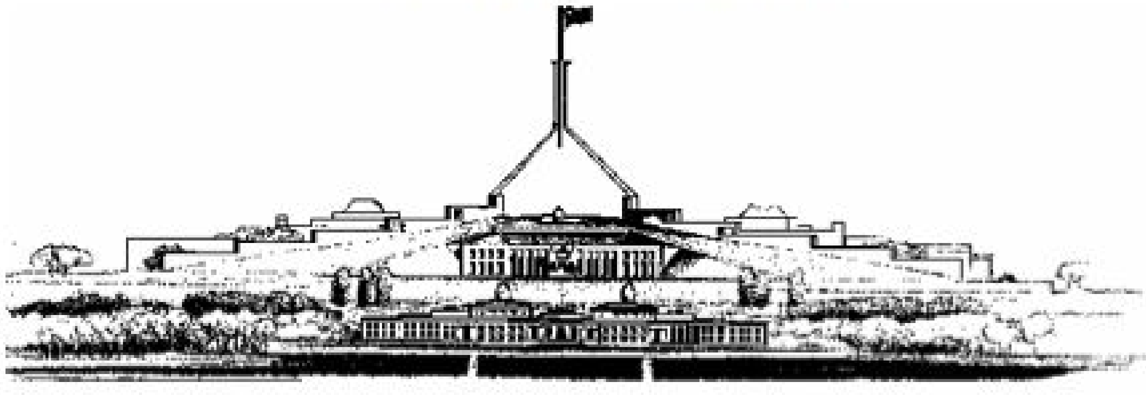
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



THE SENATE

PROOF

BILLS

Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016

Second Reading

SPEECH

Thursday, 30 March 2017

BY AUTHORITY OF THE SENATE

SPEECH

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Speaker	Fawcett, Sen David	**Question No.**	

Senator FAWCETT (South Australia—Chair of the Joint Standing Committee on Foreign Affairs, Defence and Trade and Deputy Government Whip in the Senate) (14:43): I also rise to address the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016, which underpins the Turnbull government's Ten Year Enterprise Tax Plan. What I would like to do is outline briefly some details as to what the plan is but, more importantly, talk about why the plan is important to all sectors of our economy but particularly in the short term to the small business sector. I will talk a little bit about the international experience of tax plans, consider the other views within Australia's political system on tax and, regretfully, come to the conclusion that the opposition of the Labor Party at the moment is purely driven by politics, as opposed to any basis in policy. That stems from their views on this when they were in government.

What the government is seeking to do with this 10-year Enterprise Tax Plan is to look at reducing company tax. I will get to why in a minute, but the aim is, by 10 years, to have reduced that from 30 per cent down to 25 per cent and, for small business, to accelerate their ability to have a lower tax rate.

The important thing is that we will be lifting, for small business, the aggregated income, or turnover, from $2 million to $10 million. What is important to remember is that this is a gross figure; this is not a net figure. Some people would look at that and think, 'Gosh, anyone who's making $2 million a year doesn't deserve a tax break,' but that is turnover. That is not profit. By the time you take out all the costs—operating costs, capital depreciation, stock, wages et cetera—you are not necessarily talking about people who are incredibly well off, but they are the people who employ the majority of Australians. If you look at the employment statistics, small business is the sector that provides the most openings for Australians to get work, so it is a really important sector that we should be supporting. With the lower tax rate if that threshold, that gross aggregated figure, were lifted to $10 million, there would be some 870,000 companies, and that equates to about 3.4 million Australians who would be positively affected by these companies being able to invest more into their business.

Over the 10-year period out to 2026-27, the government would gradually extend that decrease in company tax rate down to 25 per cent for all companies. Bearing in mind that not all small businesses are actually incorporated as companies, the government would extend the unincorporated small-business tax discount in a commensurate manner to encourage those companies.

Why are we doing this? Australia is a small and open economy. Australia's living standards and the quality of the services that we provide rely on our economy growing and the GDP increasing, and that is all linked to trade, to labour productivity, to labour force participation and to population. There is much evidence to indicate that corporate tax rates have a significant influence on each of those factors. Australia's corporate tax rate is high compared to many countries that we compete with for investment, particularly those in the Asia-Pacific region. If we do not attract that investment, then we will not see the opportunities growing.

You only have to read the papers from the last week or two to see a number of companies that have struggled that have received a boost of foreign capital that has enabled them to continue operations, keep their doors open and keep Australians employed—or indeed to grow and expand their operations. There are a number of areas where it is foreign capital that has enabled a start-up in the first place which then provides opportunities for Australians to work.

So ongoing investment is an important feature in terms of productivity growth and jobs growth, which grow our GDP. It is only when that economy grows that we can afford to spend the money we want to spend on the health, the education and the other services that Australians deserve and want to have. But you cannot put the egg in front of the chicken. It actually needs the private sector to be generating that growth in order to be able to fund that in a sustainable manner. On the concept that governments can just keep borrowing or increasing the tax burden, which ultimately falls on individuals, not just companies: there are countless examples domestically and overseas that show that that is not a sustainable model. You need private sector investment and growth if you want your tax base to be sustainable, which is the only way you can sustain the delivery of services and the standard of living that Australians want.

As to the issue of small business and this turnover figure, whilst I currently chair the Joint Standing Committee on Foreign Affairs, Defence and Trade, in the last parliament I chaired the Parliamentary Joint Committee on Corporations and Financial Services. We did an inquiry into bank loans to small business and that gave me the opportunity to interact with a lot of small businesses around the country. When you are talking about a company, and particularly when you are talking about turnovers of millions of dollars, people tend to think of a corporation, being a large company with a headquarters and lots of staff. There are lots of companies in Australia that are run by mum and dad—the bookkeeper is mum and dad at 10 o'clock at night, when they have finally done the day's business, done the homework with the kids, got them into bed, and they can sit down and do the books.

Just because it is only mum and dad does not mean that their turnover is necessarily low. We looked at a range of businesses that came to us and talked about their relationship with banks, we looked into the kind of capital requirements they had to either start up or expand, and we looked at the cash flows that they had. What became very obvious was that the $2 million threshold is well out of date—it does not reflect the reality of business in today's environment. Remember that these are aggregated turnovers; they are not net profits—and there are many companies that are being disadvantaged at the moment and restricted in their ability to grow, and it is not the big end of town. We are often talking about your neighbour up the road who has a company that might just be mum and dad, or they might employ 10 people or 30 people. There are a number of companies in my home state of South Australia that are considered good local companies that employ between 50 and 100 people that should be qualifying for these benefits but even at the $10 million mark some of these would fall outside in terms of gross turnover.

It is really important as we consider this debate to understand that the rhetoric that comes from those opposite that says the government is just giving tax cuts to the big end of town is just not true. In the vast majority of cases we are giving tax cuts to the mums and dads and the family businesses that employ the majority of Australians because it is a fact that has been backed up by both Australian and international experience that lowering the tax rate does encourage business to invest in its people, leading to more jobs and higher productivity, which then helps grow our economy as well as providing a living for more Australians. The concept that small business people are just somehow going to boost their profit incredibly and then all go off and live in mansions somewhere is just not borne out by the facts. The majority of business owners that I spoke to in that inquiry over the past three years highlighted that where they did employ staff the staff were the ones critical to making the business work. If they did not have good staff, the business did not do well. The way that they attracted and retained good staff was to pay, often, above and in some cases well above award conditions. A business that is doing well is almost always a business that is looking to recruit staff and to train them and to retain them, which also means paying them well. There is a cycle there of investment and growth that comes from giving the business that ability to invest in that way.

What is the overseas experience with that? The OECD, which is often used in debates in this place as a reference point in terms of independent but informed thinking about these measures, have said:

Corporate income taxes are the most harmful for growth as they discourage the activities of firms that are the most important for growth: investment in capital and productivity improvements.

Their conclusion is that high rates of corporate tax distort investment decisions and undermine economic growth.

The UK is probably a good exemplar for Australia to look at. According to the UK government, as they look at their recent recovery—and they have had a good recovery; they have seen business investment and jobs growth—they credit as a central part of that the fact that they took the main rate of corporate taxation from 28 per cent down to 20 per cent. That has been a key driver of their economy. Oxford University, in its studies of this whole process, has found that that drove increased business investment by around 11 billion pounds. Importantly, in 2013 the UK government did modelling and published the analysis looking at the long-term economic impacts of these cuts to tax rates—in their case, from 28 down to 20 per cent. What they found is that that could increase the GDP by between 0.6 and 1.3 per cent, which is roughly equivalent with the expectations of cuts here of around one per cent. Again, it is growth in GDP that provides, on a sustainable basis, the ability for governments here in Australia to provide the standard of living and the quality of services that Australians need.

The alternative is to say, 'We're going to increase services, whether through welfare or through other areas, without having regard as to how we're going to pay for it in a sustainable manner.' If you start saying, 'We'll pay for it by increasing company tax rates or not giving them the breaks they need to be able to invest and employ,' over time, perversely, you undermine the ability of the government to sustain those services. If you borrow today to pay for education services, in years to come the children will be saying, 'Fantastic, but there's no work because companies are not investing here and creating the jobs.' I think it is good that under this government we have seen continued growth in funding for health, education and other areas. The rate of growth is not as high as we perhaps would like, but we need to have the commensurate measures that will see Australia's economy grow on a sustainable basis so that we can afford to have the investment in our workforce and the investment, eventually, back into the higher growth rates in those other areas.

Are we alone in this? Obviously not, when you look at the international experience. I just talked about the OECD and Oxford University and the UK government, and we have seen neighbouring countries like Singapore reducing their rates to 17 per cent.

If all of that experience and that informed opinion says it is a good thing to do, members of the Australian public would probably quite reasonably ask the question: why is the opposition not supporting the government's measures in this area? I regret to say that my only conclusion is that it is rank politics. Members opposite are very quick when they are in opposition to play class warfare. Hence their attacks on the Prime Minister about his position and success as a businessman and their constant talk in this place about supporting the big end of town et cetera. But the real question about the validity of the policy, surely, is: what was their position when they were in government. The Leader of the Opposition at the moment, Mr Bill Shorten, was the Assistant Treasurer when Labor were in government. It is worth looking back and asking: when he was in government, what was his view? I quote from Mr Shorten:

Cutting the company income tax rate increases domestic productivity and domestic investment. More capital means higher productivity and economic growth and leads to more jobs and higher wages.

He said that in the parliament in 2011. When he was the Minister for Financial Services and Superannuation, Mr Shorten said on Sky News in March 2012:

Any student of Australian business and economic history since the mid-80s knows part of Australia's success was derived through the reduction in the company tax rate.

We need to be able to make life easier for Australian business, which employs two in every three Australians.

Mr Shorten believed that only couple of years ago when they were in government. But now, when they are in opposition, they are coming out so stridently and not supporting the policy, saying, 'It's just the coalition government supporting the big end of town.' That is a red flag that this is just political opportunism, as opposed to what they really understand to be true in terms of what is good for the economy. It is not just Mr Shorten. Mr Bowen—*(Quorum Formed)*

Senator Rhiannon: Mr Acting Deputy President, I seek clarification. I thought it was 25 needed in the chamber, and there were 20.

The ACTING DEPUTY PRESIDENT (Senator O'Sullivan): Nineteen is the quorum.

Senator FAWCETT: The numbers in the Senate have not changed pretty much since Federation, or maybe once. The number for a quorum has been a long-established and consistent figure, so perhaps that explains why the Greens cannot be trusted to run the economy. They cannot actually add up a simple number.

Going back to what I was saying about what the opposition actually believe in terms of policy, I just talked about Mr Shorten and the comments he made as Assistant Treasurer and also when he was the Minister for Financial Services and Superannuation. But also Mr Bowen in his book, *Hearts & Minds* , which he wrote in 2013, had a whole chapter titled 'Promoting growth through cutting company tax'. This is what Mr Bowen said in that chapter, very aptly named in the context of this bill, in his book:

… Keating knew that the corporate tax rate needed to be cut to make Australia competitive, that capital and investment would flow to tax-competitive nations and that this was an important job-creation move. Today capital is even more mobile than it was then and it is important that our corporate tax rate is competitive.

What we see from members opposite is that when they are in government they also look around the world at the OECD, at nations such as the UK, Singapore and the United States. They see both the economic theory and the practice, and they support, not just in the odd comment but through very deliberate statements—in the case of Mr Bowen, through whole chapters in books that he has written—putting forth on the public record what they really believe about economic theory. And what they really believe is that the government's tax plan is actually the right approach for Australia.

Members of the public who are listening to this debate should not be misled by the rhetoric from those opposite that this government is preferring 'the big end of town' to the Australian worker, because the Labor Party knows—Mr Shorten knows, because he said it himself again and again when he was in government—that the best thing that we can do for Australian workers and Australian families in terms of having a well-paid job and growing our economy so that we can afford the services, the funding for education and health, and the standard of living that we want, is to encourage investment in business here. All of the evidence that we have used to underpin this also underpinned Labor's attitude towards corporate tax rates when they were in government, and it says that lowering tax rates is the best way to support Australian families and Australian workers. So I would encourage the Australian public, as they look at this debate going on, to realise that the rhetoric from the other side is rank political opportunism. Labor sees an opportunity to use class warfare to try to say that the government is out of touch, when in actual fact the government is doing the prudent thing in seeking to encourage investment. As Labor knows, as Labor itself has said, this is the best thing for small business and for big business because it creates more and better paid jobs for everyday Australians.