ACTU Submission to Senate Standing Committee on Economics inquiry into the Business Council of Australia's Commitment to the Senate.

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Introduction

The Australian Council of Trade Unions (ACTU) welcomes the opportunity to provide a submission to this inquiry. As the peak body for Australian unions and the representative voice of Australian workers, we consider that this inquiry, questioning the basis of the Business Council of Australia's (BCA) 'commitment' to the Senate and by extension the entire justification for tax cuts for big business, will play a critical role in the ongoing debate about the reduction of corporate tax rates.

The BCA's so-called 'commitment' to the Senate consists of just four lines and twelve signatures.[1] The fact that some of Australia's largest companies chose to make this public 'commitment' at all says much about both the way the argument in favour of the cuts has been prosecuted and merit of the argument itself. Most fundamentally though, the 'commitment' shows that these corporations recognize that there is a serious credibility problem with the notion that already highly profitable companies should contribute a reduced share to Australia's public revenue. The fact is that this 'commitment' was made in a clumsy attempt to shore up public and political support by linking the tax cuts to higher domestic investment, more jobs and higher wages growth. However, the 'commitment' was soon exposed as simply a watered-down version of an earlier proposal that included a pledge to sign the ATO's tax transparency standard.[2] It is so obviously lacking in substance that it has only served to further undermine the case for tax cuts in the eyes of the public.

The ACTU strongly opposes the Government's attempt to cut taxes for big business, regardless of the watered-down 'commitment' that the BCA and some of its members have offered. We believe that there is no economic case for tax cuts and that they represent nothing more than a tax-payer funded handout to big business. Tax cuts will not fix youth unemployment, they will not make secure, fairly paid jobs available to Australian workers, they will not address growing inequality and they will not give workers the pay rise they need. What they will do is ensure a continuing flow of profit to (mostly overseas) investors. In fact, most of the benefit of the proposed tax cuts will flow to only a few companies, large mining companies and big banks particularly, boosting already sky-high profits.

The ACTU is unconvinced by the 'commitment' to the Senate provided by the BCA and remains unconvinced of any justification for tax cuts for massive corporations. We do not believe that any confidence or comfort can be taken from the statement whatsoever. The profit, tax and wages history of the companies that signed the BCA letters shows that many of them currently pay no tax, earn huge profits and that their workers see little of the benefit. We see no reason to believe that a tax cut would change this.

The Evidence against Cutting Taxes for Growth

The ACTU opposes tax cuts for large corporations on many grounds. Perhaps the most damning to the Government's case for tax cuts is that their argument that tax cuts are necessary for economic growth is utterly without merit. There is, in fact, no credible economic case for corporate tax cuts or the claim that workers will ultimately benefit from such a cut. The modelling that the Government is relying on to assert that workers will receive a significant benefit from corporate tax cuts assumes that businesses will pass the

[1] http://www.bca.com.au/media/our-commitment-to-the-senate
[2] https://www.smh.com.au/politics/federal/secret-bca-commitment-to-senate-shows-members-have-not-committed-to-paying-tax-20180328-p4z6m2.html

benefits of corporate tax cuts in full to creating new jobs and wage increases. This does not appear to be likely. Recent studies by the Australia Institute and the Grattan Institute, as well as overseas experience, has shown that corporate tax cuts do not alter the investment or employment decisions of the top 15 ASX companies.[3] Research comparing the US and the UK (prior to the US's tax cuts) showed that the United Kingdom slashing its corporate tax rate from 30 per cent down to 19 per cent, while the US rate remained at 35 per cent, saw UK real median wages fall while US real median wages began to rise – the opposite effect that tax cut advocates have promised.[4] Now that the US has also cut its rate, a Goldman Sachs analysis found that 60 per cent of corporate tax benefits flow on to offshore investors.[5]

Even the Government's own Treasury modelling found that in the short term the greatest benefits would go to the profits of companies themselves, and in the longer term the improvement in GDP and jobs growth would be modest.[6] Treasury modelling has found that cutting the company tax rate by one percentage point would result in nothing more than an increase in GDP of 0.1 per cent and growth in jobs less than 1 per cent over two decades.

There is also significant doubt about Government's claim that a tax cut will result in an increase in investment in the Australian economy – with their own figures, with the planned cuts factored in, showing that business investment is predicted to fall by 5 per cent this year and remain flat for several years[7]. Foreign investment is also unlikely to increase. Foreign investment is dependent on a range of factors other than the company tax rate. Foreign Investment Review Board figures confirm that much of Australia's investment comes from countries with lower company tax rates. By value, 71 per cent of foreign investment applications come from countries with company tax rates lower than Australia's rate and by a large number, 97 per cent come from countries with company tax rates lower than Australia.[8] Government rhetoric aside, it appears unlikely that corporate tax cuts will positively impact on employment, wages, GDP growth or business investment in Australia.

The Current Taxation Regime - An International Comparison

It should also be noted that, once again despite the Government's increasingly desperate rhetoric, Australia is not a high-taxing country – in fact Australia is both low-taxing and low-spending compared to other OECD countries. Australia has the second lowest share of government expenditure in GDP in the OECD. Australia's overall tax take is low by international standards. Australia has the third lowest overall tax take in the OECD.

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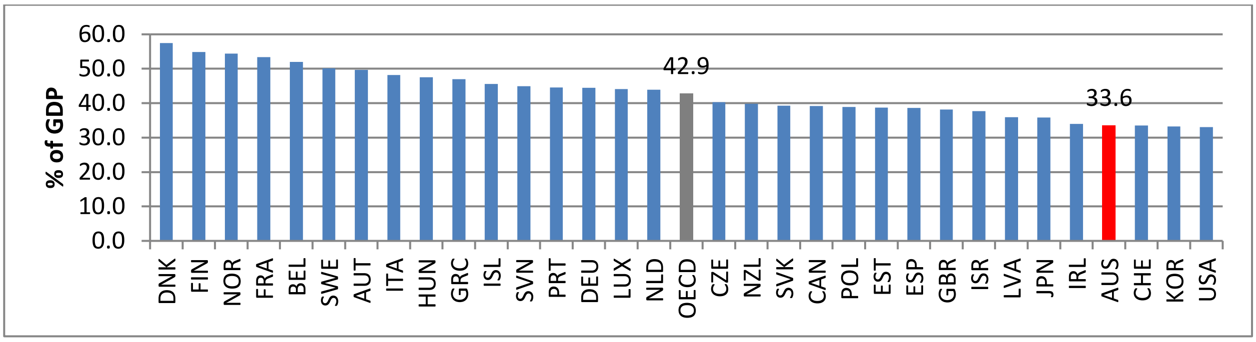
[3] The Australia institute, Cutting the Company Tax Rate: Why Would You? Dave Richardson, 30 November 2015
[4] https://www.vox.com/the-big-idea/2017/10/20/16506256/cea-report-corporate-taxes-wages-boost-job-growth
[5] The Guardian 1 June 2016
[6] The Guardian 3 May 2016
[7] Budget Paper 1 2016-17
[8] The Australia Institute, Company tax and foreign investment in Australia, Richardson. January 2017.

Figure One: Australia has the fourth lowest total tax take as a per cent of GDP in the OECD



Source: OECD, http://stats.oecd.org/, tax revenue statistics, 2014

Aside from the relatively low total tax take, a US Congressional Study has also found that while the headline rate of corporate tax in Australia is 30 per cent, the average rate was substantially less at 17 per cent and after all deductions were considered the effective rate was a mere 10.4 per cent.

Figure Two: Australia has an average tax corporate tax rate of 17 per cent and an effective rate of 10.4 per cent

Corporate Tax Rates in G20 Countries, From Highest to Lowest, 2012

Top Statutory Corporate Tax Rate[a]		Average Corporate Tax Rate[b]		Effective Corporate Tax Rate[c]	
United States	**39.1**	Argentina	37.3	Argentina	22.6
Japan	37.0	Indonesia	36.4 [e]	Japan	21.7
Argentina	35.0	**United States**[d]	**29.0**	United Kingdom	18.7
South Africa	34.6	Japan	27.9	**United States**	**18.6**
France	34.4	Italy	26.8	Brazil	17.0
Brazil	34.0	India	25.6	Germany	15.5
India	32.5	South Africa	23.5 [e]	India	13.6
Italy	31.4	Brazil	22.3	Mexico	11.9
Germany	30.2	Russia	21.3	Indonesia	11.8
Australia	30.0	South Korea	20.4	France	11.2
Mexico	30.0	Mexico	20.3	Australia	10.4
Canada	26.1	France	20.0	China	10.0
China	25.0	Turkey	19.5	South Africa	9.0
Indonesia	25.0	China	19.1	Canada	8.5
South Korea	24.2	Australia	17.0	Saudi Arabia	8.4
United Kingdom	24.0	Canada	16.2	Turkey	5.1
Russia	20.0	Germany	14.5	Russia	4.4
Saudi Arabia	20.0	United Kingdom	10.1	South Korea	4.1
Turkey	20.0			Italy	-23.5

Source: Congressional Budget Office, using data from KPMG International, the Organisation for Economic Co-operation and Development, the Internal Revenue Service, and the Oxford University Centre for Business Taxation.

Who Benefits?

The clearest beneficiary of the tax cuts the Government is proposing is not working people, nor is it the broader Australian economy. The most obvious beneficiaries of the cuts are, coincidentally, those calling most loudly for them - large companies and the overseas shareholders not covered by the dividend imputation regime applying to Australian shareholders. In fact, research has shown that one full third of the benefit from the proposed tax cuts would flow to only 15 large companies – most of whom are oligopolies who already dominate their markets.[9] These companies are:

[9] Australia Institute, Lazy Oligopolies, February 2016.

- Commonwealth Bank
- Westpac
- National Australia Bank
- ANZ
- Macquarie
- QBE Insurance
- BHP Billiton
- Rio Tinto
- Woodside Petroleum
- Wesfarmers
- Woolworths
- Scentre Group
- Westfield
- Telstra
- CSL

Some of these companies would, once the cuts were fully implemented, earn billions of dollars a year in extra profits, all at the expense of the Australian tax-payer. The same research found that these companies are, due to their status as oligopolies facing little real competition, unlikely to invest a significant proportion of their gains into the economy as new investment, employment or innovation spending.[10] We see here the Government's true agenda, not economic growth or increases in employment or wages but the enrichment of shareholders and business - in fact, research from the University of Technology Sydney found that 40 per cent of the benefit from the tax cuts would flow to overseas investors as dividends.[11]

The Implications of a Reduced Tax Take

Unfortunately, the proposed tax cuts will, in addition to enriching the already wealthy at the expense of tax-payers, have other significant negative impacts. The reality is that income inequalities in Australia are greater than at any time in the last 70 years. Small elites have amassed vast fortunes and massive political power while for the vast majority of people, living standards have declined and job security has disappeared. Inequality is the challenge of our time. If we don't change course, Australia will be a fully Americanised society of high inequality and dead-end jobs, with long working hours, no holidays, zero job security and poverty pay levels. These are the economic conditions that breed high levels of crime, discrimination against minorities and a broad range of social problems. Australia must not go any further down this path, yet this is exactly what a tax cut for big business will mean. We already have a tax system in which large companies, such as Exxon, do not pay their fair share of tax and the system seems powerless to compel them to do so. A tax cut will only make this problem, and the inequality it creates, worse.

To address inequality and move to a more even playing field it is essential that corporations pay their fair share of tax and that the tax base is expanded, not contracted. We need public investments which serve the current and longer-term needs of Australians by investing in quality private and public-sector jobs; high

[10] Ibid.
[11] https://www.theguardian.com/australia-news/2016/jun/28/coalitions-company-tax-cuts-more-than-40-of-benefit-flows-overseas-report-finds

quality education and research; transport, communications and renewable energy infrastructure and research and development that will enhance innovation, the use of new technologies, higher productivity and new export opportunities. However, public investments of the scale required are not possible with our current tax base.

The corporate tax cuts will be paid for by cuts to family tax benefits, paid parental leave and essential services such as schools, hospitals and community services that working people rely on. Increased corporate welfare is not used to build new factories, update technology and create more jobs. Rather a tax funded jump in corporate profits will end up in the pockets of the corporate executives and the, all too often offshore, shareholders. The reality is that this tax cut will cost workers not only directly in lost revenue for government but also indirectly as more expensive or reduced government services and as lost opportunities to invest in real growth.

What 'Commitment'?

The union movement's opposition to company tax cuts is based on all the evidence above, which puts the lie to many of the Government's claims about its positive impacts. The BCA-authored 'commitment' to the Senate does nothing to address many of these concerns. First, we must acknowledge the now-revealed first draft of the commitment, which included concrete promises to increase wages and conditions and to hire more staff and which, evidently, no business was willing to sign. The fact that the BCA was unable to get support for the first draft of the commitment and could only secure signatories by moving to the vague, non-committal final version must raise serious questions about the commitment of business to actually follow through on even the vague 'promises' they eventually signed. Even leaving this aside however, there are a number of other factors which cause us to doubt the authenticity of the BCA's 'commitment' and to question why the businesses who chose to sign it feel they need a tax cut to be able to invest further in Australia.

The Committee could be forgiven for thinking that, in their search for signatories, the BCA would have found those large companies most burdened by what they deem to be our onerous corporate tax rate – companies paying 30 per cent tax who could argue they would greatly benefit (and would commensurately be able to free up a large amount of money for investment) from a reduction to a 25 per cent rate. Bizarrely, this is not the case for the ten corporate signatories the BCA was able to find.

Of the ten companies represented, five are revealed as having paid no tax in the most recent ATO Tax Transparency Report.[12] Energy Australia, JBS Australia, MYOB, Origin Energy and Qantas all paid a corporate tax rate of 0 per cent in the 2015-16 financial year. This is despite a combined income of $35 billion that year, with a taxable income of $146 million. Of these companies, Energy Australia, MYOB and Qantas have paid 0 per cent tax in all three ATO Tax Transparency reports – in fact Qantas is reported to have no paid corporate tax for nearly a decade.[13]

Of the remaining five companies three have questionable tax records, although they have at least paid some tax at some point. Over the last three tax reports, BHP has paid a rate somewhere between 23 per cent and 29 per cent (average 25 per cent), Fortescue metals has paid between 6 per cent and 28 per cent (average

[12] Australian Tax Office, Tax Transparency Report 2015-16, December 2017.
[13] http://www.abc.net.au/news/2018-02-14/why-many-big-companies-dont-pay-corporate-tax/9443840

20 per cent) and Woodside Petroleum has paid between 5 per cent and 28 per cent (average 18 per cent). Once again, it would appear that lowering of the corporate tax rate to 25 per cent would have little real impact in terms of freeing up additional funds.

Only 2 of the 10 'commitment' signatories are currently even close to paying their fair share of tax. Woolworths have, over 3 tax transparency reports, paid an average rate of 28 per cent and Wesfarmers have paid 29 per cent. It should be noted that, to outline the impact of the proposed tax cuts on the tax-payers, that lowering these two company's rates to 25 per cent for the 2015-16 year alone would cost $150 million in tax revenue. This is the equivalent of:

- 150,000 emergency ward patient admissions[14], or
- Funding for 11,000 secondary school students[15] or
- Individualised NDIS support in the first year for 3200 people with a disability[16].

What we are left with then is a commitment from ten companies to invest extra money from a tax cut which, due to their already aggressive tax minimisation, many of them will not receive. The two that might have some extra money have already been identified by the Australia institute as 'lazy oligopolies' who are unlikely to meaningfully invest the money[17] – leaving the tax-payer significantly worse off.

The real dollar value of the 'commitment' made by these companies then appears to be, at best, highly questionable. What must also be asked is why these companies feel that a tax cut is required for them to be in a position to invest in the economy, employ more workers and give their workers a fair pay rise. Perhaps, it might be thought, these companies are struggling mightily to be profitable (after all many of them appear to pay no tax on profits), barely able to pay their executives and as a result need a helping hand to profit and invest? This does not appear to be the case. Of the ten companies that signed the 'commitment', nine are clearly profitable and, for those who provide data in their reports, all appear to pay their executives handsomely. The table (Figure 3) below outlines the profits made by each of the companies in the most recent financial year, based on their own annual reports and their executive pay (if available).

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[14] Based on emergency ward admissions costing $956 per patient. Independent Hospital Pricing Authority. (2016). National Hospital Cost Data Collection: Australian Public Hospitals Cost Report 2013–14 Round 18. Available at: https://www.ihpa.gov.au/sites/g/files/net636/f/publications/nhcdc–round18.pdf

[15] Based on Australian government funding of $12,193 per secondary school student as stipulated in the School Resourcing Standard. National Commission of Audit. (2017). Schools funding. Available at: http://www.ncoa.gov.au/report/appendix–vol–1/9–7–schools–funding.html

[16] At full scheme, about 475 000 people with disability will receive individualized supports, at an estimated cost of $22 billion in the first year of full operation (Productivity Commission. (2017). National Disability Insurance Scheme, position paper). This leads to an average of $46,316 per person in the first year of NDIS

[17] Op. Cit, Australia Institute, Lazy Oligopolies

Figure 3 - Profits and executive pay		
Company	**Profit ($m)**	**Executive remuneration (full package) ($m)**
BHP*	$ 7,671.00	$ 5.92
Energy Australia**	$ 440.00	Not reported
Fortescue Metals	$ 2,093.00	Not reported
JBS Australia	Not reported	Not reported
MYOB	$ 101.60	Not reported
Origin Energy	$ 550.00	$ 2.66
Qantas***	$ 1,400.00	$ 53.00
Wesfarmers***	$ 2,873.00	$ 39.00
Woodside Petroleum	$ 1,024.00	$ 3.99
Woolworths	$ 1,534.00	$ 4.47
Total	$ 17,686.60	$ 109.05
* Worldwide, US$ converted to $AUD 05/04/18 ** based on media reports *** includes all executives		

What Figure 3 shows is that at least 9 of the 'commitment' signatories appear to be significantly profitable, with more than half able to provide remuneration to their CEOs in the millions of dollars a year. Together the 10 signatories managed to report more than $17 billion in profit for one year and provide remuneration worth more than $109 million to their executives. The question must be asked: why is it that such profitable companies, with the ability to pay top-dollar for CEOs, are not currently making the nebulous investments mentioned in the BCA 'commitment'? Why are they not giving their workers a fair pay rise? It's unclear to us what level of profit these companies deem sufficient to provide their workers with fair pay or to commit to employing more Australians and how can we be sure tax cuts will provide it?

It appears then that the BCA's 'commitment' has been largely signed by companies promising to spend extra money they won't have on 'investments' they could make now if they were so inclined.

The final element of their 'commitment' to be examined must be their promise to spend any extra funds provided by a tax cut on employment and workers' wages. This 'promise' might be credible if the companies concerned had a long history of being stellar employers, passing on the profits earned by their company to their workers. Unfortunately, this has not been the case with several of the signatories.

- **BHP, Woodside, Fortescue Metals**
  - Extensive use of outsourcing and labour hire to introduce lower-paid workers
  - Lack of investment in apprentices and training for workers
  - Extensive use of short-term contracts.
- **Energy Australia**

  - Has previously locked workers out during EBA disputes[18]
- **JBS Australia**
  - Poor treatment of abattoir workers during slow periods[19] [20]
- **Qantas**
  - Locked out workers and grounded their airline in 2011 over a pay dispute.[21]
  - Announced the laying off of 5000 workers in 2014 as part of attempts to cut $2 billion in costs from the business over three years.[22]
  - Between 2014 and 2016, more than 15,000 Qantas employees, through various bargaining processes, agreed to 18-month pay freezes.
  - Has outsourced work to Aerocare, who have mistreated workers while Qantas has avoided any responsibility.

Conclusion

We see no reason why the Committee, or the Senate itself, should take any of the ‘commitments’ made by the BCA or its members seriously. The evidence about the tax conduct of these companies, and many like them, is clear and the Senate should dismiss the BCA statement entirely. These companies already have poor records. Most do not pay their fair share of tax, are already massively profitable, pay their executives millions of dollars and have a record of questionable treatment of workers. Why should they be rewarded for this behaviour, on a nebulous promise to do the right thing next time?

Their actions have shown that profit and padding their own wallets are their only motivations – it’s unclear how a tax cut would change this fundamental element of their nature. This question, coupled with the significant evidence that a tax cut would have little economic benefit and be accompanied by real economic costs is why the ACTU urges to Committee to consider the ‘commitment’ made by the BCA and its members to be utterly valueless and for the Senate to continue to refuse to countenance the Government’s out-of-touch and ill-considered tax cut strategy.

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[18] http://www.adelaidenow.com.au/news/national/energyaustralia-says-it-will-talk-with-union-if-workers-agree-to-flexible-working-hours/news-story/73429571cf4e3b1521229b029cb0fbf0
[19] http://www.abc.net.au/news/2017-02-24/jbs-abattoir-workers-to-be-stood-down-again/8299656
[20] http://www.themercury.com.au/lifestyle/jbs-australia-offers-no-joy-for-longford-abattoir-workers-left-jobless-amid-sheep-shortage/news-story/c5a9c1b18aa7a0bd918bf306ecc7be5d
[21] http://www.abc.net.au/news/2011-10-29/qantas-locking-out-staff/3608250
[22] http://www.afr.com/business/transport/aviation/qantas-engineers-caterers-agree-to-wage-freeze-20141207-1224r9