Why Australia needs a competitive company tax rate

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Australia is at a critical point. Our economy is beginning to show green shoots so now is the time to pull out all stops to super charge that growth.

Now is the time to push hard for increasing our productivity so we can create the conditions for higher incomes.

Now is the time to get big investments in sectors like mining, agriculture, energy and advanced manufacturing so we can compete and export on the global stage.

This is what a more competitive company tax rate is all about. Driving more investment so we can create new businesses, expand existing business, export more, create new jobs and deliver higher incomes.

We are falling behind on our tax rates. We have no time to waste.

Jennifer Westacott
CHIEF EXECUTIVE
BUSINESS COUNCIL
OF AUSTRALIA

KEY FACTS

AUSTRALIA’S TOP COMPANY TAX RATE OF 30% IS THE 5TH HIGHEST IN THE OECD

THE AVERAGE COMPANY TAX RATE ACROSS THE OECD IS 24%

THE AVERAGE COMPANY TAX RATE IN ASIA IS 21%

AS OTHER COUNTRIES HAVE LOWERED THEIR COMPANY TAX RATES, AUSTRALIA’S HAS BEEN LEFT FROZEN IN TIME FOR 16 YEARS

AUSTRALIA’S TOP COMPANY TAX RATE OF 30% WILL SHUT US OUT OF THE COMPETITIVE GLOBAL CONTEST FOR INVESTMENT NEEDED TO CREATE JOBS AND DRIVE HIGHER WAGES

THE PROPOSED REDUCTION TO A TOP RATE OF 25% WILL PERMANENTLY GROW THE AUSTRALIAN ECONOMY BY 1% – OR $17 BILLION A YEAR IN TODAY’S TERMS
Australia needs to get in front again in the tough global race to boost jobs and wages. We can’t expect to win that race with one of the highest company tax rates in the developed world.

Doing nothing is no longer a credible option. The modest proposal to lower Australia’s top company tax rate to 25% over a decade has become vitally important.

Every company tax reduction overseas is a de facto tax increase in Australia.

Australia now has the 5th highest company tax rate in the OECD. If the US and France deliver their pledges, Australia will have the 3rd highest company tax rate in the OECD.

With historically low wages growth, business investment still languishing at its lowest share of GDP since 1993-94 and economic growth below 2%, we simply can’t afford to see investment sucked out of Australia.

Australia's Company Tax Rate is Not Competitive

The average company tax rate in Asia is 21%. Across the OECD the average is 24%. And falling.

The USA has announced its intention to slash its federal rate to 20%. The UK has legislated to drop its rate to 17% and even France, which has traditionally put high taxes on business, has announced a significant reduction to 25%.

Australia’s top company tax rate of 30% will shut us out of the competitive global contest for investment needed to create jobs and drive higher wages.

Global action should be a wake-up call for the Senate that Australia can not afford to stand still while the rest of the world forges ahead.

Australia needs to get in front again in the tough global race to boost jobs and wages. We can’t expect to win that race with one of the highest company tax rates in the developed world.

It crushes opportunity. It is a disincentive for international investors looking to set up a business and create jobs. At the same time, other countries have become more attractive to Australia’s largest businesses looking to expand operations.

Both sides of politics have in the past realised the importance of reducing the company tax rate to grow the economy. It was the Keating government in 1993 that lowered the company tax rate to 33%, putting Australia’s rate well below the OECD average.

And in 2001 the Howard government further reduced the company tax rate to 30%.

But in the 16 years since the 30% rate was set, the world has changed dramatically with advances in technology and across many aspects of society and daily life, yet Australia’s company tax rate has remained frozen. Meanwhile, other countries have improved their competitiveness.

The federal Coalition’s plan to bring the top tax rate for Australian business down from 30% to 25% is modest compared with changes being made in many other countries as it will still take the best part of a decade to implement and won’t be fully realised until 2026-27.
Those who attack the case for company tax cuts have no alternative credible plan to get investment growing strongly again. Creating a competitive company tax rate is an important mechanism to give Australian business the opportunity to succeed.

If we want the nation to thrive we need business to succeed. If you reduce the tax on Australian business, you create the opportunity for more investment and more jobs. A business that isn’t thriving can’t create jobs and can’t give workers a pay rise.

Australia needs a pro-growth competitive company tax system for all businesses – big and small – to stimulate investment, raise productivity and increase the real wages of working Australians.

Some say Australia can’t afford company tax cuts. The truth is we can’t afford not to have company tax cuts.

How is it fair to let Australia fall behind, lose global competitiveness and miss out on attracting the extra investment that will create the opportunity for more jobs and drive higher incomes?

“Cutting the company income tax rate increases domestic productivity and domestic investment. More capital means higher productivity and economic growth and leads to more jobs and higher wages.”

BILL SHORTEN
FORMER ASSISTANT TREASURER
23 AUGUST, 2011

AUSTRALIA NEEDS
BUSINESSES TO THRIVE

Combined federal and state statutory company tax rates (%)

- **UK** – legislated rate for 2020. Current rate is 19%
- **US** – announced federal rate. Current combined rate is 38.9%; current federal rate is 35%
- **France** – announced federal rate. Current combined rate is 34.4%; current federal rate is 33.3%
- **South Korea** – announced federal rate for South Korea’s largest companies. Current combined rate is 24.2%; current federal rate is 22%

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<th>Country</th>
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<td>Ireland</td>
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Real fairness is about ensuring people can access good jobs and growing incomes in a more prosperous country that has the capacity to support the genuinely disadvantaged.

A lower, more competitive, company tax rate creates the opportunity for business to increase investment, which in turn is essential for future economic growth, higher paying jobs and higher living standards, particularly in regional areas.

Tax changes overseas, such as the reforms announced by the US government, will significantly change the arithmetic for global investors considering investing in Australia and can only be bad news for Australian workers and Australian businesses.

The money and the jobs will go elsewhere. Since the 1960s, rarely has new business investment as a share of our economy been lower than it was in 2016-17.

After a once-in-a-lifetime resources boom, business investment as a share of our economy is the lowest it’s been since the early 1990s recession.

We are seeing welcome green shoots emerge of new business investment. But it is well below where we need it to be and it will take sustained growth to move the economy back to a stronger footing.

This is at risk if Australia’s company tax rate is not internationally competitive in the race for that investment.

Business investment is about expanding operations, building new factories and plants, buying machinery and equipment and developing and adopting cutting edge technology.

Investment drives higher output and more efficient production. It increases business revenues and profits, leads to more people being employed and increases output per worker which allows higher wages to be paid.

Business today is global and companies have to make choices about where to invest their next dollar. Australia’s high tax rate means more and more investments are not made in Australia. We can’t just wait around for this to reverse. We need action to get investment moving strongly in the right direction.

Deloitte has found “company taxes that are ‘too high’ scare off investment in Australia”. Without aspiration, enterprise and profitable businesses, what will create the opportunity for Australian business to drive growth, wealth creation, the jobs of the future and money to pay for the social safety net?

“Company tax changes the decisions business would otherwise make, affecting everything from location, risk and timing questions through to choice of structure, financing and dividend policy. At its worst, this tax can lead to investment decisions being delayed, abandoned or substantially altered.” — DELOITTE ‘MYTHBUSTING TAX REFORM’ 2015

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Without aspiration, enterprise and profitable businesses, what will create the opportunity for Australian business to drive growth, wealth creation, the jobs of the future and money to pay for the social safety net?

Locking in a path to a 25% company tax rate for all businesses will send a credible and positive signal about investing in Australia.

A globally competitive company tax rate is one of the most direct and effective economy-wide policy levers we have to encourage higher domestic investment by local and global companies.

Other countries know this and have been reducing their company tax rates while we have stood still for 16 years.

Companies do have choices to move staff and operations and future investments overseas. Investment will follow where businesses think they can make the best return and the tax rate is a significant part of that equation.

Recent world competitiveness rankings show Australia has fallen out of the world’s top 20 countries for the first time in 21 years.
Treasury estimates reducing the company tax rate to 25% will increase GDP permanently by 1% – or $17 billion a year in today’s terms.

One per cent might not sound like much but it’s twice as big as the lasting economic benefit of the landmark tariff cuts of the 1980s and 90s. Increasing the size of the economic pie by $17 billion every year will also provide more money for hospitals, schools and essential services.

Treasury modelling confirms company tax is the most damaging of all federal taxes because of its damaging impact on job-creating investment.

And that’s the international consensus too with the International Monetary Fund and the Organisation for Economic Co-operation and Development both pointing out that company taxes harm economic growth.

Independent Economics director Chris Murphy estimates that for every $1 of cost to the budget, a company tax cut delivers a gross benefit to Australian consumers of $2.39.

It is hard to think of any other use of taxpayer dollars that would produce such a large economic payoff.

And a larger and stronger economy will help shore up the long-term sustainability of the volatile corporate revenue base which has become increasingly sensitive to the profitability of relatively few companies – just 12 companies account for around one-third of all company tax.

**THIS IS NOT A TAX ‘GIVEAWAY’ TO BUSINESS**

“Corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and productivity improvements.”

**OECD, NOVEMBER 2010**

“… corporate income taxes have the most negative effect on growth, followed by labour income taxes, then indirect taxes, and finally property taxes.”

**IMF, JUNE 2015**

The only way to get Australian wages growing strongly again is through productivity-enhancing investments.

A competitive company tax rate will primarily benefit workers and wages.

While one-third of benefits from a company tax cut go to shareholders (many of which are Australian superannuation accounts), Australian workers receive around two-thirds of the total gains because higher investment means more jobs and higher wages.

This isn’t just theory. Labour productivity has been the main driver of higher real wages in Australia over time.

And it’s not so-called trickle-down economics but a straight line from increased business investment to higher productivity to higher incomes for workers.

$17 BILLION
Big and small businesses rely on each other and are stronger together.

Activity between businesses – small, medium and big – is worth around $555 billion a year.

A survey of small and medium enterprises by MYOB shows a majority believe lowering the company tax rate for all of Australia’s businesses is important for the success of their own business.

The parliament has passed legislation to reduce the company tax rate to 25% for businesses with a turnover of up to $50 million but has retained a 30% tax rate for those with a turnover above this level. This is not profit, but turnover.

Keeping this two-tier system will severely limit the overall economic benefits that would flow from fully delivering the tax cut and create distortions. It will become a disincentive for companies to grow.

Larger businesses play a crucial role supporting smaller businesses as buyers and suppliers.

Small business needs big business to be successful – and vice versa.

Extending the company tax cut to bigger companies will mean they can grow and generate more business for smaller ones and help create the jobs of the future.

“We support the full company tax cuts package for all businesses. In Australia the small, medium and large businesses normally work well together. Small business needs larger businesses to invest in infrastructure and new products. Big business needs lots of smaller businesses to provide services and expertise. For this to continue effectively Australia must be internationally competitive. If we are a high taxing country then we will lose investment dollars to lower taxing nations, which would inhibit innovation and have a negative impact on jobs and wages.”

PETER STRONG
CHIEF EXECUTIVE
COUNCIL OF SMALL BUSINESS ORGANISATIONS OF AUSTRALIA
It might seem popular to attack the business community, but where would Australia be without business?

A competitive business tax system will provide the opportunity for Australia to have more profitable companies that pay tax, employ Australians, have small business suppliers who depend on that business being successful and customers who can rely on it to provide goods and services.

The private sector contributes 80% of Australia’s final economic output.

Business employs around 10 million of the 12 million Australians who work – five out of every six jobs.

Company tax alone raised $71 billion for the federal government in 2016-17. We know when business activities and profits increase, tax revenues increase. Over the next decade, company tax collections are projected to be over $1 trillion – with the tax cut included.

Australia’s company tax revenue as a share of GDP is the second highest in the OECD after Norway.

Company tax revenue alone is enough to pay for more than the entire defence and federal education budgets.

Businesses – big and small – make a significant contribution to Australian life. Companies are about people and help make our communities thrive.

They often give young people their first job and an opportunity to build their lives. Critics still say businesses are not paying enough tax but Australia’s integrity measures are among the most robust in the world. The Business Council strongly endorses the Tax Transparency Code and believes all businesses should not only meet their tax obligations but be transparent about their compliance.

Tax Commissioner Chris Jordan recently said company tax compliance “is around global best practice and many countries aspire to this level of compliance.”

ABOUT THE BUSINESS COUNCIL OF AUSTRALIA

The Business Council of Australia gathers chief executives from Australia’s leading companies to help develop and promote solutions to the nation’s most pressing economic and social policy challenges.

For more than 30 years, the Business Council has promoted public policies that have contributed to Australia’s strong record of economic growth and social harmony.

By any measure, Australia is one of the best places in the world in which to live, learn, work and invest. Our vision is for a more inclusive and prosperous society that embraces the challenges of this century to create opportunity for all Australians.