Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: **BET 395**

Topic: **Company Tax**

Hansard Page: **Written**

Senator EGGLESTON asked:

The budget shows the company tax reduction costs $2,000 million in 2013-14.

1. What is the effect on personal income tax payments of the proposed reduction in company tax?

2. Is it fair to say company tax is a withholding tax in Australia, because of dividend imputation?

3. What fraction of small businesses in Australia is Australian owned? Would it be fair to assume overwhelming majority of Australian small businesses are Australian-owned?

4. Is it fair then to say that the reduction in company tax will be of no direct benefit to small businesses in Australia?

5. Given Australian small business owners ultimately pay personal income tax, would it be fair to say that a reduction in personal income tax would be of vastly more direct financial benefit to small businesses in Australia than reducing the company income tax?

A key concern is that taxable income includes too many concessions especially for depreciation.

6. Which concessions are the chief problem here, and how much revenue is lost because of them?

7. Why not just get rid of the concessions?

Answer:

1. None. The cut in the company tax rate will not affect the tax that shareholders pay on dividends received. Shareholders pay tax on dividends at their personal income tax rate.

2. Yes. Company tax is a withholding tax in Australia for Australian residents. For non-residents, company tax operates as a final tax.

3. Although precise data is not available, it would be fair to assume that the majority of Australian small businesses are Australian–owned. In this regard, according to the Australian Bureau of Statistics, in 2006:

   - 71 per cent of all small business operators were born in Australia, with the remaining 29 per cent born overseas; and

   - 92 per cent of all small business operators conducted one business, 6 per cent operated two businesses, and 2 per cent operated three or more businesses.

4. No. A reduction in the company tax rate will benefit small business companies, particularly when they retain profits and reinvest them back into the company.

   The company tax cut will also improve cash flow for small business companies, particularly when combined with the instant write off for assets costing up to $5,000 and the simplified depreciation pooling arrangements.

5. No. A reduction in the company tax rate will particularly benefit small business owners when they retain profits and reinvest them back into the company. The reduction will also provide cash flow timing benefits as the company pays less tax up front.

6. The larger tax expenditures for company tax are the statutory effective life caps, which collectively totalled $655 million in 2008-09; deductions for capital works expenditure, which was $535 million in 2008-09; the depreciation pool for low value assets, which was $100 million in 2008-09; and small business simplified depreciation rules, which was $100 million in 2008-09. These figures were published in the 2009 Tax Expenditures Statement.

   The estimates of tax expenditures in this statement are prepared under the ‘revenue forgone’ approach which calculates the value of tax expenditures in terms of the benefit to the taxpayer of the provisions concerned, measured relative to a non-concessional tax benchmark. This approach assumes no behavioural response to removing a concession, and as such is not an estimate of the revenue gain from abolishing the concessions.

   There are considerable practical difficulties in producing estimates of the value of tax expenditures on a revenue gain approach. In particular, information would be needed about the behavioural responses of taxpayers to policy changes. The order in which tax expenditures are removed and how activity would flow to alternative concessions would also matter.

7. The concessions are the result of Government policy decisions.

   Some concessions serve to reduce compliance costs for business, such as the depreciation pool for low value assets and small business simplified depreciation rules.

   The Australia’s Future Tax System Review noted that Australia has a relatively broad-based company income tax, with limited concessional write-off arrangements compared to many OECD countries.