percapita
FIGHTING INEQUALITY IN AUSTRALIA

# Submission to the Senate Standing Committee on Economics Inquiry into the 'Commitment to the Senate' issued by the Business Council of Australia

## About Per Capita

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

## Introduction

This submission addresses the commitment made by the Business Council of Australia to the Australian Senate on 21 March 2018 ("the Commitment"), as follows:

*We believe that a reduction in the corporate tax rate, as proposed through the Government's enterprise tax plan, is urgent and vital to keep Australia competitive.*

*If the Senate passes this important legislation we, as some of the nation's largest employers, commit to invest more in Australia which will lead to employing more Australians and therefore stronger wage growth as the tax cut takes effect.*

Per Capita does not believe there is sufficient evidence, based on past business practice, to accept the Commitment at face value.

We submit that a reduction in the headline rate of company tax payable by large corporations will not lead to significant increased investment or higher wages for Australian workers.

Business profits in 2017 were up by 22 per cent, but investment and wages did not increase proportionally.

Further, we note that, of the ten signatories to the Commitment, only four paid more than 25% tax in 2015 - 2016 (the most recent year for which data is available) and four paid no tax at all (see Appendix).

## Past business behavior predicts future actions

Despite the Commitment from the members of the Business Council of Australia that a tax cut will lead to greater local investment and, subsequently, to increased employment and higher wage growth, none of the recent behaviour by wholly or partly foreign owned businesses in Australia indicates that this will occur.

There is a fundamental mismatch between what business says it will do with the increase in profits that will flow from this tax cut, and what has actually happened when their profits have increased over recent years.

As the ABS Business Indicators from December 2017 showed, business profits were up by 22 per cent over the year. Yet total private investment has fallen from around 17.5 per cent to 12.5 per cent in just five years, and private sector wages are growing at just 1.9 per cent, failing to keep pace with inflation.

There is a real discord between the fiscal and monetary policy settings of the Australian economy and the behaviour of business – one which is directly responsible for weak wage growth and low investment in the Australian economy.

Per Capita's recent report, *The Future of the Fair Go: securing shared prosperity for Australian workers*, explains this divergence in detail.

Over the decade since the Global Financial Crisis, business has exacerbated wage weakness through its preference for cost reduction over investment spending.

As RBA Deputy Governor Guy Debelle stated last year, there are "indications that the stock market is rewarding cost reduction rather than investment spending where the payoffs are multi-year rather than immediate".

In other words, business leaders pursue short-term profits and returns to shareholders over long-term investment because that's what the stock market wants - and their own remuneration and share holdings are reliant on share market performance.

Former US Adobe Executive, David Mendels, acknowledged this in a blog piece in November last year, saying:

> *A tax cut for corporations will increase their profitability.* ***Why we should believe that this increase in profitability will lead to wage increases when we have already seen that increases in profitability over the last 10 years did not, but rather went to stock buybacks and dividend increases that benefitted the investors?*** *As a CEO and member of the Board of Directors at a public company, I can tell you that if we had an increase in profitability we would have been delighted but it would not lead in and of itself to more hiring or an increase in wages. Again, we would hire more people if we saw growing demand for our products and services. We would raise salaries if that is what it took to hire and retain great people.* ***But if we had a tax cut that led to higher profits absent those factors, we would "pocket it" for our investors****.*

A recent report from the US noted that, when surveyed, 80 percent of CEOs said they'd "pass up making an investment that would fuel a decade's worth of innovation if it meant they'd miss a quarter of earnings results".

Business behaviour in Australia mirrors that in the US. Dividend pay-out ratios in Australia have grown from around 60 per cent of profits throughout the 2000s to around 70 per cent since 2010, with a peak of over 80 per cent in 2015.

As Australian businesses have sought to maximise cash returns through cost-cutting, they have reduced their demand for labour.

This has not been seen in the top-line employment numbers, but in underemployment, underutilisation and wage weakness. Firms have deliberately used both volume and price levers to manage their labour bill downwards.

Contrary to the Commitment by BCA members to the Senate, there is no indication in behaviour or published statements elsewhere that business will invest or lift wages regardless of their profitability.

The Australian Industry Group's Business Prospects Report, released on 24 January, explicitly calls for "[t]he continuation of moderate wages growth", saying that "[t]he record jobs growth of 2017 and the ability to meet expectations of still higher jobs growth in 2018 are closely associated with the moderate wages outcomes of recent years and require the continuation of this pattern into 2018".

In other words, business has no intention of granting wage increases to workers – they have said so clearly, as recently as January.

As the AIG's own report makes clear, business leaders regard weak wage growth as an essential factor in their increased profitability and growth, the results of which they will, on all behavioural evidence, continue to return to shareholders in increased dividends, and to themselves in executive remuneration.

In short, there is simply no evidence, based on recent business behaviour, that a tax cut would necessarily be passed through to workers through increased investment or wages.

As the analysis appended to this submission makes clear, most big Australian businesses are paying below the headline tax rate to which they are seeking a legislated reduction, and are highly profitable already, yet they have shown no inclination to increase investment locally or pass their profits through to workers in the form of higher wages.

In conclusion, Per Capita does not believe that the Senate should pass the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 based on the assertions of business leaders made by the Commitment to the Senate issued by the Business Council of Australia on 21 March 2018.

## Appendix

### Analysis of tax paid by signatories to the Commitment

The below tables show the tax paid by the signatories in 2015/16 (the most recent year we have data) using searchable ATO data provided by The Guardian. Of the ten signatories, only four paid more than 25% tax in 2015/16 and four paid no tax at all.

### 1. Andrew Mackenzie, Chief Executive Officer, BHP

Tax paid: 25.21%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| BHP BILLITON LTD | 26,671,570,876 | 5,260,130,225 | 19.722 | 1,325,839,334 | 25.21 |

BHP Billiton "took stonewalling to a new level" during hearings in the Senate Committee inquiring into corporate tax avoidance in 2015. The company was widely criticised for being uncooperative with the Committee. It should be noted that BHP Billiton bases its marketing operations in Singapore for tax minimisation reasons.

### 2. Catherine Tanna, Managing Director, EnergyAustralia

Tax paid: 0%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| ENERGYAUSTRALIA HOLDINGS LIMITED | 7,755,881,032 | 0 | 0 | 0 | No taxable income |

EnergyAustralia's parent company, China Light & Power (Australia) Limited, is based in the British Virgin Islands, a known tax haven. EnergyAustralia is an example of a company engaged in aggressive tax minimization, committed to paying zero tax over multiple years. The company primarily appears to use debt to its own overseas companies to transfer profits to tax havens.

Total revenue 2014-2016 was $23.9 billion with zero tax paid over those three years.

### 3. Andrew Forrest, Chairman, Fortescue Metals Group Limited

Tax paid 26.41%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| FORTESCUE METALS GROUP LIMITED | 8,882,154,698 | 1,489,902,962 | 16.774 | 393,497,536 | 26.41 |

### 4. Brent Eastwood, Chief Executive Officer, JBS Australia Pty Limited

Tax paid: 0%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| JBS SMALLGOODS HOLDCO PTY LTD | 640,358,338 | 0 | 0 | 0 | No taxable income |

### 5. Tim Reed, Chief Executive Officer, MYOB

Tax paid: 0%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| MYOB GROUP LIMITED | 295,054,106 | 0 | 0 | 0 | No taxable income |

### 6. Frank Calabria, Managing Director & CEO, Origin Energy Limited

Tax paid: 0%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| ORIGIN ENERGY LIMITED | 11,917,688,617 | 94,061,718 | 0.789 | 0 | No tax payable on taxable income |

As Michael West has noted, “According to the ATO tax transparency data, Origin notched up $37 billion in revenues in the three years to 2017. Most of that went in tax losses and costs – much of it bona fide as gas prices have been falling globally making the foray into LNG export a disaster. Its taxable income for those three years was at $595 million, on which tax payable was $108 million, making a tax rate of 18 per cent.”

### 7. Alan Joyce, Chief Executive Officer, Qantas Airways Limited

Tax paid: 0%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| QANTAS AIRWAYS LIMITED | 15,754,181,367 | 52,432,000 | 0.333 | 0 | No tax payable on taxable income |

Qantas has relied primarily on carried over losses from previous years to pay zero tax for the last three years over which we have data, despite large profits during those years.

### 8. Rob Scott, Managing Director and Chief Executive Officer, Wesfarmers Limited

Tax paid: 28.57%

| Name | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|
| WESFARMERS LIMITED | 63,446,848,220 | 3,256,885,643 | 5.133 | 930,590,946 | 28.57 |

Wesfarmers is generally a responsible taxpayer.

### 9. Peter Coleman, Managing Director and CEO, Woodside Energy Limited

Tax paid: 4.72%

| Name | ABN | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|---|
| WOODSIDE PETROLEUM LTD | 55004898962 | 7,085,553,026 | 1,558,248,770 | 21.992 | 73,497,299 | 4.72 |

### 10. Brad Banducci, CEO and Managing Director, Woolworths Limited

Tax paid: 26.82%

| Name | ABN | Total income $ | Taxable income $ | Taxable income as % of total income | Tax payable $ | Tax as % of taxable income |
|---|---|---|---|---|---|---|
| WOOLWORTHS LIMITED | 88000014675 | 49,414,150,955 | 1,852,662,288 | 3.749 | 496,872,267 | 26.82 |