The Australia Institute
Research that matters.

Cutting the company tax rate

Why would you?

This paper attempts to critically examine proposals to cut company tax rates by looking at the circumstances of some of the main company tax-payers, namely the top 15 listed companies in Australia. The conclusion is that none of these companies are likely to significantly change their behaviour as a result of any cut in company tax.

Discussion paper

David Richardson
December 2015

ABOUT THE AUSTRALIA INSTITUTE

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

OUR PHILOSOPHY

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

OUR PURPOSE – 'RESEARCH THAT MATTERS'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.tai.org.au or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 5, 131 City Walk
Canberra, ACT 2601
Tel: (02) 61300530
Email: mail@tai.org.au
Website: www.tai.org.au

Summary

The purpose of the present paper is to critically evaluate the arguments for cutting the company tax rate.

Company tax is a complicated affair yet there are many advocates of lower company tax that pretend it is a simple proposition—cut taxes and benefits such as investment and innovation will follow. Hence the strong calls for reductions in the company tax rate from 30 per cent to 25 per cent.

We find that a reduction in company tax to 25 per cent would give Australia's top 15 listed companies a benefit of $58,075 million over the 10 years from July 2016. Those companies paid $21,742 million in company tax in Australia in the financial year ending in 2015 which amounts to something like a third of total company tax.

For the big four banks a reduction in company tax to 25 per cent would mean a benefit of $2,019 million in 2016-17 and $29,711 million for the decade starting that year. The Commonwealth Bank alone would receive benefits worth around $623 million in 2016-17 and a staggering $9,159 million over the decade.

None of the big 15 companies are likely to be big innovators or investors in the near future and it is hard to see what investment or any other return Australians would receive in return for the $58,075 million gift.

Of course not all of the reduction in company tax would be lost because almost half of the reduction in company tax would be recovered through a reduction in franking credits through the dividend imputation system. Hence a cut in company taxes has only a small impact on the total collected in both company and personal taxation with respect to the Australian shareholders. Australian shareholders see no difference in their after tax position so it is hard to imagine that the ultimate company owners would perceive any increase in the incentive to invest or innovate.

In the case of foreign shareholders many will likewise receive no change in their incomes but foreign tax authorities are likely to gain at the expense of the Australian tax office under the double tax agreements Australia has with many countries in the world.

Table of Contents

Summary..iii

Introduction.. 1

Impact on the top taxpayers 2

Impact on Australian shareholders 6

Foreign Shareholders.. 8

Budgetary implications... 9

Other considerations 11

PwC enters the debate 12

Conclusions.. 15

Introduction

There have recently been strong calls for reductions in the company tax rate for big companies from 30 per cent to 25 per cent. Newspaper reports are carrying stories with for example the Financial Review suggesting 'Malcolm Turnbull has all but confirmed company tax will be cut as part of the government's reform package'.[1] The head of the Business Council of Australia (BCA), Catherine Livingstone, argued that a cut in the company tax is critical for innovation.[2]

The purpose of the present paper is to critically evaluate the arguments for cutting the company tax rate. Included in this we take a novel approach by examining some of the companies most affected by company taxation and look at how they will be affected as well as whether they are likely to change their behaviour in terms of their investment and innovation decisions.

By way of introduction we can also note that there are no intrinsic reasons for cutting company tax rates. Quite the opposite. High company tax rates buttress the personal income tax system by reducing the avoidance that takes place through disguising personal income as company income. The distribution of equity ownership and dividend income is much more biased towards high income earners than is income itself.

[1] Coorey P (2015) 'Turnbull firms on company tax cut', *The Australian Financial Review*, 11 November.

[2] Tingle L (2015) 'Livingstone says innovation debate gone from "sublime to ridiculous"', *The Australian Financial Review*, 11 November.

Impact on the top taxpayers

The arguments for cutting company tax now seem to reflect a new emphasis on investment and innovation. It is argued that if we cut the company tax rate then firms will be more likely to invest and innovate. It is important therefore to be clear about which companies would receive the benefit and whether those companies are indeed likely to invest and/or innovate.

Table 1 was constructed based on the annual reports of the top 15 listed Australian companies as measured by market capitalisation.[3] From those reports it is possible to find the total company tax paid.   In some cases adjustments and to be made for the amount of overseas taxes paid and in some cases reports were presented in US dollars so further adjustments had to be made. The results are presented in Table 1.

[3] Many of these companies are largely foreign owned.

Table 1: Australian taxation paid by big companies (ranking reflects market value)

Company tax provisions			
Company	2015 ($m)	2014 ($m)	Notes
Commonwealth Bank of Australia	3,429	3,221	
Westpac Banking Corporation	3,348	3,115	
National Australia Bank Limited	2,717	2,598	
Australia And New Zealand Banking Group Limited	1,629	1,702	
BHP Billiton Limited	4,364	7,370	Aust tax only
Telstra Corporation Limited	1,787	1,679	
CSL Limited	399	323	Aust tax only
Wesfarmers Limited	1,004	939	
Woolworths Limited	930	1,057	
Macquarie Group Limited	899	827	
Woodside Petroleum Limited		1,081	2014 is latest
Scentre Group Stapled		11	2014 is latest
Rio Tinto Limited	1,236	1,534	Aust tax only
Westfield Corporation Stapled		0	2014 is latest
QBE Insurance Group Limited		182	2014 is latest
Total	21,742	25,638	

Sources: Annual reports of the various companies. Results for CSL and Rio Tinto are presented in Australian dollars using the same formula that BHP Billiton uses.

From Table 1 we can see that the top 15 companies in Australia paid $21,742 million in company tax in their years ending in 2015 down from $25,638 million in 2014. Falling revenue from mining companies was mainly responsible for the fall in tax but also some of the companies have not yet reported for 2015 – in particular those that use a calendar year.

Total company tax collections were estimated to be $68,000 million in 2014-15 so that the top 15 companies in Table 1 pay something like a third of total company tax. If cutting company tax has any benefits then we should hope to see some response on the part of these major companies. It is also clear from Table 1 that the biggest companies tend to pay the higher amounts of company tax. While the correlation is not perfect, generally the tax payments decline as we go down the table.

We now turn to question whether in fact it is likely that these companies will in fact respond to tax cuts by undertaking more investment or other desirable activities.

On the 2015 figures a cut in the company tax rate from 30 to 25 per cent for the Commonwealth Bank will be worth at least $572 million. Assuming it was introduced as of July 2016 it would be worth around $623 million in that financial year and a staggering $9,159 million over the 10 years beginning in 2016-17. The calculations here assume that the company's profit will increase in line with the growth in nominal GDP. For the big four banks (ANZ, Commonwealth, National and Westpac) the tax cut would be worth $2,019 million in 2016-17 and $29,711 million for the decade starting that year.

For the top 15 companies as a whole, using the same procedure and using the fairly low figures for 2015 in Table 1, a reduction in company tax to 25 per cent would give those companies a benefit of $58,075 million over the 10 years from July 2016. For the government to make such a tax concession to the corporate sector it might be hoped that there would be some benefit in return either in increased investment or some other benefit to Australia.

As we go through the list of the top 15 companies it is clear that none of these companies will be big innovators or investors in the near future. Using the Commonwealth Bank again as our example, in the last three years its investments averaged $578 million which comes in at only 5.2 per cent of its average cash flow from operating activities over the same period.[4] The Commonwealth Bank receives something like 5 per cent of the taxable company income in Australia but makes about 0.2 per cent of all private investment in Australia.[5] The other banks (including Macquarie Group Limited) would also be negligible investors along with QBE Insurance Group Limited.

---

[4] All figures are calculated from the Commonwealth Bank Annual Report. Calculations later in the text all reflect figures published in the relevant company's annual report.

[5] Based on national account data for investment spending using ABS (2015) *Australian National Accounts: National Income, Expenditure and Product, Jun 2015*, Cat no 5206.0, 2 September. The figures are not strictly comparable but nevertheless make a telling point.

On 2015 figures, BHP Billiton and Rio Tinto, two of Australia's biggest coal miners would stand to gain almost a billion dollars per annum ($933 million). If their average profits over the next decade are around 2015 levels then their gain would be $9.3 billion.

The miners are unlikely to do much investing with the current prices and cash flow downturn. The top 15 companies include four miners if we include Wesfarmers' coal interests. Coles is the other main part of Wesfarmers and along with Woolworths is part of a fiercely competitive duopoly. The investments these two make tend to be related to their attempts to gain advantage over each other through strategic property purchases and the like. Woolworth's annual reports suggest its cash flow is more than sufficient to finance the investment and property development it undertakes. Coles is difficult to assess because so much depends on the internal arrangements in Wesfarmers.

Telstra spends a fairly large amount on property plant and equipment at $2,845 million but that is more than adequately covered by its cash flow from operating activities of $8,311 million. Certainly there is an argument that there should be more investment in telecommunications in Australia. However, Telstra could be described as a big and lazy monopolist that has been happy to do just enough to maintain its monopoly but has failed to keep up to date with world best practice in, for example, internet speed. It was for that reason that both sides of politics recognised the need for a new initiative in the form of a state owned operator, NBN Co. CSL has an operating cash flow of $1,684 million and spent just $347.8 million on property, plant and equipment.

So far we have accounted for 13 or the top 15 corporations. We are left with Scentre Group Stapled and Westfield Corporation Stapled. These two property groups are the result of a restructure of the old Westfield on 30 June 2014. They tend to make trust distributions and rely on tax deferred capital gains rather than declaring profits. Hence they have declared only trivial taxable incomes in 2014 and 2015 and pay minimal company tax.[6] Some of the parts of these groups are potentially affected by company tax but it is not clear that they would benefit from any cut in company taxation (and, by extension, how a cut to the company tax rate might affect their investment behaviour).

Overall it is hard to see what investment or any other return Australians would receive in return for the $58,075 million gift to the top 15 companies.

Of course companies do not have any sort of moral or other duty to plough their profits back into investment or innovation. There is little evidence that the top 15

[6] Westfield paid no company tax and Scentre only $11 million.

companies would spend the tax cuts on increased investment and/or innovation. International competitiveness arguments are sometimes used but it is hard to see how they would apply to Australia's big 15 companies.

Almost by definition the top 15 listed companies in Australia tend to be large enterprises with a good deal of market power. They are very big companies that dominate their own markets and loom large in the Australian economy as a whole. As monopolies, duopolies and oligopolies they tend to avoid investments if they can and rely instead on non-price competition and corporate takeovers to entrench their positions. Very little by way of new investment or innovation can be expected from this quarter yet they would account for a third of any company tax cut.

It must be stressed that not all of the reduction in company tax would be lost. A reduction in company tax would also reduce the franking credits that dividend recipients can use as credits against any personal income tax they must pay on their dividend income.[7][8] In the case of a company such as the Commonwealth Bank which has a high dividend payout rate of 70 to 80 per cent[9] most of any company tax cut would be recouped by way of higher net taxes on individual shareholders as a result of the reduced franking credits. This is a topic we examine in the next section.

Impact on Australian shareholders

We now examine what happens to Australian companies and their Australian shareholders as a result of these changes.

We take the example of a company that earns $100 million now and pays all its dividends to Australian resident taxpayers. We assume that the company has a 75 per cent dividend payout ratio. Column 1 presents the Australian pre-tax profits which are assumed to remain the same. Column 2 shows the present and old tax at 30 and 25 per cent respectively. Column 3 gives the dividend calculated at 75 per cent of the company's after-tax income. Using the present 49 per cent top marginal tax rate in Australia (45 plus Medicare levy 2 plus temporary levy 2) the tax on the dividend income is calculated in column 4. Columns 5, 6 and 7 respectively present the total tax

[7] Dividend recipients who do not pay tax may receive franking credits as a cash payment.

[8] It is assumed here that a company tax cut would be accompanied by an equal reduction in the franking credits so that the 'grossed up' dividend would be the same amount. However, it must be pointed out that the changes to the small business company tax rate (from 30 to 28.5 per cent) were made while retaining the 30 per cent grossing up factor. See Australian Taxation Office (2015) 'Small business company tax rate' at https://www.ato.gov.au/Business/Small-business-entity-concessions/In-detail/Income-tax/Small-Business-company-tax-rate/

[9] Commonwealth Bank of Australia (2015) *Annual Report 2015*.

paid, the after-tax income for the Australian taxpayer and then the retained profit accumulated by the company.

Table 2: Company tax, payouts and shareholder returns

	1 Company profit	2 Company tax	3 Dividend	4 Tax on Australian share-holder (@49%)	5 Total tax paid	6 After tax income for A taxpayer	7 Retained profit
Present	100	30	52.50	14.25	44.25	38.25	17.5
Proposed	100	25	56.25	18.00	43.00	38.25	18.75
Difference	0	-5	3.75	3.75	-1.25	0.00	1.25

The results in Table 2 are based on an unchanged pre-tax company profit of 100 and show that the differences are:

- Company tax falls by 5,
- Dividends increase by 3.75,
- Taxes on dividend recipients increase by 3.75,
- Total tax paid falls by 1.25 but
- After tax income for Australian dividend recipients is unchanged while
- Retained profits increase by 1.25.

Of course the results will change in the event that the company decides to vary its payout ratio, however that would be at the expense of Australian shareholders and the hence the Australian Tax Office.

This example shows that a cut in company taxes has a smaller impact on the total collected in both company and personal taxation. Focusing on just Australian taxpayers we can ask what the implication for investment might be. Clearly as far as the owners of the corporation are concerned nothing has really changed. Because of this it is hard to imagine that the ultimate company owners would have any increase in the incentive to invest or innovate.[10] The corporate boards and managers have more cash at their disposal but, at least in principle, the corporate boards and managers are the agents of the owners.

[10] In the past Treasury undertook some modelling that purported to show that a cut in corporate taxation would stimulate investment. However, the modelling assumed that the corporate tax rate acted so as to increase the cost of capital but that franking credits were an undifferentiated transfer to households separate from dividend streams. See Rimmer X, Smith J and Wende S (2014) 'The incidence of company tax in Australia', *Economic Roundup (Treasury)*, Issue I, pp 33-47.

Of course matters are different in relation to foreign shareholders and we now turn to consider their interests.

Foreign Shareholders

The case of foreign shareholders of companies registered in Australia is interesting. It is normally assumed that a reduction in company tax benefits foreign shareholders since they are not taxed by the Australian tax office nor, in this case, would they lose franking credits when they in turn are liable for tax. However, as it happens, a good deal of any company tax cut will benefit foreign shareholders and so foreign tax authorities are likely to gain at the expense of the Australian Tax Office. This is an important pragmatic argument for not reducing Australia's tax rate so long as it is at or around the rate of many of our foreign investment source countries. Here we attempt to explain how that happens.

Double taxation agreements and the taxation of company profits

Australia has double taxation agreements with 44 other countries with which Australia tends to have a good deal of commercial contact. Those agreements require that where a country taxes a resident on income derived from the other country (the source country) it is required to give a credit against tax in the source country levied against the same income. Hence if profit of $100 earned in Australia is taxed at $30 in Australia and then received by a taxpayer in the US, that taxpayer will get credit for the tax paid in Australia. The US federal company tax rate is 35 per cent so US federal government would levy a tax of $5 on the profit.

Australia has a double tax agreement with many countries in the world so that the same income is not taxed twice (see box). That means that tax not collected in Australia often just goes to the foreign taxation authorities. This is best seen in an example. Take a US-owned company called USXZ that earned $100 million in Australia which is subject to 30 per cent tax or $30 million. That income is also taxed in the US at 35 cents in the dollar at the federal level. However, the double tax agreement means that the US company gets a tax credit in the US for any tax paid in Australia. That tax credit is applied against any US tax that would otherwise be payable in respect of that income. So after the American company USXZ paid company tax of $30 million in Australia its US (Federal) tax liability of $35 million is reduced by $30 million. If Australia now reduces its tax to 25 per cent USXZ will pay $25 million in Australia,

which is credited against its US tax liability. It will now pay $10 million in the US which means that the extra $5 million is payable in the US.

The US Treasury wins at the expense of the Australian tax system, just because Australia has lowered its tax rate. This example shows that where a country has a tax rate greater or equal to the Australian rate, a reduction in the Australian rate merely shifts revenue into the foreign treasury. For a company based in New York paying 40 per cent company tax, changes in the Australian rate will not affect their decision-making.

The result of all this is that foreign shareholders do not necessarily benefit from Australian tax cuts. In many cases anything they save in Australia will be reflected in a higher tax bill in their place of domicile. These considerations suggest that any argument that we get more foreign investment has to be heavily qualified.

Budgetary implications

In 2014-15 it is estimated that company tax collections were $68,000 million.[11] But this is not the total gain to the revenue because of Australia's imputation system whereby Australian dividend recipients are given credit for company tax which is treated as being a pre-payment of tax on behalf of the ultimate shareowner. If all after-tax profits were returned to shareholders and all shareholders were eligible Australian tax-payers then franking credits would match company tax receipts and so all company tax would be returned as credits to Australian taxpayers. However, not all after-tax profits are distributed to shareholders and not all shareholders are in a position to use franking credits. Foreign investors are the main category of dividend recipients who are not in a position to benefit from franking credits.

We earlier estimated that for Australia as a whole the dividend imputation system mean that some 46 per cent of dividends go to people or entities that are not in a position to take advantage of the attached franking credits.[12] Those losses are due to the payment of dividends to shareholders who cannot benefit such as foreign investors and tax exempt Australian taxpayers such as charities.[13] The implication is that of the total $68,000 million in company tax, some 54 per cent (100 minus 46) will be returned as franking credits to individuals and other income tax payers. Hence the net tax take is

[11] Australian Government (2015) *Budget Paper No 1, 2015-16*.

[12] Richardson D (2014) 'The taxation of capital in Australia: Should it be lower?' In Schroeder SK and Chester L (Eds) *Challenging the orthodoxy: Reflections on Frank Stilwell's contribution to political economy*, Springer, pp 181-202..

[13] Individuals and super funds who otherwise pay no tax are eligible for cash payments in lieu of franking credits.

reduced from $68,000 million to $31,280 million per annum. On those figures we can estimate how a change in the company tax rate might affect revenues with the results shown in Table 3.

Table 3: Net change in revenue from reduction in company tax

	Company tax ($m)	Estimated franking credits ($m)	Net benefit to revenue ($m)
Present company tax rate (30%)	68,000	36,720	31,280
Proposed 25% company tax rate	56,667	30,600	26,067
Difference	-11,333	-6,120	-5,213

Table 3 shows that the gross and net cost of reducing the corporate tax rate from 30 to 25 per cent would have been $11,333 million and $5,213 million respectively in 2014-15.

On those figures we also expect that the 10 year $58,075 million benefit to the top 15 listed companies would be a net cost to the budget of $26,715 million.

Other considerations

The BCA is doing its job when it continues to push for a reduction in company tax rates. The BCA's membership is made up of the CEOs of Australia's top companies. Obviously these people have an interest in advocating anything that gives them more money to manage. What is lacking is a convincing case. In an earlier paper we showed that most of the arguments in favour of lower company tax rates are either theoretically incorrect or not supported by the empirical evidence.[14] For example we know the motive to invest and the actual investment was at least as strong under the Menzies Government when the tax on companies varied from 45 to 49 per cent and the marginal tax on the top income earners was 75 per cent.

The company tax applies to a company's profit and profit is a residual. It is the difference between sales receipts and costs. Profit is net of financing costs as well as all other costs. That may seem a trivial thing to say but profit as a residual is not a cost at all. We can agree that many costs might change a company's behaviour in one way or another but taxing the residual is different. A higher or lower company tax cannot tip a profitable enterprise or project into a loss maker or vice versa. In that way a company tax works in a completely different way from other taxes or costs.

The sensitivity of corporate behaviour to company tax rates is problematic in other respects. The Reserve Bank of Australia published a paper that points out that the private sector is assessing projects using hurdle rates of return that are much higher than the cost of capital in Australia. This is reinforced by the OECD which said:

> For some reason the 'hurdle' rate of return required to undertake new capital spending is so high that, despite historically low interest rates, economic growth is stagnating in many regions due in part to the lack of investment.[15]

The point of this is that changing incentives at the moment is unlikely to produce any discernible change in the volume of investment.

Further to the lack of response, recall that the small business company tax rate has been reduced from 30 per cent to 28.5 per cent as of July 2015. There does not seem to have been any assessment of that and especially whether or not it has encouraged small business investment.

[14] See Richardson D (2014) 'The taxation of capital in Australia: Should it be lower?' In Schroeder SK and Chester L (Eds) *Challenging the orthodoxy: Reflections on Frank Stilwell's contribution to political economy*, Springer, pp 181-202..

[15] OECD (2015) *OECD Business and finance outlook 2015*, Paris:OECD.

PwC enters the debate

In November 2015, accounting firm PwC released a two-page brief on company tax which was summarised in *The Australian Financial Review* as showing that a cut in the company tax 'to 25 per cent from 30 per cent would deliver the economy a $291 billion growth dividend that would generate enough extra tax to more than pay for itself within five years'.[16] One is of course immediately reminded of the unfortunate Laffer curve which counterintuitively suggested that the US could increase the tax collected by lowering the tax rate.

While the news item referred to modelling by PwC, the report itself really only tells us what would happen if the results of a single OECD study were to apply. In that study the OECD found that:

> A shift in tax revenues from income [individual and company] taxes to consumption and property taxes would increase GDP per capita by between a quarter of a percentage point and one percentage point in the long run…[17]

While PwC relied upon one study, the US Congressional Research Service has more extensively reviewed the empirical evidence that might or might not support claims to the effect that lower company tax rates increase economic growth, boost employment and the like. It concludes that most of the evidence does not support the notion that lower company taxes are beneficial in the ways usually suggested.[18]

Returning to the study PwC relied upon, the OECD warns that 'the magnitude of the effects [in its results] should be interpreted with caution'[19] especially given that the results were only to be interpreted as the average experience in OECD countries. The OECD study did not model Australia's tax system with its rather unique dividend imputation system.[20] Nevertheless PwC interpret this to mean that 'The research indicates that shifting 1 per cent of the revenue mix away from company tax to [sic]

---

[16] Greber J (2015) 'A 25pc company tax rate pays its way within five years, says PwC', *The Australian Financial Review*, 23 November.

[17] OECD (2010) *Tax Policy Reform and Economic Growth*, OECD, p 142.

[18] Gravelle JG and Hungerford TL (2011). *Corporate tax reform: Issues for Congress*, Congressional Research Service.

[19] OECD (2010) Tax Policy Reform and Economic Growth, OECD, p 142.

[20] Of the 34 OECD countries only Australia, Chile, Mexico and New Zealand have full dividend imputation. See Richardson D (2012) *The case against cutting the corporate tax rate*, The Australia Institute Technical Brief No 20, December.

could potentially increase long run per-capita GDP by around 2 per cent'.[21] We can assume PwC intended to insert something like 'the GST' as the missing words in the sentence. PwC gives no indication of how they would expect to see people compensated for the increase in the consumption tax. Without a discussion along those lines the PwC exercise is rather beside the point in terms of the current debate. Prime Minister Malcolm Turnbull has guaranteed that an increase in the GST would attract compensation to ensure any tax reform was fair.[22]

On top of those problems there are technical issues with the OECD's empirical work.[23] In addition the OECD report continuously makes the point that even if growth could be stimulated by company and individual tax rate reductions, there is a large associated cost in terms of the increased inequality likely to result. That of course runs up against another important issue; the IMF finds higher inequality reduces economic growth. Recently the IMF Managing Director, Christine Lagarde, said:

> Our research shows that, if you lift the income share of the poor and middle class by 1 percentage point, then GDP growth increases by as much as 0.38 percentage points in a country over five years. By contrast, if you lift the income share of the rich by 1 percentage point, then GDP growth decreases by 0.08 percentage points. One possible explanation is that the rich spend a lower fraction of their incomes, which could reduce aggregate demand and undermine growth.[24]

The IMF has done a good deal of work on income inequality and growth to the extent that the empirical relationships are relatively well-known. A recent research paper said in regard to the emphasis on economic growth that 'it would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable'.[25]

---

[21] PwC (2015) *Protecting our prosperity*, p 1.

[22] Crowe D (2015) 'Malcolm Turnbull targets super for 'fair' tax reform', *The Australian*, 10 November.

[23] PwC seem to rely on the equations cited in the OECD's table B6 but earlier tables that summarise the attempts to estimate the impact of corporate taxes on investment perform particularly poorly. Where correlation coefficients are given they are around 0.12-.013 meaning that the equations that purport to explain investment spending only explain 12 or 13 per cent of what is going on. It is difficult to put much faith on empirical results that perform so poorly.

[24] Lagarde C (2015) 'Lifting the small boats', *Address at Grandes Conferences Catholiques'*, Brussels, 17 June.

[25] Ostry JD, Berg A and Tsangarides CG (2014) 'Redistribution, inequality, and growth', *IMF Staff Discussion Note*, SDN/14/02, p. 27.

We sympathise with those such as PwC who advocate company tax cuts because they want to see higher economic growth through higher employment, higher investment, more innovation and so on. Nobel prize-winning economist Joseph Stiglitz points out that if you are interested in fostering more investment by corporations then 'there are more precise ways to tweak the tax code than an across-the-board cut: it [the Bowles-Simpson Deficit Reduction Commission which recommended company tax cuts] could have suggested lowering the tax on firms that created jobs and invested in America and raising taxes on those that didn't. Such a policy would raise revenues and provide incentives for more investment and job creation in the United States'.[26]

Following Stiglitz, if there is a view that employment, investment, innovation or other priorities need to be addressed then those priorities should be directly targeted rather than using very blunt instruments such as across-the-board company tax cuts which, as the rest of this paper demonstrates, are mainly wasted on large corporation that are not going to innovate and invest.

[26] Stiglitz JE (2012) *The price of inequality: How today's divided society endangers our future*, WW Norton: NY

Conclusions

The top 15 companies in Australia have among the largest company tax liabilities and between them account for around a third of all tax payments. When we ask how they are likely to be affected if their tax were to be lowered the answer would have to be that there would be very little change of benefit to the rest of Australia, if any. Yet the cost would be substantial.