Top Australian firms avoid billions in tax

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30 September 2014

The insistent demand of the corporate and financial elites, implemented by both the Liberal and Labor parties, is that the budget deficit must be brought down through deep cuts to social programs on the grounds that "the nation" cannot continue to live beyond its means. While military spending is being boosted, "there is no money" for health, education and welfare.

A report by the Tax Justice Network and the United Voice trade union, however, has revealed that the financial aristocracy has avoided paying billions of dollars in corporate tax every year.

The top companies, comprising the ASX 200, listed on the stock exchange over the period 2004–2013, paid an average tax rate of 23 percent, compared to the official rate of 30 percent. Nearly a third had an effective tax rate of 10 percent or less, while 14 percent, including the James Hardie building materials firm, notorious for its treatment of asbestosis victims, paid no tax at all.

The estimated loss to government revenue as a result of the tax avoidance of ASX 200 companies is $8.4 billion a year, and more than $9.3 billion for the total of taxable companies. Since 2004, the tax revenue foregone totals up to $80 billion, enough to cover the past two budget deficits.

One of the main avenues of corporate tax avoidance is the reporting of income through subsidiaries based in low-tax countries, known as secrecy jurisdictions, such as Singapore, Hong Kong and Malaysia, as well as the more traditional locations of the British Virgin Islands, Luxembourg and the Channel Islands of Jersey and Guernsey.

The study found that last year alone, $47 billion flowed from Australia to these locations. The 2,156 companies listed on the ASX had a total of 26,096 subsidiaries, with a quarter reporting subsidiaries in secrecy jurisdictions. Tax avoidance starts at the top. While comprising just 9 percent of all companies on the ASX, the biggest 200 accounted for almost half the secrecy jurisdiction subsidiaries.

The most "tax aggressive" sector was real estate, which had an overall tax rate of just 5 percent. It accounted for 18 percent of the tax payments avoided by the ASX 200, while comprising just 4 percent of that group.

The standout firm was the giant property company and shopping mall operator Westfield. It was responsible for the largest amount of lost tax revenue, an average of $541 million annually, or 34 percent of the tax avoided by the real estate sector as a whole.

One reason for these low tax rates is the use of real estate investment trusts, which are effectively tax free entities, because income is supposedly taxed once it is distributed to investors. Another method is the use of "stapled securities." These enable a company to shift its profits into trust structures, where little or no tax is paid, while keeping debt within the taxed sector of the company, where it reduces taxable profits.

According to the report, much more revenue might have been foregone than indicated by the calculations based on reported profits. Companies use a number of measures to artificially lower profits for tax purposes, while not impacting on their overall viability. One such method is "thin capitalisation," by which a company's debt is significantly elevated in comparison to its equity, or shareholders' funds. The interest paid on the debt is tax deductible.

The report found that for the 2011–2012 financial year if the corporate tax rate of 30 percent were applied to earnings before interest payment deductions, then an additional $49.3 billion would have been raised. Overall, 36 percent of total corporate profits were lost to financing costs.

The report provided a revealing case study of the Swiss-based company Glencore, Australia's largest coal mining operator. The company, which is not listed on the ASX, received revenues of $15 billion over three years and took out loans worth $3.4 billion at an interest rate of 9 percent. The loans were from a related company, registered in an overseas jurisdiction. Nearly half the company's sales of coal were to a related party. Through the combination of these practices, Glencore reduced its tax bill to "almost nothing."

At the same time, Glencore benefitted from state government subsidies to the mining industry, estimated to be $17.6 billion over the past six years, as well as federal government subsidies of up to $4.5 billion a year.

Releasing the study, United Voice national secretary David O'Byrne noted that in the past five years the proportion of tax received from corporations shrank from 23 to 19 percent of total tax receipts while the proportion from individuals increased from 37 to 39 percent.

O'Byrne called for a "full parliamentary inquiry" into the corporate tax system to get to the bottom of the problem and investigate solutions to ensure the system "is working as it should."

Yet figures in the report show why no such "tax reform" will happen, and why avoidance will increase. At present, corporate taxes form a larger proportion of total government revenue in Australia than all the other countries grouped in the OECD, bar Norway. In 2013–14, the federal government expects to collect $70.4 billion from company tax, compared to $52.7 billion from the goods and services tax (GST).

The corporate and financial elites insist that the dependence on company tax collections is already too high. The official 30 percent rate must be cut to make Australia "internationally competitive" with lower tax regimes in South East Asia, they maintain, and with an increased reliance on regressive tax measures, such as the GST, that hit those on the lowest incomes the hardest.

This agenda has been fully embraced by the two major parties. In the 1980s, the company tax rate stood at 46 percent, until it was reduced to 39 percent by the Hawke Labor government, supported by the trade union predecessors of United Voice.

Labor's last budget, again supported by trade union officialdom, while cutting social spending, included further corporate tax reductions. The Abbott government's first budget continues this process. As Treasurer Joe Hockey has declared, the goal is to make "structural reforms" in order to continually reduce social spending, opening the way for deeper corporate tax cuts.

The problem of tax evasion is not a result of the "deficiencies" of legislation as such, but that the entire political system serves the dominant corporate and financial interests.