Australian tax summit sees an emerging "consensus"

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The development of a strategy to lower the corporate tax rate and meet a long-standing demand of corporate and financial elites was at the centre of discussion at the *Australian Financial Review*-sponsored tax summit yesterday.

Significantly, representatives of the Australian Council of Trade Unions, the Labor Party and the Australian Council of Social Service expressed, to varying degrees, agreement in principle with such measures, with discussion centring on how to implement them.

The tax summit was organised some months ago as the *Australian Financial Review* and other financial media outlets expressed growing frustration with the failure of the Abbott government to implement so-called "tax reform." Their demands have centred increasing the rate and broadening the coverage of the regressive Goods and Services Tax (GST), which impacts most heavily on working-class families and lower-income groups, to help cover the cost of reducing the corporate tax rate from 30 to 25 percent.

Prime Minister Tony Abbott had declared that an increase in the GST was not on the agenda in the term of the present government and appeared to rule it out almost indefinitely by insisting that it could only be done with the agreement of all the state governments. This led to a rising tide of criticism in business circles that the government had given up on "reform" in conditions where the prospects for the Australian economy were worsening.

However, last week's removal of Abbott and the installation of Malcolm Turnbull as prime minister has opened up new possibilities. On the eve of the summit, Turnbull declared that all "tax reform" options were on the table as he touted the need for innovation in the wake of the ending of the mining boom.

The demand of big business for a lowering of the corporate tax rate was advanced most directly by the managing director of the mining giant Rio Tinto Australia, Phil Edmands. He told the summit that the decision earlier this year by Australian biotherapy company CSL to locate its new plant in Switzerland had been motivated by tax rates. It was not possible to maintain a tax rate higher than rival nations and regions.

"I guess what the business community is saying is that if the UK is moving towards 18 percent, the OECD is 25 percent, Asia is moving to 22 percent, it's just not feasible to maintain a 30 percent rate," he said. "It doesn't matter what your philosophical position is. It's just not practical."

Labor shadow treasurer Chris Bowen stated his "in principle" support for a reduction in the corporate rate and pointed to the kind of arguments to be developed by Labor to provide a handout to big business. The assertion by former treasurer Martin Parkinson that the burden of company tax fell most heavily on workers was "a statement of fact which I agree with," Bowen said. "I would like to see the corporate tax rate come down over time. I have previously said the nation should be aiming for a 25 percent corporate tax rate."

ACTU president Ged Kearney adopted a more cautious approach, saying that tax reform did not immediately imply an increase in the GST to fund a reduction in company tax. But she indicated she was open to the establishment of a mechanism which does precisely that, saying that "perhaps it [the corporate rate] is too high, I don't know," adding that, "I'll be in the argument there."

Peter Davidson, the senior policy adviser to the welfare lobby group, the Australian Council of Social Service, adopted a similar approach.

"Let's start by looking for solutions that have stronger equity and efficiency at the moment," he said. "Then we can turn our attention to issues such as the GST if we can't get far enough down that track."

The essential political problem in hiking the GST to cut the corporate rate was pinpointed by Saul Eslake, former chief economist at Bank of America Merrill Lynch and the ANZ Banking Group. He said it would be "hypocritical" to broaden the base of the GST without moving to also broaden the base of income tax to make room for cuts in the corporate rate.

In other words, some window dressing is needed to secure the implementation of corporate demands for lower taxes.

Eslake set out his argument in a comment published in today's *Australian Financial Review* entitled, "We could sell a wider GST if loopholes for the rich were shut."

He pointed out that those in the top tax bracket received a series of concessions via superannuation, capital gains and income earned from partnerships and trust distributions which far outweighed other taxpayers, "both as a proportion and in the proportion of the totals involved." And these concessions did not take into account the way in which top income earners could "use these and other preferential forms of treatment to keep themselves out of the top personal income tax bracket."

"I would urge that it is incumbent on those in the business community and elsewhere who do favour an increase in the rate or broadening of the base of the GST and reduction in company or personal tax to lead the conversation in this area as well," he said.

It was simply "not right," Eslake declared, for those who wanted to broaden indirect taxes to resist broadening the base of income tax, "and it's not going to wash with the general public either."

The basis of this political strategy is that if there are some measures directed against the vast array of tax loopholes for the wealthy, then it will be possible to bring on side the Labor Party, the trade unions and social welfare lobby groups to argue that "tax reform" is equitable as all sections of society are bearing a "fair share" of the burden in the interests of the nation. That is, the kind of "consensus" achieved between big business, Labor, the unions and social welfare organisations which operated to reduce real wages and boost profits under the Hawke-Keating Labor governments could be replicated.

Eslake's proposals, which follow Turnbull's essential orientation in emphasising the need to persuade the electorate of the need for "reform," could well be taken up by key business leaders. They know well that, whatever tax loopholes may be closed, new ones will be rapidly opened, as they have always been in the past, through manoeuvres devised by high-priced tax accountants and corporate lawyers.

The lead role in seeking to develop a new "consensus" has been taken by the Fairfax press, which publishes the *Australian Financial Review*.

But there is also a shift in the Murdoch media establishment, which was Abbott's chief backer. Today's editorial in the *Australian* was headlined "All we are saying is give bipartisanship a chance."

It began by noting that rumours of bipartisanship were often exaggerated. "Yet after almost a decade of national affairs characterised by acutely polarised and bitter debate, destabilised leadership and reform stagnation, this newspaper cannot help but wonder if we may see a window of opportunity. The elevation of Malcolm Turnbull to the prime ministership, at least initially, has acted as something of a circuit breaker with a more conciliatory tone overtaking the national discussion as even [Labor Party leader] Bill Shorten has sought to lower the temperature."

Having long lauded the bipartisanship which characterised the Hawke-Keating Labor government's attacks on the working class, the Murdoch press will have been encouraged by the display of emerging consensus at the tax summit.