An overview of the BCA's first submission to the Tax White Paper process[1]

Business Council of Australia

How Australians benefit from tax reform

The importance of a growing and resilient economy

Australians want an economy that is strong and resilient and creates well-paid jobs. Above all, we want an economy that is sustainable into the future and that allows us to maintain our high standard of living without putting us further and further into debt.

To do this, we need a more productive, innovative and agile economy that can contribute enough revenue to the nation's bottom line to support our ageing population.

Economic strength comes from investment and innovation and the development of new products and markets.

For industries to grow, our economy must encourage and empower entrepreneurs and businesses to take the risks necessary to invest and create the jobs of the future.

To do this, it is essential we have a tax system that works – for all of us. Getting the tax mix right is vital to encouraging growth and jobs, while being able to fund services and the social safety net. But right now, our tax system is inefficient, wasteful and discourages the investment and risk-taking needed for economic growth.

The BCA's role

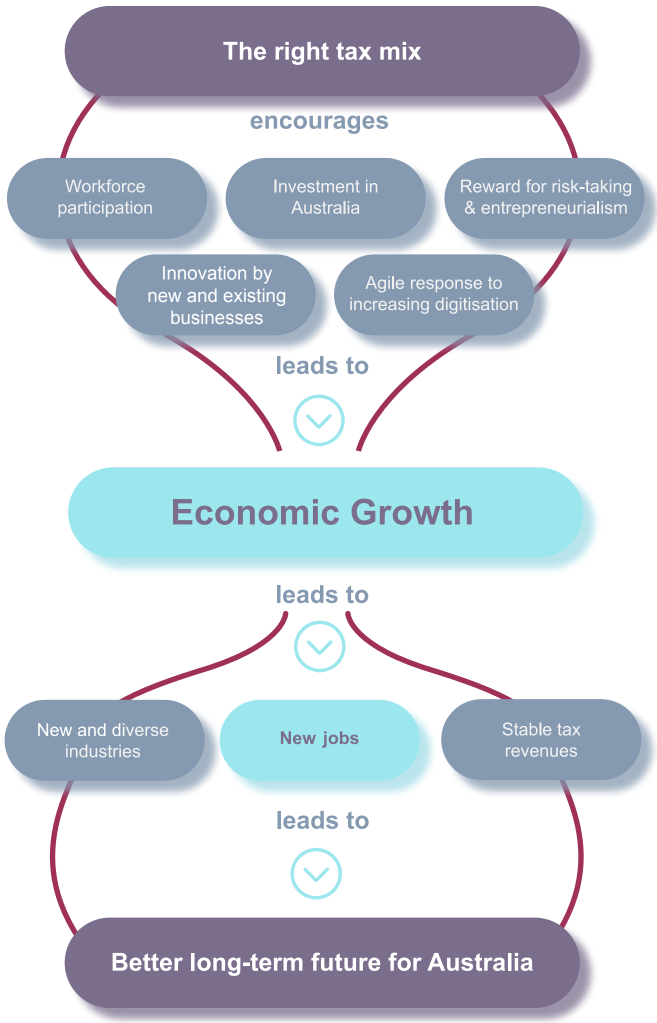
The Business Council of Australia is the nation's most respected group on how business works with the economy.

It represents the companies that directly employ 1.2 million Australian workers.

BCA research indicates that the activity between small, medium and large businesses is worth around $490 billion a year.

The success of small and medium businesses is linked to the success of the large businesses which are BCA members.

The BCA's economic and business experts play a central role in advising government on tax and economic policy.



Click here for 'The Future of Tax' the BCA's full initial submission to the Tax White Paper.

Australia is becoming uncompetitive, damaging our economy

The Australian tax system is out of step with the rest of the world. The statutory corporate tax rate of 30% competes with an average of 22% in Asia and 25% across the OECD. The UK has already dropped its corporate tax rate to 20% and it will fall to 18% by 2020.

This disparity is slowing investment in our economy.

It hampers our ability to create jobs, and seriously affects our ability to generate enough national revenue to pay for the services we need now and into the future.

In just one decade, Australia's productivity growth has slumped from seventh in the G20 to 16th. Our competitiveness is down from 16th in 2006 to 22nd last year, and we have not improved our innovation ranking in seven years.

While other countries like New Zealand and the UK have taken steps to fix their tax systems in the past decade in response to similar challenges, Australia has stood dangerously still.

Countries lowering their corporate tax rates

Increased investment = More jobs

	Tax rate in 2005		Tax rate in 2015
Hong Kong	17.5	↓ 1pt	16.5
Singapore	20	↓ 3pts	17
Thailand	30	↓ 10pts	20
UK	30	↓ 10pts	20
China	33	↓ 8pts	25
New Zealand	33	↓ 5pts	28
Australia	30	→	30
USA	39	→	39

Less investment = Fewer jobs

Having a 'competitive economy'

Australia competes with the rest of the world for investment funds and buyers of our goods and services.

Yet private business investment has slowed and at 4.3% of GDP, non-mining investment is at its lowest point in more than half a century.

Without investment flowing in to Australia from around the world, our ability to create more well-paid jobs is eroded, and we become less able to create the revenue we need to sustain our way of life and ageing population.

Tax reform is essential for providing efficient incentives for business and individuals – in existing and new sectors – to take risks, invest and innovate. Australia cannot afford a tax system that discourages entrepreneurialism and wealth creation, or a system that is so out of step with tax systems around the world that it becomes financially unattractive to invest here or to remain working here.

Without an appropriate level of encouragement for people to take risks and get ahead, we will not grow the businesses we need for our economy to compete with other economies in our region and around the world.

Less Investment $

Less business growth

Less revenue for government

Fewer new jobs

Our economy grows slower

Over-reliance on company and income taxes

We must set income and company tax rates at the right levels to encourage workforce participation, business growth and new jobs, while ensuring business pays its fair share of tax.

Australia relies much more heavily on personal income and company taxes than most other OECD economies. The tax take from these sources fluctuates significantly along with economic performance. Respectively, these two taxes contribute 47% and 20% of the total Commonwealth tax revenues, making our revenue base more volatile than our competitors. The over-reliance on these taxes also discourages innovation, risk-taking and entrepreneurialism.

Under-reliance on consumption tax

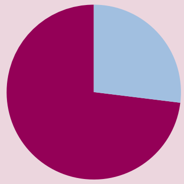
Instead, we should be focusing on rebalancing income and company taxes with consumption taxes like the GST, which are less volatile and provide more stable revenues. The GST provides just 16% of Commonwealth revenue, which is distributed to the states and territories. This is low by world standards because of its relatively low rate and narrow base compared with consumption taxes in other OECD countries.

'Bracket creep' is pushing up income taxes of middle-income Australians

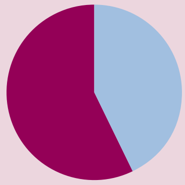
If we do not reform the tax system, the burden of paying for our ineffective system will fall on ordinary Australians who will effectively pay more tax due to bracket creep. Bracket creep refers to inflationary wage increases that push workers into high income tax brackets.

Taxpayers will face higher marginal tax rates as they move into higher tax brackets and also higher average tax rates due to the progressivity of personal tax rates and thresholds. And it is not the wealthy who are hit hardest by bracket creep, it is those on lower incomes.

'Bracket creep' is pushing up income taxes of middle-income Australians



Currently 27% of taxpayers in the top 2 brackets



Next decade 43% of taxpayers in the top 2 brackets

'Bracket creep' disproportionately affects those on lower incomes

In 4 years, if wages grow in line with wage price index forecasts

A person originally earning $40,000 a year will pay 25% more tax due to bracket creep

A person originally earning $150,000 a year will pay 11% more tax due to bracket creep

Technological change

Our tax system is struggling with rapid technological change and digitisation; forces which are fundamentally disrupting business models and corporate structures. The way we produce, sell, work and buy goods and services – and where we do so – is evolving rapidly, threatening parts of our traditional tax base. Intangible investment and assets are growing faster than physical capital. New asset classes will be created; the so-called "Internet of things" will challenge traditional business and investment models.

We need a tax system that is agile enough to accommodate and respond to the major economic impacts of technological change.

Changes must be good for Australians in the long term

While there is no doubt Australia is facing growing costs, especially in the provision of vital services like health, tax reform should not be about finding extra revenue to plug a hole in a broken system.

Simply raising taxes to cover ever-increasing expenditure is misguided. It allows governments to underwrite low value or wasteful spending and dodge the difficult but necessary discussion with the community about our need to spend within our means.

Instead, we should think beyond just raising taxes to create a system that boosts economic growth, encourages business to invest and create jobs, and provides a stable revenue base to make choices as a society around services and the social safety net.

Our tax system must also be fair. Tax changes may require compensation. Importantly, equity needs to be considered across generations and over lifetimes. Tax reform must build growth and create job opportunities for future generations who have no voice or vote today.

Having an informed, honest conversation about tax reform

All options must be kept on the table; you cannot have proper tax reform if you rule out certain options before looking at their impact on the system as a whole.

Our politicians should trust the community to look at all the options and start a well-informed national discussion on the best plans for Australia's future.

Without tax reform, living standards are at risk. It's time to have a proper national debate about tax reform, considering all the options to create the best tax mix for Australia's long-term future.

A tax reform package with seven key directions

The Business Council's first submission to the Federal Government's Tax White Paper outlines seven key directions for comprehensive tax reform:

Rebalance tax mix to promote growth	An income tax system that better rewards effort, including reducing reliance on personal income tax
	A more competitive Australian business environment, including reducing the company tax rate to encourage businesses to take risks and grow
	Broadening the base and increasing the rate of the GST
	Moving away from highly inefficient and volatile state taxes
Review concessions	Encouraging efficient savings through moving to more neutral, concessional treatment of savings
Reduce complexity and promote integrity	A simpler tax system to reduce the heavy red-tape burden
Target tax take to fund valuable services	Redesigning government programs to reduce spending growth and repair the budget, using user charges where appropriate to replace general taxation

Without tax reform, Australia will fall behind

We are falling behind.

Australia's productivity growth has fallen from 7th in 2004 to 16th in 2014 amongst G20 countries.

Our world competitiveness ranking has dropped from 16th in 2006 to 22nd in 2014.

We have made no improvement in our innovation raking over the past 7 years.

Australia's outdated tax system not delivering for the economy.

Rapid falls in the iron ore price have wiped $20 billion off the budget bottom line in the past year.

Without reform, bracket creep will push more middle income earners into the top two tax brackets, increasing the share of people in those brackets from 27% to 43%.

Globalisation and rapid digitisation are eroding traditional tax bases.

Other countries are making tough tax decisions.

To make the UK more competitive, boost investment and encourage economic growth, the UK government reduced the corporate tax rate over the past 5 years from 28% to 20%.

2 in 3 OECD countries have raised consumption taxes since 2006.

2 in 3 OECD countries have lowered company taxes since 2006.

Comprehensive tax reform can promote economic growth and jobs.

Rather than just raising taxes to plug a revenue hole, we should be making proper systemic tax reform that is fair overall and good for Australia in the long term.

Fundamental tax reform can improve the economy and create long-term jobs.

It has been done in Australia before, and it is working right now overseas. It can work in Australia.

For more detail on the BCA's recommended directions for tax reform, see the Business Council's Initial Submission to the Tax White Paper, 'The Future of Tax'.