CHAPTER 5 COMPANY TAX

MAIN POINTS

> Australia’s company tax is long established. Australia raises substantially more revenue than many other countries in company tax.

> The company tax rate is 30 per cent and the effective tax rate is estimated to be close to that rate, demonstrating that the company tax has a broad base with few exemptions. The Australian nominal and effective company tax rates are higher than the OECD average including Canada and New Zealand.

> Economic modelling of the company tax in a global economy suggests that it may deter foreign investment and so its economic incidence is shifted from capital to be borne largely by Australian workers or consumers. A reform implication of this modelling is that a lower company tax rate would lead to increased national wellbeing. This also has implications for reforming the corporate-shareholder imputation system.

> However, the specific benefits of lowering the company tax rate are difficult to assess. Australia’s company tax collects revenues from economic rents including from the resource sector. It is an important backstop to the personal income tax and the corporate-shareholder imputation system provides a significant incentive for Australian companies to pay company tax. A lower company tax rate would have implications for the boundary between the personal and corporate income tax systems, by increasing tax planning margins.

> Tax planning margins exist for both international and domestic tax planning. Multinational enterprises carry out sophisticated tax planning that may reduce their Australian and global tax rates to zero or close to it. The OECD BEPS project internationally, and Australia domestically, are taking some steps to increase country cooperation to prevent base erosion. It is not clear how successful these efforts will be in protecting the company tax base.

> The complexity of the company tax system is particularly important for small and medium enterprises, with current tax rules creating both planning, margins and compliance challenges.

> There are overlaps with other business tax entity rules, especially the taxation of trusts and whether SMEs should benefit from specific tax policies.

> As indicated by the Henry Review, further research is needed into the best long-term approach to company tax for Australia. The Henry Review considered a business level expenditure tax as worthy of future consideration.

5.1 Company tax role and revenues

Australia’s company income tax is long established, dating back to 1915. Company tax provides a significant proportion of Australia’s total tax revenues and is an important part of Australia’s overall tax mix. There is widespread policy and academic debate about the future role and structure of company taxation in the context of the challenges of a global digital economy and declining growth and productivity identified in Chapter 2.

Company tax is levied at the rate of 30 per cent. Resident companies that are incorporated in Australia or have their central management and control located in Australia are subject to company tax on worldwide taxable profits including capital gains. Non-resident companies are liable for company tax on Australian-sourced profits. Company losses may be carried forward indefinitely and applied against taxable income in a later year. A short-lived reform by the Rudd/Gillard Government to allow carry back of tax losses has been repealed.

Since 1987, Australia’s company tax has been integrated with a shareholder dividend imputation system. A 30 per cent credit (called a franking credit) for Australian company tax paid is available on franked dividends distributed to Australian shareholders. As franking credits are valued by Australian shareholders, the corporate-shareholder imputation system affects corporate behaviour and incentives in respect of the location of investment, financing and distribution policy. These issues were identified in the Henry Review and we discuss them in section 5.4 below.
Company tax revenue

Company tax raised $66.9 billion in 2013-14 (see Table 3.1 above). Combined with PRRT and MRRT (the latter now repealed), it contributed about 6 per cent of GDP in revenue, or more than 20 per cent of Commonwealth taxes. Actual company tax receipts, and company tax revenue as a proportion of GDP, have grown strongly since the early 1980s.

Chart 5.1 shows that company tax revenues peaked at 5.1 per cent of GDP in 2007-08 after growing at an average rate of 17 per cent in the five years prior to this peak.

The growth in company tax revenue over the last thirty years closely follows growth of corporate income as a share of GDP (PBO 2014a, 13-15). Corporate gross operating surplus (a measure of corporate profitability) has grown from 15.2 per cent of GDP in 1982-83 to 22.8 per cent of GDP in 2012-13. Incorporated entities accounted for around 75 per cent of gross business profit in 2012-13, compared with around 60 per cent three decades earlier (PBO 2014a, 14-15).

Australia’s company tax revenue as a percentage of GDP compared with selected other countries is shown in Chart 5.2. Australia raises substantially more revenue from company tax than most comparable countries. More than half of Australian company tax revenue ($39.92 billion in 2011-12) is raised from just over 1,000 very large companies with a turnover of $250 million or more each year (ATO 2014c, Table 20).

This upward trend in growth of company tax revenues may now have come to an end as a result of a number of factors. These now include a stock of carry-forward losses since the GFC; the challenge of the third phase of the mining boom including declining terms of trade, leading to lower nominal GDP growth and a fall in the relative profit shares of the mining sector relative to other sectors of the economy (Treasury 2013b, 4-16 to 4-19).
Company tax rate

Increasing globalisation and national economic openness have coincided with a reduction in company tax rates across the globe in the last three decades. Chart 5.3 compares Australia’s company tax rate with selected other countries in the OECD and the region.

In line with global trends, Australia’s company tax rate has been reduced significantly since the 1980s but the current 30 per cent rate is relatively high by international standards and has been stable since 1999.

New Zealand’s company tax rate is 28 per cent which is only a few percentage points below its top personal income tax rate of 33 per cent. This reduces the attractiveness of tax planning using legal entities and simplifies the tax system for business.

As is well known, the Irish company tax rate (not shown in Chart 5.3) is one of the lowest in a developed country, at 12.5 per cent, and Ireland is used as a global base by many multinational enterprises.

Chart 5.3: Statutory company tax rate, selected countries

Source: IBFD (2014).

Note: Rates in some countries are progressive and are lower for small companies. The rate for Switzerland is the average after applying canton and commune rates deductible against the federal rate. The rate for Canada combines the 15 per cent federal rate with provincial company tax rates which add about 10 per cent on average.
The Abbott Government announced its intention in the 2014-15 Budget to lower the company tax rate to 28.5 per cent effective 1 July 2015 for companies with a turnover of less than $50 million (Treasury 2014a). Implementing legislation has not yet been enacted.

In many countries, including Australia, the company tax rate is significantly lower than the top personal income tax rate. This creates incentives for individuals to plan their affairs through a company, as explained in section 4.4. It also creates incentives for the retention of profits inside a company rather than distributing them as dividends to shareholders, even in a system such as Australia that provides a credit for company tax. Consequently, in some countries, a policy of lowering the company tax rate has been linked to downward adjustments to the top personal income tax rate (Auerbach 2010, 63-64).

Chart 5.4: Top personal tax rate and company tax rate, selected countries

![Chart showing top personal tax rate and company tax rate](chart.png)

Source: IBFD (2014).

**5.2 Effective company tax rate and the tax base**

It is important to understand not only the nominal tax rate but also the effective company tax rate taking account of the definition of the company tax base (taxable profit). The PBO has estimated Australia’s effective company tax rate, by calculating company tax receipts as a proportion of corporate profits the economy. Chart 5.5 presents these estimates and tracks changes in the nominal and effective company tax rates over the last three decades. The chart does not distinguish between different sectors or industries.

**UK and Canada reduce company tax rates**

Effective 1 April 2014, the UK reduced its company tax rate to 21 per cent and proposed a ‘patent box’ which offers a preferential 10 per cent corporate tax rate for income from patents, designed to improve the competitiveness of the UK tax system for technology-driven companies (HM Treasury, 2013).

The Canadian federal rate of company tax was reduced in stages to 15 per cent by 2012. This is equivalent to an overall corporate tax rate of around 25 per cent, taking into account company taxes levied by the Canadian provinces (Hodge 2012).
Chart 5.5: Trends in effective company tax rate compared to statutory company tax rate

Note: The effective company tax rate is calculated as the ratio of company tax receipts (excluding capital gains tax) to net operating surplus of companies.

Chart 5.5 indicates that although Australia’s statutory company tax rate has come down significantly since the 1980s, the effective tax rate has remained close to the current statutory rate of 30 per cent. This is a result of base broadening measures, including the removal of concessional investment allowances and accelerated depreciation for plant and equipment. It is consistent with trends in other countries until the 1990s, which show a close association between reductions in company tax rates and broadening of the company tax base (Loretz 2008). It may also indicate that the dividend imputation system has a significant effect in encouraging Australian companies to pay tax, so as to distribute franked dividends to shareholders.

Marginal effective company tax rate

The effective company tax rate can also be indicated by the tax wedge, or marginal effective cost of capital on corporate investment (Fullerton and King 1984). This measure produces a marginal effective company tax rate which aims to identify the tax cost of the next dollar of investment by a company, taking account of the nominal tax rate, expense and depreciation deductions and the tax treatment of debt and equity finance.

A recent comparative study of 90 countries indicates that Australia’s marginal effective company tax rate is just over 25 per cent (Chen and Mintz 2013). Chart 5.6 shows Australia’s marginal effective company tax rate is several percentage points higher than estimated rates for the UK, Canada and New Zealand, as well as the OECD average. Not surprisingly, it is also significantly higher than regional competitors for capital investment: Singapore, Malaysia, Hong Kong and Taiwan.

Business tax expenditures

We can examine the definition of taxable profits for a company (the business tax base), to identify concessions and to estimate the revenue foregone from these business tax expenditures.

There are more than 100 tax expenditures related to business income that can operate to reduce a company’s tax liability below the statutory corporate tax rate (Treasury 2015). However, most of these reduce revenue by a relatively small amount. Table 5.1 sets out the largest estimated business tax expenditures including exemptions from interest withholding tax on certain cross-border financial securities, accelerated write-off periods for certain assets in the oil and gas industries and heavy vehicles in the transport and agriculture sectors, depreciation concessions for small businesses and research and development tax concessions.
Chart 5.6: Marginal effective tax rate on corporate investment, selected countries

![Chart showing marginal effective tax rate on corporate investment for various countries.](chart)

Source: Chen and Mintz (2013).

Table 5.1: Largest business income tax expenditures

<table>
<thead>
<tr>
<th>Tax Expenditure</th>
<th>Revenue Forgone (estimate $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory effective life caps (concessional depreciation for some equipment) (Item B73)</td>
<td>1945</td>
</tr>
<tr>
<td>Exemption from interest withholding tax on certain securities (Item B14)</td>
<td>1860</td>
</tr>
<tr>
<td>Small business—simplified depreciation rules (Item B81)</td>
<td>1265</td>
</tr>
<tr>
<td>Research and development tax offset (Item B80)</td>
<td>1070</td>
</tr>
<tr>
<td>Deduction for capital works expenditure (Item B75)</td>
<td>555</td>
</tr>
</tbody>
</table>


Note: Excise concessions such as the diesel fuel rebate were considered by the Henry Review not as a subsidy for fuel use but rather as a credit for fuel as a business input. It is not a tax expenditure in the income tax, so is not included here (Henry et al 2008a, 288).
Comparing the data in Table 5.1 with Table 3.1, it can be seen that the tax expenditures available for businesses cost much less in revenue foregone than those in the personal income tax and GST.

It should be noted that the TES does not estimate revenue foregone from Australia’s international tax rules for companies, which are treated as part of the company tax benchmark. Nor does it estimate revenue foregone from difficulties in enforcing tax rules for transfer pricing or the treatment of business intangible assets. We discuss these challenges in section 5.4 below.

5.3 Company tax in a global economy

The future of the company tax is an important tax policy question for Australia that requires further research. The Henry Review considered underlying economic principles for company taxation in an international context.

Why levy company tax?

A company is a legal fiction and not a real person. Consequently, a company cannot itself bear the economic incidence of company tax but rather is a proxy or intermediary for taxation of others. Company tax may be borne by shareholders, employees or customers as explained in Chapter 1, because the economic incidence may be shifted from capital owners through wage and price effects.

The ‘classical’ approach to corporate taxation is a tax on income where it is earned, levied on the full return to equity after expenses are deducted. In this ‘classical’ system, without relief for shareholders on distributed profits or capital gains, company tax acts as a surcharge that raises the cost of capital and hence reduces the level of investment. The rate of return to an investor needs to be, at a minimum, sufficient to meet both the cost of capital and the tax liability in order for the investment to proceed.

The assumption of the ‘classical’ system is that the additional tax is borne by the investor. However, if capital is mobile, investment may shift and the company tax may be borne effectively by workers or customers because of lower investment.

If companies do not bear company tax, why levy it? The Henry Review acknowledged that a key function of the company tax is to operate as a backstop to the personal income tax, collecting a level of tax from the company as agent or proxy for domestic shareholders. If there was no company tax, there would be an overwhelming incentive for individuals to derive and hold returns to business and services in a company.

Even in our current system, there is a significant tax planning margin between the top personal income tax rate of 49 per cent and the company tax rate of 30 per cent that encourages derivation and accumulation of earnings inside companies. This is shown in Chart 5.4 above and discussed in Chapter 4. If the company tax rate is lowered, this tax planning incentive will increase.

Company tax is easier to administer than personal income tax. Collected by instalments throughout the year, it ensures a steady revenue stream, which is less easy to enforce for individuals in receipt of non-wage income. Company tax also operates as a charge for the benefit of public goods consumed by the company or its investors. In particular, company tax ensures that profits that are retained within companies or distributed to non-resident shareholders are subject to Australian tax (Sorenson and Johnson 2010, 206; Vann 2014).

Finally and importantly, company tax ensures that economic rents are taxed. These are above-normal returns in excess of the cost of capital plus compensation for risk associated with the investment. Where there are economic rents, for example from natural resource or monopoly markets, company tax may be able to be levied without affecting investment (Devereux and Sorenson, 2006).

Effects of company tax on foreign investment into Australia

There is significant debate about the ‘international competitiveness’ of Australia’s company tax. It is argued that the statutory company tax rate may have a negative impact on Australia’s attractiveness for international investment in a global economy.

As our revenue statistics and Chart 5.1 shows, Australia continues to collect company tax effectively. The policy question is whether the company tax is for the national benefit or whether it may have an effect of reducing investment into Australia to the detriment of all. While economic modelling and the empirical evidence of other countries suggests a direction for tax reform, it is not clear what would be the best way forward for Australia in this regard.
Economic models and taxes on capital

Statutory company tax rates appear to be trending downwards across the globe. There is evidence that in reducing company tax rates, governments are responding to global economic pressures including capital mobility.

Furceri and Karras (2010) draw on annual data for 30 OECD nations from 1965 to 2007 to analyse the tax structures of these countries. They find broad, statistically significant and robust empirical support suggesting that the smaller a country’s size and the greater the openness of its economy, the more it relies on consumption taxes and less on income taxes including company tax.

These trends are consistent with economic modelling of the ideal tax system for a country that has a small open economy (for example, Hines and Summers 2009; Loretz, 2008). A ‘small open economy’ is defined as an economy in which the cost of capital is set globally. This modelling predicts that international competition will drive down company tax (and other taxes on mobile capital) to zero because capital flight will occur to lower taxed jurisdictions. Thus, a zero or low company tax would be most efficient. However, there is not universal agreement that even if capital is mobile, it would be efficient to levy zero tax on capital. Some researchers conclude that it is efficient to levy some tax on capital in a global economy but it is not clear what level is ideal (for example, Diamond and Saez 2011).

Countries are competing not only for investment but also for the ability to tax corporate profits earned on those investments (Matthews 2011, 7). A recent Treasury study suggests that as an open economy relying substantially on foreign capital investment, the final costs of company tax in Australia are borne largely by labour (Rimmer et al 2014).

The Henry Review found that there is strong evidence that company tax is a significant factor in business decisions about where to invest, how much to invest, what to invest in and where to record company profits. It concluded that Australia’s company tax system likely makes it more difficult to attract foreign investment into sectors other than the resource industry—such as services and manufacturing— which have fewer location-specific advantages (Henry et al 2010a, 39).

Distortions in the company-shareholder tax system

Australia’s corporate-shareholder imputation system assumes that the increased cost of capital arising from company tax is borne by the shareholder/investor. Australia reduces this ‘double taxation’ of corporate profits by integrating corporate and personal income taxes through a dividend imputation system that provides a credit for company tax paid. Australia’s reduced CGT applicable to sale of shares also alleviates to some extent the ‘double tax’ on corporate profit.

A consequence of this system is that imputation credits are highly valued by Australian resident shareholders, including individuals and superannuation funds that invest the retirement savings of most Australian workers. The attractiveness of imputation credits appears to increase the incentive for Australian resident companies to pay tax in Australia (Henry et al 2010b, 155; Ikin and Tran 2013). It also may affect corporate behaviour and incentives in respect of the location of investment, financing and distribution policy.

This system creates different incentives for Australian companies with predominantly Australian shareholders, who value franking credits, and for foreign companies, or companies with predominantly foreign shareholders. In contrast to domestic shareholders, non-resident shareholders cannot access the dividend imputation system and it is not available for foreign profit of Australian companies.
Foreign investment by Australian companies is less attractive than domestic investment because there are no imputation credits for foreign tax paid. On a net basis, Australia remains a capital importer but there is now a very significant share of foreign investment by Australian companies. To minimize their disadvantage in doing foreign investment, Australian companies may seek to fund foreign investment with debt instead of equity, while foreign companies also prefer debt-funded investment into Australia.

While a possible solution to encourage inbound investment is to lower the company tax rate, a possible solution to support outbound Australian investment is to extend the dividend imputation system to some level of foreign tax paid. Either reform would cost significant company tax revenue and requires further research.

Multinational tax planning: can countries cooperate to protect the tax base?

As stated in Chapter 2, a key challenge to the effectiveness of Australia’s company tax is the global digital economy. The Henry Review was aware of the challenge of international profit shifting, which it viewed as ‘an important constraint on tax policy in an open economy’ such as Australia with a source-based corporate tax system (Henry et al 2014b, 155). However, in the last five years there has been a significant increase in public and policy attention paid to the tax minimization activities of multinational corporations, especially but not only ‘digital’ companies such as Google and Apple, including a Senate Inquiry into Corporate Tax Avoidance.

The increasing challenges of protecting Australia’s company tax base in the face of the expanding role of multinational corporations, the growing digital economy and global tax competition are indicated by the BEPS project of the OECD (2013) and policy developments in Australia (Treasury 2013c).

It is difficult to assess the size and revenue impact of the BEPS problem or the efficiency costs of alternative responses. Anecdotal evidence suggests that some foreign companies are paying little or no Australian tax. This may be because of financing, transfer pricing and the increased use of payments such as royalties or service fees on business intangibles, or the out-dated nature of basic international tax concepts such as business enterprise and source of income. There are incentives for businesses with cross-border investment to ‘thinnly capitalize’ their Australian operations, generating higher tax deductions for interest in Australia.

In response to these tax planning margins, the company tax law contains many rules designed to preserve its integrity by limiting the ability of companies taking advantage of inconsistencies in the treatment of company financing structures and expense deductions.

The kind of complex tax planning aimed at minimizing taxation globally is illustrated by the so-called ‘Double Irish -Dutch Sandwich’ tax minimisation arrangement shown in Chart 5.7. This structure capitalises on particular design features of the US tax system, on the low Irish company tax rate of 12.5 per cent and on the ability to flow through cross-border payments in the Dutch tax system. In this kind of tax structure, within the multinational corporation payments including royalties or services payments for digital intangible property, such as patents or brand names, flow from high tax to low tax or haven jurisdictions.

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Australia’s recent leadership role as the 2014 Chair of the G20 Forum has provided added impetus to the BEPS agenda. The Government has focused on gaining international agreement on the exchange of information in relation to BEPS activities and multilateral implementation of the OECD’s BEPS Action Plan (OECD 2013a). On the domestic front, reforms that have already been implemented include:

- updating Australia’s transfer pricing arrangements so that they align with standards recommended by the OECD;
- broadening of the general anti-avoidance rule;
- introduction of a new integrity measure to prevent ‘dividend washing’, a practice that allows entities through the timed sale and repurchase of shares to claim two sets of franking credits on what is effectively the same economic interest;
- tightening Australia’s ‘thin capitalisation’ rules by reducing the debt to equity limit to 60 per cent to address multinational profit shifting through debt loading in Australian subsidiaries; and
- increased transparency in public reporting of multinational tax paid, effective 1 July 2015.

The Abbott Government has stepped back from or revised some tax integrity measures proposed by previous governments, citing concerns about regulatory costs and their likely effectiveness as well as a lack of evidence supporting changes (Cormann 2014).

Increasing global tax coordination may hold a solution for some of these challenges but is difficult to achieve, while it is unclear to what extent Australia as a single nation can or should influence or benefit from these developments.
5.4 Large, medium and small enterprises

Australia’s company tax system contains a large number of special rules and concessions and complex integrity rules, tax administration practices and record keeping requirements. The tax treatment of a business depends to a large extent on how it is structured, for example, whether it operates as a single consolidated corporate group; as an unconsolidated group of companies; or using a mix of companies and trusts, as is common for SMEs. Since 2002, Australian wholly owned corporate groups may irrevocably elect to be taxed as a single corporate entity under a tax consolidation regime. Chart 5.8 shows that large corporate groups elect to consolidate. Consolidated groups can carry forward and offset tax losses between companies in the group and can transfer business assets within the group without tax consequences, improving efficiency in operations.

Chart 5.8 shows that while small and medium corporate groups can choose to consolidate, many do not. A primary reason is complexity and tax costs that arise when mergers and acquisitions take place. This disadvantages smaller businesses which cannot take advantage of loss offsetting and asset rollovers.

Utilising survey data, Evans et al (2014) have estimated that the overall level of tax compliance costs for SMEs is around $18 billion or approximately 1.2 per cent of GDP, and around 14 per cent of total tax revenue raised from the SME sector. The costs of compliance with Commonwealth, State and Territory taxes for large corporations (with annual turnover in excess of $250 million) are in the order of $0.40 per $1,000 of annual turnover.

Some minor small business recommendations of the Henry Review were introduced by the Rudd/Gillard government. These included, from 1 July 2012, an instant asset write-off providing small businesses with an immediate deduction for assets costing less than $6,500 and for the first $5,000 of a motor vehicle, and a further reform recommended by the Henry Review allowing companies to carry back losses up to $1 million annually (both now repeated). The Gillard Government also introduced a re-targeted and more generous research and development (R&D) tax incentive for small and medium enterprises from 1 July 2011 (Treasury 2013a).

Chart 5.8: Proportion of wholly owned groups consolidated for tax

Source: Board of Taxation (2012, 70) from ATO data for income years 2009 to 2011.
The Government proposes to reduce the company tax rate to 28.5 per cent, with the primary goal of helping small business. More research and policy work is needed into whether the design of ‘one size fits all’ rules for all companies is the best approach for efficiency and tax system resilience. However, designing a separate tax system for small business also produces difficulties.

5.5 Taxing the return to extraction of resources

The economic return from the extraction of Australia’s natural resources is taxed at the Commonwealth level through company tax and PRRT and by State and Territory governments through royalties. The States are sovereign owners of the resources in their jurisdiction including minerals, oil and gas and levy royalties which are generally based on a percentage of the value or in some cases the volume of production. There is wide variation in royalty rates both across States and Territories and resource types.

The Commonwealth Government levies PRRT at a rate of 40 per cent on profit (resource rent) from petroleum projects, including from most offshore operations and, since 1 July 2012, in respect of the North-West Shelf and onshore petroleum and gas projects. A company’s PRRT liability is deductible from its taxable income for corporate tax purposes.

In recognition of the unique features of onshore petroleum projects, the on-shore PRRT regime allows a tax credit for State and Territory royalties and other resource taxes against PRRT liabilities, and allows deductions for environmental and native title payments with a sufficient nexus to an onshore gas or oil project.

The Henry Review recommended enacting a minerals resource profits tax that would be similar to the PRRT and apply to profits above the normal rate of return, from mineral extraction in Australia. The MRRT came into force on 1 July 2012 and was repealed effective 1 July 2014 by the Abbott government, consistent with its election commitment.

The final design of the MRRT was substantially different to that envisaged by the Henry Review (Hogan 2012). It applied only to iron ore and coal and was criticized as highly complex, with significant compliance costs relative to the small amount of revenue raised (Treasury 2014a, 5-16). Rather than allowing for the abolition of mining royalties (Hogan 2012, 250-251) as envisaged by the Henry Review, the design of the MRRT created incentives for State and Territory governments to increase royalties on projects subject to the MRRT, because royalty payments were credited against MRRT liabilities; several states including Western Australia and Queensland increased mining royalties as a result.

The tax reform agenda since the release of the Henry Review has been substantially dominated by the fate of the Rudd/Gillard Government’s MRRT. The prospects are, for the foreseeable future, that Australia will be reliant on the PRRT and State and Territory royalties for ensuring that the community receives an adequate return from the exploitation of the nation’s mineral reserves. More research is needed into the efficiency effects and resilience of royalties, as a significant source of revenue for some State governments.

27 An exception is the ACT, which does not have a minerals extraction industry.
5.6 Directions for company tax reform

The Henry Review’s recommendations for company tax reform aimed at reducing the overall tax burden on investment to improve Australia’s attractiveness as a destination for capital, improving the efficiency of Australia’s regime for charging for the exploitation of its non-renewable resources, encouraging greater innovation and entrepreneurial activity and promoting higher national incomes through a more efficient corporate tax system that supported capital investment and improved productivity.

These objectives were reflected in five key reform directions for the corporate tax system (Henry et al. 2010a). Most of these reforms have not been implemented:

- Reducing the burden of company taxation, in particular by targeting the company tax rate towards the lower end of the small- to medium-OECD economy average, aiming for a reduction to 25 per cent in the medium term (Recommendation 27);

- Supporting innovation and corporate risk taking through more symmetric taxation treatment of gains (which are taxed as they are realised) and losses by introducing a loss carry back arrangement allowing excess losses to be realised immediately by being credited against tax paid in previous years (Recommendation 31);

- Reducing investment biases in favour of particular assets and industries through measures such as introducing simpler and more uniform capital allowance rules that more closely match economic depreciation (the decline in the market value of an asset over a period) and rationalising capital gains tax concessions and expanding and simplifying depreciation arrangements for small businesses (Recommendations 28, 29 and 30);

- Introducing, at the same time as a lower company tax rate, a broad-based resource rent tax levied at the Commonwealth level and shared with the States and Territories, allowing for the removal of existing inefficient State and Territory-based royalties (Recommendations 45 to 50); and

- Given the challenges of sustaining over time an efficient and internationally competitive corporate tax system for attracting foreign capital investment, considering further the merits of a business-level expenditure tax, along with reconsideration of the long-term future of dividend imputation (Recommendations 26 and 37 to 40).

The previous government established a Business Tax Working Group to examine the possibility of a company tax cut funded from within the company tax base (BTWG 2012). It examined a range of options for fully funding a company tax cut of two to three percentage points—the level considered necessary to drive a significant investment response—with base broadening measures targeting remaining exemptions and concessions but was unable to recommend a package of reforms.

Given the current fiscal situation, lowering the company tax rate to 25 per cent seems unlikely without other major reform. The Henry Review noted “the benefits of attracting mobile investment to Australia by reducing the company income tax rate must be balanced against the loss of tax revenue that could have been collected via the company tax from location-specific investments, such as investments in non-renewable resource projects” (Henry et al. 2010b, 228).

There is limited international experience with alternative forms of corporate income taxation, such as a business-level expenditure tax. There are also clear challenges resolving practical issues such as transitioning to a new system and integration with the personal tax system, this requires further research and policy analysis in coming years.