

## A NOTE ON

# COMPANY TAXATION

**B**EFORE the last war, public companies in Australia paid State and Federal income taxes totalling less than 4/- in the £ of their profits. Also, in order to avoid double taxation dividends paid to shareholders were exempt from tax. With the need for extra revenue to finance the war effort, company income taxes were sharply stepped up under the uniform tax scheme and the tax exemption on dividends was withdrawn.

At the end of the war, the various income taxes in force—ordinary, super tax, undistributed profits and war-time excess profits tax—averaged just under 8/- in the £ over all public companies. Apart from the suspension of wartime company tax in 1947, representing an overall tax reduction of about 10%, this high level of taxation was maintained right through the postwar period. The Commonwealth Treasury resolutely set itself against any worth-while reduction in taxes on the earnings of companies.

To counter the storm of criticism on taxation policy, the then Treasurer, the late Mr. J. B. Chifley, in February, 1948, issued a statement prepared by officers of the Treasury asserting that, by comparison with other sections of the community, companies had not been adversely affected by the incidence of high taxes and that economic progress had not been retarded. Figures of total earnings, dividends distributed to shareholders and undistributed profits were tabulated to show a favourably rising trend in all three between 1938/9 and 1946/7. The I.P.A. strongly criticised this statement in "Review" (April, 1948). "This analysis," said our article, "affords a striking instance of the misuse of statistics." The article pointed out that if the increase in the price level and in funds invested were taken into account, all three—company earnings, dividends and undistributed profits—showed a steady fall over these years. Later in the year the Treasury issued a white paper entitled "Taxation and

the Economy," in an attempt to further justify its taxation policy. The economic analysis and facts cited in support in this document were again made the subject of a critical article in "Review", published in November-December, 1948. This article stated bluntly: "The Government, in defending itself from attacks (on its taxation policy) sometimes stoops to a level which is little above the propagandist. The public is entitled to something better from a government economic paper."

All the arguments used in the white paper to support the high level of company taxes—maximum employment, increasing production, the large volume of private investment and the ample supply of investible funds—were all related to the inflated post-war economy. With the advent of a buyers' market the detrimental effects of high taxation on companies and the money market are becoming only too apparent. Reservoirs of savings are drying up so rapidly that the flotation of loans and new share issues is becoming an increasingly hazardous business, in contrast with the buying rush for securities a year or two ago.

Despite the change in leadership from a man sincerely opposed to certain forms of private enterprise, to a man by his record highly favourable to it, the Treasury still persists in its adherence to a policy of heavy company taxation. Indeed taxes on public companies, at slightly less than 9/- in the £, are higher than at any time during the war.

**D**URING the Second Reading Speech of the Income Tax and Social Services Contribution Bill introduced into the House of Representatives on September 18, the Treasurer contended that Australian companies had little to complain of in the severity of income taxes, asserting that: "As the rate of company tax in Australia is generally speaking lower than in any other important English-speaking country, Australian companies are in a position to distribute correspondingly larger amounts by way of dividends."

The Treasurer quoted in some detail the relevant rates of company tax in Australia, Canada, U.S.A. and the United

Kingdom. Taking an overall average of aggregate statistics compiled by reputable authorities from published company balance sheets, approximate rates of tax to *taxable income* for public companies work out roughly as follows for 1951.

Australia .....	45%
United Kingdom .....	62%
U.S.A. ....	57%
Canada .....	48%

**NOTE:** Shareholders in Australia and U.S.A. must also pay further taxes on dividends paid to them. In Canada, taxpayers receive a rebate of 10% of the dividend and in United Kingdom dividends received by persons in receipt of incomes of less than £2,000 a year are exempt from tax.

It is most important to bear in mind that this comparison relates to taxable income, the amount of which is clearly affected by the allowances for depreciation, obsolescence and other expenditures permitted by the taxation authorities in the countries concerned. For instance, allowable deductions for depreciation and other developmental expenditures are much higher in Canada than in Australia. In Canada, certified projects are allowed to write off as much as 30% of new capital costs in a year.

The bare minimum depreciation allowance on buildings for any purpose is 5% with higher rates for special cases. In Australia, on the other hand, the general principle is *not* to regard buildings as subject to depreciation, except where it can be established that the building or part of it is an integral part of plant enclosed within it. Applicable rates of depreciation in these circumstances may range from less than 1% up to 3% depending on the type of structure and the nature of the plant.

*But the really crucial factor in comparing returns to investors in public companies in different countries is the actual amount of net profit on funds invested after payment of tax, not the severity of the tax itself. The present level of taxes in Australia, though apparently lower than overseas, constitutes a much greater burden on industry than elsewhere because the rate of return on shareholders' funds, before tax,*

*is very much lower.* Comparative figures for manufacturing concerns in 1951 were as follows:—

	% Profits on Shareholders' Funds	
	Before Tax	After Tax
Australia .....	15.4	8.2
U.K. ....	22.1	7.8
U.S.A. ....	27.7	12.2
Canada* .....	23.5	14.0

\* All Companies 1950.

**NOTE:** The British profits would be higher but for very large appropriations for obsolescence and replacement of assets. This is encouraged in United Kingdom as distributed profits are taxed at the rate of 1/6 in the £.

The influential London "Economist" is of the opinion that the present level of company profits in United Kingdom is far too low for national safety.

**T**HIS data would suggest that the Treasurer's statement is wholly incorrect when it claims that Australian companies are in a position to pay larger dividends. It is obvious, as the above figures show, that both American and Canadian companies are able to pay higher dividends than their Australian counterparts, and, what is equally important, higher net profits enable them to plough back greater amounts as reserves to give stability and to provide for capital expansion. Moreover, the Treasurer's statement is dangerous and misleading from the point of view of national economic policy. Because of a much higher rate of profit before tax, companies in all three countries quoted are less affected by high company taxes than Australia. Large overseas companies must be encouraged to invest here, and local industry must equip itself at standards competitive with overseas industry. We compare most unfavourably with Canada which is our greatest competitor for American and other foreign capital. The Treasurer's advisers would not have had to delve far to discover that "market leaders" in Canada and U.S.A. distribute only 20% of their profits as compared with 80% in Australia. Yet the return to the shareholder on his investment is higher in North America.

*The whole subject of company profits requires much more sympathetic understanding by government officials if Australia is to rise to the challenge of the next 10 or 20 years for the brunt of development must fall on public companies.*

It is not enough to brush off complaints of Managing Directors at Annual Meetings about the high level of taxation as mere "crying wolf." Half-baked comparisons of the tax burden are certainly not helpful.

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**H**EAVILY burdened Cabinet Ministers cannot be expected to personally check the supporting data they quote. Of necessity, much of the load of detail falls on ministerial advisers and assistants whose role has become of immense significance over the last decade or two. Occasionally, however, as in the case of government policy on taxation, doubts arise as to the wisdom and care shown by some government officers. To draw attention to these defects is not to stoop to indiscriminate attack on public servants as such.

At times officials appear to have allowed their personal predilections to run away with their better judgment. The younger generation of University-trained men particularly show a tendency to write off the free enterprise system in the scheme of things for lack of class-room perfectibility. One has only to hear some of them in outside discussions and forums and in off-the-record conversations to realise this.

In economics, there are certainly grounds for widely differing opinions. Also it would be unjust to claim that advice tended to the Government, which has been proved wrong in retrospect, is necessarily attributable to faulty analysis. But the occasional flavouring of factual background data, as used by Ministers in public addresses, suggests a degree of personal bias that is to be regretted and condemned in those whose approach should be above all partisan political considerations.

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