



The Institute of  
Chartered Accountants  
in Australia

19 April 2002

Mr Murray Edwards  
Board of Taxation  
C/- The Treasury  
Langton Cres  
PARKES ACT 2600

Dear Murray

#### TVM Tutor Survey

We have now received 17 of the survey results back out of the twenty participant group. Two members were unable to complete the exercise. I have enclosed the questionnaires and our summary sheet of the results.

The comments on the questionnaire vary as to the amount of detail, but all responses provide invaluable feedback on the practical application of the TVM calculation, albeit that there were time restrictions, the practitioners were dealing with incomplete legislation and no precedent on the inevitable interpretation issues.

The broad outcomes we drew were as follows:

- The great majority went into the exercise with little to no knowledge of TVM.
- Their understanding of the broad concepts was gleaned from the Tutor and in some cases the draft legislation, taking for the majority some 5 to 20 hours.
- No one found the calculation simpler, half just the same as the current system, and a third harder. Perhaps that can be put down to the unfamiliar processes and concepts.
- Seven participants reported between 5% saving in preparation time to an additional 5% time, while 6 participants reported additional time between 5% and plus 20%. Only one participant reported a clear time saving.
- The additional time was largely spent in those parts of the exercise involved with asset and liability values, and in determining if clients created/acquired assets and liabilities.
- All agreed that the TVM process was compatible with computer-generated spreadsheets. Therefore we can assume that the preparation process could be simplified and streamlined.
- The TVM process was only seen as a more logical progression from accounting records by 4 participants.

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- Only three saw TVM as more readily understandable than the existing system.
- On the issue of the potential for interpretation issues increasing or decreasing, the vote was 6/3 for increasing /decreasing.
- The areas of most difficulty seem to have been evenly spread, perhaps as a consequence of the variety of business sectors involved in the study.
- There was a 7/5 vote in favour of TVM overcoming some of the anomalies and complexities in the current system.
- All participants saw significant transitional costs for either their client or the practice, mainly in the areas of training, software, ATO interface and retooling.
- The time estimated to become proficient in TVM varied with most in the plus 2 months, 2 months to 6 months categories.
- The view on whether the ICAA stance on the future of TVM saw one in favour of introduction asap, 5 in support of further development, and 7 advocating cessation of further work.

Some members chose to comment in some detail on the exercise and their conclusions really flesh out their outcomes. The following are considered representative samples of each member's views

#### Member 1.

- "I think the most difficult part for accountants is that it has no reconciliation back to anything. Tax values do not relate to accounting balances in a number of cases and in some items are left out and some are partially included."
- "I do not believe that accountants generally have a good understanding of the balance sheet - in smaller client bases I think they work at getting the P&L right ..."
- "I think the biggest change is that ALL ACCOUNTANTS will lose years of knowledge base and judgement skills/ They basically start from scratch - the impact of having partners ( past their learning skills) at the same place as "New Graduate" - but still having to service large client needs."
- "Comparing "real situations" during this early stage to the wording of the legislation already raises a number of practical problems for a non-lawyer trained professional".
- "My first reaction was that this system made good sense but from a practical implementation position it became more obvious that it was the same problem with a different look. However we would not have the same knowledge and history to interpretation to be based on."
- "What we are really talking about here is going back and relearning "tax law again".....The biggest issue is where do accountants find 6 months for retraining - especially if they have a busy practice - i.e. the client business issues don't stop."
- "the legislation is hard to follow as you cannot read a sentence without going to another section which could lead you to another section. It has no flow when you are trying to read it."
- "However we should not let our "fear of change" impact on our judgement. What we need to do is participate in an in depth Pilot study of the practical problems before it gets rolled out.... We also need to quantify the loss of knowledge base which will be lost in this process - the idea of throwing out 25 years of practical tax skills and starting again with a new concept is hard to get your mind around ".

#### Member 2.

- "I found that by the time I was part way through the calculation process, I had lost all feeling for the underlying tax position of the client."

" I think people understand income and profit and expenses as a basis for paying tax much better than movements in assets and liabilities."

- "TVM could help with black hole anomalies but this could be also fixed by amendments to the current system."

#### Member 3.

- " Existing accountants are going to find TVM extremely complex to understand because it is based on accounting principles. I could understand the logic because I have an audit background and deal with tax effect accounting regularly."
- " Staff training is going to be a huge cost for practices. We have already spent over \$30,000 in time training for STS..."

#### Member 4

- " The TVM proposed legislation does not appear, in its current format, to provide any benefit in regard to simplification of taxation legislation. The majority of issues that cause difficulties for practitioners and clients involve tax adjustments, anti-avoidance provisions and international tax issues. They are not sufficiently addressed by the TVM proposed legislation."

#### Member 5

- " I found the TVM principles made no real difference to the preparation of my clients income tax returns. Apart from some additional calculations using the spreadsheets provided and the additional work in reconciling the receipts and payments the exercise was neutral. It did not result in an ease of calculation and certainly did not result in any saving of time."
- " TVM will have larger compliance costs for business driven by the costs of their accounting and legal advisors together with the costs internally and in external advice in the transitional period. All this for, in my opinion, no discernible gain. I believe the dollars would be better spent in dealing with the existing legislation to rid it of anomalies and black holes."

#### Member 6

- " Readily understandable to the current participants at my compliance level in the current tax profession. I cannot answer for the new entrants....I recall doing tax subjects in my degree and thought tax was a wonderfully logical system..."
- " Seems to replace one set of anomalies and complexities known to current practitioners ( in varying degrees) with a new lot unknown to anyone."
- " I 'd go for this one ( abolition) or if I had to the 10 year research without any commitment to support."

#### Member 7

- " There is some additional time here as intangible items need to be considered and determining whether something meets the definition of an asset. It is a very broad definition"
- " Comparing what a taxpayer has at the beginning of the year and comparing this to what they have at the end of the year is a lot more logical than looking at what " income" has been generated and what "deductions" can be applied to this."
- " The industry we tested of Service Entity is not a very complex industry and the clients we had to test were fairly small. Although in theory it looks like TVM will work for everyone it will be interesting to see what happens with the more complicated industries."

We would be interested in comparing notes with the ATAX researchers to assess whether they took any other messages away from their work.

Regards

*ICP Hunt*

pp  
Brian Sheppard  
Tax Counsel

**Knowledge of TVM - pre-exercise**

None	4
Minimum	10
Fair Amount	3

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**Time Spent Understanding Basics for Tutor Exercise**

▪ >5 hours	5
▪ 5-10 Hours	6
▪ 10-20 Hours	6
▪ < 20 Hours	

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**TVM Calculation Method**

Simpler	
Same	12
Harder	5

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**Approximate Time Differences**

▪ Saving >20%	
▪ Saving 5-20%	1
▪ Between saving 5% & additional 5%	9
▪ Additional time between 5% & 20%	3
▪ Additional time >20%	3

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**In which parts of the process is there time saved, or additional time taken**

▪ Collation of client data and documents	Saved 2	Additional 8
▪ Determining if clients create/acquire assets	Saved	Additional 15
▪ Determining if clients hold assets	Saved 1	Additional 15
▪ Calculating the tax value of assets	Saved 1	Additional 11
▪ Determining if clients have created liabilities	Saved	Additional 14
▪ Determining if client 'have' liabilities	Saved	Additional 13
▪ Calculating tax values of liabilities	Saved 2	Additional 9
▪ Transposing figures into spreadsheet	Saved 5	Additional 6
▪ Calculating TI on ATO worksheets	Saved 4	Additional 7
▪ Interpreting the legislation	Saved 2	Additional 12

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**Is TVM System readily transferable to computer spreadsheets**

Yes	17
No	

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Is process more logical progression from accounting records

Yes 4  
No 12

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Are concepts more readily understandable than existing system

Yes 3  
No 13

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Is Potential for interpretation issues arising

Increased 8  
Decreased 3

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Which areas did you have greater difficulty

▪ Investment assets	4
▪ Depreciating assets	6
▪ Trading stock	1
▪ Financial assets	2
▪ Listed zero tax value assets	6
▪ Money accounts	3
▪ Paid-up share capital	1
▪ Financial liabilities	2
▪ Market value liabilities	3
▪ Depreciating liabilities	4
▪ Listed zero tax value liabilities	5
▪ Other liabilities	3
▪ Other	4

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Does TVM overcome some of anomalies or complexities in current system

Yes 7  
No 6

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Would introduction of TVM involve significant transitional costs

For your clients

Yes 10  
No 7

For your practice

Yes 17  
No

List areas in which costs might be incurred

- Training 16
- Software 13
- Rehiring staff 2
- Retiring staff 2
- Reworking clients accounts and returns 10
- ATO interface 9
- Retooling 14
- Other 2

How long to you feel it would take to become proficient

- 1-2 weeks
- Under 2 months 5
- 2-6 months 3
- 6-12 months 4
- more than 12 months 4

Did you identify any major gaps/deficiencies in TVM process

No 5  
 Yes 3

Do you consider the ICAA should

- |   | No | Yes |
|---|----|-----|
| ▪ Support the introduction of TVM asap    | 2  | 1   |
| ▪ Support the further development of TMV  | 1  | 5   |
| ▪ Recommend the abolition of further work |    | 8   |