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Business Council of Australia

Senate Economics References Committee – Inquiry into the Commitment to the Senate issued by the Business Council of Australia

Senator Jane Hume — Question on Notice

Can the Business Council of Australia provide any evidence regarding the impact on wages when other countries have reduced company tax?

- Using comparable OECD data, between 2006 and 2016, Norway, Sweden, Canada, New Zealand and Denmark all cut their company tax rate to below 30%. Over that same period, the real average full-time wage increased in those countries by more than it did in Australia.
- However, while such evidence is strongly suggestive, by itself it is not proof. As Senator Keneally herself commented at the Senate Inquiry "For example, in the 1980s and the 1990s, we saw a lower corporate tax rate in Australia, which some people could argue led to economic growth, but it was part of a bigger package of reforms that, in fact, the ACTU was part of—changes to the social wage, changes to labour market reforms, the encouragement of private savings and the end of restrictive trade practices. That context matters, doesn't it?"
- While it is the case that real GDP and real wages increased following company tax cuts in Australia in the 1980s and 1990s, the Business Council acknowledges that complementary economic reforms and events may have also contributed.
- Precisely because policy changes rarely operate in a vacuum — context matters — analysis must carefully isolate the impact of a tax cut from other factors. This is why the Business Council gave the Senate Committee details of many such evaluations by the OECD and academics of impacts across many countries (attachment 1).
- OECD analysis from 2017 of 34 OECD countries, including Australia, over the period 1980-2014, found that higher marginal effective company tax rates are associated with lower rates of economic growth and therefore a smaller economy in the long term. It found that this negative relationship is "strongly significant [and] statistically stable".
- Academic studies similarly find that company tax rates and wages are inversely related.
- These rigorous empirical studies consistently and emphatically conclude that lower company taxes drive higher investment, economic growth and wages.

ATTACHMENT 1: INTERNATIONAL EVIDENCE OF THE BENEFITS OF COMPANY TAX CUTS PRESENTED TO THE SENATE

On Tuesday the Committee sought further empirical evidence from other countries of the impacts of lower company tax rates.

There has been extensive analysis of the links between company tax, investment, growth and wages by the OECD and academics. As our submission to this inquiry notes, broadly speaking there are two ways of measuring the impacts of the tax change:

- 'ex ante' or before the event stylised modelling of a policy 'shock' to the economy, that is, holding all else constant. It is important that the robustness of these models is fully explored by testing different assumptions.
- 'ex post' econometric evaluation of the impact of the change over time, which attempts to isolate the impact of the change from other factors. This is critical because policy changes rarely operate in a vacuum so we need to do this work in the absence of an observable counterfactual. Furthermore, this is why simply observing correlations over time between growth rates and company tax rates is not evidence of the causal link between the two.

Using the first methodology, Treasury modelling estimates that a 25% company tax rate would increase annual GDP by a net 1% ($18 billion in today's terms) in perpetuity. Over half the benefits from the tax cut flow to Australian workers. Real wages would be more than 1% higher — in today's economy, around $750 extra per year for an average wage earner, as twice noted in our submission. This analysis is robust to a range of assumptions and is consistent with independent modelling by Independent Economics and KPMG.[1]

There has also been extensive econometric evaluation. The following studies have all been cited at some point in debate of the Enterprise Tax Plan Bill:

- OECD analysis from 2017 looks at the experience of 34 OECD countries, including Australia, over the period 1980-2014. The study found that higher marginal effective company tax rates are associated with lower rates of economic growth and therefore a smaller economy in the long term. It found that this negative relationship is "strongly significant [and] statistically stable". The presence of dividend imputation offsets this effect to some extent but does not negate it [particularly for a net capital importing country like Australia]. The analysis also finds that a revenue-neutral company tax cut does not increase inequality.[2]
- Earlier OECD analysis from 2010, found that lower corporate tax rates promote total factor productivity growth of the most dynamic and innovative enterprises, encouraging greater dynamism and the spread of technology and knowledge spillovers throughout the economy.[3]
- Arulampalam, Devereux, and Maffini examined how much of the company tax burden is borne by workers using data on over 55,000 companies in nine European countries between 1996 and 2003. They conclude that a rise of $1 in corporate tax would reduce wages by 49 cents. This implies a 49 cent gain in wages for a $1 reduction in corporate tax.[4]
- Writing in the AFR,[5] Andrew Leigh cites analysis by William Gentry "that most of the impact of a corporate income tax rise falls on workers. Increasing company taxes by 10 percentage points saw wages fall by 6 per cent to 10 per cent."[6]

[1] Independent Economics, Company tax scenario, prepared for the Department of the Treasury, 2016; KPMG, Modelling the macroeconomic impact of lowering the company tax rate in Australia, 2016.

[2] OECD, The effects of the tax mix on inequality and growth, 2017.

[3] OECD, Tax Policy Reform and Economic Growth, 2010.

[4] Arulampalam, Devereux, and Maffini (2012) "The direct incidence of corporate income tax on wages", European Economic Review, Volume 56, Issue 6, August, Pages 1038-1054.

[5] http://www.afr.com/opinion/abbott-tax-hits-workers-20100315-ivv54

[6] William Gentry (2007) "A Review of the Evidence on the Incidence of the Corporate Income Tax", US Treasury Office of Tax Analysis Paper 101.

- Liu and Altshuler analysis of the US finds “our estimates suggest that a $1.00 increase in corporate tax revenue decreases wages by approximately $0.60.”[7]
- Hassett and Mathur (2006), cited in the Henry tax review and Rethink discussion paper, find that a 1% increase in the corporate tax rate is associated with a close to 1% drop in wages.[8] Felix (2007) estimates that a 10 percentage point increase in the corporate tax rate reduces annual gross wages by 7%.[9]
  - The Henry Review concluded “While these econometric findings are not without their limitations, they are broadly in line with the estimates derived from the use of computable general equilibrium models.”

[7] Liu & Altshuler (2013) “Measuring the burden of the corporate income tax under imperfect competition”, National Tax Journal, Volume 66, Issue 1, pages 215-238.

[8] Hassett & Mathur (2006) “Taxes and wages” Research Working Paper no. 128, June, American Enterprise Institute for Public Policy, Washington DC.

[9] Felix (2007) “Passing the burden: Corporate tax incidence in open economies”, Federal Reserve Bank of Kansas City Regional Research Working Paper 07-01.

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Senator the Hon. Kristina Keneally– Questions on notice

Senate Economics References Committee – Inquiry into the Commitment to the Senate issued by the Business Council of Australia

BCA Commitment Hearing – QoNs for BCA (16 May 2018)

Questions Regarding AUS, USA and International Tax and Wage Comparisons

1.The BCA has argued that Australia's corporate tax rate at 30% rate is now "woefully" uncompetitive against the United States at 21%. What does the BCA understand to be the statutory corporate tax income rate in the United States?

a. Is the BCA aware that 44 American states and the District of Columbia levy corporate income taxes?

b. The 'headline' statutory corporate income tax rate in the USA is the rate when state and federal corporate taxes are combined, sans any deductions. Does the BCA know what the variation of this statutory corporate tax rate is across the USA?

c. How many of these states have a headline statutory corporate income rate of 25% or less?

d. Of the ten largest states in the United States by GDP, how many have a headline statutory corporate income tax rate of 30% or more?

e. Of these states, how many have a headline statutory corporate income rate of 27% or more?

f. Even after the basic deductions when combining state and federal taxes, how many of these states have a statutory corporate income tax rate of 25% or less?

g. Of the ten largest states by GDP per capita, how many have a headline statutory corporate income rate of above 29%?

h. Even after the basic deductions when combining state and federal taxes, how many of these ten states have an effective statutory tax rate of 25% or less?

i. Would the BCA agree that the fact that 44 states in America levy an income tax on corporations means a simplistic comparison between the federal headline rates of the two nations is not very helpful?

j. Why did the BCA choose to disregard state corporate income taxes in the United States while campaigning for the Enterprise Tax Plan?

[Answer to Q1a through j]

The Business Council is aware that most US states levy their own corporate income tax in addition to the federal corporate income tax and has factored these into its data and analysis. State corporate taxes are deductible for federal tax purposes meaning that the state and federal headline rates cannot simply be added together.

The critical point is that in every single US state, the federal tax rate has been cut by 14 percentage points, significantly reducing the competitiveness of Australian investments compared to this time last year.

2. The BCA has said that “our global competitors are leading the way by reforming their own tax systems, and unless we do the same we risk falling to the back of the pack.” Does the United States offer dividend imputation?

a. If not, does this mean that company profits, when paid out as dividends to share-holders, are double taxed in the US?

The United States, like many OECD countries, provides some relief for the impact of double taxation of dividends. It achieves this through a concessional tax rate for dividends paid to shareholders.

3. Are the BCA aware that President Trump’s Tax Cuts and Jobs Act also contained significant provisions regarding tax depreciation?

a. What were some of these provisions?

b. Do you agree with Orica chief executive Alberto Calderon when he stated, according to The Australian, that “the best way to boost desperately-needed investment was to boost investment allowances, not lower company taxes”?

c. Why haven’t you campaigned for a policy similar to this?

The Business Council is aware that recent US tax changes include the immediate expensing of investment in machinery and equipment.

As noted in our submission to this Senate Inquiry, the Business Council has welcomed the Opposition’s investment guarantee scheme. By proposing to introduce accelerated depreciation for certain investments, the Opposition is acknowledging that lower company taxes encourage stronger investment.

Company tax cuts reduce tax payable for any given taxable income; accelerated depreciation reduces tax payable by reducing taxable income in the early years of an investment. Either way, the effect is to increase the after-tax return on investment.

The main difference in practice is that the proposed company tax cut will have a bigger benefit across the board compared with the proposed Australian Investment Guarantee. As illustrated in the example in our submission, compared to the Enterprise Tax Plan the Guarantee would deliver a significantly smaller increase in after-tax cash returns to the company over time than the proposed company tax reduction to 25%, with a commensurately smaller economic benefit. That is the major reason why its projected budget impact is less – if it gave the same investment boost, the fiscal impacts would be broadly similar over time. As the impact on after-tax investor returns is less, it follows that the boost to investment and jobs will be correspondingly smaller.

Orica CEO, Alberto Calderon, said "a reduction in the corporate tax rate is one element of potential tax reform. There are complementary measures, such as targeted incentives for research and development and capital allowances, that can also incentivise investment. It's important that there be discussion around the optimal combination to create the greatest benefit for society, and the largest impact on growth." The Business Council supports this comment.

4. Ms. Jennifer Westacott has labelled the United States "an open for business country, while we have become a business-bashing, closed-for-business country." Is the BCA aware that American businesses assume more costs than Australian businesses, such as health insurance?

a. Does the BCA know what the average cost of this is per employee in 2017?

The structure of labour costs differs across countries, states and industries. For example, Australian business pay a superannuation guarantee, which their US counterparts do not. Australian employees typically receive more annual leave than their US counterparts. From an employer's perspective, what matters is the total cost of labour together with the productivity of labour.

For example, BLS data show that hourly labour compensation costs in manufacturing have been higher in Australia than the USA (in US dollars) notwithstanding the fact that US workers received a slightly higher proportion (about 33%) of their compensation as social security and direct benefits such as leave, bonuses and in-kind benefits compared with Australia (just under 30%).

In short, businesses in Australia generally face high labour costs and will now pay a higher company tax rate than in the USA. The Business Council strongly supports Australia being a high wage country but high wages must be built on high productivity to ensure we remain internationally competitive. A lower company tax rate will promote higher productivity and wages though stronger investment.

The critical point is that we should do all that is possible to improve (or at least maintain) our international competitiveness through strong productivity growth that supports higher real wages. A more competitive tax rate is a direct way of doing this.

5. Does the BCA agree that the fact that the USA does not offer dividend imputation, that depreciation is treated differently in the USA, and that American businesses assume more costs than Australian businesses means that a simplistic comparison between the federal headline statutory corporate income rate of America and Australia is not very helpful?

a. Isn't it, in fact, a comparison of apples and oranges?

The Business Council's submission to this Senate Inquiry makes clear that Australia's company tax rate is high by global standards, whether comparing the statutory company tax rate or effective marginal rate (see pages 5 and 6 of the Business Council's submission to the Committee). Recent US changes are accounted for in this analysis, including the reduction of the federal statutory tax rate and introduction of immediate expensing.

Foreign equity holders in Australian companies and foreign companies operating in Australia do not benefit from dividend imputation. These investors demand a globally competitive after-tax return on their investments in Australia, otherwise they will invest elsewhere. A lower company tax rate in Australia will expand the range of projects that will meet the after-tax rate of return required by investors.

As Professor Jack Mintz has warned "Australia should not be left out in the cold. At this point, Australia is ill-prepared to deal with the global implications of the US tax reform."

6. BCA CEO Jennifer Westacott was quoted in the SMH as saying: "So am I going to put all those facts in front of people? You bet. Am I going to up the ante? You bet. Am I going to put the US case studies in front of the Senate crossbenchers? You bet." Why has the BCA consistently relied on misleading figures and statements when putting the "US case studies" forward as part of their campaign for the Enterprise Tax Plan?

a. Has the BCA attempted to deliberately mislead the Australian public while campaigning for the Enterprise Tax Plan?

No. The Business Council categorically rejects the unsupported assertions in this question.

7. What is the effective corporate income tax rate in Australia?

See pages 5 and 6 of the Business Council's submission to the Committee.

8. Is the BCA aware that, according to the Penn Wharton Budget model, the average effective corporate income tax rate for corporations in the USA will be about 9% in 2018, but go up to 18% in 2027, as a result of provisions that will expire over the next 10 years?

a. Is the BCA also aware that the same model predicts that over time, several industry effective tax rates will actually rise above the new statutory rate of 21 percent in future years?

b. Is it true then that even with the Trump Administration's tax cuts, Australia's current tax settings will still produce a lower effective corporate income tax rate than American over the next 10 years?

See answer to Q1.

Tax expert Professor Jack Mintz of Calgary University estimates the US effective marginal tax rate to be 18.9% in 2018 which is substantially less than in Australia where the effective marginal tax rate in 2018 is estimated to be 28.4%. These estimates vary by industry, for example, due to differing degrees of capital intensity.

9. Does the BCA know which three countries received the largest amount of Australian capital investment in 2016, according to DFAT?

a. Does the BCA know how many of these countries have a higher marginal effective tax rate than Australia?

b. Why does Japan enjoy the second-fastest growth rate of investment for Australian businesses, despite its current statutory tax rate of 30.86%?

c. Does the BCA know what per cent of applications to Australia's foreign investment review board come from countries with a lower tax rate?

d. What reasons would a business have for investing in a country where the tax rate is higher?

e. Which of these qualities do you believe Australia doesn't possess?

In terms of the total stock of outbound investment, the main destinations are the USA (28% in 2016), the UK (16%) and Japan (5%). In recent years, investment in Asia has increased strongly, rising from $98 billion to $381 billion between 2006 and 2016 (DFAT).

Companies invest overseas for a range of reasons including to build a base in foreign markets and establish global supply linkages. Individuals invest overseas to diversify their portfolios and to seek better returns on their investment. Tax is nonetheless an important factor in their decision making.

10. Does the BCA agree with a report from the Congressional Budget Office that says "average and effective corporate tax rates are better indicators of a company's incentives to invest in a particular country than is the statutory corporate tax rate"?

a. Why did the BCA choose to disregard the average and effective corporate tax rates while campaigning for the Enterprise Tax Plan?

b. Can the BCA provide any evidence to disprove the widely-cited Congressional Budget Office report that found that Australia's effective corporate tax rate was 10.4%?

c. Does the Penn Wharton Budget Model that the BCA relied on in testimony on 26 April demonstrate that Australia's corporate tax settings will remain extremely competitive against the United States over the next decade?

See page 19 of the Business Council's submission to the Committee.

11. Considering that the United States does not offer dividend imputation, that depreciation is treated differently in the United States, and that American businesses assume more costs than Australian businesses, why did the BCA choose to disregard these clear differences while campaigning for the Enterprise Tax Plan?

The premise of this question is incorrect. Refer to the responses to questions 4 and 5 in 'Questions Regarding AUS, USA and International Tax and Wage Comparisons'.

12. Recent wage data from the Bureau of Labor in the US indicates that American workers are set to receive an average wage increase of $323 this year. The $323 wage increase is a figure in line

with wage growth over the last two years in the United States. Given the Trump corporate tax cut, does the BCA agree that these figures are underwhelming?

a. The $323 figure is less than one-tenth the most conservative figure offered by Speaker Ryan and President Trump – they projected wages would increase by between $4000 and $9000 per annum. What does the BCA think is leading to this underwhelming wage growth, despite a cut in corporate taxes?

Pages 7 to 9 of the Business Council's submission to the Committee clearly sets out the link between reducing the cost of capital, increased business investment, higher labour productivity and higher wages. The Australian Investment Guarantee fact sheet also points to the relationship between business investment and well-paid jobs. As Bill Shorten said on 23 August 2011 when he was Assistant Treasurer "Cutting the company income tax rate increases domestic productivity and domestic investment. More capital means higher productivity and economic growth and leads to more jobs and higher wages."

13. A recent CNBC All-America Economic Survey found that 52% of working age adults has not received any increase in wages since the passage of the tax reforms. Of those that had received an increase, a combined 66% said the increase helped "some," "a little" or "does not help much at all". Given this, what is the BCA's projection for the percentage of Australian working age adults who will receive a wage rise if a corporate tax cut is passed in Australia?

a. Of those that do receive an increase, what is the BCA's projection of the percentage of Australian working age adults who will find this increase helps "some," "a little" or "does not help much at all"?

Most of the Enterprise Tax Plan has not yet come into effect, so it is not yet possible to conduct an ex post analysis of the full plan.

Treasury modelling estimates that over half the benefits from a company tax cut will flow to Australian workers, a point also made by Ken Henry. Treasury modelling estimates that a 25% company tax rate would increase real wages by more than 1% — in today's economy, this would be around $750 extra per year for an average wage earner.

The BCA cannot presume how the public will view an extra $750 each year for an average wage earner, although an additional real wage rise of more than 1% typically is welcomed by employees. Similarly, the Business Council cannot presume how the public would react to the significantly smaller wage impact flowing from the Opposition's more limited Investment Guarantee.

The Business Council also observes that the Opposition has proposed personal tax cuts of a not dissimilar order of magnitude of up to $928 a year.

Questions Regarding BCA Campaigning and Centre Ground

1. Will the BCA provide to this committee a copy of the latest draft of the 'Informal Compact' on 'The Future of Work'?

a. Will this document be tabled to the Senate? If so, when?

b. What purpose does this document serve?

The Future of Work project is still being developed by the BCA and our members. We expect to finalise it by the end of 2018.

2. On 26 April, Jennifer Westacott told the Senate Economics Committee with regard to the leak of the 'Informal Compact':

"SENATOR KENEALLY: Have you made inquiries?

JENNIFER WESTACOTT: Of course I have. I have an investigation underway."

What is the status of this investigation?

a. Given that the investigation relates to a leak that reveals information regarding the BCA's 'Commitment to the Senate', will the BCA update the Senate on the outcomes of this investigation?

This is an internal matter and it would be inappropriate to comment further.

3. Did the BCA share any version of the 'Commitment to the Senate' – or its predecessor, the 'Informal Compact' – with any member of the government before it was made public?

No. Once the commitment to the Senate was finalised we shared it with key stakeholders and media.

No. The informal compact is still in development and has not been shared with any Parliamentarian or their staff.

The Informal Compact is not a predecessor of the Commitment to the Senate – the two documents came of totally different processes.

4. On 26 April, Jennifer Westacott told the Senate Economics Committee:

"SENATOR KENEALLY: Was there any discussion between the government and the BCA about the commitment before it was made public?

JENNIFER WESTACOTT: No."

On 10 May, Minister Mathias Cormann told the Senate:

"SENATOR KENEALLY: My question is to the Minister for Finance, Mathias Cormann. On 27 March, the minister told the Senate that the Business Council of Australia's letter to senators, advocating for the Turnbull government's $80 billion handout to big business was 'a very important intervention'. When did the government first become aware of the BCA's intention to facilitate the letter to senators? Did the BCA provide an advance copy of the letter or any draft to the government? If so, when and to whom was it provided?

MINISTER CORMANN: Yes, I was aware that the BCA would be writing to senators. The precise dates and times I would have to take on notice."

Why does Minister Cormann's answer contradict Ms Westacott's answer?

a. Has Ms Westacott deliberately misled the Committee?

No. Mr King and Ms Westacott have told the Committee that once the commitment to the Senate was finalised it was shared with key stakeholders and media.

b. Did she make a mistake, or has Minister Cormann given the Parliament a misleading statement?

No.

5. On 30 April, the ABC reported that the BCA was "embarking on an unprecedented level of political campaigning in the run up to the next federal election" after criticism from "senior figures in the Liberal Party for failing to promote business-friendly policies — and support the Coalition — and seeing the prospect of company tax cuts for the big end of town ebbing away". Did the BCA communicate their intention to launch this campaign to any member of the government prior to:

a. 30 April? If so, what was the nature of this interaction?

b. 27 March? If so, what was the nature of this interaction?

c. 5 March? If so, what was the nature of this interaction?

No. We publicly launched Australia at Work on 27 March at an event in the Great Hall of Parliament House where we invited the press gallery and every member and senator to attend.

6. The ABC reported that the BCA would request $26mil of donations from their members in support of this campaign. Will the BCA comply with state and federal electoral laws when disclosing these donations?

This report was incorrect.

The BCA will always comply with the law.

7. It has been revealed that 'For the Common Good' is operated by Centre Ground, a wholly owned subsidiary of the BCA. Why did the BCA create a front group for this campaign?

a. Has Centre Ground run any other campaigns in Australia?

b. Has the BCA created any other subsidiary groups?

c. If so, what are they, and for what purpose?

d. What staff and resources do BCA share with Centre Ground?

For The Common Good is the trading name of Centre Ground Limited, a wholly owned subsidiary of the BCA. We publicly announced Centre Ground Limited and For the Common Good on 27 March at an event in the Great Hall of Parliament House where we invited the press gallery and every member and senator to attend.

For The Common Good is designed to give all Australians a voice on sensible economic policy settings that create jobs and improve lives.

CGL has run a tax campaign in Queensland and campaigned in SA on trading hours.

This is the BCA's only subsidiary.

The BCA's Executive Director – Members leads the BCA's campaign unit which has two staff.

8. Jennifer Westacott said in The Australian that "one of our first campaigns highlights the stupidity of South Australia's shop trading laws". The BCA stated via Twitter that they "launched and disclosed the campaign to members and the media all the way back in March at Parliament House". The date that the BCA indicated was the date of Senator Keneally's first speech, 27 March. Why did the BCA disclose the 'For the Common Good' campaign 10 days after the South Australian state election?

a. How much did Centre Ground expend on the 'For the Common Good' campaign during the South Australian state election?

b. How much did the BCA expend on the 'For the Common Good' during the South Australian state election?

c. Did the BCA take donations to fund the 'For the Common Good' campaign?

d. Did Centre Ground take donations to fund the 'For the Common Good' campaign?

e. Will the BCA declare their involvement in the 2018 South Australian State Election to the South Australian Electoral Commission?

We publicly launched For the Common Good on 27 March at an event in the Great Hall of Parliament House where we invited the press gallery and every member and Senator to attend.

BCA / CGL lodged 6 joint returns with the SA electoral commission as a combined entity. These returns were made from March onward as required by the SA Electoral Commission. These returns are available on the SAEC website:

https://www.disclosures.ecsa.sa.gov.au/Report?ViewFilter.OrderBy=&ViewFilter.IsAscending=&ReportType=All&ViewFilter.Search=centre+ground&ViewFilter.DatePeriod.Type=&ViewFilter.DatePeriod.StartDate=&ViewFilter.DatePeriod.EndDate=&ViewFilter.ElectionPeriod.ID=&ViewFilter.ElectionPeriod.Title=&ViewFilter.Party.Value=&ViewFilter.Candidate.Value=&ViewFilter.Incomplete.Value=&ViewFilter.IsLate.Value=&NavigationFilter.PageNumber=&NavigationFilter.PageSize=25

As per the disclosures which are already on the SAEC website, BCA / CGL spent just over $50,000 which was funded from existing BCA resources.

9. On 1 May, The Australian ran an editorial by BCA CEO Jennifer Westacott that stated “we will collect data voluntarily” as part of a “multi-pronged campaign” to “combat anti-business sentiment”.

a. What data will the BCA collect?

b. Who will collect this data?

c. What will this data be used for?

d. Will this data be collected through Centre Ground’s affiliated websites and social media pages?

e. Was the BCA’s ‘For the Common Good’ campaign discussed during the two meetings that BCA employees and board members – including Centre Ground Director Andrew Bragg – conducted with Cambridge Analytica in 2017?

f. Did Centre Ground ever have a contractual relationship or any other agreement with Cambridge Analytica?

g. Does Centre Ground have a contractual relationship or any other agreement with similar groups, such as Emerdata or i360?

h. Does the BCA have a contractual relationship or any other agreement with similar groups, such as Emerdata or i360?

BCA/CGL will collect only data that is volunteered from the community to help give Australians a voice on sensible economic policy which creates jobs and better lives.

Data is collected through www.forthecommongood.com.au , BCA.com.au and associated campaign pages.

For example, the Business Council invites visitors to our website to leave the same basic sign up data that is requested from https://www.alp.org.au/ and https://www.getup.org.au/ and https://www.cis.org.au/ and a range of other organisations and companies. The BCA website is built on the Nation Builder platform which we understand is the same technology used by the ALP and many other organisations.

The Nation Builder platform was selected following an evaluation by our former Director of Communications.

For The Common Good was not discussed in meetings with Cambridge Analytica which BCA/CGL did not engage at any point for any purpose.

BCA/ CGL does not have a contractual relationship with Emerdata or i360.

Questions Regarding the Benefits of a Corporate Tax Cut

1. Is it a common practice for CEOs and other C-Suite managers to have a bonus or performance pay structure linked to company profits?

a. Would a company tax cut make a company's earned income look better?

b. Would a cut to the company tax rate make it easier for managers to reach their bonus targets?

As the Productivity Commission found in its 2009 report Executive Remuneration in Australia, companies use a range of financial and non-financial metrics for performance-based remuneration, but it would be unlikely for them to use after-tax profits as tax is outside the executive's control. Earnings before tax and interest paid is common, along with measures such as Cost of Doing Business.

2. What do you think the per annum growth in wages as a result of the company tax will be?

a. Will this be more, less, or roughly equal to the estimates provided by Treasury?

b. Do you believe this is enough?

c. Shouldn't we expect more from this significant investment in the business community?

3. What do you think the per annum GDP growth as a result of the company tax cut will be?

a. Will this be more, less, or roughly equal to the estimates provided by Treasury?

b. Do you believe this is enough?

c. Shouldn't we expect more from this significant investment in the business community?

4. What impact will a company tax cut have on GDP in the long run?

a. Will this be more, less, or roughly equal to the estimates provided by Treasury?

b. Do you believe this is enough?

c. Shouldn't we expect more from this significant investment in the business community?

5. In April, the IMF Fiscal Monitor showed that government debt as a percentage of GDP has blown out substantially in Australia, but has fallen amongst advanced economies. Net debt has doubled since 2013. Gross debt has crashed through half a trillion dollars for the first time, with no peak in sight. The deficit is six-and-a-half times worse this year than what the 2014 budget predicted it would be. Given this budget emergency, why should the government forego $80bn in revenue for so little return?

a. The IMF makes clear that this is a time for governments to 'strengthen fiscal buffers' to prepare for another downturn. How does foregoing $80bn in revenue strengthen the budget's fiscal position?

[Response for Questions 2 to 5]

We rely on Treasury modelling, as well as analysis by Independent Economics and KPMG, which outlines all the estimates, assumptions and sensitivity analysis for a reduction in the company tax rate to 25%. This analysis is available here https://treasury.gov.au/publication/analysis-of-the-long-term-effects-of-a-company-tax-cut/.

The modelling tells us a company tax cut delivers a higher pay-off than other ways of using the same taxpayers' dollars. This is because Australia's high company tax is a significantly distorting, inefficient tax.

From any perspective, an increase of one per cent additional GDP in perpetuity is a big deal. The net payoff is large, measured against the yardstick of any past or current reforms. For example, this increase in GDP is twice as big as the estimated economic benefits of the landmark tariff cuts of the 1980s and 90s.

One per cent of GDP equates to adding an extra $18 billion to the Australian economy (in today's terms) year in year out. This quickly adds up to a very big number over time.

Treasury modelling also estimates that a 25% company tax rate would increase real wages by more than 1%.

The benefits of a bigger economy flow to Australian workers through higher wages ($750 a year in today's dollars on average) and more jobs.

6. Your contention is that cutting corporate tax will eventually lead to higher wages, more jobs and economic growth for the people who work in these companies. Do you accept that this is a form of trickle-down economics?

a. Are you aware that the IMF says that trickle-down theory is discredited?

b. Can the BCA indicate a country where trickle-down approach to tax has led to higher wages and more jobs for working people?

The “contention” that cutting corporate tax will lead to higher wages more jobs and economic growth is not just the BCA’s view — the economics of the impacts of high company tax rates is accepted by eminent economic organisations and economists including the Australian Treasury, the OECD, the IMF, Ken Henry and Martin Parkinson.

The empirical evidence supports this. OECD analysis from 2017 of 34 OECD countries, including Australia, over the period 1980-2014. found that higher marginal effective company tax rates are associated with lower rates of economic growth and therefore a smaller economy in the long term. It found that this negative relationship is “strongly significant [and] statistically stable”.

Academic studies similarly find that company tax rates and wages are inversely related.

In sum, rigorous empirical studies consistently and emphatically conclude that lower company taxes drive higher investment, economic growth and wages.

The Shadow Treasurer Chris Bowen, former Treasurer Wayne Swan and Dr Andrew Leigh have all strongly supported this position. Asked if he accepted former Treasury secretary Martin Parkinson's statement that company tax falls hardest on workers, Mr Bowen told the AFR Tax Reform Summit in late 2015 ‘It's a statement of fact, which I agree with.’

The link from cutting corporate taxes to investment and stronger demand for labour is direct, not a trickle. It is how economies grow. Investment has been the biggest single driver of real income growth per person in the Australian economy for decades.

The link from investment to wages and jobs is essentially the same in the case of tax cuts, depreciation or investment allowances. If company tax cuts are a case of trickle-down economics, then so too are depreciation or investment allowances. Those claiming otherwise do not understand how business investment decisions are made and how such measures work.

7. Australia’s current statutory corporate tax rate is 30%. Where do Australian companies presently invest most of their funds?

Australian companies raise equity from local savers and foreign savers. Most Australian companies almost by definition invest more in Australia than in other countries. They would invest more in Australia if the company tax rate were reduced than would otherwise be the case.

8. Australia’s current statutory corporate tax rate is 30%. Is Australia a net importer or exporter of capital?

Australia has been a net importer of capital for almost its entire history because Australians do not save enough to finance the scale of investment expenditure that underpins economic growth. This is why a competitive company tax rate is critical to maintain Australia as an attractive destination for investment.

As Professor Jack Mintz has warned “Australia should not be left out in the cold. At this point, Australia is ill-prepared to deal with the global implications of the US tax reform.”

9. According to a 2013 ATO report, what is the average company tax rate in Australia for private companies?

a. What is the average company tax rate in Australia for public companies?

b. How many companies paid no tax at all in FY16?

c. What were those companies' combined income in that year?

d. If jobs and growth aren't materialising at Australia's effective company tax rates, how will a cut in the headline rate make a difference?

e. Will those companies who pay no tax, at any rate, suddenly be inspired to hire?

Questions regarding ATO publications should be referred to the ATO.

The Budget 2018-19 shows companies paid $71 billion of company tax in 2016-17, and this is estimated to increase to $87 billion in 2017-18 and reach over $100 billion per year by 2021 factoring in the Enterprise Tax Plan.

As the Commissioner of Taxation has explained, not all businesses would be expected to pay company tax each and every year for a variety of reasons, including the impact of lumpy investments and operating losses over time.

10. The government asserts that the company tax cut is paid for in the budget. Do you know where the funds are raised in the budget to pay for the company tax cut?

a. Treasury asserts that some of the loss of revenue as a result of the company tax cut will be paid for through a 'morality dividend.' – that is the government seems to be banking on companies voluntarily choosing to stop profit-shifting and avoiding tax in gratitude for a cut in the company tax rate. Will you commit to the Senate that there will be a morality dividend? If so, how much?

b. Bracket creep and a morality dividend will not be enough to cover the cost of the corporate tax cuts per annum. There will likely need to be further cuts to government services. What areas of government expenditure do you think should be cut to pay for a corporate tax cut?

c. The future budget surpluses are built on a sudden slowdown in spending growth in the early 2020s, which is unlikely to materialise if history is any guide. Surely you expect government will need to cut services further if it wants to sustain a company tax cut?

d. What if interest rates increase? We are currently spending $1bn a month to pay the interest bill on government debt. Are you comfortable that surpluses less than 1%, as projected by the 2018 budget, will be sufficient to provide a buffer if there is an unforeseen downturn in the global economy?

The independent Parliamentary Budget Officer, Jenny Wilkinson has confirmed that ‘The company tax cut has been fully factored into the government's budget projections—both the forward estimates and budget projections.’

11. Are you aware that Japan recently implemented a company tax cut but only for those companies who first gave their employees a 3% wage rise. That is a real commitment, and a real link between a company tax cut and wage rises. What do you think of the Japanese approach?

Higher wages off the back of higher investment flowing from a lower company tax rate will be sustainable because labour demand will increase. Stronger labour demand means that wages and employment can grow together.

An upfront, uniform across-the-board wage increase for all industries and all occupations at all levels before additional investment gets underway risks undermining or delaying the growth-inducing impacts of the tax cut. It is the additional investment flowing from a company tax cut that drives higher demand for labour and higher wages.

12. According to the Reserve Bank, “Non-mining investment in Australia is at a 58-year low at just nine per cent of GDP”. Given that, what would be best way for Australia to overcome its greatest weakness ---lower company tax or to increase investment allowances, accelerated depreciation and research deductions?”

a. Doesn’t a cut in the company tax rate eliminate investment allowances?

b. Orica chief executive Alberto Calderon declared recently that the best way to boost desperately-needed investment was to boost investment allowances, not lower company taxes. Is he wrong?

c. Robert Gottliebsen in The Australian said that “Handing our biggest taxpayers, banks, miners and retailers a fist full of cash, where in the case of Australian-owned companies shareholders will demand higher dividends, is not an efficient way to boost investment.” Is he wrong?

Refer to the response for question 3 in ‘Questions Regarding AUS, USA and International Tax and Wage Comparisons’:

The Business Council is aware that recent US tax changes include the immediate expensing of investment in machinery and equipment.

As noted in our submission to this Senate Inquiry, the Business Council has welcomed the Opposition’s investment guarantee scheme. By proposing to introduce accelerated depreciation for certain investments, the Opposition is acknowledging that lower company taxes encourage stronger investment.

Company tax cuts reduce tax payable for any given taxable income; accelerated depreciation reduces tax payable by reducing taxable income in the early years of an investment. Either way, the effect is to increase the after-tax return on investment.

The main difference in practice is that the proposed company tax cut will have a bigger benefit across the board compared with the proposed Australian Investment Guarantee. As illustrated in the example in our submission, compared to the Enterprise Tax Plan the Guarantee would deliver a significantly smaller increase in after-tax cash returns to the company over time than the proposed company tax reduction to 25%, with a commensurately smaller economic benefit. That is the major reason why its projected budget impact is less – if it gave the same investment boost, the fiscal impacts would be broadly similar over time. As the impact on after-tax investor returns is less, it follows that the boost to investment and jobs will be correspondingly smaller.

13. Adam Crieghton wrote in The Australian: "You might not remember the "underpants gnomes" from the satirical cartoon South Park. These fictitious creatures had a shonky business plan: Phase 1 was "collect underpants", Phase 3 was "profits". But when pressed by the character Kyle about Phase 2, how the collected underpants would actually lead to profit, the gnomes couldn't explain but pressed on regardless. It's a bit like the government's plan to cut corporate tax. Phase 1 is cutting the company tax rate to 25 per cent by 2026 and Phase 3 is higher wages. Phase 2 is unclear. Is it "capital deepening" or "investment", or some sort of weird, unenforceable social contract that businesses will raise the wages of workers out of the goodness of their heart?"

a. Can you fill us in on what Phase 2 is?

b. Creighton also writes that: "Workers in Australia have endured - almost a decade of bracket creep or rising - average tax rates, while companies, facing a flat rate of 30 per cent, essentially have not. Cutting tax on wages would leave households with more money to spend on goods and services, helping lift consumption, which has been an economic weak spot. ¬Attracting and keeping workers in Australia, especially as travel costs decline, is as important as attracting foreign investment. Cutting corporate tax should be a lower priority than cutting personal tax". Is he wrong?

c. Creighton also notes that: "The US Congressional Budget Office, which has no axe to grind in domestic Australian politics, concluded last year our effective company tax rate, the one which applied to "marginal investments", was 10.4 per cent. That was far lower than the effective rates in the US, Britain, Germany and other major countries". Will the BCA now admit that Australia's tax rates are already competitive?

The Business Council's submission to the Committee clearly sets out the link between reducing the cost of capital, increased business investment, higher labour productivity and higher wages. The proposal to introduce the Australian Investment Guarantee similarly relies on lower company taxes to encourage stronger investment. This is because both accelerated depreciation and company tax cuts work by reducing tax payable on profits earned from investing.

The Business Council's submission to the Committee explains that company tax is the top priority for tax reform because it will deliver the biggest economic benefit to the community.

The Business Council's 2016 report Realising Our Full Potential: Tax Directions for a Transitioning Economy highlights the costs of bracket creep particularly on lower and middle-income earners. The report states that "Bracket creep is regressive and hidden." The report recommended that addressing bracket creep for lower and middle-income earners should also be an early priority for tax reform.

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Senator the Hon. Kristina Keneally– Questions on notice

Senate Economics References Committee – Inquiry into the Commitment to the Senate issued by the Business Council of Australia

BCA Commitment Hearing – QoNs for BCA

1. On 3 May, Jennifer Westacott signalled her support for raising the Newstart Allowance when she told The Australian that "you can not live on $39 a day". This aligns with Ms Westacott's previous comments on 1 May that the BCA's 'For The Common Good' campaign would fight for "issues across the spectrum". Could the BCA please outline the details of their campaign – and Centre Ground's campaign – to raise the Newstart Allowance payment?

a. Why has neither the 'For The Common Good' website or social media page posted anything relating to the Newstart allowance?

b. Why does the only content available on either page relate solely to South Australian trading laws, and the government's $80bil tax cut for big business?

c. Can the BCA advise whether they have ever campaigned for a policy that wasn't first promoted by the Turnbull government?

The 'For The Common Good' platform will be used to campaign on a range of issues across the spectrum that will help lift Australia's competitiveness and improve Australia's living standards. The first two issues were South Australian shop trading laws and corporate tax reform. Other campaigns will be determined on a case by case basis.

More generally, the Business Council advocates on a wide range of policy issues (www.bca.com.au) including tertiary education reform, regulatory issues including proposed changes to s.46 of the Consumer and Competition Act (broadly in line with the Opposition's position), infrastructure and trade issues (such as ChAFTA).

The Business Council has long advocated for improvements to the support provided to Australians who are looking for a job, including the adequacy of Newstart Allowance. The Business Council has advocated and campaigned on this issue since at least 2011. The Business Council's position on this issue is outlined in the following publications (and numerous other speeches, interviews, reports and papers):

- The 2011 Brotherhood of St Laurence Sambell Oration delivered by Jennifer Westacott: http://library.bsl.org.au/bsljspui/bitstream/1/5787/1/Westacott_Sambell_Oration_Nov2011.pdf
- A 2012 joint ACOSS, ACTU, BCA statement on entrenched disadvantage in the labour market 'Opportunity for all' http://www.bca.com.au/publications/opportunity-for-all-joint-statement-on-acoss-actu-and-bca-cooperation
- The Business Council's 2013 Economic Action Plan http://www.bca.com.au/publications/action-plan-for-enduring-prosperity-full-report
- The Business Council's 2014, Submission to the interim report from the Review of Australia's Welfare System. http://www.bca.com.au/publications/submission-on-the-interim-report-of-the-mcclure-review-of-australias-welfare-system
- The 2015 National Reform Summit Communique: http://www.bca.com.au/media/statement-from-the-national-reform-summit/view-all-related-publications

In spite of the support for change from a broad range of business organisation, civil society groups and organised labour, neither the Australian Labor Party when it was in government nor the Coalition has satisfactorily reformed the support provided to Australians who find themselves unemployed.