



Research Brief

By Naomi Edwards BSc (Hons) FIA FIAA FNZSA

Economics Adviser

28 March 2011

An analysis of the proposed reduction in company tax rates in Australia

Prepared for Australian Greens Leader Senator Bob Brown

Executive Summary

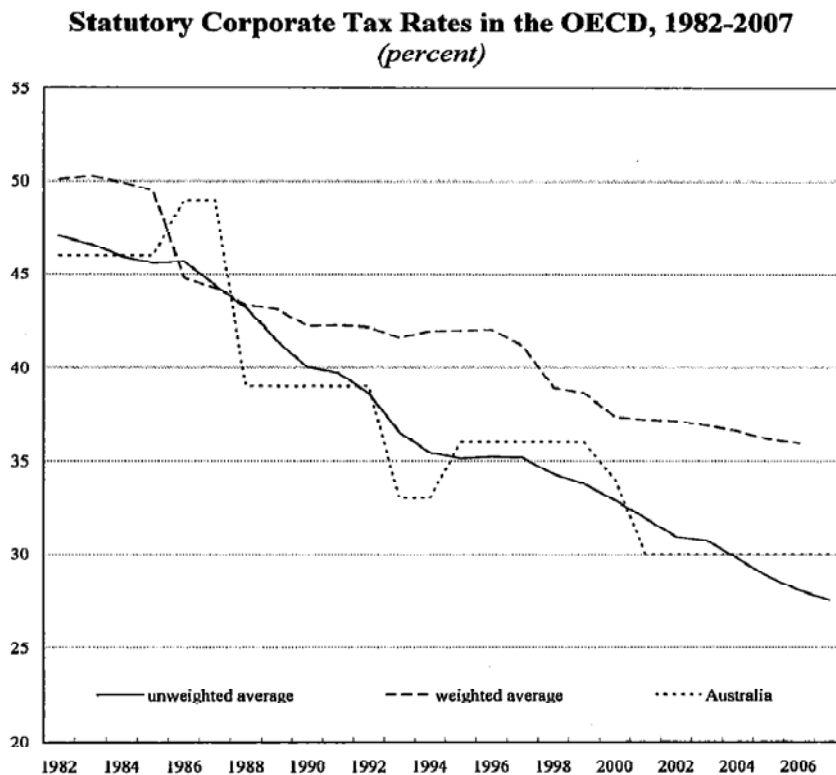
- i. Australia's company tax rate, at 30%, is below the weighted average OECD tax rate of 36%, and is on a par with Asian Pacific countries.
- ii. The traditional argument for lowering company taxes, viz that greater foreign investment will be attracted, and that this is of benefit to the country, has been challenged by recent papers, including papers written by experts in the Australian Treasury.
- iii. Effective company tax rates vary widely by industry. The lowest paying industries are Electricity, Gas, Water and Mining, while the highest paying industries are Banking and Insurance. The lowest paying industries have generous tax concessions, high levels of debt versus equity and higher levels of foreign ownership.
- iv. Company tax is an important contributor to government revenue – \$53.2 billion in 2009-10 or about 18% of total revenue in that year. The 2010 MYEFO forecasts this to rise to \$72.1 billion in 2013-14, excluding MRRT revenue.
- v. *The 1% company tax cut from 2013-14 is estimated to reduce government revenue by \$2.4 billion in 2013-14 and \$18 billion over the period to 2020-21.*
- vi. Over the period to 2020-21, the tax cut eliminates an average 47% of the MRRT revenues, forecast to be \$38.5 billion over the same period. For example, Macarthur Coal's Chairman has stated publicly that the MRRT will only raise his company's tax rate by "1 or 2 per cent"¹. Thus the 1% company tax cut may nearly offset Macarthur's MRRT liability.
- vii. The main beneficiaries of the company tax cut are the Big Four banks (\$295 million of the \$2,400 million tax cut in 2013-14); the two large miners, BHP and Rio Tinto (\$500 million of the \$2,400 million) and other large companies earning over \$250 million (\$715 million of the \$2,400 million). These are, of course, also the companies that pay most tax in dollar terms.
- viii. The 1% company tax cut for small businesses (those earning under \$2 million) will cost \$230 million per annum and will affect about 300,000 small Australian businesses. Many OECD countries (US, UK, Japan, Canada) have different company tax rates for small businesses, often much lower.

¹ AFR 14 October 2010 Miners keen to voice mineral tax concerns

1. Recent trends in company tax rates in the OECD

Company tax rates in OECD countries have displayed a significant downward trend over the last 20 years. The graph below was prepared in 2010 by two highly respected Australian Treasury officials as part of a presentation to an international fiscal policy workshop. (McDonald, 2010)

Figure 1 Comparison of Australian and OECD company tax rates



Source: Loretz (2008), with additional data from author.

During the last six years, when the Australian company tax rate has been 30%, the un-weighted average OECD company tax rate has fallen from about 32% to 27%. However this mostly reflects smaller European countries, such as Ireland with a company tax rate of 12.5%, Iceland at 18% or Slovakia at 19% and is not therefore a useful comparison. The weighted average tax rate (weighted by country GDP) is a preferred measure – it has also fallen, but only from 38% to about 36%. This is still higher than Australia's company tax rate. Or in other words, *Australia's company tax rate is still low by OECD measures.*

Against this slow downward shift in company tax rates, we can make some specific observations:

1. Governments generally seem to compensate for company tax reductions by increasing value added taxes (Loretz, 2008). This has particularly been the case in smaller European countries which have driven the observed reduction in company tax rate. Thus observed company tax rates should not generally be considered in isolation.

- The company tax rate in Australia, at 30%, is still below the 2010 weighted average OECD company tax rate of 36%.

The table below lists current company tax rates in some other OECD countries. Note that, to achieve consistency, it is necessary to include both central and sub-central (e.g. state company taxes) in some countries. These numbers are direct from the OECD Tax Database.

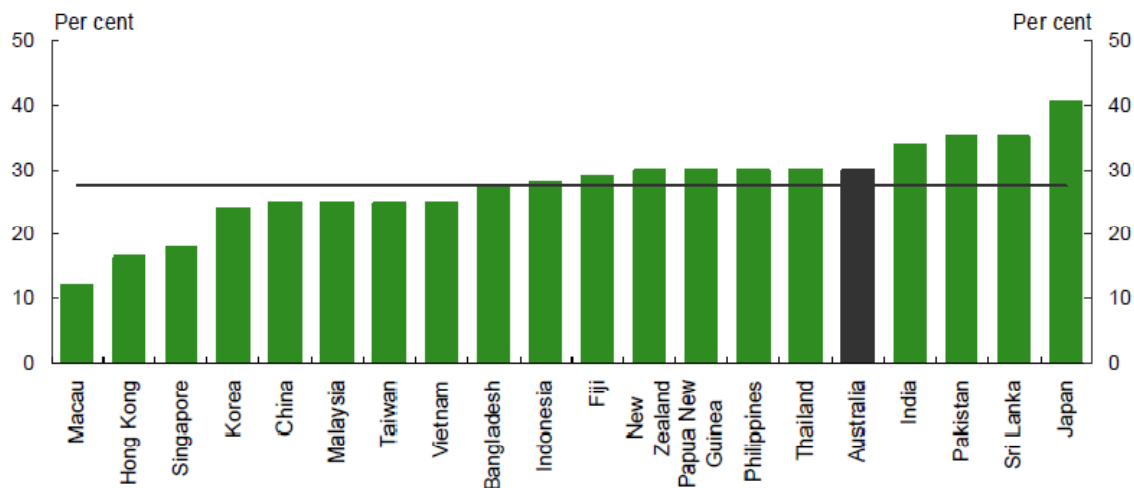
Table 1 Combined (Central and sub-central) government corporate income tax rate

Australia	30.00%	Ireland	12.50%	Spain	30.00%
Canada	29.52%	Japan	39.54%	Switzerland	21.17%
France	34.43%	New Zealand ²	30.00%	United Kingdom	28.00%
Germany	30.18%	Norway	28.00%	United States	39.21%

We can also look at Australia's company tax rate in the context of our Asia-Pacific neighbours. This table is from a KPMG report prepared for Government in 2009. (KPMG, 2009) Again, the Australian company tax rate is not significantly higher than other countries.

Figure 2 Comparison of Asia Pacific Company Tax Rates

Chart B1-4: Statutory company income tax rates, Asia-Pacific countries 2009



Source: KPMG (2009).

2. How much revenue is collected through company tax?

Company tax is a major contributor to total government revenue. In 2010 it contributed \$53.2 billion to Australian government general sector revenue out of a total of \$292.8 billion³. That is 18% of all government revenue. This contribution has stayed reasonably steady as a percent of total government revenue.

² Note that New Zealand has announced its intention to move its company tax rate from 30% to 28% from 1 October 2011

³ Australian Government Budget Outcome for 2009-10 prepared by Treasury

The table below shows actual company tax revenue until 2010 and forecast company tax revenue until 2014. Note that the forecasts are based on the latest mid-year economic forecasts (MYEFO 2010-11).

Table 2 Actual and Forecast Company Tax Revenue

Year	Company Tax \$ billion	Year	Company Tax \$ billion	Year	Company Tax \$ billion
2006-07	58.3	2009-10	53.2	2012-13f	76.4
2007-08	57.9	2010-11f	62.4	2013-14f	78.6
2008-09	60.7	2011-12f	75.4		

Note that the forward estimates, marked with an f, have been adjusted in the MYEFO accounts to reflect:

1. Income from the MRRT as opposed to the RSPT. This results in an increase in revenue of \$4.0 billion in 2012-13 and \$6.5 billion in 2013-14. Removing these taxes (which are not driven by the 30% tax rate) reduces the forecast numbers for 2012-13 and 2013-14 to \$72.4 billion and \$72.1 billion, respectively.
2. The cut to the small business tax rate from 30% to 29% from 2012-13 onwards.
3. The cut to the large company tax rate from 30% to 29% from 2013-14 onwards.

The company tax revenue in 2007-08 can be further broken down into the size (and number) of companies contributing to it. This is an important exercise in determining the relative impact of the 1% reduction to the company tax rate on larger and smaller companies. 2007-08 is the most recent year in which company tax numbers are available from the ATO split into company size.

Table 3 Split of Company Tax by Company Size

Company Size	Number of taxable companies	Company tax paid \$m 2007-08 ⁴
Loss/nil (income less than \$0)	461	100
Micro (income less than \$2 million)	289,024	6,731
Small (income less than \$10 million)	35,362	5,791
Medium (income less than \$100 million)	9,752	7,803
Large (income less than \$250 million)	841	3,515
Very large	693	33,939
TOTAL	336,133	57,879

3. What is the impact of the reduction in company tax rate?

The government has announced a reduction in the company tax rate to apply from 2013-14 of 1% (i.e. a company tax rate of 29%). Small companies will receive an early cut to 29% in 2012-13.

⁴ Taxation Statistics 2007-08 Companies and Petroleum Resource Rent Tax report

In the original Treasury Costing Minute (considering a 5% cut in the company tax rate), prepared in November 2009 (Brown, 2009), the impact of a 1% cut in the company tax rate was estimated to have an effect rising from \$1.7 billion in 2010-11 to \$2.1 billion in 2020-21. These numbers (prepared before the surge in export commodity prices) appear reasonable if we look at the impact, by company size, of a 1% reduction in the tax rate applied to forecast tax payable in 2013-14. Recall from above that the forecast company tax for 2013-14 is \$72.1 billion after deducting forecast MRRT revenue of \$6.5 billion.

Table 4 Impact of 1% tax cut in 2013-14 shown by company size

Company Size	Forecast 2013-14 Company Tax Payable \$ million	Savings from a 1% reduction in company tax rate \$ million
Loss/nil	100	3
Micro	6,730	224
Small	5,790	193
Medium	9,220	307
Large	4,932	164
Very large	45,276	1,509
TOTAL	72,100	2,402
Savings to micro companies (under \$2 million income)		228
Savings to larger companies (over \$2 million income)		2,174

We can compare the revenue impact from the company tax reduction and the MRRT combined. Note that, after 2014-15, company tax income has been projected to fall by 4% per annum each year until it returns to its 2007 level of \$58 billion which is a conservative assumption but mirrors the assumption in the MRRT forecast that the commodities boom will not continue past 2016.

Table 5 Impact on government revenue of 1% company tax cut and comparison with MRRT revenue

	\$ million									
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Company Tax Reduction	(230) ¹	(2,400)	(2,470)	(2,380)	(2,280)	(2,190)	(2,100)	(2,020)	(1,940)	(18,000)
MRRT Revenue	4,000	6,500	6,500	5,500	4,000	3,000	3,000	3,000	3,000	38,500
Tax Reduction as a % of forecast MRRT revenue	6%	37%	38%	43%	57%	73%	70%	67%	65%	47%

¹ Company tax reduction applied to micro companies (income less than \$2 million) only.

This shows that total revenue foregone for the government over the period to 2020-21 is \$18 billion. Over the same period the MRRT is forecast to generate \$38.5 billion in revenue (just over double the tax cut). In other words, nearly 50% or half of the forecast MRRT is offset by the 1% company tax reduction.

4. Who benefits from the reduction in company tax rate?

We can very approximately decompose the benefit from the tax cut by looking at recent taxes paid by large companies and reducing it by 1/30th. Obviously, the larger the company the larger the tax benefit. However it is worth looking at some companies in particular.

Table 6 The major beneficiaries of reduced company tax rates

Sector	Saving in 2013-14	Saving as a proportion of total tax cut
The Big 4 Banks	\$295 million	12%
BHP and Rio Tinto	\$500 million	21%
Other large companies (over \$250 million income)	\$715 million	30%
All other companies	\$890 million	37%
Total	\$2,400 million	100%

Bibliography

Brown, C. (2009). *AFTS Proposal - Reduce the company tax rate to 25%*. Canberra: Treasury Tax Analysis Division.

Greagg, P. P. (2010). *Disparities in average rates of company tax across industries*. Canberra: Australian Treasury.

Kelly, J. a. (2005). *International trends in company tax rates - implications for Australia's company income tax*. Canberra: Australian Treasury.

KPMG. (2009). *Australia's Future Tax System*. Sydney: KPMG.

Loretz, S. (2008). *Corporate Taxation in the OECD in a wider context*. Oxford: Oxford University Centre for Business Taxation.

McDonald, J. a. (2010). *Tax Policies to improve the stability of financial markets*. Canberra: Department of Treasury.

Treasury. (2010). *MYEFO 2010-11 part 3 Fiscal Strategy and Outlook*. Canberra: Treasury - Budget Papers.

Vartia, L. (2008). *How do Taxes affect investment and productivity? An Industry level analysis of OECD countries*. Paris: OECD.