



# The Coalition's Policy to Lower Company Tax

August 2013

## Key Points

The Coalition will cut the company tax rate by 1.5 per cent from 1 July 2015.

Businesses will benefit from a new rate of 28.5 per cent from 1 July 2015.

This builds on the Coalition's proven track record of delivering real tax reform focussed on cutting and simplifying taxation in Australia.

The company tax cut will encourage investment in Australian businesses and jobs.

Our fully funded tax cut will restore confidence in the management of Australia's economy, boost job creation, and help workers across all sectors of our economy.

The company tax cut is a key part of the Coalition's plan to deliver a stronger economy that will deliver higher living standards for all Australians.

Only the Coalition can be trusted to deliver a company tax cut, because we have done it before and we will do it again.



# Introduction

Australian businesses are the lifeblood of the economy.

Strong businesses create more jobs, offer higher real wages and result in higher standards of living for workers.

A Coalition government will do all it can to encourage businesses to invest, expand and employ more Australians.

Lowering company tax will make it easier for businesses to hire more people, to expand their operations and become more competitive. By cutting corporate taxes we make Australian jobs more secure, boost real wage growth and make our economy stronger.

Cutting company tax is a key part of helping Australia's workers and easing cost-of-living pressures on Australian families, since it will flow through to better wages for employees of Australia's 750,000 companies, better returns for shareholders and lower prices.

As former Treasury Secretary and personal adviser to Prime Minister Julia Gillard, Ken Henry, said at the Government's own Tax Forum in late 2011:

*"...if the company income tax were to be cut, the principal beneficiaries would be workers."*<sup>1</sup>

A competitive corporate tax rate is also essential to ensure ongoing investment in our economy.

Australia's attractiveness as a place to invest has been a major factor in our traditional economic success. However, capital is highly mobile and to ensure future growth more must be done to restore Australia's reputation as a safe, certain destination for investments funds.

The Australia's Future Tax System Review (the 'Henry Review') noted that a company tax cut would:

*"...increase the level of business investment in Australia across all sectors, including foreign direct investment; promote more entrepreneurial activity; and reduce incentives for profit-shifting offshore."*<sup>2</sup>

<sup>1</sup> Ken Henry, Comment on Day 1 of Tax Forum, 4 October 2011, Parliament House, see The Australia, 'Cut Company Rate to Aid Workers, Henry Urges,' 5 October 2011.

<sup>2</sup> Australia's Future Tax System, December 2009, p.xix.



It concluded that:

*“...company tax rates matter for investment decisions, particularly investments for which location is not critical, and decisions by firms about where to declare profits and pay tax...”<sup>3</sup>*

The Coalition will encourage businesses to invest, expand and employ more Australians.

We will do so by cutting the company tax rate, removing unnecessary taxes on business (such as the carbon and mining taxes) and by cutting red tape costs by at least \$1 billion a year.

## The Plan

### A Lower Company Tax Rate

The Coalition will cut company tax by 1.5 per cent from mid-2015.

Businesses will benefit from the new rate of 28.5 per cent from 1 July 2015.

The cut to the company tax rate is part of the Coalition's significant tax reform agenda to be delivered within the first term. This includes:

- abolishing Labor's carbon tax, which, on the Government's own figures, will cost the average family more than \$550 in 2014-2015;
- keeping the current tax thresholds and fortnightly pension and benefit increases, introduced as part of the carbon tax package, so that these become genuine tax cuts and cost-of-living relief rather than partial compensation for a damaging tax;
- scrapping Labor's failed mining tax, which added to sovereign risk and to the costs of many mining companies, especially smaller miners, while raising only a tiny fraction of the promised revenue; and
- reversing Labor's damaging and ill-considered change to fringe benefit tax on motor vehicles, announced in July this year without consultation and which is causing chaos and job losses across the industry.

<sup>3</sup> Australia's Future Tax System, December 2009, p.8.



The company tax cut will increase Australia's attractiveness as a destination for investment which, the Henry Review noted, "will not only result in higher growth but is also likely to result in higher wages."<sup>4</sup>

With a rapidly diminishing pipeline of new resources investment over coming years, due to Labor's unilateral mining and carbon taxes and crippling red and green tape, the Coalition's company tax cut is an important investment in Australia's future.

According to the Henry Review, cutting the company tax rate will ensure that the non-resource sectors of Australia's economy remains an attractive place to invest.<sup>5</sup> As that Review noted, the reduction in the company tax rate from the late 1980s to 2000:

*"...was an important element of policy reforms that have led to strong growth" and that further cuts "would underpin further growth."*<sup>6</sup>

The Coalition understands that Australia's economic future will depend on reforming Australia's tax system to ensure Australia remains attractive to investment. We will seek to deliver further tax reductions once we have fixed Labor's Budget mess.

If elected, the Coalition will also release the modelling behind the Henry Review to enable an open discussion about the future of Australia's tax system. We would then seek a second-term mandate for a further tax reform agenda by releasing a comprehensive White Paper on tax reform prior to the next federal election.

## The Choice

Labor's approach to business tax reform has focussed on introducing new or increased taxes, including the carbon tax and the failed mining tax. They have fundamentally undermined Australia's sovereign risk profile with domestic and foreign investors.

Over the past five and a half years, Labor has introduced over 40 new or increased taxes including almost \$9 billion of tax hikes on superannuation alone.

In 2010, Labor promised a two per cent reduction in the company tax rate. Shortly afterwards this was revised down to just a one per cent reduction, despite the Government still maintaining its company tax cut was a key plank of its economic strategy.

<sup>4</sup> Australia's Future Tax System, December 2009, p.39.

<sup>5</sup> Australia's Future Tax System, December 2009, p.40.



Former Prime Minister Julia Gillard even declared in Parliament in March 2012 that:

*“...if you are against cutting company tax, you are against economic growth. If you are against economic growth, then you are against jobs.”<sup>7</sup>*

Yet just eight weeks later, and despite promising it for two long years and on hundreds of separate occasions, Labor completely scrapped its promised company tax cut.

What's more, just six months later it hit business without warning with a massive one-off tax increase amounting to over \$8 billion over the forward estimates period, by progressively forcing large to medium-sized companies to pay two additional months' worth of tax through a move to monthly company tax payments.

Labor's mismanagement has created uncertainty and removed the confidence that businesses need to invest in their future and create jobs.

Labor cannot be trusted to manage Australia's tax system or its economy.

Labor betrayed the Australian people by introducing the carbon tax after promising before the last election that it wouldn't – a betrayal that every single Labor member of Parliament voted to support.

Labor's incompetence damaged Australia's sovereign risk profile through its failed mining tax process.

Labor likes to talk about cutting company tax – with current Treasurer Chris Bowen saying as recently as mid-July this year that:

*“I think we should have the ambition of lowering company tax.”<sup>8</sup>*

However, for nearly six years Labor has talked and talked about reducing company tax, but never actually done anything about Australia's internationally uncompetitive company tax rate.

Unlike Labor, which promised a company tax cut for two years before breaking their pledge to business, we will actually deliver tax relief for business so that we can boost growth, support higher wages and create jobs.

<sup>7</sup> Julia Gillard, Hansard, 14 March 2012.

<sup>8</sup> Chris Bowen, ABC 7.30 interview, 11 July 2013.



Kevin Rudd himself has acknowledged the importance of a cut in the company tax rate:

*“The company tax rate at present exists in the upper third of the OECD. Our challenge is to bring it down at least to the middle and to optimally take it lower. The Government’s target is to bring it to 25 [per cent]...”*<sup>9</sup>

*“...We can help our small businesses by reducing the tax burden on them.”*<sup>10</sup>

But only the Coalition can be trusted to actually deliver tax cuts and genuine tax reform that will boost the economy and ease cost-of-living pressures for Australian families.

We have a proven record - it was the Howard Government that provided the last tax cut for business. The Howard Government delivered a reduction in the corporate tax rate from 36 to 30 per cent.

## Cost

The Coalition’s cut to company tax will cost \$5 billion over the forward estimates period. This reflects the direct costs to revenue from the tax reduction.

However, consistent with the findings of the Government’s own Tax Review by former Treasury Secretary Ken Henry, the Coalition believes this represents an important investment in growing our economy, and boosting jobs and wages. It will help our economy cope with the rapidly diminishing pipeline of mining investment over coming years due to Labor’s repeated attacks on the mining sector.

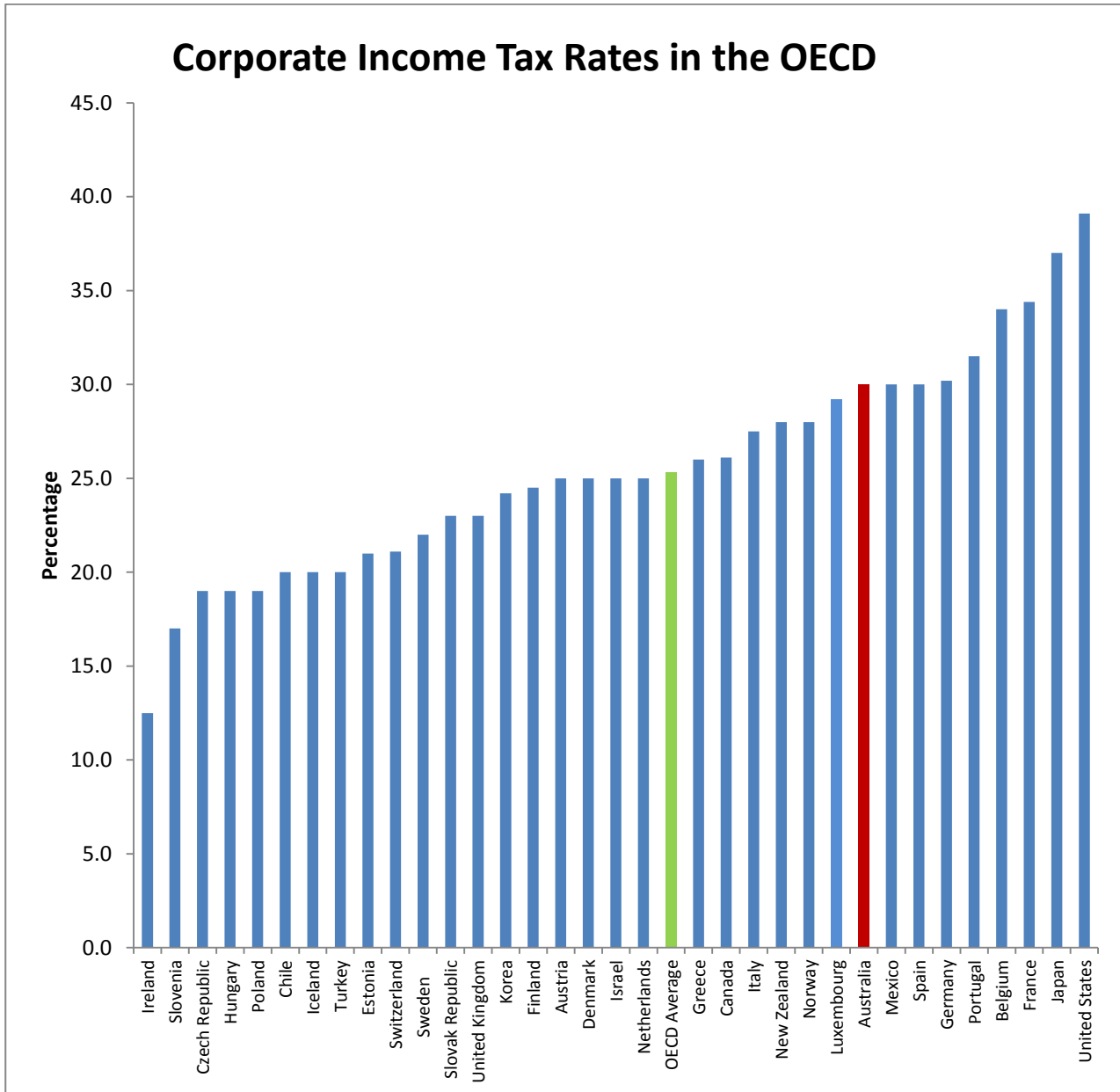
The Coalition is confident that by supporting business and encouraging growth, its company tax cut will deliver some partially offsetting benefits to the Budget bottom line over the medium term.

<sup>9</sup> Kevin Rudd, Address to the Business Council of Australia, 22 June 2010.

<sup>10</sup> Kevin Rudd, Press Conference, 24 February 2012.



# The Coalition's Company Tax Cut will Bring Australia's Corporate Tax Rate Closer to the OECD Average



Source: OECD at: [http://www.oecd.org/tax/tax-policy/oecdtaxdatabase.htm#C\\_CorporateCapital](http://www.oecd.org/tax/tax-policy/oecdtaxdatabase.htm#C_CorporateCapital)



**The Coalition's Policy to Lower Company Tax**



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For further details of the Coalition's Plan go to  
[www.realsolutions.org.au](http://www.realsolutions.org.au)