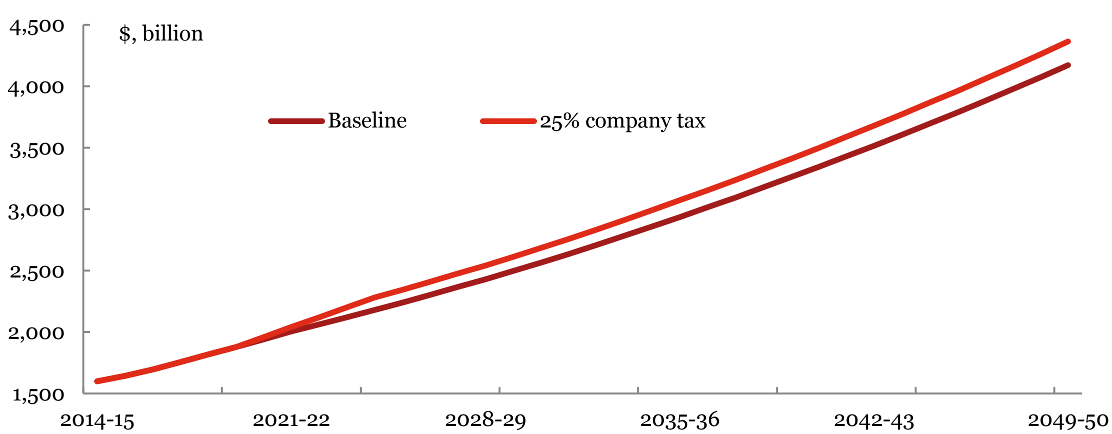
Lowering the corporate tax rate can provide a much needed growth dividend

- If the Australian economy is to achieve trend growth and boost real incomes over the coming decade, a broad-based pick-up in productivity-enhancing capital investment will be a prerequisite.
- In 2014-15 mining investment was scaled back by more than $17 billion and non-mining business investment, as a share of gross domestic product (GDP), remained around all-time lows, with domestic spending and business confidence failing to spur investment plans.
- Cross-country analysis conducted by the Organisation for Economic Co-Operation and Development (OECD) indicates that re-balancing the tax mix away from company tax can provide this impetus.[1] The research indicates that shifting 1 per cent of the revenue mix away from company tax to could potentially increase long run per-capita GDP by around 2 per cent.[2]
- Drawing on this research, PwC analysis indicates that a 5 per cent cut in the company tax rate would mean Australia's real GDP would be higher by around **$100 billion (4.5 per cent)** in 2024-25 (Figure 1).
- Over the period to 2024-25, this cumulates to $291 billion in additional real GDP.

Figure 1 – Australia's projected real GDP with and without a 5 per cent company tax ($ billions)



Source: PwC analysis

[1] OECD, 2010, Tax policy reform and economic growth, OECD Tax Policy Studies
[2] The OECD estimated that a 1 per cent increase in company tax, given a similar increase in personal income tax and funded by an increase in consumption and property taxes, reduced long-run GDP per capita by around 2 per cent.

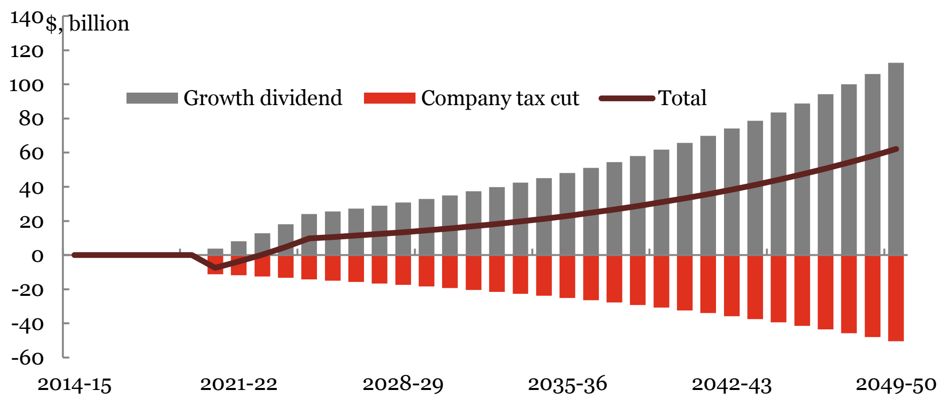
- The growth dividend would substantially lift Australia's income growth, providing a much needed lift for household incomes and business profits. PwC analysis indicates that the growth dividend could boost total income tax revenue by around **$24 billion** in 2024-25.

- Some of this revenue would however be wound back by the reduction in the company tax rate. This has the two fold effect of reducing company tax paid, partially offset by an increase in the taxable income of individuals (who would typically receive smaller franking credits).

- After accounting for offsetting reductions, we estimate that lowering the company tax rate to 25 per cent would increase net income tax receipts by **$10 billion** by the middle of next decade (see Figure 2), leaving Australia in a stronger and more resilient fiscal position, with a more efficient tax mix.

- Over the period to 2024-25, this cumulates to $4 billion in additional net revenue (negative revenue in first two years).

Figure 2 – Effects of cutting the company tax rate to 25% on income tax receipts ($ billions)



Source: PwC analysis

Note: net income refers to company tax, personal income tax and superannuation tax

Let's Talk

For a deeper discussion of how this issue might affect your business, please contact:

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