

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 203

Topic: Company Tax

Hansard Page: Written

Senator BUSHBY asked:

Example of present taxation of \$1000 company profit

Present 30% company tax

Say \$1000 profit made by company

Tax paid by company = \$300

Dividend paid by company = \$700
\$1000

Spa, 1/6/10

Dividend received by shareholder = \$700

Imputed credit received by shareholder = \$300

Example 1

Assume shareholder has income in the range \$35,000 to \$80,000 with marginal rate of 30%.

Shareholder declares income of dividend + imputed credit = \$700 + \$300

Shareholder tax due 30% of \$700 + \$300 = \$300

Imputed credit available to pay tax = \$300

SO NO ADDITIONAL TAX REQUIRED FROM SHAREHOLDER

Example 2

Assume shareholder has income in the range \$80,000 to \$180,000 with marginal rate of 38%.

Shareholder declares income of \$700 + \$300

Shareholder tax due = 38% of (\$700 + \$300)
= \$380

So shareholder pays \$380 less imputed tax credit of \$300
= \$80

SO \$80 ADDITIONAL TAX REQUIRED FROM SHAREHOLDER

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Example of taxation of \$1000 company profit at proposed 28% company tax rate

Proposed 28% company tax

Say \$1000 profit made by company

Tax paid by company = \$280

Dividend paid by company = \$720
\$1000

Dividend received by shareholder = \$720

Imputed credit received by shareholder = \$280

Example 1

Assume shareholder has income in the range \$35,000 to \$80,000 with marginal rate of 30%.

Shareholder declares income of dividend + imputed credit = \$720 + \$280

Shareholder tax due 30% of \$720 + \$280 = \$300

Imputed credit available to pay tax = \$280

SO \$20 ADDITIONAL TAX REQUIRED FROM SHAREHOLDER

Example 2

Assume shareholder has income in the range \$80,000 to \$180,000 with marginal rate of 38%.

Shareholder declares income of \$720 + \$280

Shareholder tax due = 38% of (\$720+\$280)
= \$380

So shareholder pays \$380 less imputed tax credit of \$280
= \$100

SO \$100 ADDITIONAL TAX REQUIRED FROM SHAREHOLDER

1. The two examples above suggest that at least in some cases, the cost to revenue of cutting company tax will be fully covered by higher income tax payable by shareholders. Can you please identify the extent to which this is likely?
2. How much is personal income tax forecast to rise in 2013-14 because of the reduction in company tax?

Answer:

1. While the imputation system does act to offset the cost of changes to company tax, this effect does not result in the cost to revenue of cutting the company tax rate being fully covered by higher income tax payable by shareholders. This is because of considerations such as profits that are reinvested in companies and foreign corporate ownership. The cost of cutting company tax would only be covered by a change to imputation credits in the case of a company where all profits were fully distributed to resident individuals, trusts or superannuation funds.
2. Personal income tax was forecast to increase by around \$500 million in 2013-14 because of the reduction in company tax from 30 per cent to 28 per cent.