Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Corporate and International Tax Division
Question No: 192
Topic: Average Corporate Tax Rate
Reference: Hansard page 51 (30 May 2017)
Senator: Ketter, Chris

Question:

Senator KETTER: Ms Mrakovic, are you familiar with what the average corporate tax rate in Australia is?
Ms Mrakovcic: Are you asking whether I have an understanding of what an average corporate tax rate is?
Senator KETTER: Is it correct that the average corporate tax rate is about 17 per cent in Australia? I am looking at the March 2017 Congressional Budget Office report, International Comparisons of Income Tax Rates. Are you familiar with that?
Ms Mrakovcic: This is by the Congressional Budget Office in the US?
Senator KETTER: Yes.
Ms Mrakovcic: I am not aware of that specific document, no.
Senator KETTER: This document reports that Australia's average corporate tax rate is 17 per cent and the effective corporate tax rate is 10.4 per cent. Page 3 of the report says:
Companies consider the average corporate tax rate when deciding whether to undertake a large or long-term investment in a particular country.
Are you familiar with that view? Do you agree with it?
Ms Mrakovcic: When a company makes a decision to invest in a country, it takes into account a very broad range of circumstances. Every company would look at what the corporate tax rate is, but they would also need to come to a view about a broader range of issues, including what deductions might be available to them. They might look at broader issues like the reliability of supply. There are a whole gamut of tax and non-tax issues that go to decisions being made. But I take the point that, in the context of the CBO paper you are quoting, they would have been looking at the tax rates and making an observation on the tax rate issue.
Senator KETTER: Could you take that on notice?
Ms Mrakovcic: I am happy to.
Senator KETTER: There is another view expressed in this document:
The effective corporate tax rate, which is a measure of the tax on a marginal investment, is more informative for decisions about whether to expand ongoing projects in those countries in which a company already operates.
Ms Mrakovcic: The observation has often been made that, if you are not doing business in a country and you are exploring broader opportunities, you may not have sufficient information on the detail of the tax system and what features of it may or may not be available to you. So the headline rate may be the thing you focus on. The more familiarity you have with a country, especially if you have existing operations there, the more likely you are to have a more informed understanding of that country's tax system. That may be a different view.
Senator KETTER: Could you take that on notice as well?
Ms Mrakovcic: Yes, I am happy to take that question on notice.

Answer:

A range of tax and non-tax factors influence location decisions and the decision of firms to expand their operations. Tax is an important consideration. The CBO report indicates that the average tax rate may affect the choice of location, with firms more likely to prefer countries with lower average tax rates. The effective tax rate (marginal rate) may affect the size of investments in a given country and is based on a framework where firms invest up to the point that further investment does not generate a minimum level of required return.

Aggregate measures of average tax rates vary across studies and can be volatile from year to year as they are sensitive to economic conditions. A lower headline rates sends a strong signal to investors and reduces both the average tax rate and the effective tax rate. Particularly for firms with limited information about the details of each country’s tax system, the headline rate will be relevant to their investment decisions.