10 November 2015

Think global, not local on tax reform

*by Andrew Bragg

A global perspective is required to fix Australia's tax system.

As a trading nation, this should be obvious.

However we risk allowing introspection and internal bickering to compromise one of the core objectives of tax reform – to improve Australia's competitiveness in the Asian century.

To lift our competitiveness, which is code for more investment and employment, reducing the company tax rate is an essential component of any tax reform package.

Increasing the GST and ploughing the proceeds into unindexed income tax cuts and spending commitments will not pass as structural tax reform.

Our growth-retarding company tax must be in the mix for the Tax White Paper to be a genuine reform endeavour.

Two ingredients are necessary for this to happen: firstly, the problem we are trying to fix must be explained as the potential community dividend of changes is outlined.

Secondly, the business community must stop running scared from advocating good policy and state premiers need to rise above provincial concerns.

The problem starts with our 1950s tax system, which has become a great inhibitor of competitiveness.

Australia's company tax at 30 per cent is high in OECD terms and very high in Asia.

Compared to the Asian average 22 per cent rate for companies, it is one of the main reasons Australia continues to fall in the global competitiveness indices. The latest World Economic Forum Global Competitiveness Report cites tax as the single biggest drag on our competitiveness.

We come in at 21st place, well behind similar nations such as New Zealand at 16 and Canada at 13. Both have lower corporate tax rates than Australia.

We live in an age where capital and labour have become increasingly mobile. At a minimum we compete with our Asia Pacific neighbours for investment and job creation opportunities.

The Opposition Leader is on the right track when he says we should have a 25 per cent rate, indeed, we should be targeting 20 per cent.

The deeper we head into this century, the services sector will only become more important to our national prosperity.

Seventy per cent of our economy is in services. Unlike “bricks and mortar” manufacturing, the services sector is nimble and it will invest and create jobs in the best business environment possible.

The financial services industry provides numerous examples where investment and employment opportunities disappear to competitors such as Singapore or New Zealand.

Both of these nations have achieved substantive tax reforms and provide a competitive tax environment.

It is much easier to move a component of the services economy offshore such as a trading desk, accounting function or a legal team, whereas a car making plant cannot easily be transplanted.

We are not Robinson Crusoe in cutting company tax.

A significant economic dividend accrued to Britain which has reduced company tax from 28 to 20 per cent in just five years.

British Treasury modelling shows the tax reductions are increasing investment by up to 4.5 per cent and GDP by 0.8 per cent.

But the business community has barely started explaining why a high company tax rate will slow Australia’s growth in this century.

The Business Council President, Catherine Livingstone said in early November:

“While absolutely recognising the critical importance of personal income tax reform, the experience of other countries has shown that nothing will stimulate innovation and growth more than a reduction in the tax rate for all businesses, as part of a broader tax reform agenda…”

Amen. Business must continue to counter views that cutting company tax is “rent seeking”.

Previously, this job had fallen to former Treasury Secretary Martin Parkinson, who at the national reform summit stated:

“(As for) company tax cuts, about half the benefit ends up in the hands of workers because it helps stimulate growth and create new jobs; it creates opportunity for people to get jobs.”

This discussion needs to occur in circles beyond the peak business group and former Treasury officials. There are over two million businesses in Australia, not all are incorporated but all face a similar fate of sagging competitiveness.

It is incumbent on the premiers to lift above the domestic fray and focus on external competition.

While it is understandable they are immediately focused on their own budgets, a longer term view reveals they too need a lower company tax rate.

More employment means more economic activity and more revenue to be collected by the states as the rising tide lifts all boats in our federation.

Without a global lens for tax reform, we risk exporting investment and jobs rather than goods and services.

**Andrew Bragg is director of policy at the Financial Services Council*