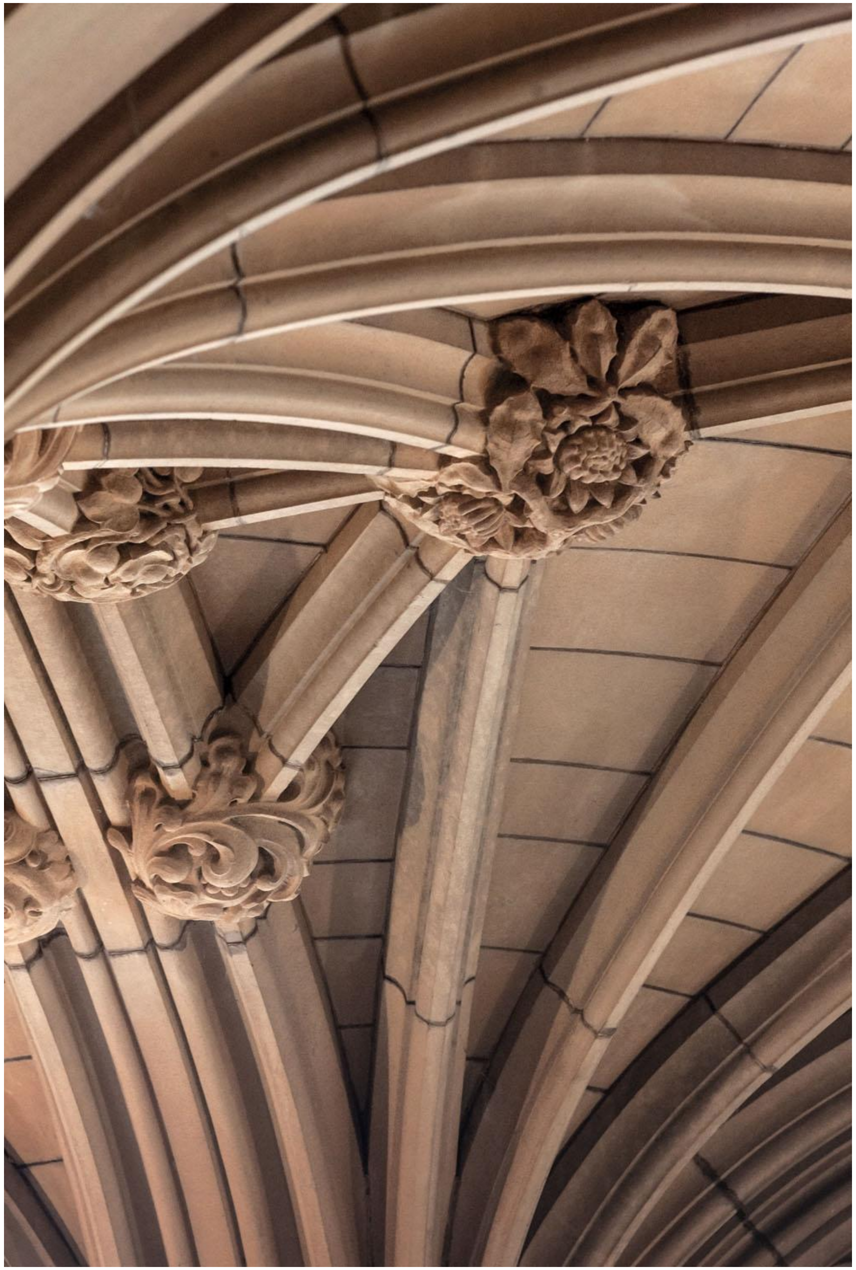
The Unconvincing Case for 25%



Presented by
Professor Graeme S Cooper
Sydney University Law School

THE UNIVERSITY OF SYDNEY

Introduction

25%: a good idea v. a bad idea v. a good idea but for other reasons

The corporate tax as a blunt instrument: one tax (and one tax reform proposal) to cover a huge field

- Small and large
- Privately-held and widely-held
- Locally-owned and foreign owned and both
- Those needing more capital and those that are stable (or even declining)

But not so big that it is the only game in town

- Publicly-held trusts: property industry / funds management / pension industry
- SME land

The current paradox

– Delivering benefits to the undeserving: SMEs / existing firms
– Not delivering benefits where the argument is made

The tide of history

Corporate rate

- 49%
- 39% (1988)
- 33% (1993)
- 36% (1995)
- 34% (2000)
- 30% (2001)

Small business rate

- 28.5% (2015)
- 27.5% (2017)

The future

- 25% (2026)

The constant refrain

Review of Business Tax (1998)

– Proposed reducing 36% rate to 30%

AFTS (2007)

– Reduce rate to 25%

Business Tax Working Group (2011)

– Reduce rate but unable to deliver compromise on method

Re:think (2015)

– Reduce rate

Treasury papers and external modelling (2016)

– Reduce rate

Idea #1: the proposal is to *cut* the corporate rate

All the proposals are about a tax mix switch

But don't mention the war: much less attention focussed on what should be taxed instead

- Labour
- Land
- consumption

Idea #2: the current corporate rate is and is meant to be 30%

It clearly isn't

- Incentives
- Foreign income
- Book / tax discrepancy
- Avoidance
- Imputation (for distributed profits)
- Double taxation (for retained profits)

Idea #3: cutting the rate is *not* especially critical because of imputation

"Corporate tax is merely a withholding point so far as resident shareholders are concerned because of imputation"

- The wash-out story
- The floor story

Imputation?!??! Who cares

- Listed entities
  - Prominent companies that are (currently) paying dividends
  - Proportion of profits routinely retained
- SME-land
  - Who needs a company?
  - The bucket company doesn't leak
  - Franking credits as a bank deposit (the other superannuation account!)

Idea #4: cutting the rate *is* especially critical because of foreigners

Corporate tax is the only tax that foreigners pay in Australia

- Death of DWT for distributed profits
- Death of income tax / CGT for retained profits

Just what kind of local firms are likely to need to chase foreigners?

- Not an SME story
- Not larger firms seeking portfolio capital
- Not stable / declining firms (although they would benefit)

Just what kind of foreign investors are likely to be sensitive to the headline corporate rate?

- Not lenders (so would rate cut have any impact on banking / mining?)
- Not trust sector (so rate cut have no impact on property)
- Not securities traders