

# Is Australia Serious About International Tax Competitiveness?

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**But will Australia be able to compete better internationally after tax reform?**

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The publication of the CEDA/NCDS book *The Missing Tax Debate: can Australia afford not to compete on tax?* has come at an interesting time. The book arose out of a conference sponsored by the Committee for the Economic Development of Australia and NCDS with funding from the Department of Employment, Education and Youth Affairs. It was appropriate that these three bodies were involved. Economic development, employment and opportunities for the next generation are all at stake if Australia loses out on investment and growth due to an internationally uncompetitive tax structure.

Curiously, Australia seems not to have made its mind up about whether it really wants to be competitive on tax.

While the second Ralph review of Business Taxation discussion paper, *A Platform for Consultation*, talks at the beginning about the need for an internationally competitive tax system, such considerations appear to have dropped out of sight when it comes to actual, concrete, tax proposals. At the same time, Australia has not dissented from the recent OECD Report, *Harmful Tax Competition: an emerging global issue*, which seeks multilateral action by capital exporting countries to limit 'harmful preferential tax regimes' elsewhere. One might have thought that promotion of a global tax cartel was inconsistent with a willingness to embrace international tax competitiveness as an accepted policy goal.

Confusion about the end purposes of tax reform may be illustrated by contrasting the impacts of the GST and Ralph Review proposals. If, as clearly preferred, accelerated depreciation is sacrificed to achieve a 30% company tax rate, mining and manufacturing sectors would suffer in terms of competitiveness whereas the financial services sector would gain. This is the opposite to the GST's effect on those sectors. Removal of embedded indirect taxes benefits mining and manufacturing exporters but GST input-taxing prejudices the financial sector. It would be interesting to know, at the end of both direct and indirect tax reforms, whether any industry sector would be better off.

Tax reform has almost become (and with less reason?) what motherhood used to be—something that no one questions as a positive virtue.

But perhaps it is time there was a long, cool, look at what tax reform may bring. Tax competition may mean different things to different people. For business people, it means paying no more tax than you would have to if you located your investment in the most otherwise comparable location in terms of infrastructure etc. But perhaps, that is 'harmful' tax competition from the point of view of a Treasury. Perhaps, what a Treasury means by (presumably 'good') tax competition is achieving the most pure, most rigorous, Haig-Simons<sup>1</sup> comprehensive income tax in the world plus the purest most comprehensive goods and services tax in the world.

Unfortunately, this could mean that Australia may achieve a world first in the tax competition stakes, that is to say, the world's worst income tax

system, the world's worst capital gains tax and the world's worst value added tax (from a taxpayer or investor perspective). This is a strong claim, but it is not made lightly. Consider the following examples.

- Australia's GST treatment of insurance will be harsher than New Zealand's and involve a worse tax treatment than that afforded to gambling. While this may reflect Australian mores (or the ownership of casinos), one might question whether it is desirable to tax those seeking to remain non-dependent on government assistance at a time when government budgets are under stress.
- Australia's capital gains tax may have no averaging or indexation adjustments nor a lower rate than ordinary income. Yet it is widely recognised that capital gains tax is a major impediment to venture capital investment in hi-tech industry in this country.
- Australia's treatment of income flowing through managed funds and trusts could see collective investments treated much worse than in most countries, and certainly worse than in the United States, United Kingdom, or New Zealand. Already the announced requirement for tax to be withheld at the top marginal rate from trust income (where the ultimate beneficiary is not identified) means that Australian financial institutions cannot competitively offer trust administration services to overseas private clients.

Such paradoxes may eventually make people wonder, when they get down to the fine print, just what tax reform in Australia means when it comes to international competitiveness.

Will Australia be able to compete with Singapore and Hong Kong as a regional financial centre, a goal officially espoused by Federal and State governments?

Or will Australia find that its domestically-centred, closed economy, model of tax reform will be as damaging to its international investment attractiveness as Malaysia's reversion to capital controls?

It is against this backdrop that readers of *The Missing Tax Debate: can Australia afford not to compete on tax?* may find food for thought about emerging, and yet to be answered, questions. That the answers will be important for Australia's future development can hardly be doubted.

#### Note

<sup>1</sup> The Haig-Simons model refers to a comprehensive concept of gain in all its forms without distinction between income, capital or windfall.

#### References

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