



23 September 2016

Committee Secretary  
Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
*Sent via email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)*

Dear Mr Fitt

***RE: Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016***

Thank you for your letter of 16 September 2016 inviting PwC to make a submission to the Inquiry into Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016. Our position is summarised below.

This Bill proposes to amend the law to give effect to the Government's 2016-17 Budget proposals to reduce the corporate tax rate to 25 per cent, increase the tax discount for unincorporated small businesses and increase the small business entity threshold for certain purposes.

The Australian Parliament should support a reduction of the company tax rate to 25% for all corporate taxpayers and should pass the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016. The Committee should make this recommendation to the Parliament.

The reasons the Committee should make this recommendation are as follows:

- A reduction in the corporate tax rate is one step towards achieving a tax system better suited to advancing Australia in an increasingly globalised world.
- The differential between Australia's corporate tax rate and the rate of other small to medium OECD countries has been growing and as it increases, our capacity to attract foreign investment is undermined.
- As an open economy with strong trade, e-commerce and transport links, Australia is more exposed to the loss of investment and jobs from international competition than larger economies.
- Reducing the corporate tax rate will help Australia attract more foreign investment and will stimulate overall business investment in tangible and intangible capital, which improves our innovative capacity as a nation — translating into faster growth in productivity and living standards.
- Reducing the corporate tax rate will also create more domestically held capital which can be reinvested to drive productivity growth.
- An intelligent corporate tax rate strategy should be complemented by targeted action on base erosion and profit shifting, such as anti-avoidance laws and the Diverted Profits Tax.



- The gradual phase-in approach proposed in the Bill has several advantages but it is important that the Government establishes clear direction to a more competitive corporate tax rate to ensure a positive impact on future investment decisions.

Our discussion paper, *A Corporate Rate Reduction: the case for and against*, prepared in December 2015 is attached and sets out in further detail the reasons why we support a reduction in the company tax rate. Although this paper was prepared prior to the introduction of the Bill, the arguments made for a corporate rate reduction remain pertinent.

We have also attached to this submission a summary paper prepared by Mike Callaghan AM which provides an overview of a boardroom discussion conducted by PwC and the Australian Financial Review on the 23 June 2016. This boardroom discussion was conducted to evaluate the benefits of the corporate tax rate reduction as proposed by the previous Turnbull Government prior to the recent federal election. The participants in the discussion included Nicholas Gruen of Lateral Economics, Janine Dixon of Victoria University, Brendan Coates of The Grattan Institute, Tim Lyons of Per Capita and Michael Potter of The Centre for Independent Studies.

As the overview document prepared indicates:

*“There was agreement that reducing Australia’s company tax rate will likely result in increased foreign investment and in turn economic activity—that is increased GDP.”*

There are a number of important aspects from this discussion which should be emphasised, including:

- A reduction in the company rate is not a silver bullet to lifting Australia’s economic performance and this reform will need to be combined with reforms targeted at improving Australia’s economic performance through participation and productivity improvement;
- The benefits of a company tax rate reduction for national income will depend upon labour market responses;
- While modelling of tax rate responses undertaken by the Federal Government and other organisations is useful to understand the benefits of tax policy changes, economic models are inherently limited by their assumptions and sound policy should be based upon rigorous analysis and judgement;
- While a company tax rate reduction will be substantially self-funded through the additional tax revenues generated from the consequent economic growth, there will be an unfunded portion of the corporate tax rate reduction and appropriate funding will be required through additional tax measures or spending savings.

These considerations should not be accepted as excuses for inaction. Corporate tax rate reduction is a policy tool used by Governments globally to attract capital and drive growth. This policy tool is supported by commonly accepted economic theory. Australia needs to ensure that after 14 years of inaction it adopts this policy tool.



We would be pleased to meet with the Committee to further discuss company tax with you.

Yours sincerely

Paul Abbey  
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