Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

26 February 2014

Question: **AET 3-8**

Topic: **Multinational Tax**

Written: **28 February 2014**

Senator DASTYARI asked:

3. Has the Treasury conducted analysis on what the costs to the budget are from multinationals shifting profits into low tax countries?

   a. If not, why not?

   If so, how much is the cost to the budget bottom line of these tax minimising strategies?

4. Has the Treasury conducted analysis on which Australian industries are most affected by the competitive advantage that multinational companies achieve through tax avoidance by shifting profits to low tax countries?

   a. If not, why not?

   If so, which industries?

5. What industries are the most aggressive at reducing their tax liabilities in Australia?

6. What role is the Treasury playing in the G20 to reduce base-erosion and profit shifting?

7. What concrete measures would reduce the effectiveness of these tax avoidance strategies?

8. Does the recent News Corporation victory against the Tax Office highlight any areas that need to be reformed in terms of Australia's corporate tax base?

Answer:

3. In May 2013, Treasury released an Issues Paper which outlined the challenges that changes in the global economy pose to the international tax system. Following this, in July 2013, Treasury released a Scoping Paper which set out the Treasury's assessment of the risks facing Australia's corporate tax system. Based on submissions to the Issues Paper, the Scoping Paper concluded that the extent to which base erosion and profit shifting is currently affecting Australia's corporate tax base and therefore the cost to the budget is unclear.

   However the Scoping Paper found that there is a consistent view in the academic literature and official studies that the underlying sources of risk to the corporate tax base of countries are increasing. These risks arise from entrenched structural features of the corporate tax system, including tax treaties; globalisation and tax competition; and changes in the global economy, including the rise of the digital economy and the global reach of multinationals.

   The Scoping Paper also concluded that Australia places greater reliance on corporate tax which means that Australia is more vulnerable to the effects of corporate tax base erosion than other OECD countries.

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4 & 5. The Scoping Paper concluded that businesses which operate cross-border and have access to sophisticated tax expertise, may have greater access to base erosion and profit shifting opportunities, providing them with a competitive advantage compared with enterprises that operate mostly at the domestic level.

6. Treasury is responsible for policy development and logistics for the G20 Finance Ministers and Central Bank Governors meetings (also known as the G20 finance track) during Australia's G20 host year of 2014. As part of this, Treasury will be assisting the Government in progressing the G20/OECD base erosion and profit shifting reform agenda. Treasury and ATO officials are also engaged in the work of OECD working parties progressing the BEPS Action Plan.

7. The G20 has tasked the OECD with progressing the 15 points in the BEPS Action Plan in addressing BEPS to ensure that profits are taxed where economic activities deriving the profits are performed and where value is created. Recommendations relating to the Action Plan are to be delivered by the end of 2015, with the first set of deliverables expected in September 2014.

   Australia has a long standing history of protecting itself against many forms of BEPS through the enforcement of regimes such as transfer pricing; thin capitalisation; general anti-avoidance; double tax agreements; and exchange of information. The Australian Taxation Office dedicates a significant amount of time and resources to this issue through its audit and compliance activities.

   The OECD agenda, under the leadership of the G20, is intended to build on these national efforts, reflecting the genuinely global nature of the problems and challenges being raised by BEPS.

8. The implications of the decision are now limited, as Division 3B was repealed in 2003, although it continues to apply to eligible contracts entered into before 1 July 2003. This was a “one off” situation where all parties to the arrangements are “related parties” and there are no flow-on effects to other taxpayers.