Labor’s Multinational Tax Package

- Labor’s comprehensive package will close tax loopholes exploited by multinational companies and improve the budget bottom line by $5.4 billion over the decade.

Why are we doing this?

- Tax evasion and avoidance by multinational companies threatens Australia’s tax base. When tax loopholes are exploited by multinational companies, Australians ultimately have to pay higher taxes or suffer cuts to vital services.
- Multinational tax avoidance has been identified as a key risk by the OECD, the G20, Senate Inquiries in Australia, and civil society and journalist investigations. Tax Office data in Australia shows that around one in four large companies pay no tax in Australia.
- The previous Labor Government began the task of tightening loopholes, including implementing the Tax Laws Amendment (Cross-Border Transfer Pricing) Bill (No. 1) 2012 that was integral to the recent Australian Tax Office victory over Chevron.
- In opposition, the Coalition voted against Labor’s measures to reduce multinational tax avoidance and in Government, they’ve failed to take serious action on this problem.
- In 2015, the Labor Opposition announced a comprehensive multinational tax package, which focussed on closing down debt deduction loopholes. Governments around the world are clamping down on the ability for corporations to inflate debt deductions to minimise tax.
- The Government has refused to back Labor’s package or take any action. Turnbull Government Ministers have boasted at corporate conferences about how they are different from Labor because the Coalition won’t touch these loopholes.
- For a long time, civil society and tax fairness campaigners have been arguing for greater transparency.

What are we doing?

Labor’s multinational tax package (Their Fair Share) has five elements:

1. **Thin Capitalisation (Worldwide Gearing Ratio)** – tightening debt-deduction loopholes used by multinational companies. Revenue: $1.1b (4 years) / $4.6 b (10 years).
2. **Multiple Entry Consolidated Groups** – remove tax advantages and inconsistencies between multiple entry consolidated groups (consisting of Australian-resident entities that share a common ultimate foreign owner) and Australian-owned ordinary consolidated groups.
3. **Tax Transparency Threshold** – restore Labor’s $100m threshold for public reporting of tax data for private companies. This threshold was raised to $200m in a Liberal-Greens deal.
4. **Community Sector Representative on Board of Taxation** – this measure further ensures community sector voices are heard in tax design and review processes.
5. **Increased compliance funding for the ATO** (revenue positive).
How will Labor’s policies work?

1. Thin Capitalisation (Worldwide Gearing Ratio):
   - Amends the thin capitalisation rules to remove the safe-harbour thin capitalisation and ‘arms-length’ tests for interest deductions of multinational firms. This will leave the world-wide gearing ratio as the only deduction available.
   - This reform builds on previous changes and simplifies the law by providing one test for debt levels.
   - This test already exists within Australian law which will significantly reduce the administrative difficulty of implementation.

2. Multiple Entry Consolidated Groups:
   - Multiple Entry Consolidated groups are corporate groups, treated as a single taxpayer, consisting of Australian-resident entities that share a common ultimate foreign owner.
   - The current arrangements allow Multiple Entry Consolidated groups to retain higher cost bases of assets, and thus reduce future capital gains or enhance depreciation deductions, depending on the character of the assets. The choice to do so can result in unintended tax outcomes as compared to Australian tax consolidated groups.
   - To address this, Treasury has suggested in a discussion paper that amendments to the Income Tax Assessment Act can be made. The Government has not acted on these recommendations.
   - Labor’s proposal is to accept Treasury’s recommendations to the Income Tax Assessment Act.

3. Tax Transparency Threshold:
   - Lowers the reporting threshold for tax transparency data for private firms from $200 million to $100 million. This would restore Labor’s original laws, and bring private companies in line with the reporting threshold for public companies. This would publicly release tax data for another 600 large private firms.
   - Private firms with revenue of $100 million or over would have their tax data publicly released, as is currently the case for private firms with revenue above $200 million.
   - This aligns private firm reporting with public firm reporting, which has a $100 million threshold. Half the publicly released list of private companies with turnover greater than $200 million in 2013-14 were subject to ATO review or audit.

4. Community Sector Representative on Board of Taxation:
   - The Board of Taxation is a non-statutory advisory body that provides the Government with real-time advice on tax policy issues by contributing a business and tax community perspective to improving the design and operation of taxation laws.
   - Tax advisors and multinational companies are well represented on the Board.
• There are no community representatives on the Board. This potentially skews the interests and feedback given by the Board.

• Additionally, community sector advocates will have greater proximity to other professionals and the complexities of tax policy.

• This measure requires one of the 11 non-Government board members to be from the community sector.

5. Increased Compliance Funding for the ATO:

• Provides an additional $50 million per annum to the ATO for multinational tax compliance.

• This measure is revenue positive. It is expected to generate $200 million in revenue over the four years to 2019-20.

Labor’s record

• The previous Labor Government legislated multiple measures closing multinational tax loopholes and increasing transparency. All were opposed by the Coalition Opposition.

• In 2015, Bill Shorten, Chris Bowen and Andrew Leigh announced a comprehensive package including the worldwide gearing ratio. The Government refuses to adopt these measures.

Financial Implications

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<th>2016–17</th>
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<th>2018–19</th>
<th>2019–20</th>
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<tr>
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<tr>
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¹ Totals may not sum due to rounding