12 April 2002

Professor Graeme Cooper
University of Melbourne
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Parkville Vic 3052

Dear Graeme,

TVM Research Project

Thank you for commissioning me to review the TVM research project documents, including those entitled 'The receipts and payments method of computing taxable income' ('RPM script'), 'The tax value method of computing taxable income' ('TVM script') and 'Questions'. This letter is a confirmation of our telephone conversation. My views in summary are as follow.

1.   Are the RPM script and the TVM script similar in terms of:
    (a)   range of issue covered?
        Yes. Both personal and business taxation issues in each script have comparable variety and reach.
    (b)   depth of explanation and detail?
        Yes.
    (c)   degree of economy and detail?
        Yes.
    (d)   level of abstraction and provision of examples?
        Yes. Both scripts are about equally deficient in this respect. Each is highly abstract and contains insufficient examples.

1.   Overall, are the two scripts equivalent?
    (a)   . . .
    (b)   yes, provided these minor changes are made, namely
    (c)   . . .
    (d)   . . .

        Titles **to each of the scripts should be changed or omitted. The RPM script title, in particular, is inadequate. Existing law involves the legal categorisation of receipts and payments and not mere cumulation.**
        Elsewhere, the RPM script suggests an *undue arbitrariness* in the law. See paragraphs on page 2, commencing with the words 'Notice that . . .' and on page 3 commencing with the words 'This distinction . . .' The impression could be counterbalanced, to a degree, by excision of the second sentence in the paragraph on

page 4 commencing 'To take one example . . .' In place of this sentence should be inserted the words 'Capital assets are purchased with after-tax money. Instead, the purchase price will be subtracted from the proceeds of the land when sold.'

The TVM script does not describe the popular sense of 'asset' in detail on page 5. Only accruals methodology and not tax on realisations is set out.

1. Are the two sets of materials appropriate and fair in terms of:
   (a) the material which has been selected to be instructed?
      Yes.
   (b) the way in which the material is presented in the scripts
      Yes.
   (c) the choice of the questions asked and way the questions are presented.
      No. I note that several questions are based on problems arising under the present system, which biases the experiment against the RPM. Questions 8, 16 and 18 and the two case studies are within this category. Potential defects in the TVM method are explored to a significantly lesser degree. Question 17 is one of the few problematic applications of the TVM.

      Questions involving dealings with assets of significance under the TVM but not the RPM, conclude with the words 'What is X's tax position?' This may raise the implication that the given dealing *should* have a revenue consequence, even if it does not. Questions 5,6,7 and 10 are within this category. Perhaps the question should conclude more neutrally: e.g., 'Is there any tax consequence for X?'

With the above reservations, I advise that the material for the experiment is overall fair and free of bias. My statement is enclosed.

Yours faithfully,

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Associate Professor John Glover
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