

Question on notice no. 294

Portfolio question number: 294

2017-18 Supplementary budget estimates

Economics Committee, Treasury Portfolio

Senator Chris Ketter: asked the Department of the Treasury on 25 October 2017—

(1. In response to Senate Estimates questions (25 Oct 2017) , it was suggested that passive investment companies are less likely to actively invest in jobs and new capital. Does Treasury hold the view that one argument to deny eligibility for the lower tax rate for passive companies is that they are not as likely to be investing in new capital or directly creating jobs?

Answer —

See attachment.

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2017 - 2018

Division/Agency: Corporate and International Tax Division

Question No: 294

Topic: Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017

Reference: Written

Senator: Chris Ketter

Question:

1. In response to Senate Estimates questions (25 Oct 2017), it was suggested that passive investment companies are less likely to actively invest in jobs and new capital. Does Treasury hold the view that one argument to deny eligibility for the lower tax rate for passive companies is that they are not as likely to be investing in new capital or directly creating jobs?

Answer:

Treasury's economy-wide modelling suggests a cut in the corporate tax rate to 25 per cent would generate a sustained increase in the level of GDP of just over 1 per cent. The majority of the gains from a company tax cut are expected to flow to Australian workers as increases in real wages. This modelling did not differentiate between active and passive companies.

A direct consequence of a lower company tax rate is that all Australian companies will have more profits after tax. For active companies, this means they have more money available to invest in their own businesses. For passive companies, this means they have more money available to invest in other businesses.

The changes introduced by the *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2017* will ensure that small and medium companies get access to the lower company tax rate first. These companies employ over 4.7 million Australians.