



Speech

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Speech by Jennifer Westacott to the BCA–Clayton Utz Base Erosion and Profit Shifting Workshop

Introduction

Thank you all for attending this important workshop to progress Australian businesses' position on the base erosion and profit shifting agenda.

I'd also like to particularly acknowledge Niv Tadmor and Clayton Utz.

As I understand it, this workshop was born out of a breakfast in London between Niv Tadmor and Will Morris.

The Business Council of Australia was only too happy to be involved with such an event that is of vital importance to large business in Australia.

I am also particularly pleased to see such engagement from Treasury and the ATO at this workshop.

I think it will be critical that we all stay as closely engaged as we can in protecting Australia's interests.

Budget

This week's budget underscores the incredible challenge facing Australia and many other countries engaged in fiscal repair.

It has become all too clear that we face some difficult choices. There are simply no quick fixes on the expenditure or revenue side.

The government has begun the task of crafting some solutions to the structural problems inherent in our fiscal position.

But I think everyone in this room would agree, there is a lot more work to do, particularly on comprehensive tax reform.

Tax reform

For this reason, the BCA, like many others, looks forward to the government's tax white paper process.

We see this process as a means of working towards a tax system that better supports Australia's economic growth and competitiveness.

Tax now needs to move away from simply being a 'fiscal' proposition to a 'growth' and 'investment' proposition.

This is particularly important in an era where growth will be harder to come by.

The BCA's budget submission earlier this year made this point through a simple illustration:

Australia has had average annual growth of 3.5 per cent over the past 50 years.

The 2010 Intergenerational Report projected 2.7 per cent average annual growth without policy changes

Applying the assumed contribution to growth from participation and population used in the Intergenerational Report, achieving growth of 3.5 per cent would imply labour productivity growth of 2.4 per cent per annum.

If you consider that labour productivity has averaged 1.6 per cent per annum over the past two decades, this suggests we need to start making some serious in-roads.

The tax system's impact on incentives for workforce participation and business investment and innovation will be important in supporting future growth.

I am hopeful that the white paper process will put tax reform back in the broader economic context.

We are also living in an increasingly globalised and digitised world, with important implications for business.

There is almost no limit to the number of goods and services in our economy that are now tradeable, making for fierce global competition.

Capital and workers are more mobile than ever.

In this environment, our tax rates must be reasonably competitive and our tax laws must be fair, predictable and as simple as possible to encourage investment.

Base erosion and profit shifting (BEPS)

This of course, brings me to why you are all here for the next couple of days to discuss the international BEPS agenda.

As I mentioned earlier, our budget and those around the world have faced enormous pressures in recent years – and these will only continue.

In that context it is not difficult to see why there has been such a focus on BEPS.

Having said that, this should not be treated narrowly as a revenue issue – even though there is that immediate temptation.

We need to take a step back here and change the narrative to be one about aligning the problem with a fit-for-purpose solution.

In Australia's case that is a high level of existing integrity in our corporate tax base.

Indeed, our corporate tax collection as a share of GDP is second only to Norway in the OECD.

That is why workshops such as this are so important – business needs to be ahead of the curve, not chasing it.

The complexity of commercial behaviour has increased as the world has become borderless and with the rise of the digital economy.

Companies are not setting out into the world with tax planning in mind but with ambitions for growth, innovation and prosperity.

There will no doubt be different views on the likely level of consensus that might be achieved in 2014 and 2015 on implementing actions to address base erosion and profit shifting as part of the G20 agenda.

Regardless of those views, my view is that business cannot afford not to be engaged on these issues.

I believe that globalisation – and the increasing sophistication of business that goes along with it – means it is inevitable that we will be discussing and working on these issues in one form or another for years to come.

The issues are complex and they are evolving.

An approach to dealing with base erosion and profit-shifting strategies needs to be developed in a comprehensive and coordinated way. This is quite simply a large global public policy manoeuvre.

As the OECD notes, because of the interface between the tax rules of different countries, it is difficult for any single country acting alone to fully address the issue.

It is also difficult to consider any one of the OECD's 15 BEPS actions in isolation without considering their interactions in a comprehensive way.

Unilateral and uncoordinated action risks double taxation to the detriment of investment, growth and jobs – or perhaps even double non-taxation.

Therefore we all have an interest in achieving some multilateral success, while protecting Australia's interests where necessary.

And of course this issue becomes more complex for governments as questions around sovereignty arise.

However, the traditional way that governments think about these problems should not change – the underlying activity should be taxed rather than tax acting as a deterrent.

I don't believe that we need both a harmonisation and prescription.

I believe what is probably required here is what Dani Rodrik describes in his book *The Globalisation Paradox* as 'a thin layer of simple, transparent and commonsense traffic rules.'

This recognises that the problems are not black and white, but shades of grey.

Often the most complex problems demand simple solutions if they are to be efficient and effective.

While I am certain that the next couple of days will see you navigating all sorts of complexity, I am equally certain that your deliberations will assist in getting us all on the right path.

Thanks again to Clayton Utz for hosting this important event with us and I wish you all the best for a very productive two days.

I hope that this workshop will be the start of an ongoing regular dialogue on tax, with all the groups in this room represented.

For further information contact:

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Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.