6.4.2	Proposed uniform GAAR
6.4.2.1	Proposed Intergovernmental Agreement
6.4.2.2	Proposed Uniform General Anti-Avoidance Rule Act
6.4.2.3	Proposed Uniform General Anti-Avoidance Rule Regulations
7	CONCLUSIONS
7.1	Findings of the thesis
7.2	How the thesis may be used
7.3	Further research that may follow from the thesis
7.4	Conclusions
8	APPENDIX A: PART IVA OF THE ITAA36
9	APPENDIX B: NEW ZEALAND GAAR
10	APPENDIX C: CANADIAN GAAR
11	APPENDIX D: SOUTH AFRICAN GAAR
12	APPENDIX E: GST GAAR
13	APPENDIX F: FBT GAAR
14	APPENDIX G: QUEENSLAND STAMP DUTY GAAR
15	APPENDIX H: VICTORIAN STAMP DUTY GAAR
16	APPENDIX I: WA STAMP DUTY GAAR
17	APPENDIX J: ACT STAMP DUTY GAAR
18	APPENDIX K: NORTHERN TERRITORY STAMP DUTY GAAR
19	BIBLIOGRAPHY