Submission to the Business Tax Working Group

On the

Business Tax Working Group Discussion Paper

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This submission has been prepared by United Voice National Office on behalf of United Voice members across Australia.

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Introduction to United Voice

United Voice is a union of over 120,000 Australian workers. We represent members in a range of award-reliant industries, including aged care, child care, cleaning, hotels, healthcare, restaurants, security, clubs and manufacturing. Many members work part time or casually at minimum wages, 60% of members are women and 50% are from culturally and linguistically diverse backgrounds.

Executive Summary

United Voice seeks to challenge the view of taxation as a burden on the economy, and seeks to push for a more progressive tax and transfer system which ensures members of society, in particular low to moderate income households, are adequately protected from undue risk and the vicissitudes of corporate speculation. Furthermore we argue that a progressive tax system is a way of looking after the social and economic considerations of this and future generations and we believe business should contribute its fair share to this system. It is with this perspective that we argue against any decrease to the corporate tax rate.

Introduction

Improved investment outcomes are an often cited reason for the consideration of reducing the corporate tax rate. United Voice prefaces this submission regarding corporate tax by raising that corporate taxation is only one of a range of complex considerations for investors. Other factors include;

- Market proximity;
- Quality of infrastructure;
- Location of like firms in industry;
- Presence of related industries;
- Labour force skills and productivity;
- Efficient, transparent and appropriately regulated financial product and labour markets;
- Resource endowments, and
- Political and economic stability.

As the Federal Government has noted, "[F]or tax to have an impact on the location decision between countries, the choice between possible locations based on all the other non-tax factors would need to be quite a close one"[1].

Given this range of factors it seems unlikely that lowering the corporate tax rate alone would lead to a vast increase in investment in Australia, it would however lead to a substantial decrease in taxation revenue.

International comparisons of Corporate Tax

United Voice notes the Government's position with regards to the lowering of the corporate tax rate from 30 per cent to 29 per cent from 2013-14, with the changes for small companies commencing in 2012-13. To support this decision, the government cited OECD data suggesting Australia's total tax revenue raised directly from corporate income is higher than the OECD average[2]. However, the Australia's Future Tax System (AFTS) review showed this is largely due to an increase in corporate profits, as well as "structural differences in the composition of the incorporated sector… the imputation system as well as the strong performance of the Australian corporate sector in recent years". The effective corporate income tax rate as a proportion of profits has risen very little and remains below the rates during the 1980s and 1990s[3]. Analysis by Julian Disney demonstrates that Australia ranks 7 out of 9 OECD comparable countries when comparing the revenue from corporate and payroll tax (as a percentage of GDP)[4].

Of the five countries most comparable with Australia, two have high rates (US at 39 per cent and Canada at 31 per cent), two have lower rates (Netherlands at 25.5 per cent and UK at 28 per cent) and one has the same (Spain at 30 per cent). Furthermore, whilst Australia's tax rate is slightly higher than the average tax rate of the ten countries (28.7 per cent), if Ireland's exceedingly low 12.5 per cent rate was omitted Australia's tax rate would be lower than the average rate of 30.5 per cent[5].

Caution should be exercised in the use of international comparisons of corporate tax due to the differing classifications as to what constitutes corporate tax in each country. For example, there is differential treatment in factoring payroll, superannuation and social

[1] Australian Government (2006), Chapter 11: Taxation and labour and capital flows, International comparison of Australia's Taxes, pg. 333, 338
[2] Australian Government (2011), Tax Reform: next steps for Australia, Tax Forum Discussion Paper, pg. 21
[3] Australia's Future Tax System – Report to the Treasurer as cited in TaxWatch (2009), A comparative update on aspects of the Australian Tax System, April 2010, pg. 14
[4] Disney, J (2011), TaxWatch presentation to Australian Treasury (unpublished)
[5] TaxWatch (2009), Australia's corporate income tax rate, 29/10/09

security contributions and omissions of state and local taxes[6]. Furthermore, factors such as the differing levels of incorporation within each country (including exclusion of certain companies from corporate tax figures in the US and Germany), and the amount of tax that cannot be attributed to individuals or companies (in the case of New Zealand, Denmark and Iceland, but not in Australia)[7] also impacts the validity of comparisons. Lastly, international comparisons of the level of corporate taxes do not take into consideration assistance provided in the form of direct subsidies or investment in corporate specific infrastructure provided by the government to encourage further domestic and foreign capital investment.

Statutory vs Effective or Average rate

Detailed studies of the effective and average rate of corporate tax show that there are significant variations across industries, with some paying under the 30 per cent flat rate of tax[8]. Furthermore, the effective marginal corporate tax rate has fallen over the past 25 years[9]. This has been attributed to the variations in tax treatments afforded to companies, which include availability of tax concessions. The government has conceded that in the case of capital-intensive industries, such as the mining sector "high levels of depreciation expenses mean that the levels of taxable income and thus company tax receipts, are lower than would be the case otherwise"[10]. During 2009-10, assistance to industry amounted to $17.3 billion in gross terms and $9.3 billion in net terms. This includes $9.4 billion in tariff assistance, $3.7 billion in budgetary outlays and $4.1 billion in tax concessions[11]. It is estimated industry benefited by a figure of $8.24 billion from corporate tax expenditures – this amount excludes any benefits to business captured in other benchmarks including capital gains concessions[12].

Tax capacity of the corporate sector

It can be argued that the corporate sector has the capacity to increase its contribution to the tax mix. Profits have continued to rise over the past decade, with total business gross operating profits increasing 140 per cent over the last decade to $78 billion dollars in June

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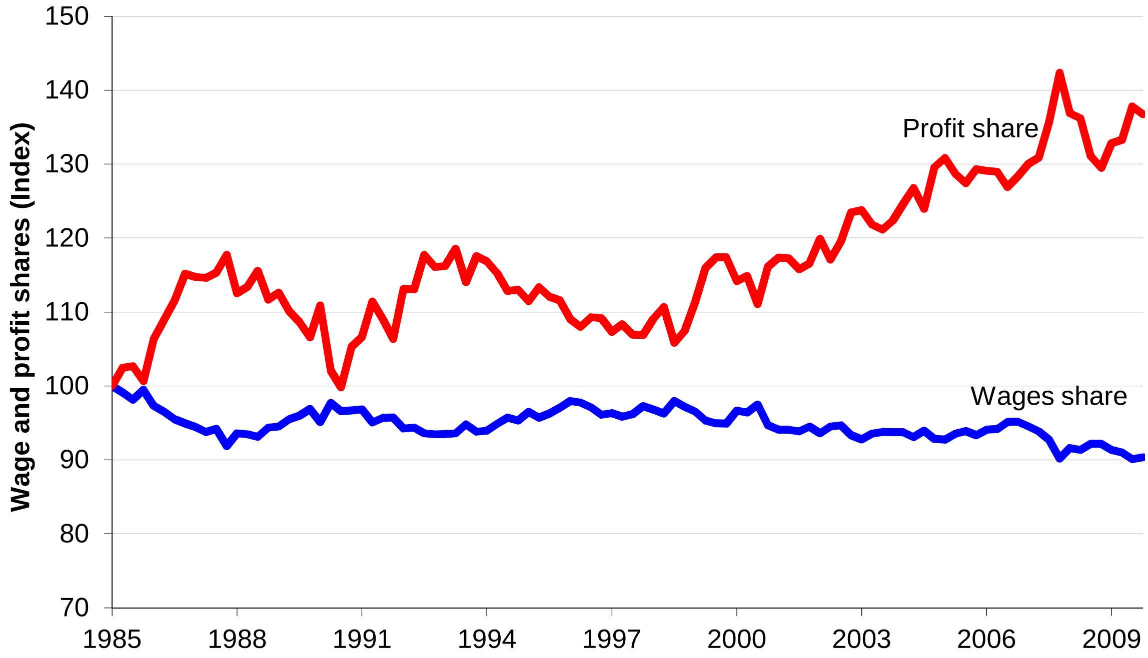
[6] TaxWatch (2009), A comparative update on aspects of the Australian Tax System, April 2010, pg. 16
[7] Clark,J, Pridmore, B and Stoney,N (2007) Trends in aggregate measures of Australia's corporate tax level, pg.4
[8] Greagg, P, Parham, D and Stojanovski, P (2010), Disparities in the average rates of company tax across industries; Commonwealth Government (2009), Australia's future tax system – Report to the Treasurer, Part two detailed analysis, volume 2 of 2, pg. 168-169
[9] Clark,J, Pridmore, B and Stoney,N (2007) Trends in aggregate measures of Australia's corporate tax level, pg.4
[10] Commonwealth of Australia, Statement 5: Revenue, 2011-2012 Budget Papers, pg. 5-13
[11] Productivity Commission (2011), Trade and Assistance Review 2010-11, pg. XV, XVI
[12] Commonwealth Government (2011), Tax Expenditures Statement, pg. 5

2011[13]. The share of profits against wages has also increased over time. Arguments that decreased tax rates will lead to increased productivity which in turn will lead to the sharing of these benefits between capital and labour have thus far not come to fruition as is demonstrated by Graph 1. United Voice argues that if the increase in company profits during an economic boom has not lead to a proportionate rise in wages it is unlikely to do so as a result of lowering the tax rate.

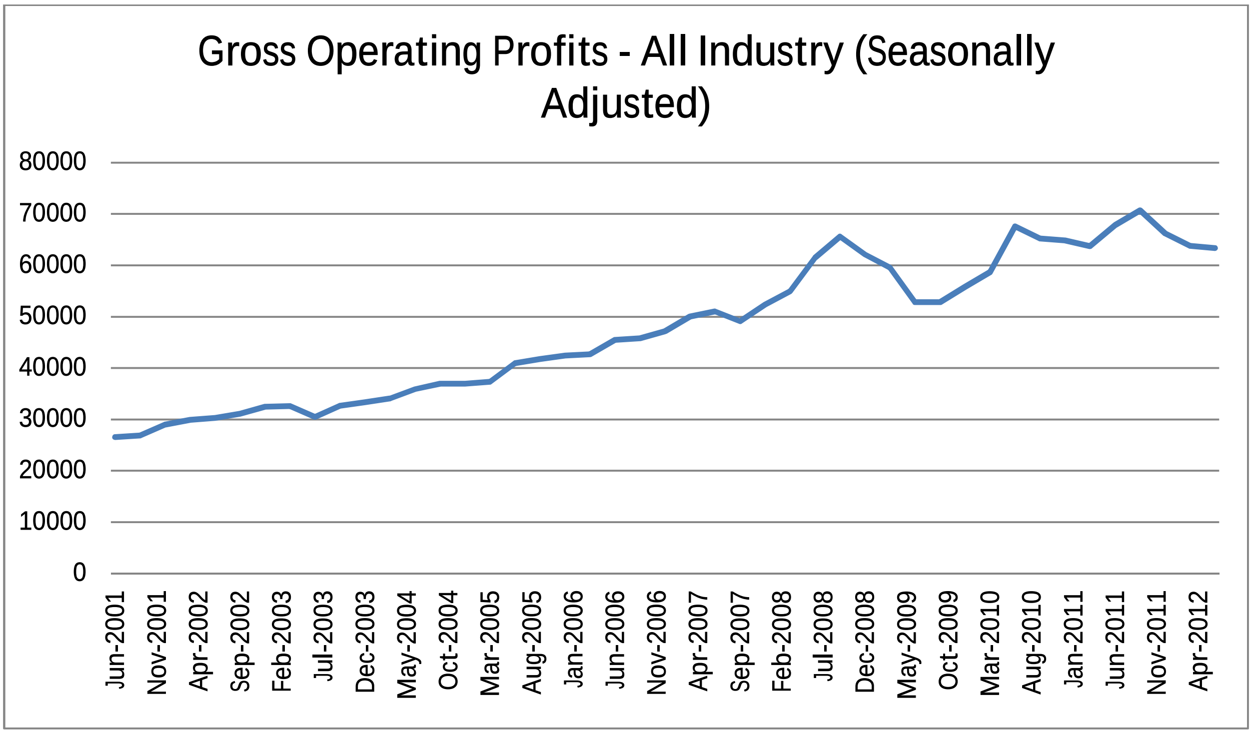
Graph 1: Growth of profits vs. wages (1985-2010)



Source: *ACTU, Australia Bureau of Statistics (2011), Australian National Accounts, Cat. no. 5206.0*

The ongoing global economic downturn is equally not a valid reason to lower corporate taxes. As demonstrated in the graph below, whilst business saw a dip in profits during the period of global economic downturn, profits have returned to pre financial crisis levels.

[13] Australian Bureau of Statistics, Table 15 Business Gross Operating Profits, Current Prices, Business Indicators, Australia, Cat No. 5676.0



Source: 5676.0 - Business Indicators, Australia, Jun 2012

According to Treasury estimates, in 2011-12 company tax will contribute only 22.7 per cent of total tax revenue, compared with revenue from individual income tax at 45.8 per cent[14]. There is public support for an increase in the contribution of revenues derived from business tax to the tax mix. A study by Per Capita released in early 2010 showed that a majority of respondents (64 per cent) felt that business did not contribute enough tax. These sentiments held across age groups, income brackets, education levels and political party preference[15].

Conclusion

There has been a notable shift in the perception of the legitimacy of taxation. Historically, taxation was framed as an integral "representation of our social contract with government". Tax was viewed as a public good, with members of the community and business contributing money in return for services, public goods and equitable access to wealth and resources.[16]

[14] Commonwealth of Australia, Table C1 Australian Government (accrual) revenue, Appendix C: Revenue and Receipts History and Forecasts, Statement 5: Revenue, 2011-2012 Budget Papers, pg. 5-41

[15] Gregory K, and Hetherington, D (2010), Per Capita Tax Survey: Public Attitudes towards taxation and government expenditure, pg. 6

[16] Gregory, K (2009), Taxes: What are they good for?, Percapita Research Paper, pg. 5

More recently, a “tax backlash” has gained momentum in the media and in political commentary with tax increasingly being viewed as a burden. However, it is important to acknowledge that Australia has one of the lowest tax-to-GDP ratios of all other developed countries. In 2008-09, Australia was lower than all but five of the 33 countries that are included in OCED statistics. At 27.1 per cent of GDP, Australia’s tax to GDP ratio is significantly below the OCED average of 34.8 per cent.[17]

Public opinion demonstrates strong support throughout society to ensure a more progressive tax system that does not unduly reward particular segments of the community at the expense low to moderate income earners. There is a strong recognition of the role of government to ensure equity within the community through public investment.

United Voice reiterates that Australia is a low tax country. We oppose what we see as the continual undermining of the important role of government as the key provider of services and taxation as the means by which these services are established and maintained. Failure to appreciate both the usefulness of government, and of a progressive taxation system, will lead to a less equitable and democratic society with adverse consequences for economic growth.

Recommendations

1. In order to moderate the extent of risk shift from the corporate sector onto households, United Voice opposes any decrease of corporate tax. Furthermore, a broadening of the tax base through innovative methods, such as the Financial Transactions Tax, should be investigated to ensure that revenues from the corporate sector are not decreased. We strongly argue for better levels of public disclosure of the levels of corporate tax paid by individual companies and industries as well as the subsidies utilised by industry.

2. United Voice supports an investigation by the government, with the involvement of unions, business and the broader community into the efficacy of assistance to industry in the form of tax concessions and incentives. In particular the government should investigate whether this type of assistance has resulted in positive “community dividend”, for example long term job creation, skill development and higher wages within the economy as a whole.

[17] Organisation for Economic Cooperation and Development (2011), “Total tax revenue as a proportion of GDP, OECD.Stat. as cited in ACTU (2011), Myths and realities: the tax system and attitudes to taxation, ACTU Working Australia Tax Paper No. 1”, pg. 9