Parliamentary
Budget Office

| Plan to ensure Multinationals Pay Their Fair Share of Tax | |
|---|---|
| Party: | Australian Labor Party |

Summary of proposal:

**Component 1: Supporting a global 15% minimum tax**

Implement the OECD's Global Two Pillar plan for a global 15% minimum effective tax rate on multinationals and for the taxes on multinational profits to better reflect where products and services are sold.

**Component 2: Limiting debt related deductions by multinationals**

Limit the deductions multinational firms can claim for net interest expenses to 30% of profits (EBITDA – earnings before interest, taxes, depreciation and amortisation) from 1 July 2023, consistent with OECD recommendations.

**Component 3: Tax havens integrity**

Deny tax deductions for the use of intellectual property when payments are made to a jurisdiction subject to the 'sufficient foreign tax test', as outlined in Section 177L of the *Income Tax Assessment Act 1936*, or where the jurisdiction houses intellectual property in a tax preferential patent box regime. This would apply from 1 July 2023.

**Component 4: Public reporting of tax information on a country-by-country basis**

Require the public release of high-level data on how much tax large multinational firms pay in the jurisdictions they operate in, alongside the number of employees working there.

**Component 5: Public registry of ultimate beneficial ownership**

Implement a public registry of beneficial ownership to ensure transparency over who actually owns a company, reducing our vulnerability to money laundering and tax evasion. The registry would show who ultimately owns, controls or receives profits from a company or legal vehicle, even when the company is registered as legally belonging to another person, such as an accountant or a shell company.

**Component 6: Mandatory reporting of tax haven exposure to shareholders**

Require companies to disclose to shareholders if they are doing business in a jurisdiction with a tax rate below the global minimum (15%) as a 'material tax risk'.

**Component 7: Requiring government tenderers to disclose their country of tax domicile**

Require all firms tendering for Australian Government contracts worth more than $200,000 to state their country of domicile for tax purposes.

## Costing overview

The quantifiable components of this proposal would be expected to increase both the fiscal and underlying cash balances by around $1.90 billion over the 2022-23 Budget forward estimates. This consists of an increase in revenue associated with each quantifiable component of the proposal.

The proposal would be expected to have financial implications that extend beyond the 2022-23 Budget forward estimates period. Financial implications (including separate PDI table for the quantifiable components) over the period to 2032-33 are provided at Attachment A.

The Parliamentary Budget Office (PBO) has determined Components 1, 4, 5, 6 and 7 to be unquantifiable. This primarily reflects the fact that the fiscal impact of greater transparency requirements would depend on the extent to which companies changed their behaviour – there is considerable uncertainty regarding the magnitude and direction of such a response.

No additional departmental costs have been quantified in this costing. The details of the operation of Component 1 are insufficiently developed to determine what departmental expenditures would be involved. The costs of Components 2 and 3 do not include any additional departmental expenditure as the changes involved fall within the scope of existing Australian Taxation Office (ATO) activity. The costs of Components 4 and 5 are assessed as unquantifiable but would mainly involve additional departmental expenditure by the ATO. Component 6 would mainly impose additional obligations on companies and enforcing compliance with the requirements would fall within scope of existing ATO activity. Component 7 would involve a minor additional reporting obligation for Australian Government agencies.

**Table 1: Financial implications ($m)[(a)(b)]**

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | **Total to 2025-26** |
|---|---|---|---|---|---|
| Fiscal balance | * | * | 1,230.0 | 666.0 | **1,896.0** |
| Underlying cash balance | * | * | 1,230.0 | 666.0 | **1,896.0** |

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
* Unquantifiable – not included in totals.

## Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Companies would pay any first-year increase in tax liability under this proposal in their annual tax assessment and in tax instalments thereafter.

### Component 2

- Companies that would be denied deductions under the new limit on net interest expenses would instead seek to utilise the world-wide gearing ratio or the arm’s length test and that 50% of deductions denied under the net interest expenses test would be allowed under the worldwide gearing ratio or arm’s length test.
- The level of deductions would grow in line with the medium-term estimates for corporate gross operating surplus (GOS).

- The number of entities that are estimated to be affected in the 2018-19 income year is representative of affected entities in future years.

### Component 3

- Royalties categorised by the ATO as 'copyright, patent, design or model, plan, secret formula or process, trademark, or other' are in scope of the component.
- Where intellectual property related royalties are distributed to countries with an intellectual property tax-preferential regime, such as intellectual property box regime, companies would use the tax-preferential arrangements.
  - The following countries were identified as having an intellectual property tax-preferential regime: Belgium, Cyprus, France, Hungary, India, Ireland, Israel, Italy, Luxembourg, Malta, Netherlands, Portugal, Singapore, the Slovak Republic, Slovenia, Spain, Switzerland, Turkey, and the United Kingdom.[1]
- Given the company tax rate of 30% for significant global entities, countries where the corporate tax rate is below 24% would be considered to not pass the 'sufficient foreign tax test'.
- Royalties paid over the 2022-23 Budget forward estimates period would grow in line with corporate gross operating surplus (GOS).

## Methodology

### Component 2

The financial impact is based on ATO unit-record debt-deduction data for thin capitalisation entities for the 2018-19 year. The impact was estimated by subtracting the estimated allowable debt deduction for each company under the proposal from the current amount of estimated allowable debt deductions.

The number of affected entities was calculated as the number of companies whose level of deductions would be affected by the proposal.

### Component 3

The ATO provided a dataset of non-resident royalty payments for the 2016-17 through to 2019-20 financial years. A minimum tax withholding rate on royalties of 30% or the denial of a tax deduction for royalty payments was applied where the destination country was identified as having either an intellectual property tax-preferential region or a significantly lower corporate tax rate such that it would not pass the 'sufficient foreign tax test'.

The value of non-resident royalty payments was combined with the company's taxable income or loss position for the 2018-19 financial year to calculate the change in taxable income. The large company tax rate was applied to the additional taxable income to calculate additional tax revenue received. Additional revenue is projected over the medium term and a behavioural response is incorporated.

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[1] Countries that have announced an intellectual property tax-preferential regime to be implemented in the 2019 calendar year have been included.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

### Components 1, 4, 5, 6 and 7

The PBO has determined these components are unquantifiable due to uncertainty around how companies would respond to greater transparency requirements.

## Data sources

The Treasury provided economic parameter forecasts as at the *Budget 2022-23.*

The Australian Taxation Office provided:

- A complete dataset of non-resident royalty payments by significant global entities for the 2016-17 through to 2019-20 financial years.
- A de-identified sample of company tax returns for the 2018-19 financial year.
- International Dealings Schedule Data.

[2] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

# Attachment A – Plan to ensure Multinationals Pay Their Fair Share of Tax – financial implications

### Table A1: Plan to ensure Multinationals Pay Their Fair Share of Tax – Fiscal and underlying cash balances ($m)[a][b]

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | **Total to 2025-26** | **Total to 2032-33** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | | | | |
| *Component 1: Support 15% minimum tax* | * | * | * | * | * | * | * | * | * | * | * | * | * |
| *Component 2: Limit debt related deductions* | - | - | *944.0* | *507.0* | *533.0* | *565.0* | *600.0* | *637.0* | *673.0* | *709.0* | *747.0* | ***1,451.0*** | ***5,915.0*** |
| *Component 3: Tax havens integrity* | - | - | *286.0* | *159.0* | *168.0* | *178.0* | *189.0* | *200.0* | *212.0* | *223.0* | *235.0* | ***445.0*** | ***1,850.0*** |
| **Total – revenue** | ***** | ***** | **1,230.0** | **666.0** | **701.0** | **743.0** | **789.0** | **837.0** | **885.0** | **932.0** | **982.0** | **1,896.0** | **7,765.0** |
| **Expenses** | | | | | | | | | | | | | |
| ***Administered*** | | | | | | | | | | | | | |
| *Component 4: Public reporting of tax information* | * | * | * | * | * | * | * | * | * | * | * | * | * |
| *Component 5: Public registry of ownership* | * | * | * | * | * | * | * | * | * | * | * | * | * |
| *Component 6: Mandatory reporting of tax havens* | * | * | * | * | * | * | * | * | * | * | * | * | * |
| *Component 7: Disclosure of tax domicile for tenderers* | * | * | * | * | * | * | * | * | * | * | * | * | * |
| **Total – expenses** | * | * | * | * | * | * | * | * | * | * | * | * | * |
| **Total (excluding PDI)** | * | * | **1,230.0** | **666.0** | **701.0** | **743.0** | **789.0** | **837.0** | **885.0** | **932.0** | **982.0** | **1,896.0** | **7,765.0** |

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) The profile of financial implications over the forward estimates in this costing differs from that published in Labor's fiscal plan due to more recent information about the assumed behaviour of companies in respect to the timing of tax payments.

* Unquantifiable – not included in totals.

\- Indicates nil.

### Table A2: Plan to ensure Multinationals Pay Their Fair Share of Tax – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | **Total to 2025-26** | **Total to 2032-33** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Fiscal balance*** | * | * | *14.0* | *36.0* | *53.0* | *73.0* | *96.0* | *123.0* | *154.0* | *190.0* | *231.0* | ***50.0*** | ***970.0*** |
| ***Underlying cash balance*** | * | * | *12.0* | *33.0* | *51.0* | *70.0* | *93.0* | *120.0* | *150.0* | *185.0* | *226.0* | ***45.0*** | ***940.0*** |

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

* Unquantifiable – not included in totals.

[3] Online budget glossary – Parliament of Australia (aph.gov.au)