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3.55 MILLION WORKERS WILL BENEFIT FROM ENTERPRISE TAX PLAN NO. 2

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The Coalition's proposed *Treasury Laws Amendment (Enterprise Tax Plan No. 2)* will reduce corporate taxation from 30% to 25% over 2019-2027 for *all* businesses.[1] This builds on *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017* which reduced corporate taxation from 28.5% to 27.5% for companies under $25 million turnover in 2017-18, and from 30% to 27.5% for companies under $50 million turnover in 2018-2019.

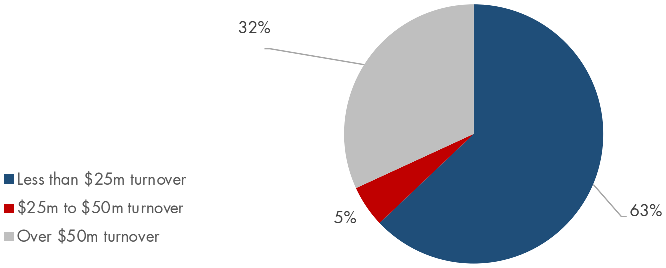
The extension of corporate tax reductions to firms with over $50 million turnover will benefit companies that employ 3.55 million Australians – boosting economic growth, increasing wages and securing jobs.

Here are three reasons why corporate tax cuts should be extended to large business:

1. A third of Australian workers would benefit

Businesses with over $50 million turnover employ 3.55 million Australians, businesses between $25 million and $50 million turnover employ a further 535,000 workers, and 7.02 million Australians are employed by businesses with less than $25 million turnover.[2]

Figure 1: Australians employed by business turnover



Source: IPA based on ABS data, Customised report

Therefore, reducing the corporate tax for businesses between $25 million and $50 million turnover, as is currently legislated for 2018–19, will benefit 535,000 Australians. By comparison, an additional 3.55 million workers who would benefit from extending the cut to all businesses.

Large businesses are the key drivers of employment growth in Australia. Since 2015, despite receiving tax cuts, small business employment has increased by 0.9 per cent, compared to overall employment growth of 2.3 per cent.[3] In response to these figures, economist Saul Eslake told *The Australian* that 'there's no evidence taxing small businesses at a lower rate than larger ones does anything to boost employment growth'.[4]

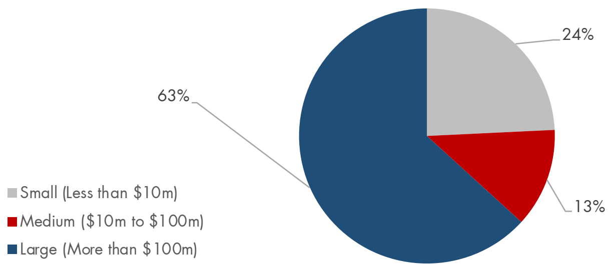
The ultimate beneficiaries of a corporate tax reduction are not 'companies' – the throughput entity – but people in the form of workers, customers, and shareholders. There is strong evidence that reducing corporate taxes will help workers through direct wage increases and business investment that boosts employment and wages. Americans for Tax Reform have complied a list of over 500 companies, which employ in excess of 4 million Americans, who have received bonuses directly as a response to recent corporate tax reductions in the United States.[5]

2. Large businesses already pay two-thirds of corporate taxation

It has been asserted by proponents of higher taxes that 'big business' does not pay their 'fair' share of tax and that a small number of companies will benefit from tax cuts.[6] These are extremely misleading claims.

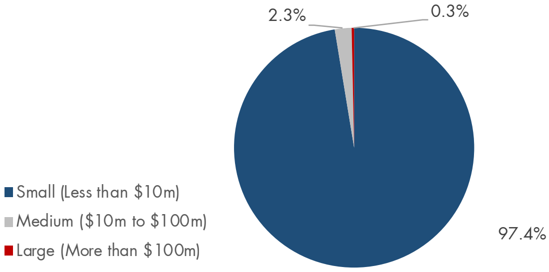
According to the Australian Tax Office, large companies (more than $100 million turnover) paid 63 per cent of net company tax over the period 2011-16 – despite being just 0.33 per cent of taxable companies.[7] Just 2,500 companies – of 940,000 companies – paid $248.88 billion in company tax over the period 2011-16.

Figure 2: Net company tax (2011-16)



Source: IPA, ATO

Figure 3: Companies



Source: IPA, ATO

A small number of large businesses pay a large proportion of Australia's corporate tax revenue, reflecting their success and providing consumers with useful products. These companies, as a virtue of their large tax contributions, will of course proportionally benefit from tax reductions.

Alternative proposals, that only decrease taxes for smaller companies, punish the biggest contributors to corporate taxation.[8] A big business is the end result of a successful small business. Policymakers should not arbitrarily discriminate against successful companies when it comes to tax reduction.

3. Large businesses are essential for investment

The level of company tax is an important factor when international firms are deciding whether they should invest in Australia or elsewhere.[9] Australia has the third highest corporate tax rate in the developed world, which discourages foreign investment. Australia's business investment has already shrunk to 12 per cent of GDP, which is lower than what it was under Whitlam.[10] The lack of investment is contributing to Australia's low level of productivity, and, accordingly, lower wage growth.

An analysis by Treasury found that two-thirds of the company tax reduction would go to households, largely because of higher wages; while just one-third would go to shareholders.[11] The key mechanism for the increase in household incomes is an increase in investment, which increases the demand for workers and the value of an individual's labour, and accordingly, their wages.

KPMG modelled that a decrease in company tax would increase investment, as a proportion of GDP, by as much as 2.4 per cent by 2021-22.[12] The relationship between a company tax cut and higher investment was recently confirmed by a survey of small businesses, which received the 2015 company tax cut from 30 per cent to 28.5 per cent for companies under $2 million turnover. The survey found that business investment was 46 per cent higher for firms just below the threshold ($1.5m-$2.0m) compared to firms above the threshold ($2.0m-$2.5m).[13] By not extending corporate tax cuts to large business, Australia is forfeiting substantial investment opportunities.

Conclusion

An entrepreneurial culture is essential to human flourishing – countries which have a positive culture towards business creators have achieved previously unimaginable cultural, social, political, and economic success.[14] A culture of economic envy – such as declaring that some businesses do not deserve tax reductions precisely because they have been successful – is the path to impoverishment.

By not extending the corporate tax cut to large businesses, the government is not only discouraging businesses from growing larger but also directly hurting businesses that employ over 3.55 million. Claims that large businesses do not pay enough revenue in taxation are false. As it stands, a tiny number of businesses already pay almost two-thirds of all taxation.

Australia's tax reform, in global terms, is moderate. Corporate taxation is substantially lower in comparable countries and those in our region, including the United States (21%), Britain (19%), Singapore (17%) and Hong Kong (16.5%). Any tax reductions, nevertheless, will deliver substantial economic benefits. The reduction to 25 per cent will permanently growing the economy by 1 per year - or $18 billion a year in today's terms.[15]

The time is now to reduce Australia's corporate taxation – and treat all companies equally in this reduction.

1 Australian Taxation Office, "Reducing the Corporate Tax Rate," accessed May 28, 2018, https://www.ato.gov.au/general/new-legislation/in-detail/direct-taxes/income-tax-for-businesses/reducing-the-corporate-tax-rate/?default.
2 This is based on statistics provided to IPA by the ABS from Australian Industry (cat. no. 8155.0), these statistics did not include Finance and Insurance and Superannuation Funds (ANZSIC 2006 Subdivisions 62 and 63), which have been modelled by firm size from data based on Labour Force, Australia (cat. no. 6202.0).
3 Adam Creighton, "Big Business Creates Jobs," *The Australian*, June 4, 2018, https://www.theaustralian.com.au/national-affairs/small-firms-get-cuts-but-big-business-creates-jobs/news-story/3f43ae9bac64239f138540103ddb58bb.
4 Creighton.
5 Americans for Tax Reform, "List of Tax Reform Good News," Americans for Tax Reforms, May 23, 2018, https://www.atr.org/list.
6 See, for example, The Australia Institute, "Australia Is a Low Tax Country," The Australia Institute, April 17, 2018, http://www.tai.org.au/content/australia-low-tax-country.
7 Loss/nil companies are included in 'Small', see Australian Taxation Office, "Taxation Statistics - Company," *Australian Government*, January 11, 2018, https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2014-15/?anchor=Companies.
8 This is Labor's plan, see Luke Gomes, "Bill Shorten Confirms Labor Would Repeal Company Tax Cuts," *The New Daily*, March 27, 2018, https://thenewdaily.com.au/news/national/2018/03/27/labor-company-tax-cuts-repeal/.
9 This is discussed by Michael Kouparitsas, Dinar Prihardini, and Alexander Beames, "Analysis of the Long Term Effects of a Company Tax Cut," Treasury Working Paper (Canberra, ACT: The Treasury, Australian Government, May 2016), treasury.gov.au/publication/analysis-of-the-long-term-effects-of-a-company-tax-cut/.
10 Daniel Wild, "Business Investment In Australia Now Lower Than Under Whitlam," Parliamentary Research Brief (Melbourne, VIC: Institute of Public Affairs, March 8, 2017), https://ipa.org.au/publications-ipa/research-papers/business-investment-australia-now-lower-whitlam.
11 Xavier Rimmer, Jazmine Smith, and Sebastian Wende, "The Incidence of Company Tax in Australia" (Canberra, ACT: The Treasury, Australian Government, 2014), https://treasury.gov.au/publication/economic-roundup-issue-1-2014/economic-roundup-issue-1/the-incidence-of-company-tax-in-australia/.
12 KPMG Economics, "Modelling the Macroeconomic Impact of Lowering the Company Tax Rate in Australia" (Canberra, ACT: KPMG, April 28, 2016), https://static.treasury.gov.au/uploads/sites/1/2018/04/p2016-279115-KPMG-WP-2016-02.pdf.
13 AlphaBeta, "Do Company Tax Cuts Boost Jobs, Wages and Investment?," *AlphaBeta* (blog), May 3, 2018, http://www.alphabeta.com/company-tax-cuts-boost-jobs-wages-investment/.
14 See Deirdre N. McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago, Ill.: University of Chicago Press, 2007).
15 Chris Murphy, "Company Tax Scenario" (Canberra, ACT: Independent Economics, April 28, 2016), https://static.treasury.gov.au/uploads/sites/1/2018/04/p2016-279115-Independent-Economics-WP-2016-02.pdf.

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