# FACT SHEET

## CUTTING THE COMPANY TAX RATE

### Measure description

The company income tax rate will be reduced to 29 per cent for the 2013-14 income year and to 28 per cent from the 2014-15 income year, in conjunction with the introduction of the Resource Super Profits Tax (RSPT).

A drop to 29 per cent for 2013-14 and then to 28 per cent from 2014-15, in conjunction with the introduction of the RSPT, will move Australia towards achieving an internationally competitive tax rate. Australia will become an even more attractive place to invest.

Reducing the company tax rate to 28 per cent, funded through the introduction of the RSPT, is expected to increase long run GDP by 0.4 per cent (excluding the gains from refunding royalties).

### Rationale

The reduction in the company tax rate will lead to more investment, driving long term economic growth. This will mean more jobs and higher wages for working Australians.

### Key facts

#### Australia's company income tax

Australia's main investment tax is the company income tax, currently set at 30 per cent.

- The rate was reduced from 36 to 34 per cent for 2000-01 and to 30 per cent thereafter.
- The current company tax rate is higher than other comparably sized OECD countries.

For Australian shareholders, company income tax is effectively a withholding tax on the Australian company profits. Foreign shareholders are effectively taxed at the company tax rate. That is, company income tax is a final tax for foreigners.

#### Company income tax rates have been falling worldwide

Recognising the benefits to investment and growth, company income tax rates have been reduced across the OECD over the past 30 years. The fall in the average statutory corporate tax rate across the OECD has been fairly continuous.

Australia's company income tax rate has also been cut from 49 per cent in the mid-1980s to its current rate of 30 per cent in 2000-01.

#### The relationship between company tax and economic growth

Company income tax lowers domestic productivity by reducing the incentives to invest, and the overall level of investment. Reducing the company income tax rate increases domestic investment. More capital means higher productivity and economic growth and leads to more jobs and higher wages.

According to a recent OECD staff working paper 'Corporate taxes are … most harmful for growth, followed by personal income taxes, and then consumption taxes. Recurrent taxes on immovable property appear to have the least impact.' The study suggests that one way to promote growth through tax reform is to shift revenue raising from company taxes to more efficient taxes such as recurrent taxes on immovable property.

## Indicative timeline

The company tax rate will be cut to 29 per cent for the 2013-14 income year and to 28 per cent from the 2014-15 income year, in conjunction with the introduction of the RSPT.