

Budget company tax cut a hard sell politically

Written by The Conversation USA

After a GST increase to finance big income tax cuts disappeared as a viable option for the May budget, attention centred on reducing the 30% company tax rate.

But, assuming the government goes ahead with a cut for companies – perhaps delayed and/ or phased in – on the grounds this will boost investment and jobs, it is doubtful that it will reap a significant dividend in applause from the average voter.

In political terms the controversy raging about the banks' bad behaviour could not have come at a worse time for selling the merits of lowering company tax to an already unimpressed public. An Essential poll last month asking voters which was the more important found only 16% said company tax cuts compared with 62% who nominated income tax cuts.

Opposition Leader Bill Shorten, declaring on Wednesday that “it is not the right time for corporate tax cuts”, rode the wave of hostility towards the banks. “The Australia Institute calculates that a corporate tax cut for our banks will send them a \$9 billion windfall in the future. Mr Turnbull is having a debate about cutting taxes for banks.”

Labor’s hard line against a company tax cut will alienate many in the corporate sector, but then Shorten has already done that with his announcement that he would hold a royal commission into the banks’ conduct.

The left-leaning Australia Institute ran a newspaper advertisement on Wednesday, with 50 prominent academic and other signatories, saying that data from the OECD, IMF and World Bank showed Australia was a low-taxing country. “To have world class health, education and transport services we need to collect the revenue to fund them.”

Real tax reform required fairness – it should not be about “how to give big business large company tax cuts at the expense of services that everyday Australians rely on”, the open letter said. “We urge the Prime Minister and all political leaders not to cut taxes at this time – and certainly not for companies.”

Apart from the spending-versus-tax cuts issue, there is a debate over the benefit, or not, to the broad community of cutting company tax.

On Treasury figuring, a five percentage point reduction in the company tax rate would produce a permanent lift of up to 1% in GDP in the long term, with a flow on for workers.

But Victoria University's Centre of Policy Studies argues GDP is not the appropriate benchmark. In modelling presented on Wednesday to the Melbourne Economic Forum, which brings together a broad range of economic policy thinkers, it maintains the measure should be national income.

Reporting the modelling's results in the Australian Financial Review Janine Dixon, a senior research fellow at the centre, wrote: "we conclude that while a cut to company tax will boost domestic production, it will lead to a fall in real incomes of between \$800 and \$2000 per person in present value terms." This is because much of the benefit would go to foreign investors, at the expense of domestic investors and the government's bottom line, she argues.

The course of the tax debate is alarming big business, which is pressing strongly for the company tax reduction. Small business got a cut of 1.5% to 28.5% in last year's budget, but there was no movement in the rate for larger companies.

Business Council of Australia chief executive Jennifer Westacott on Wednesday called for a "balanced" debate on company tax, which she said was "one of the best levers we have to grow the economy faster".

Westacott argued that Dixon's proposition that the long-term benefit of lower company tax went to foreign investors and not national incomes "reflects a highly theoretical view of the world rather than the reality of how Australia, in the context of a global economy, operates.

"It assumes that investors will continue forever to accept lower returns to invest in Australia, as opposed to simply taking their investment elsewhere to more competitive countries. Company tax rates matter for attracting investment in a global economy, and Australia's economic

prosperity has been built on us being a net importer of capital investment."

Although money is extremely short, it is hard to see how the government can have a budget - on present expectations just before the announcement of the election – that includes company tax relief but does not address personal income tax. Something on the latter would seem a political necessity.

Shorten was careful on Wednesday when asked whether this was also not the time for personal income tax cuts. "Well we've got to see whether Mr Turnbull can find it in the budget," he said.

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