

Chapter 1

Introduction

1.1 On 26 March 2018, the following matter was referred to the Senate Economics References Committee (the committee) for inquiry and report by 7 May 2018:

The 'Commitment to the Senate' (the Commitment) issued by the Business Council of Australia (BCA) on 21 March 2018, and commitments to stronger wages and employment, with particular reference to:

(a) annually measurable benchmarks, for the period of the proposed Enterprise Tax Plan, for the companies that have co-signed the Commitment and other senior members of the BCA membership, including:

- (i) company wage growth estimates,
- (ii) employment estimates, and
- (iii) schedules of investment by state and territory;

and in each case how they vary if the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 is enacted, or there is no change to the existing tax law;

(b) corporate tax data for the companies that have co-signed the Commitment, and other senior members of the BCA membership, including:

- (i) the total tax paid over the past five years, and
- (ii) the expected tax benefit from the Enterprise Tax Plan; and
- (c) other related matters.¹

1.2 On 24 April 2018, the Senate granted an extension to the committee to report by 31 May 2018.²

Background

The Commitment

1.3 The Commitment to the Senate issued by the BCA on 21 March 2018 states:

We believe that a reduction in the corporate tax rate, as proposed through the Government's enterprise tax plan, is urgent and vital to keep Australia competitive.

If the Senate passes this important legislation we, as some of the nation's largest employers, commit to invest more in Australia which will lead to

1 *Journals of the Senate*, No. 92, 26 March 2018, p. 2922.

2 *Journals of the Senate*, No. 95, 8 May 2018, p. 3026.

employing more Australians and therefore stronger wage growth as the tax cut takes effect.³

1.4 The signatories to the Commitment were:

- BHP—Andrew Mackenzie, Chief Executive Officer (CEO);
- EnergyAustralia—Catherine Tanna, Managing Director;
- Fortescue Metals Group Limited—Andrew Forrest, Chairman;
- JBS Australia Pty Limited—Brent Eastwood, CEO;
- MYOB—Tim Reed, CEO;
- Origin Energy Limited—Frank Calabria, Managing Director and CEO;
- Qantas Airways Limited—Alan Joyce, CEO;
- Wesfarmers Limited—Rob Scott, Managing Director and CEO;
- Woodside Energy Limited—Peter Coleman, Managing Director and CEO;
- Woolworths Limited—Brad Banducci, CEO and Managing Director;
- Business Council of Australia—Grant King, President; and
- Business Council of Australia—Jennifer Westacott, CEO.⁴

The Australian Government's Enterprise Tax Plan

The Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016

1.5 The Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 (ETP bill) was passed by the Parliament with amendments on 9 May 2017, and received Royal Assent on 19 May 2017.⁵

1.6 As a result of the amendments, instead of applying to all businesses, a reduced corporate tax rate of 27.5 per cent applies to businesses with an aggregated:

- turnover of less than \$10 million starting from the 2016–17 income year;
- revenue of less than \$25 million starting from the 2017–18 income year; and
- turnover of less than \$50 million from the 2018–19 income year onwards.

3 Business Council of Australia, *Our commitment to the Senate*, 21 March 2018, <http://www.bca.com.au/media/our-commitment-to-the-senate> (accessed 30 April 2018).

4 Business Council of Australia, *Our commitment to the Senate*, 21 March 2018, <http://www.bca.com.au/media/our-commitment-to-the-senate> (accessed 30 April 2018).

5 Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016.

Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017

1.7 Following the passage of the amended ETP bill, the government introduced the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 (ETP No. 2 bill) which is currently before the Parliament.

1.8 The ETP No. 2 bill is a residual part of the previous ETP bill and contains provisions that did not pass the Parliament on 9 May 2017. Specifically, the ETP No. 2 bill includes provisions to incorporate reduced corporate tax rates progressively within a specific timeframe, such that:

- the tax rate of 27.5 per cent would gradually apply to higher turnover thresholds over successive years, until it reaches \$1 billion revenue threshold in the 2023–24 income year; and
- a uniform company tax rate of 27 per cent would apply to all businesses from the 2024–25 income year; which would then be lowered to 26 per cent in the 2025–26 income year; and which would then be lowered to 25 per cent from the 2026–27 income year onwards.⁶

Policy rationale for reducing the company tax rate

1.9 The government's proposal to lower the company tax rate is based on several policy goals, among them:

- to encourage growth and innovation (based on the assumption that small business activity is important in generating economic growth); and
- to attract investment and grow the economy (based on the assumption that lower company tax rates will make Australia more competitive with other countries as a place to invest).⁷

Conduct of the inquiry

1.10 The committee advertised the inquiry on its website and wrote to relevant stakeholders and interested parties inviting submissions by 10 April 2018. The committee received 16 submissions. Submissions and answers to questions on notice are listed at Appendix 1.

1.11 The committee held two public hearings on the dates and at the locations listed below:

- Sydney—24 April 2018; and
- Melbourne—26 April 2018.

1.12 A list of witnesses is at Appendix 2.

⁶ Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017, Sch. 1

⁷ Parliament of Australia, Department of Parliamentary Services, Parliamentary Library, *Bill's Digest No. 22*, 2017–18, p. 4.

1.13 The committee thanks all those who have assisted with the inquiry. However, the committee notes that responses to written questions on notice provided by signatories to the Commitment regarding information on future investment and wage plans were not fully answered and instead were broad and non-committal.⁸

8 Qantas, answers to questions on notice (received 18 April 2018); Woodside Energy Ltd, answers to questions on notice (received 19 April 2018); Westfarmers, Woolworths Group Ltd, MYOB, Fortescue Metals Group Ltd, answers to questions on notice (received 20 April 2018); Origin Energy, answers to questions on notice (received on 21 April 2018); Energy Australia, BHP, answers to questions on notice (received on 23 April 2018).