



Australian Government

The Treasury

COSTING MINUTE

Date: 19/11/2009
Ref: CQAU 2009-235
File:

To: Shane Johnson, Australia's Future Tax System
Cc: Katherine Tuck, Australia's Future Tax System

TITLE AFTS Proposal - Reduce the company income tax rate to 25 per cent.

SUMMARY OF PROPOSAL

Intent of the proposal

Reducing the company income tax rate would encourage investment in Australia, particularly highly mobile foreign direct investment. In the long run this would increase income for Australians, by building a larger and more productive capital stock and by generating technology and knowledge spillovers that boost the productivity of Australian businesses.

In the long term, a larger and more productive capital stock will not only result in higher growth but also in higher wages. A lower company income tax rate would also reduce incentives for foreign multinationals to shift profits out of Australia.

Given the continued expected growth of China and India, Australia should continue to attract investment into its resource sector. However, other sectors of the economy may find attracting investment more challenging. Continued improvement in Australia's terms of trade could also be expected to adversely affect real wages. Reducing the company income tax rate may assist by increasing the ability of other sectors to attract investment.

Current taxation treatment/problem

The current company tax rate is 30 per cent.

Proposed taxation treatment

Reduce the company income tax to 25 per cent.

ELEMENTS AND OPTIONS**Elements**

Element ID	Description
A	Reduce corporate income tax rate to 25 per cent
B	Phase in reduction over 5 years (one per cent per year)

Options examined

Option ID	Option	Assumed start date	Was a Departmental Impact Assessment sought?	Was a Tax Regulation Impact (preliminary assessment) sought?
1	A	01/07/2010	No	No
2	B	01/07/2010	No	No

FINANCIAL IMPLICATIONS**IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET (\$m)**

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2020-21	-3100	-6100	-6900	-7900	-8600
2	2020-21	-1200	-1700	-3300	-5200	-6600

IMPACT ON UNDERLYING CASH BALANCE (\$m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2020-21	-3100	-6100	-6900	-7900	-8600
2	2020-21	-1200	-1700	-3300	-5200	-6600

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

Estimates 5 per cent cut:

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
\$m	-3,100	-6,100	-6,900	-7,900	-8,600	-9,200
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
\$m	-9,400	-9,700	-9,900	-10,100	-10,300	-10,400

Estimates for 1% x 5 step down cut.

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
\$m	-1,200	-1,700	-3,300	-5,200	-6,600	-9,100
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
\$m	-9,600	-10,200	-9,800	-10,000	-10,200	-10,400

Reliability is Medium-High. The estimates of the revenue impact are dependant on the assumptions noted in the Assumptions section of this Costing Minute and are based on Medium-High quality company tax base data.

COSTING DETAILS

Methodology

Company tax collections are calculated allowing for each option to reduce the company tax rate. From these estimates we subtracted the base expected collection currently in the forward estimates to give the revenue impact of each option.

Both the 5% step down and 5x1% step down proposals will mature in 2020-21 with a revenue impact of around \$10.4 billion in that year. This represents around \$5.5 billion in 2010-11 dollars.

Model: 091207 Model5x1%.xls and 091207 Model - 5%Cut.xls

Data

ATO company collection data and timing were used.

Assumptions

- The requested operational assumptions were included.
- Start date 1 July 2010.
- Clawback and profit shifting assumptions were included.
- Estimates broadly represent budget/accrual estimates.

ADDITIONAL INFORMATION**Departmental impacts**

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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