Australia's "tax review": Rudd seeks to deliver corporate agenda

Mike Head
27 August 2008

One of the main agenda items advanced at the Rudd government's "2020 summit" last April has begun to take shape with the release of a Treasury discussion paper on the tax system. At the summit, business leaders demanded a major overhaul of taxation and a slashing of the company tax rate. By publishing the tax report and calling for public submissions, Prime Minister Kevin Rudd and his ministers aim to deliver.

The 343-page paper is just the first stage of the tax review, which is due for completion next year. Nevertheless, Treasurer Wayne Swan spelt out its essential axis in welcoming the report. "The government has three goals through this review," he said. "Making our tax system more internationally competitive; rewarding hard work, particularly untangling those disincentives which do result from complex interactions between the tax system and the welfare system; and simplifying the system as well."

Translated into plain language, "internationally competitive" means cutting corporate and investment taxes further by shifting the taxation burden even more onto ordinary working people in order to boost profits and attract globally mobile investment. "Rewarding hard work" means finding ways to push more people off welfare or family assistance programs and into poorly-paid work. "Simplifying the system" involves reducing the array of federal and state taxes that affect business.

Although the report makes no specific proposals, its main message is that the company tax rate must be lowered from the current 30 percent, and that overall taxation of "capital" must be cut if Australian capitalism is to compete in global markets. To this end, the paper provides a picture of the endless "race to the bottom" as rival nation-states seek to outbid each other to entice investment by slashing tax rates.

Treasury quotes Organisation for Economic Co-operation and Development (OECD) figures showing that when the former Howard government cut the company tax rate from 36 percent to 30 percent in 2001, it gave Australia the eighth-lowest rate in the OECD. Over the past five years, however, other countries have reduced their rates, making Australia the 10th-highest, and significantly above the OCED average of 26.6 percent. Notably, the lowest corporate tax rate—in Ireland—is now just 12 percent.

Just 40 years ago, in 1965-66, the Australian company tax rate was 40 percent, while the top marginal personal tax rate was 67 percent. The latter rate is now 45 percent, and the Rudd government has set an "aspirational goal" of reducing it to 40 percent by 2013-14. In other words, over the past few decades, billions of dollars have already been handed over to the corporations and wealthiest layers of society, and the Labor government is anxious to deliver more.

When it established the tax review, the government ruled out increasing the rate of the 10 percent Goods and Services Tax (GST), which generated $41 billion in 2006-07. Even so, Treasury pointedly notes that the GST revenue is low compared to the rest of the OECD. Since it was introduced in 2000, the GST has helped to offset the foregone revenue from company and income taxes, at the expense of ordinary working people, who bear the brunt of the highly-regressive tax on everyday purchases. If the GST is not expanded, the only way to finance deeper cuts to business taxes is to gut social spending, including on health, education, basic services and welfare payments.

To reinforce its message, the discussion paper declares that Australian taxes on "investment capital"—including company tax, capital gains and property taxes—now raise the highest proportion of government revenue in the world. According to Treasury: "It is a surprising result in a globalising world with increasingly mobile capital flows for a small, open economy to have the highest weight given to the taxation of capital income."

This "surprising result" has been reached partly because of the super-profits extracted from the current mining and commodities boom, which have led to a bonanza for the government through higher company tax returns. Mining company profits have risen six-fold in just five years—from $5.8 billion in 2001-02 to $32.1 billion in 2006-07. By 2005-06, mineral exports were valued at $91 billion, or 40 percent of total exports, and are forecast to soar to $176

billion in the present financial year.

Once this windfall starts to dry up, and there are already signs of this—slowing growth in China and other Asian markets and falling commodity prices—the pressure on the Rudd government to cut business and investment taxes will only intensify.

Significantly, while company tax revenues from mining have mushroomed, royalties have fallen from 30 percent of profits to 10 percent since 2001-02. Nonetheless, Treasury warns against changing to a profits-related royalty regime, which could "discourage high-risk investments", and the Minerals Council, which represents the mining conglomerates, has weighed in, declaring that any such shift could "affect Australia's sovereign risk profile".

The discussion paper makes a point of highlighting complaints by the two main business groups—the Australian Chamber of Commerce and Industry (ACCI) and the Business Council of Australia (BCA)—about the "regulatory burdens" and "compliance costs" produced by the complexity of the federal and state tax system. The BCA claimed its members had to deal with 21 federal taxes, 33 state taxes and 2 local government imposts.

The document's other main preoccupation is with driving up the workforce participation rate, under conditions where the proportion of the population in paid work is "currently at an all-time high". In other words, although unprecedented debt and other financial pressures have already compelled record numbers of people, particularly women, to join the workforce, the government is mooting further tax and welfare measures to create more welfare-to-work "incentives".

In particular, the paper notes that family assistance programs had produced disincentives, via high effective tax rates, to seeking work. It also asserts that the tax and welfare system is the most aggressively redistributive (from rich to poor) of any OECD country. It further warns that the level of federal "cash transfers" (welfare and financial assistance payments)—about $70 billion or 6.8 percent of GDP in 2006-07—would rise to 7.1 percent of GDP over the next 40 years through the anticipated ageing of the population, combined with longer life expectancies.

The report makes no specific recommendations, but its thrust is clear: one way or the other, hundreds of thousands of people, including stay-at-home mothers, single parents, the disabled and long-term unemployed, should be pushed into the labour market, primarily to carry out low-paid and menial work. Inevitably, this will mean cutting welfare benefits, which are already below the poverty line (single pensioners subsist on $273 a week, and the unemployed on less).

Devising the specific mechanisms has been left to a review of pensions, which is being conducted as part of the tax review. A background paper, released this week, confirmed that most aged pensioners live in dire circumstances. More than half have less than $20 a week in private income to top up their pensions, 30 percent have bank balances of less than $1,000 and almost 40 percent do not own their own homes.

Prime Minister Rudd, however, has ruled out any increase in the pension rate before the tax and pension reviews are completed at the end of 2009, while Families Minister Jenny Macklin cynically commented that the statistics reinforced the need to ensure that more people join the workforce before retirement age.

The corporate media has generally welcomed the tax discussion paper as a first instalment in completing the "unfinished business" of the previous government. In an editorial, Murdoch's *Australian* described the document as a "useful benchmark against which to measure the progress of the Rudd government's promised root-and-branch reform" and said it "made a compelling case to return to the unfinished business on company tax reform". At the same time, the newspaper's front page warned that delivering the promises would be politically difficult.

Likewise, the *Australian Financial Review* editorial declared that while the report drew no conclusions, it "nevertheless screams 'J'accuse!' from virtually every table and box detailing the system's costly complexity, excessive weighting towards productivity-sapping taxes on capital, and counterproductive welfare churn". The editorial then placed the government on notice, declaring that moving more people from "welfare to work" would be its "most intellectually challenging task".