**Senate Economics Legislation Committee**

ANSWERS TO QUESTIONS ON NOTICE

**Treasury Portfolio**

Budget Estimates

2017 - 2018

**Division/Agency:** Corporate and International Tax Division
**Question No:** 212
**Topic:** Company Tax
**Reference:** Hansard page 27-28 (29 May 2017)
**Senator:** Ketter, Chris

**Question:**

Senator KETTER: I will move on to the company tax, and I think I would like to explore this issue. I take it you can confirm that the cost of the company tax cut is now expected to be $65 billion over the medium term?
Mr J Fraser: I understand that is the case, but that is something that should be taken up with Ms Mrakovcic in the revenue group.
Senator KETTER: What do you think is the net impact of the government's full company tax cut in combination with the bank levy on the profitability of the banks?
Senator Cormann: I suspect that we will have to take that on notice.
Senator WHISH-WILSON: It would be interesting to know, considering they are crying poor over the bank levy.
Senator Cormann: The first point to make is that if you look at Budget Paper No. 2, in the relevant measure description, it will tell you that the $6.2 billion revenue forecast is net of interaction with any other taxes, principally corporate income taxes. That is the first point to make, but I am not sure if the officer wants to add something to that.
Dr Swieringa: In terms of macroeconomic impact of company tax versus the bank levy, I think, as the secretary, said the impact of a bank levy would be negligible.
[...]
Senator KETTER: In the UK, is it correct that the effective corporate rate for the big banks will be more than 25 per cent after the surcharge is taken into account?
Mr Lonsdale: We are happy to check that, Senator.

**Answer:**

*Can you confirm that the cost of the company tax cut is now expected to be $65 billion over the medium term?*

At the 2016-17 Budget, the medium-term estimate of the cost to the Budget of lifting the small business entity threshold and reducing the company tax rate to 25 per cent for all companies by 2026-27 was $48.2 billion in cash terms.

Including the unincorporated tax discount and adding another financial year at the end of the estimate period brings the cash cost to the Budget to $65.4 billion by 2027-28. This is the 2017-18 Budget medium-term estimate.

*What do you think is the net impact of the government's full company tax cut in combination with the bank levy on the profitability of the banks?*

The $65.4 billion estimate refers to the 2017-18 Budget medium-term estimate to 2027-28 for the *Treasury Laws Amendment (Enterprise Tax Plan No.2) Bill 2017*. This estimate does not disaggregate into the individual tax payable for each company and does not examine the profitability of each individual company.

In accrual terms, the major bank levy is estimated to have a net impact on revenue of $6.2 billion over the forward estimates period. This is made up of an increase to revenue of $7.0 billion over the forward estimates period from the gross levy receipts and a reduction in revenue of $0.8 billion over the forward estimates period from interactions with other taxes including corporate income tax.

The extent to which these taxes impact on individual bank profitability will depend on a range of factors.

*In the UK, is it correct that the effective corporate rate for the big banks will be more than 25 per cent after the surcharge is taken into account?*

Since 1 January 2016, the UK Bank Corporation Surcharge (the UK Surcharge) imposes a surcharge of 8 per cent on the profits of banking companies that make annual profits of more than £25 million. The profits are calculated on the same basis as for company tax.

This means that, for UK banks affected by the UK Surcharge, the headline UK corporate tax rate applied is effectively 8 per cent higher than the normal UK statutory corporate tax rate.

The current UK statutory corporate tax rate is 19 per cent (2017 tax rate) so the headline rate for banks subject to the Surcharge is effectively 27 per cent. When the UK statutory corporate tax rate falls to 17 per cent in 1 April 2020, the combined headline rate will effectively be 25 per cent for banks subject to the UK Surcharge.