

ATTACHMENT A

Associate Professor John Glover
Faculty of Law,
Monash University
CLAYTON Vic

24 March, 2002

Dear John,

Re: Review of TVM Research Project

Thank you for agreeing to provide a peer review of our project. Attached to this letter is a copy of each of the following documents:

1. the original project description approved by the Board of Taxation,
2. the instructions to participants,
3. the script for instructing subjects on the meaning of TVM,
4. the script for instructing subjects on the meaning of the current receipts and payments-based system,
5. the legislative extracts for each group, and
6. the common set of questions.

As we explained, this experiment is designed to test the assertion made in the final report of the Review of Business Tax that TVM will lead to “*reducing uncertainty* ... in the present system” [Review of Business Taxation, *A Tax System Redesigned* (1999) p. 156,].

We are seeking from you a written report which addresses issues of appropriateness and possible bias. The last section of this letter sets out more specifically the issues we would like your report to address.

Experimental design

The experiment is described in the letter to the Board. In summary:

- Undergraduate volunteers will be sought as experimental subjects. 60 students (plus reserves) will be selected at random from the pool; law and commerce students, people over 25 or who have completed a BAS will be excluded on the basis that they may have too much prior knowledge of the current system.
- A postgraduate drama student is being recruited as the presenter at the sessions.
- Subjects will be divided at random into four groups. The presenter will read to one group of 15 the script on TVM and to the other the script on the current system (receipts and payments). The experiment will be repeated.
- The two groups are asked to give their answers to the set of questions.
- They are also asked to state the degree of confidence they feel in the correctness of their answers and how they reached them.

It is hypothesized that TVM will show itself more certain than the current system if the TVM group achieves the same answers to the problems more consistently, or if the dispersion of the answers of the TVM group is smaller. For example, if 95% of the TVM group all give the same answer to a question, but the other group is split 60-40, then there is some evidence to believe that TVM may lead to greater certainty.

TVM will also be shown to be more certain than the current system if the TVM group has a higher degree of confidence that the answers they give are correct.

Selection of issues for the experiments

The project is necessarily quite selective in what is instructed and the tasks that are asked of students. There are several reasons for this but the principal one is simply the limited amount of time available for instructing the subjects and having them complete tasks.

In addition, it seems to us to be little purpose in testing areas where there is little explicit structural change to be made by TVM. Hence, we have not examined the treatment of trading stock or the classification of payments as private or non-private in this experiment. TVM proposes no major change to the areas, either in terminology or structure, and so we do not examine them. Also, there are areas of high detail where the effort to convey what is meant outweighs the benefit of examining it [the financial asset rules in Divisions 74 – 76 are dealt with summarily]. We do not need to use those rules to examine whether the basic mechanism leads to more or less certainty.

We have also not examined some of the more peripheral aspects of TVM such as the absorption costing rules. In the same vein, we have not examined many of the elaborations of the basic concept in the TVM rules – for example, the rules about non-cash transactions, part-cash transactions, splitting assets and so on [Division 16]. We do

not need to use those rules to examine whether the basic mechanism leads to more or less certainty.

So, in so far as it is possible, our focus is on the principal structural change that TVM-method proposes to make – that is, the expression of the capital-income dichotomy and timing rules of the new tax base in terms of cash flows, assets and liabilities. We focus on the interaction between these steps:

- is there a receipt or a payment [Questions 1, 11]
- how is the double-counting managed for a receipt that becomes an asset and a payment that diminishes an asset [Questions 2, 12]
- when will an asset / liability be viewed as arising without a corresponding cash flow [Questions 4-7, 13-14]
- does a receipt come with a liability, does a payment generate an asset [Questions 8-9, 15-18]
- what happens when assets disappear [Question 10]
- classifying assets [Questions 19, 20]

The instruction and questions deal, so far as we can isolate them, with these issues.

In order to assess the claim that TVM will provide a sound framework for solving unforeseen problems, we have included questions on 2 areas on which subjects will not have received specific instruction [Case Studies 1 - 2]. You will recognise the cases, but our participants will not.

There are two things to note about the visual appearance of the questions at this stage. We have left the labels describing each of these groupings apparent for you in the Questions file (they are in brackets in [*bold italic*]) – they will be removed in the version presented to the subjects. We have also not presented the questions to you using the page layout that will be employed when the questions are given to the subjects – a representative sample of this layout for each group is attached at the end of the Questions file. We are using this layout in the hope that it will induce subjects to reveal something of their thought processes as well as their conclusion.

Report

We are seeking from you a written report which examines the appropriateness of, and any apparent bias in –

- the material which has been selected to be instructed,

- the way in which the material is presented in the scripts, and
- the choice of the questions asked and the way the questions are presented.

We ask you to consider and respond explicitly to these questions.

1. In your view, are the two scripts similar in terms of:
 - (a) range of issues covered? (if no, please specify)
 - (b) depth of explanation and detail? (if no, please specify)
 - (c) degree of economy in exposition? (if no, please specify)
 - (d) level of abstraction and provision of examples? (if no, please specify)
 - (e) clarity of explanation? (if no, please specify)
2. Overall, are the two scripts equivalent? Please adopt one of the following positions:
 - (a) yes, without further amendments necessary
 - (b) yes, provided these minor changes are made, namely (please specify)
 - (c) these substantial changes are necessary, (please specify), but equivalence can be achieved
 - (d) no, and I can't see how the scripts could be made equivalent
3. Overall, are the two sets of materials appropriate and fair in terms of:
 - (a) the material which has been selected to be instructed,
 - (b) the way in which the material is presented in the scripts, and
 - (c) the choice of the questions asked and the way the questions are presented.

Please also feel free to comment on any other aspect of the experiment.

Payment

Please include your invoice for \$2,000 with your report.

Again, many thanks for your assistance,

Yours sincerely,

Graeme S Cooper
Professor of Taxation Law