Business Council of Australia

32 REASONS WHY WE NEED A COMPETITIVE COMPANY TAX RATE

As an organisation representing some of Australia's biggest employers we want to ensure Australia has a competitive company tax rate. It is too important to the nation's future not to fight hard for it.

Unlike arguments from our critics, the reasons below are supported by cold hard facts and expert analysis, including from the Treasury, OECD and IMF.

01

Business employs over 10 million people in Australia.

If we want to keep that job creation happening, we need to encourage business, not apply the handbrake.

02

Business generates 80% of Australia's economic activity.

Business is the backbone of the country and is vital to our living standards. If we want the nation to thrive we need businesses to succeed.

03

Our tax rate makes it harder to compete.

At 30%, Australian businesses must contend with the 3rd highest company tax rate in the developed world.

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Limiting a tax cut to businesses with a turnover under $50 million will discourage small to medium businesses from growing and creating more jobs.

If a business' turnover increases by just one dollar to reach the $50 million cliff, it will be liable for an additional $125,000 in company tax (given the tax rate is 27.5% for businesses with a turnover under $50 million and if profit is 10% of their turnover). That is, an extra $125,000 in tax for just one dollar of extra revenue.

There are 2,500 businesses with a turnover between $50 million and $100 million, employing 470,000 Australians.

05

There's a global trend to cut the rate of company tax.

The US slashed its federal rate to 21%, the UK is moving to 17% and France is heading to 25%.

Other countries are reducing their company tax rates while Australia is standing still

Source: OECD Tax Database

06

Our neighbours across Asia have an average rate of 21%.

In Hong Kong it's 16.5% and in Singapore it's 17%.

07

Big and small business need each other to survive.

Activity between big and small business is worth around $555 billion a year. Small businesses want bigger businesses to have a tax cut to create more economic activity and more opportunities for small businesses.

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A two-tier company tax rate for businesses will severely limit the economic benefits that a 25% tax rate will deliver.

Companies above the $50 million threshold are real businesses employing real people in real jobs. There are 4,900 companies with turnover between $50 million and $1 billion employing 2.12 million Australians. The 350 companies with turnover above $1 billion employ 1.95 million Australians.

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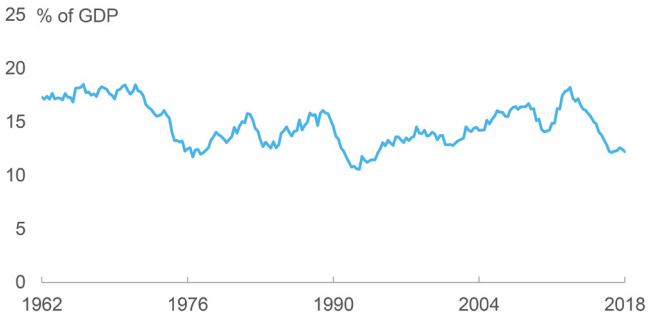
A more competitive company tax rate will increase business investment.

Australia risks losing out in the global contest for capital.

New business investment as a share of the economy is still stuck at 12.2%, a level last seen in the mid-1990s after the recession.

Many companies have said publicly that they will increase investment if the company tax rate is reduced to 25% over a decade.

New business investment as a share of GDP is low



Source: ABS cat. no. 5206.0

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Higher investment leads to more jobs and higher wages.

That's what Bill Shorten said when he was the Assistant Treasurer.

"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."

23 August 2011.

11

Tax is paid on profits.

A sure way to increase government revenue is to improve business competitiveness and profitability so they pay more tax.

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A tax cut makes the Australian economy bigger.

That's what the Australian Treasury says. The reduction to 25% will grow the Australian economy by 1%. Or, put another way, $18 billion a year in today's terms. That's twice as big as the economic benefit of the landmark tariff cuts of the 1980s and 90s.

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To pay for hospitals, schools and roads we need revenue.

More revenue comes from an economy that's growing and growing businesses that pay more tax. A tax cut will generate more investment and a bigger economy.

According to the budget, federal expenditure on education and health will continue to grow. In 2016-17, the federal government spent $32.6 billion on education and this will rise to $39.3 billion in 2021-22. Federal government health spending will increase from $74.4 billion to $85.0 billion over the same period.

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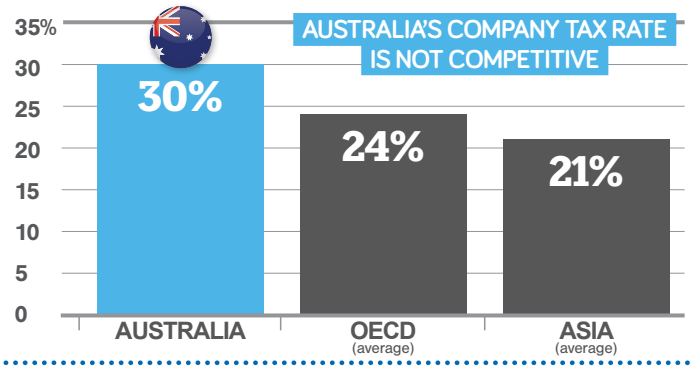
Businesses pay over $71 billion a year in company tax.

That's almost the equivalent of the federal health budget in 2016-17.

Even with lower company tax rates being gradually phased in, company tax revenue will continue to grow from $71 billion in 2016-17 to over $100 billion in 2021-22.



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Our company tax rate has been frozen in time for 17 years.

The world is moving on and we are standing still.

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An increasingly uncompetitive company tax rate will mean fewer new jobs.

Company tax is the most damaging of all federal taxes because of its damaging impact on job-creating investment. That's not just our view, it's the view of the Treasury, IMF and OECD.

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There's more support for company tax cuts than any political party.

The most recent Newspoll shows that overall support for a company tax cut is at 65%.

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Both sides of politics have realised the importance of reducing the company tax rate to grow the economy.

The Keating government in 1993 lowered the company tax rate to 33%, putting our rate well below the OECD average. In 2001 the Howard government further reduced the rate to 30%. The former Labor government advocated for company tax cuts too.

Both sides of politics have consistently advocated for cutting the rate to increase investment, drive higher productivity and create the conditions for more jobs and higher wages.

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We can't afford not to do it.

Not doing it leaves a net economic benefit of 1% of GDP ($18 billion in today's dollars) each year on the table. The net benefit over 10 years is $180 billion in today's dollars.

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The tax cut is fiscally responsible.

Company tax revenue will continue to grow from $71 billion in 2016-17 to over $100 billion in 2021-22.

The independent Parliamentary Budget Officer, Jenny Wilkinson has confirmed that "the company tax cut has been fully factored into the government's budget projections—both the forward estimates and budget projections."

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Almost 6 million everyday Australians who are shareholders will benefit.

Almost 6 million everyday Australians own shares in Australian companies. A lower company tax rate will see them benefit from higher investment and company earnings, but miss out if investments go offshore.

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Experts have told us investment will be sucked out of Australia.

The IMF recently confirmed that the US company tax cut will draw substantial investment funds into the US from global markets. Treasury says locking in a cut to our tax rate will immediately help Australia.

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By 2021-22, even with the tax cuts, business will be paying over $100 billion in company tax a year.

Even with a lower tax rate, tax revenue will continue to grow from $71 billion in 2016-17 to over $100 billion in 2021-22. Over the next decade this will reach a cumulative $1 trillion.

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Benefits from a tax cut flow to Australian workers.

Treasury modelling shows over half the benefits from a tax cut go to Australian workers. Former Secretary of the Treasury Ken Henry also said that workers will be the main beneficiaries.

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It's a modest plan over ten years. It won't be until 2026-27 that our company tax rate hits 25%.

The current plan to reduce Australia's rate to 25% is modest compared to other countries as it will still take the best part of a decade to implement. The US cut its federal rate to 21% almost overnight.

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A more competitive tax rate is one of the best levers we can pull.

Australia is attractive to investors for many reasons, but that doesn't mean we can rest on our laurels. Tax isn't the only factor, but a globally competitive company tax rate is one of the most direct and effective levers we have for driving higher investment.

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There's a straight line between increased business investment and higher wages.

A company tax cut is not 'trickle-down' economics. There is a straight line from increased business investment to higher productivity to higher incomes for workers.

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A company tax cut is sensible economics.

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

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If we don't do this, money and jobs will go somewhere else.

Tax changes overseas will change the arithmetic for global investors considering investing in Australia and can only be bad news for Australian workers and businesses. The money and jobs will go elsewhere.

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The politics may be difficult, but that doesn't change the global economic realities.

We can't inoculate ourselves from the rest of the world. Other countries don't care about our politics and the global economic realities haven't changed. We cannot afford to stand still while the rest of the world forges ahead.

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More investment equals more jobs and leads to higher wages.

To get Australian wages growing strongly again we need productivity enhancing investments. Increased investment means more jobs and higher wages. This isn't theory, labour productivity has been and will continue to be the main driver of higher real wages over time.

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The economic case for company tax cuts is supported by robust, independent modelling.

Changes to the company tax rate has been modelled by Treasury and the results are consistent with independent modelling by Independent Economics and KPMG. The analysis is robust to a range of plausible assumptions – which have been made public.