MEDIA RELEASE

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Corporate tax cut: 37% will flow directly offshore

A whopping 37% of the corporate tax cut will immediately head offshore if the Senate passes the Federal Government's grovel to big business, a new report shows.

The UTS report (commissioned by GetUp) finds:

- At least $1.96 billion dollars of the $5.271 billion annual value of the corporate tax cut will flow directly offshore each year.
- Banks and finance corporations will receive 45% of the total value of the corporate tax.
- Seven of the top 20 corporations are mining and energy corporations. They will receive a $1.56 billion annual windfall, of which 63% will flow directly offshore.
- Two of the top 20 beneficiaries are Big Tobacco companies (British American Tobacco and Philip Morris). These companies will receive $88.5 million extra each year, of which 100% would flow offshore.

GetUp national director Paul Oosting said the Turnbull Government's corporate tax cut policy is nothing more than a reiteration of decades of failed trickle-down economics.

“The Turnbull Government is living in fantasy land if it thinks voters believe giving multinational corporations billions in handouts will somehow increase wages or improve living standards.”

“Right now, the big business lobby is applying enormous pressure on the Senate crossbench to pass the Turnbull Government's $65 billion corporate tax cut.

"We're calling on Senators to stand up for the interests of everyday Australians in the face of this corporate misinformation campaign.

"The Australian people want the government to fund our local schools and hospitals, not handouts for the biggest corporations – many of which already pay $0 tax.”

Polling released earlier this week showed even in Malcolm Turnbull's electorate of Wentworth, 70% of people think the corporate tax cut is unfair.

Media inquiries: Zoe Edwards on [redacted]

CORPORATE TAX CUT UP IN SMOKE

Turnbull's big corporate handout benefits multinationals and foreign investors

SUMMARY OF FINDINGS

Having already cut taxes for small companies - the Turnbull Government has now renewed its failed effort to slash taxes for big business – from 30% to 25% by 2026. Prime Minister Turnbull insists that increased corporate profits will trickle down to create jobs and boost growth.

But Mr Turnbull is putting lipstick on a pig. This report finds that the most significant beneficiaries will be multinational corporations, their overseas-based investors, and foreign tax authorities. Meanwhile, Australia's dividend imputation system negates almost any benefit for local shareholders.[1]

So just how much of Turnbull's corporate tax handout will end up in the pockets of foreign shareholders?

Our analysis reviewed the 250 largest corporate taxpayers in 2015-16 and their relative percentages of foreign shareholders. If there was a reduction of the corporate tax rate to 25% in the period examined, the total tax benefit for these companies would be $5.271 billion per annum.

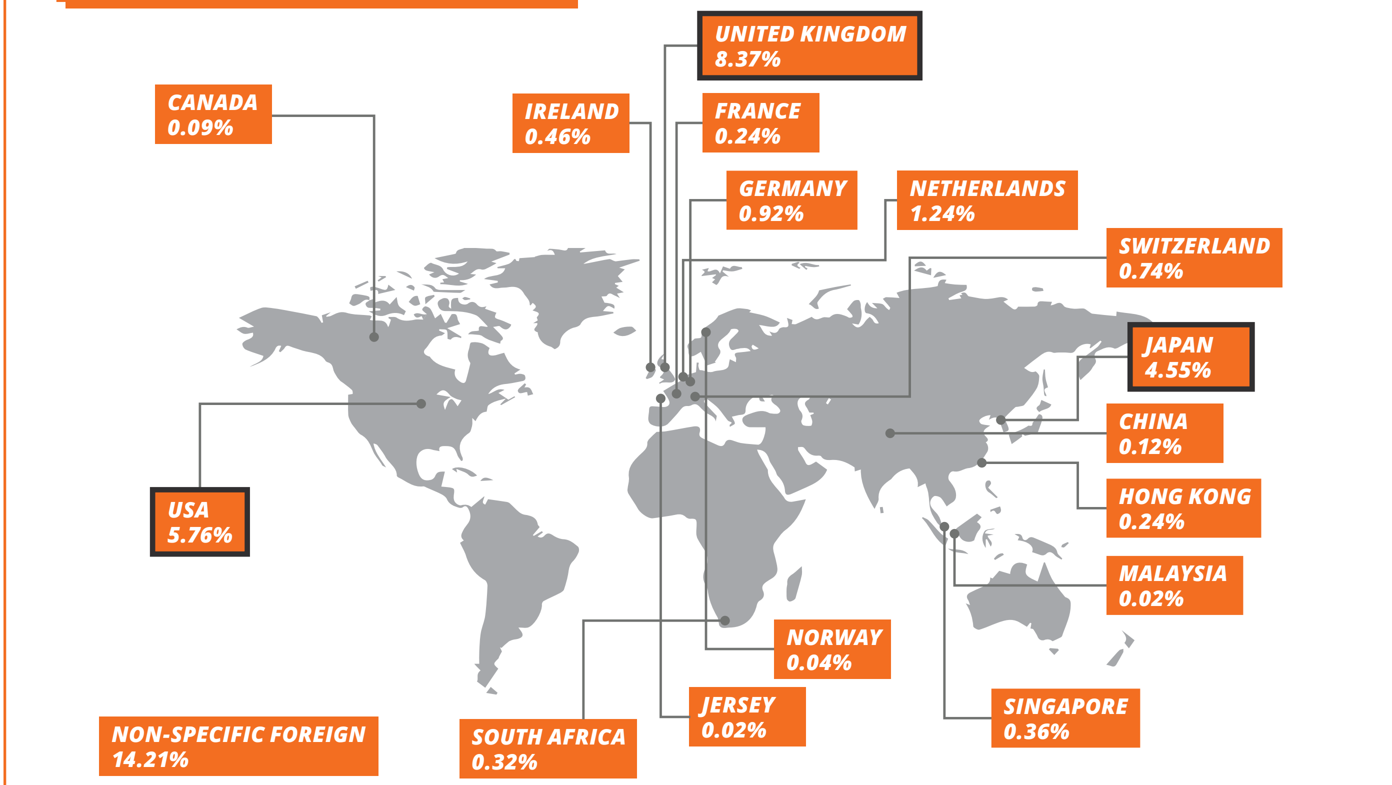
An astonishing 37% – at least $1.96 billion per year – would be lost to offshore investors in dividend payments.

[1] *Due to Australia's system of dividend imputation, domestic shareholders only pay the difference between the corporate tax rate and their own marginal tax rate for income earned on share dividends. This means the income tax of Australian shareholders will rise proportionate to any benefit received from the corporate tax cut.*

WHERE WILL THE MONEY GO?

Shareholders in the USA, UK and Japan stand to make the most significant gains, collecting 18.6% of the offshore tax benefit.

PERCENTAGE OF TAX BENEFIT



WHO STANDS TO GAIN?

- **Corporations operating in the finance and materials sectors receive the lion's share** of total tax benefits at 45% and 20% respectively. This includes banks, insurance, and mining companies.
- **7 of the top 20 corporations are mining and energy corporations.** They receive a $1.56 billion windfall, of which 63% would flow offshore. This is on top of the $7.7 billion the industry receives each year in taxpayer-funded fossil fuel subsidies.
- **2 of the top 20 beneficiaries are Big Tobacco companies** – British American Tobacco and Philip Morris – who stand to receive a combined benefit of $88.5 million, of which 100% would flow offshore.

METHODOLOGY

Our original analysis reviewed the 250 largest payers of corporate tax in 2013-14 – the most recent year of data provided by the Australian Tax Office at the time. This new analysis is also based of that year's data.

Publicly available data was used to identify the percentage of overseas-based shareholders and calculate the proportion of the corporate tax cut that would flow to them in the form of increased dividend payments.

A detailed analysis of the top 20 corporations was then undertaken, and the results assessed by industry to determine the main sector beneficiaries of the corporate tax cut.

This research was funded by generous donations from 1,349 GetUp members.

It was produced in consultation with corporate tax experts, Associate Professor Roman Lanis, Dr Brett Govendir and Mr Ross McClure from the University of Technology Sydney, with special thanks to Mikhail Shashnov.

This is a summary of a longer report available here: https://www.getup.org.au/tax-report

Executive Summary

The objective of this report is to determine the tax benefit for the top 250 Australian companies by tax paid and taxable income resulting from the proposed corporate tax rate cut (to 25% by 2026-2027) in the 2016 Federal Budget. The sample utilized for the analysis is based on the most recent ATO release of 2013-2014 tax paid and taxable income data for more than 1800 large public and private Australian firms. The results indicate that if the corporate tax cut was reduced from 30% to 25% in 2013-14, the total tax benefit derived by the 252 companies in the sample in the year examined would be $5.526 billion per year. The average percentage of foreign ownership in those companies is 47%, Australian ownership is 41% and the remainder is undetermined. The tax benefit attributable to foreign shareholders is $2.176 billion, which is 40% of the total tax benefit. The benefit attributable to Australian shareholders is $2,868 billion, which is 52% of the total tax benefit. The remainder, some 8%, is undetermined. The top 20 companies with the highest tax benefit include some of Australia's largest companies, such as BHP Billiton, Rio Tinto, the big four banks, Telstra, Wesfarmers, Woolworths, British American Tobacco and Hancock Prospecting. These top 20 companies account for $4.112 billion of the tax benefit, which is close to 75% of the total ($5.526 billion). From that proportion, almost 39% of the tax benefit is attributable to foreign shareholders and 55% to Australian.

Introduction

In the 2016 Budget, brought down in the lower house by the Treasurer on 3 May, a planned corporate tax cut was announced, albeit in a staged manner. The corporate tax rate is planned to reduce from the current 30% to 25% by the financial year 2026-2027 for all companies in Australia. Table 1 from the ATO summarises the staged changes under the policy (ATO, 2016):

Table 1

Year	Aggregated Annual Turnover Threshold	Entities under the Threshold	Other Corporate Tax Entities
2015-2016	$2m	28.5%	30.0%
2016-2017	$10m	27.5%	30.0%
2017-2018	$25m	27.5%	30.0%
2018-2019	$50m	27.5%	30.0%
2019-2020	$100m	27.5%	30.0%
2020-2021	$250m	27.5%	30.0%
2021-2022	$500m	27.5%	30.0%
2022-2023	$1b	27.5%	30.0%
2023-2024	No threshold	27.5%	27.5%
2024-2025	No threshold	27.0%	27.0%
2025-2026	No threshold	26.0%	26.0%
2026-2027	No threshold	25.0%	25.0%

Source: ATO (2016)

The impact of the tax cuts on shareholders will not be uniform across different income brackets given the effects of the Australian dividend imputation that was introduced in 1987. It was designed to address the double taxation of company income when paid out as dividends (McClure et al., 2016a). Companies pay income tax on profits calculated at a flat rate of 30% (the current corporate tax rate) before distribution to individual shareholders as dividends. A tax credit, known as a franking credit, is provided with the dividends to reflect the tax already paid on that income at the corporate level (McClure et al., 2016a). Franking credits that have had tax paid at the full statutory tax rate on the underlying profit are known as fully, or 100%, franked dividends. Partially franked dividends refer to dividends that have tax paid at less than the statutory tax rate (McClure et al., 2016a). Refer to the Discussion and Conclusions section for an example.

Therefore, dividend imputation facilitates payment of corporate taxes effectively as a benefit to shareholders in the form of franking credits attached to dividends. This is comparable to a withholdings tax on wages paid to employees (McClure et al., 2016a) where tax is withheld when the dividends (wages) are paid and the shareholder (employee) claims the credit for the amount of tax **already paid in Australia** when they file their tax return. Franked dividends stemming from company taxes paid to tax authorities may be considered as "not really company tax but rather a collection of personal tax at the company level" (Officer 1994, p.4). **The benefits of franked dividends to shareholders are solely dependent on their individual marginal tax rate paid on the non-dividend Australian income.** Thus, fully franked dividends should become more attractive if the franking credit exceeds the tax effect on the additional income to be reported by the shareholder (McClure et al., 2016a). With changes in the corporate tax rate the maximum franking credit that can be allocated to a frankable distribution paid by a company will be based on the company's new (and in 2026-2027 a reduced) applicable corporate tax rate.

Dividend imputation also has a significant effect on firms' capital structures (Twite 2001) and on their dividend policies (Pattenden and Twite 2008). After its introduction dividend initiations, dividend payout measures, and dividend reinvestment plans increased (Pattenden and Twite 2008). As with Twite (2001), these results were ascribed to tax arbitrage between the different tax treatments of dividends and capital gains. Other research suggests that this is due to shareholders obtaining value from the tax credits attached to their dividends (Canavan et al. 2004; Officer 1994). This has encouraged a greater use of equity finance in Australia and New Zealand (Twite 2001; Schulman et al., 1996), with Twite (2001) finding a decline in the proportion of debt in corporate capital structures and in the proportion of capital sourced from retained earnings. Meanwhile, the proportion of capital coming from new equity issues has increased. Twite (2001) attributes the increased attractiveness of equity to the tax benefits of dividends viz-a-viz capital gains, suggesting that franking credits increase the value of dividends to investors, **but only if their franking credit exceeds the tax effect on the additional income declared to the ATO** (McClure et al., 2016a). However, franking credits have little value to foreign equity investors as they are unlikely to earn non-dividend income in Australia upon which individual tax needs to be paid. Furthermore, the Treasury White Paper in 2015 suggested that the dividend imputation system is a disincentive to foreign equity investment in Australia, although the exact significance of the imputation system on the decisions of foreign equity investors is likely to be marginal (Treasury, 2015; Davis and Smith, 2015; McClure et al., 2016a).

Therefore, the aim here is to analyse the costs and benefits of the corporate tax cut to different classes of holders of Australian equities (both in public and private firms) given certain assumptions about the dividend payout ratio and with specific reference to Australian versus foreign shareholders. Foreign equity investors in Australia obtain few benefits from dividend imputation, as they do not earn non-dividend Australian income and therefore cannot apply the franking credits (which can’t be applied to foreign non-dividend income). **In addition, potential benefits from the corporate tax cut obtained by foreign equity investors in Australia are likely to be repatriated overseas.** Unfortunately, no rigorous empirical research has been undertaken in Australia to assess the impact of corporate tax cuts on Australian compared to foreign investors in the context of dividend imputation.

Methodology

The following section outlines the sample selection process and analytical methods employed in order to establish the benefits, and their allocation to foreign vs Australian investors, of the proposed corporate tax cut from 30% to 25%.

Sample

In selecting the appropriate sample to test the research objective, the aim is to obtain 250 Australian public and private companies with the highest tax paid or taxable income. The most recent information available is the taxable income and tax paid in 2013-14 from the list of 1,858 companies disclosed by the ATO on two separate occasions, in December 2015 and in March 2016. Although exact figures are unavailable the top 250 companies that pay the highest corporate tax or have the highest taxable income most likely account for 60-70% of the total corporate tax revenue collected by the Australian Government.

The initial sample consisted of 365 companies with the highest tax paid and taxable income from the list of 1,859 companies disclosed by the ATO. This is reduced to 252 companies (public 149, private 101 and 2 other) based on the availability of data on shareholder residency. Shareholder information is taken from either the financial reports or the Ibis World database that provide data on the 20 largest shareholders and any substantial shareholders,[1] both of which are a pre-requisite to establish the percentage of foreign ownership of the equity of a particular company. Notably, of the 365 in the initial sample, only 252 companies had either a financial report or a record in the Ibis World database that included the 20 largest and/or substantial shareholders.

Method

The financial report, the Ibis World database record, and search of Factiva database for each company are analysed in order to obtain shareholder information regarding their tax residency. There is no requirement for Australian public or private companies to disclose tax residency of shareholders. In a number of cases we found the largest 20 or substantial shareholders represent less than 100% of equity holders with the exception of wholly-owned

[1] Substantial shareholdings commonly refer to any holding of over 5%.

subsidiaries of a foreign entity, or companies which are beneficially owned by relatively few individuals.[2]

In fact, most Australian public companies do not disclose the beneficial owners as part of the largest 20 disclosures. The beneficial owners are in most cases represented by nominee companies (such as banks) and in some cases only the registered headquarters of the nominee, with no location of the beneficial owner, is disclosed. This is a clear indication of opaque corporate disclosure requirements, especially in the context of the recent Panama Papers leaks. For instance, it would be difficult for Australia to demand that secrecy jurisdictions prescribe the disclosure of beneficial owners of offshore companies when Australian companies are not required to do so. Substantial shareholder information, which sometimes includes beneficial owners and their location, is disclosed by 86 companies out of the initial sample of 365. Therefore, primarily in the case of wholly-owned subsidiaries by a foreign entity or those companies owned by one or two Australians, the location of the shareholders was mostly determinable. Of the 252 companies, 110 are wholly-owned subsidiaries of a foreign entity and 29 are 100% owned by Australian residents. For the remaining private companies a minimum foreign or Australian ownership percentage can be established, but in 2 cases a small ownership percentage remains undetermined using the financial reports, Ibis World records or the Factiva media search. For 49 public companies the Australian and foreign ownership percentages are able to be established but for the majority only the minimum foreign and/or Australian percentage was established with the remainder as undetermined (12.7%).

The tax benefit that we expect to be observed for each company, given a decrease in the company tax rate from 30% to 25%, is calculated from reported tax payable for 2014.[3] Tax payable for each company was reduced by the percentage tax decrease of 16.67%.[4] This reflects the tax benefit those companies would have received if tax rate had been cut from

[2] These companies are often referred to as "closely held".
[3] The tax payable is taken from the ATO release of tax data for large Australian companies (Dec 2015 & Mar 2016).
[4] Percentage decrease = (30% - 25%) / 30%.

30% to 25% during that period (2013-2014).. The tax benefit for each company is apportioned based on the percentage of Australia and foreign shareholders.

An industry analysis of the tax benefits using the Standard and Poors Global Industry Classification System (GICS) as at April 2003 is undertaken. A country by country analysis is also undertaken with respect to the tax benefits by shareholder tax residency.

Analysis of Results

Table 2 reports the aggregate results of the tax benefit attributable to Australian and foreign shareholders. The unweighted average foreign shareholding in the 252 companies is 47.42%, Australian shareholding is 39.93% and 12.65% is undetermined. **Significantly, nearly 40% of the tax benefit is attributable to foreign shareholders, while 51.8% is Australian shareholders,** while 8.76% remain undetermined as a result of opaque corporate disclosures. Similarly the total corporate tax benefit from the proposed tax cut based on the 2013-2014 ATO figures is estimated to be $5.526 billion per year, with $2.177 billion attributable to foreign shareholders and $2.865 billion to Australian shareholders. This is consistent with anecdotal evidence that foreign investors own about 33% of Australian public equities, albeit as of 2007 (Black and Kirkwood, 2010). **However, the current sample contains 110 wholly-owned subsidiaries of foreign companies which would likely increase the tax benefit attributable to foreign shareholders in the more limited sample.**

Table 2: Proposed Corporate Tax Cut - Location of Tax Benefit

	%age of Shareholders	***Tax Benefit***	***%age of Tax Benefit***
Domestic	39.93%	2,865,508,841	51.85%
Foreign	47.42%	2,176,742,352	39.39%
Undetermined	12.65%	483,834,414	8.76%
Total	100.00%	5,526,085,607	100.00%
Country Analysis			
Australia	39.91%	2,864,891,055	51.84%
New Zealand	0.03%	617,786	0.01%
Total	39.93%	2,865,508,841	51.85%

Canada	1.23%	5,975,690	0.11%
China	1.27%	7,838,282	0.14%
France	1.19%	11,136,215	0.20%
Germany	2.46%	56,371,911	1.02%
Hong Kong	1.45%	9,719,178	0.18%
Ireland	0.40%	12,356,347	0.22%
Japan	7.14%	307,920,265	5.57%
Jersey	0.00%	2,238,801	0.04%
Malaysia	0.13%	997,473	0.02%
Netherlands	2.45%	62,925,080	1.14%
Norway	0.01%	2,216,437	0.04%
Non-specific Foreign	4.33%	915,619,189	16.57%
Singapore	0.60%	38,219,538	0.69%
South Africa	1.19%	13,946,043	0.25%
Switzerland	2.78%	40,346,926	0.73%
United Kingdom	7.84%	308,446,847	5.58%
United States of America	12.96%	380,468,129	6.88%
Total	47.42%	2,176,742,352	39.39%

Table 2 also provides a country by country analysis of the benefits from the tax cut, based on shareholder tax residency. Outside of Australia, the U.S., the U.K. and Japan are the top three shareholder tax residency locations associated with the tax benefit. The U.S., U.K. and Japanese shareholders receiving 6.86%, 5.58% and 5.57% of the proposed tax benefit respectively. Therefore, those countries alone account for over 15% of the tax benefit. While the Non-specific Foreign category accounts for over 16% of the benefit, this classification represents reporting at a multiple nation level, such as North America or East Asia. It contains mainly shareholders with a tax residency in North America and Europe.

Table 3 provides an analysis of the proposed tax benefit by industry. Financial (banks and insurance companies) and Materials (includes mining) companies are by far the biggest recipients of the benefits from the tax cuts (38% and 30% respectively) followed in distant 3rd by Consumer Staples (10%) and by Consumer Discretionary in 4th place with 8%. Notably, two of the top 20 beneficiaries are tobacco companies – British American Tobacco and Philip

Morris – who stand to receive a combined benefit of $88.5 million, of which 100% would flow offshore.

Table 3: Proposed Corporate Tax Cut - Tax Benefit by Industry

GICS - Industry Sector	***Domestic***	***Foreign***	***Undetermined***	***Total***	***%age***
Energy	69,950,162	47,623,386	23,726,902	141,300,451	2.56%
Materials	506,887,315	1,093,952,518	76,481,647	1,677,321,480	30.35%
Industrials	135,479,858	165,926,359	26,833,625	328,239,842	5.94%
Consumer Discretionary	321,593,448	117,866,799	38,467,814	477,928,061	8.65%
Consumer Staples	193,112,917	215,713,877	164,458,655	573,285,448	10.37%
Health Care	35,275,355	10,805,109	10,293,172	56,373,637	1.02%
Financials	1,547,743,186	482,028,107	115,823,690	2,145,594,983	38.83%
Information Technology	12,498,584	33,023,440	5,040,072	50,562,096	0.91%
Telecommunication Serv's	6,983,891	0	6,313,693	13,297,585	0.24%
Utilities	30,944,272	6,083,831	10,826,219	47,854,323	0.87%
Unspecified	5,039,852	3,718,924	5,568,926	14,327,702	0.26%
Total	2,865,508,841	2,176,742,352	483,834,414	5,526,085,607	100%

Energy	49.50%	33.70%	16.79%	100%
Materials	30.22%	65.22%	4.56%	100%
Industrials	41.27%	50.55%	8.18%	100%
Consumer Discretionary	67.29%	24.66%	8.05%	100%
Consumer Staples	33.69%	37.63%	28.69%	100%
Health Care	62.57%	19.17%	18.26%	100%
Financials	72.14%	22.47%	5.40%	100%
Information Technology	24.72%	65.31%	9.97%	100%
Telecommunication Serv's	52.52%	0.00%	47.48%	100%
Utilities	64.66%	12.71%	22.62%	100%
Unspecified	35.18%	25.96%	38.87%	100%
Total	51.85%	39.39%	8.76%	100%

Table 4 presents the analysis of the top 20 benefit companies,[5] which includes the largest companies in Australia and those that pay the most tax such as BHP Billiton, Rio Tinto, the big four banks, Telstra, Woolworths, Wesfarmers, British American Tobacco, Phillip Morris, Hancock Prospecting, AMP, QBE and Woodside Petroleum. In fact, the top 20 companies account for almost 80% of the tax benefit. BHP and RIO alone account for over $1.167

[5] Table 4 is at Appendix A.

billion (28%), with $344.7 million (8.4%) of that attributable to domestic shareholders and $822.2 million (20%) to foreign. Of the largest twenty companies, almost 38.7% of the benefit is attributable to foreign shareholders and 55.1% to domestic shareholders. The location of the benefit for the remaining 6.2% is undetermined due to insufficient public disclosure.

Discussion and Conclusion

The benefits resulting from the tax cut will depend on the resident status of the shareholder and on the shareholder's individual marginal tax rate paid on the non-dividend Australian income, if any. In addition, how quickly the tax benefit will be distributed to shareholders as dividends or capital gains[6] will depend on changes companies make to their dividend payout ratio. This occurs due to the effects of the Australian dividend imputation system on companies' capital, dividend and tax policies.

The effect of the Australian dividend imputation system on the proposed tax cuts is illustrated by following what happens to $1.00 of company profits when it is distributed as dividends. With the current company tax rate of 30%, the tax paid on $1.00 profit would be $0.30, with the remaining $0.70 available for distribution to shareholders. Assuming the whole $0.70 is distributed through dividends, there would be a franking credit of $0.30 attached to the dividend (ie. dividend income is the cash dividend plus the franking credit). If we assume an individual tax rate for the Australian resident shareholder of 30%, then the shareholder will have no further tax to pay as the franking credit is equal to their tax liability. The company will have distributed all $1.00 of the profit, the shareholder will have received $0.70, and the ATO receives $0.30.

The proposed cuts in the company tax rate to 25% would produce no additional direct benefit to Australian resident shareholders as the imputation credits available for distribution with the dividends would be reduced to 25%. Following the example above, the company would only pay $0.25 to the ATO on $1.00 of income. Assuming that the whole amount of the tax cut is distributed as dividends, the shareholder would receive a cash dividend of $0.75 and an franking credit of $0.25. The dividend income remains at $1.00 ($0.75 cash dividend plus $0.25 franking credit). The tax on their dividend income is still $0.30 ($1.00 of dividend income at 30% tax rate). However, the franking credit is only $0.25, resulting in an additional tax liability of $0.05. The outcome would be the same as before the tax cuts. The shareholder would still receive $0.70 and the ATO $0.30 ($0.25 from the company and $0.05 from the shareholder).For a non-resident shareholder, the

[6] While the tax cut will not produce a tax advantage for capital gains as it does for dividends, the additional cash and retained profits in the company will increase the value of the company producing a capital gain through a higher share price.

Australian company tax system operates more like a "classical" dividend taxation system as the imputation credits are not available to non-resident shareholders. If they were also shareholders of the above company prior to the proposed tax cuts, they also receive $0.70 of cash dividends. However, they would be liable for additional tax on those dividends at their marginal rate in their "home" tax jurisdiction. Their dividend income will be $0.70 as franking credits are not recognised outside Australia. If we assume they have the same 30% individual tax rate as the domestic shareholder, they would have a further tax liability of $0.21, payable to the foreign tax authority (ie. $0.70 at 30% tax rate). This results in a net amount of $0.49 to the non-resident shareholder, $0.30 to the ATO and $0.21 to the foreign tax authority.

In contrast, the proposed tax cuts do produce a benefit for non-resident shareholders, and foreign tax authorities. After the tax cuts, for every $1.00 of profits distributed as dividends, the non-resident shareholder would receive a cash dividend of $0.75 and pay $0.225 tax to their "home" tax jurisdiction. The non-resident shareholder receives an increase in net income of $0.035 to $0.525, the foreign tax authority's share increases by $0.015 to $0.225 and the ATO's share is reduced by $0.05 to $0.25. **Under this scenario, the main beneficiaries of the proposed company tax cuts will be non-resident shareholders and foreign tax authorities**. Therefore, wholly-owned subsidiaries of foreign multinational corporations would pay less tax and the shortfall in the company tax would not be made up by additional income tax on non-resident shareholders dividend income as it does with domestic shareholders.

The Australian dividend imputation system also contains incentives for companies to distribute profits through higher dividend initiations and higher dividend payout ratios (Twite 2001; Pattenden and Twite 2008) in order to distribute the associated imputation tax credits. The **reduction in the company tax rate dilutes this incentive** resulting in companies retaining a larger proportion of their profits within the firm, rather than distributing them through dividend payments. This is likely to further reduce the tax receipts from resident shareholders on those company profits when distributed.

The other effect of the Australian imputation system is on the capital structure of Australian companies. Under a "classical" dividend tax system, the interest payments on debt are tax deductable whereas dividend payments are not. This makes debt financing more attractive than equity finance (McClure et al. 2016a). The imputation system puts both forms of financing on a more equal basis. However, any reduction in the company tax rate again dilutes this incentive, making debt more attractive (McClure et al. 2016a). If companies increase debt, and therefore, the amount of interest deductions they claim against their income, it will reduce their level of tax payments. If the debt is foreign-sourced, there will be no additional tax from the lenders to offset this decline (McClure et al. 2016a).

The Australian dividend imputation system encourages companies to pay the full rate of tax on their profits (McClure et al. 2016a). It has been described as the "gold standard" of dividend taxation systems by the Australian Shareholders Association in their response to the proposed abolition of the system by the Australian Treasury in the 2015 White Paper (Treasury 2015). It performs a similar function to the Pay-As-You-Go Withholdings system for wage and salary income, as it is basically a withholding tax on dividend income. Approximately 62.3% of imputation credits are utilised by resident shareholders (Hathaway 2013, p.7). As a result, the net rate of tax on Australian company profits is considerable lower than the current statutory company tax rate, or around 11.3%. This is similar to, or lower than, the statutory company tax rate other similar economies. Furthermore, these other "competing" economies operate under a "classical" dividend taxation system whereby the profits are further taxed in the hands of the shareholders when distributed resulting in a higher rate of tax on those profits than the statutory rate (McClure et al. 2016a).

While the Australian Government has said it will get tough on foreign multinational companies abusing the Australian tax system, the proposed cuts to the Australian company tax rate provide direct tax benefits to those same entities, and to foreign tax authorities, at the expense of Australia's corporate tax receipts. Corporate tax cuts will not address the problem of base erosion and profit shifting by multinational corporations. Perhaps there are other more appropriate measures available to address the problems of corporate tax avoidance that the Australian Government should consider.

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