

Treasurer Scott Morrison [is quick to spruik the shareholder benefits](#) of cutting corporate tax rates further, as the usual logic goes that if a corporation pays less tax, shareholders should get a greater return.

But in a recent pilot study, we found companies that paid a greater percentage of their sales or revenues as tax, provided shareholders with a larger return on their investment both as dividends and share capital growth.

Read more: [Three strategies to fight the tax avoidance revealed by the Paradise Papers](#)

We looked at dividends, share price returns and income tax data of ASX200 listed companies from 2012 till 2017. We found that a higher percentage of tax paid by a corporation correlated with a higher return on investment for shareholders in the form of dividends. We also found that share prices were more likely to increase.

Clearly, factors besides tax may have influenced these results. However, the fact that shareholders appear to achieve greater returns from corporations which are less aggressive tax planners and pay a greater percentage of tax is reason to pause.

Why more tax and more returns

Perhaps the most obvious explanation for these findings is Australia's dividend imputation system. This means company tax paid in Australia is ultimately refunded to shareholders. It also means that the motivation for companies to lower the tax they pay may not be as pervasive an issue as it is under other countries' corporate tax systems.

Australia is one of a limited number of countries that has a dividend imputation system to ensure

company profits are taxed only once. This is in contrast with the US, which operates under a classical system where profits are taxed in the hands of the company and, when distributed as dividends, are taxed a second time in the hands of the shareholders.

In Australia, shareholders are provided with a credit for the company tax already paid, effectively meaning that tax is only paid on the difference between the corporate tax rate and the individual tax rate, potentially as high as 47%. As such, the corporate tax rate has very little effect on Australian resident shareholders. The story is not the same for foreign investors as company tax is treated as a final tax. In this case, foreign investors do not get the benefit of Australia's imputation system, effectively resulting in the corporate tax paid being the tax paid by the shareholder.

Another explanation for our findings could be that external regulatory and public pressures mean that companies and their shareholders recognise the need to pay tax as a social responsibility. People's attitudes towards aggressive tax planning by corporations have changed significantly since reports of [corporate tax scandals](#) and leaks such as [the Panama Papers](#). This is coupled with the [OECD's program](#) designed to address corporate tax avoidance along domestic tax reform measures, which began mid-2013.

Shareholders might not benefit from tax cuts

Our findings come at a time when we are seeing calls for a reduction in corporate tax rates. The [IMF](#) recently announced that its revised growth forecasts were partly attributed to the expected impact of the recent US tax policy changes. Under new law, the US federal corporate tax rate has been reduced from 35% to 21%.

Australia's corporate tax rate for entities with a turnover of less than A\$25 million in 2017-18 is 27.5% and for all others remains at 30%. The government wants to introduce tax cuts for larger corporations which would ultimately see all companies paying corporate tax at a rate of 25%.

A comparison of the statutory tax rate, specified by law, also does not tell the full story. In March 2017, the [US Congressional Budget Office](#) released a comparative study of global corporate tax rates, also comparing average corporate tax rates. It reveals that the average US rate is more like 29% while Australia is already significantly below that rate at 17%.

Read more: [*Race to the bottom on company tax cuts won't stop tax avoidance*](#)

As the US Congressional Budget Office explains, corporations tend to consider the average corporate tax rate when deciding to undertake a large or long-term investment in a country. This is because it's this rate that reflects a country's tax preferences for business and legal tax planning strategies. In contrast, the statutory corporate tax rate is more of a concern for multinational corporations wishing to shift profits from a high tax country to a low tax country.

Our findings suggest that shareholders may not receive greater returns from corporations which pay less tax. A reduction in the corporate tax rate is likely to lead to a further reduction in the effective tax rate and taxes paid as a percentage of sales or revenues.

Our pilot study indicates that shareholders at least may not benefit from such a reduction. Corporations paying their "fair share" of tax may potentially be regarded favourably by shareholders, in much the same vein as environmental and governance concerns. So we shouldn't assume that corporations paying less tax is good for shareholders in Australia.

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Read more <http://theconversation.com/companies-that-pay-more-tax-deliver-shareholders-better-returns-new-study-90386>