

Pay less tax

By Alex Malley (23 November 2015)

Everybody wants to pay less tax and there's nothing wrong with that. Value for money is the driving impulse behind most financial decisions, no matter what the scale of business enterprise.

The prospect of a reintroduction of death duties caused much consternation this week. When you think back to the circumstances of their abolition in the 1970s, you understand why the debate was snuffed out before it could get going.

In Queensland in 1977, Joh Bjelke-Petersen moved to kill off death duties, effectively setting up the sunshine state as a lower taxing jurisdiction. As Sir Isaac Newton postulated, for every action there is an equal and opposite reaction, so in accordance with universal truths the market responded and thousands of NSW residents promptly jumped in the car or packed the caravan and headed north. Old Joh banked on it, and the white shoe brigade of south-east Queensland was born.

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As Senator Sam Dastyari's inquiry digs further into the tax affairs of big oil companies, it's striking how useful the death duties experience is in explaining what's happening with multinationals and the profit-shifting debate.

Whether you're an individual, small business, large Australian company or an even larger multinational corporation you are absolutely going to search for value for money in everything you do.

We claim deductions for legitimate work expenses. When we hit a certain income threshold, we take out private health insurance to avoid the Medicare levy surcharge.

No one is saying that people should voluntarily waive their legal right to claim deductions. Not only is no one saying it, no one is doing it.

It's true for you and me and it's true for multinationals. It's a fact that there are lower taxing jurisdictions than Australia. At 30 per cent, our company tax rate is just not competitive with Singapore's 17 per cent, Ireland's 12.5 per cent or even Britain's 20 per cent.

Companies with operations in multiple jurisdictions will seek to maximise their opportunities to reduce their tax bill. And if I work for one of these entities, it's what I would want them to do – keep the company strong, working on new projects, employing more people. Equally, if I'm a shareholder of one of these entities, it's what I would expect them to do, within the rules.

And this is a key point. Australia already has one of the toughest anti-avoidance regimes of any jurisdiction so if there is overreach, action can be taken.

Blatant, artificial and contrived arrangements are not on. Our anti-avoidance laws empower the ATO to strike down such arrangements, and it is in court on a number of matters seeking to do exactly this.

The central problem here is not necessarily the behaviour of multinational entities; it's that our tax regime is plainly uncompetitive compared to many jurisdictions and actually encourages money to flow overseas. As the former boss of US computer chip maker Qualcomm recently said: "If you can choose between San Antonio and Shanghai, and you pay no taxes [in] one place and 25 to 35 per cent at home, you're encouraged to move jobs overseas."

This is the reality of competitiveness in a global, interconnected marketplace where capital and labour are increasingly free to move around. It's globalisation writ large – where cherished notions of jurisdictional borders and pristine domestic tax arrangements are breaking down. In this reality, the challenge for policy makers is to find the acceptable middle ground between companies who, on the one hand, have an obligation to pay their share of tax but an understandable interest in making that share as small as possible, and governments who want a bigger slice.

It's also common sense to work on multilateral solutions, such as through the OECD/G20 action plans on base erosion and profit shifting, rather than have multiple nations acting unilaterally.

While it's tempting, even amusing, to get caught up in the sport of multinational bashing, far better to engage in a rational conversation about the best overall tax mix for Australia to stimulate growth and jobs creation.

Source: <https://www.smh.com.au/opinion/everybody-wants-to-pay-less-tax-20151122-gl4u7r.html>