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TITLE: The high cost of less tax

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If tax is the price we pay to live in a civilised society it seems that neither of the major parties have high hopes for the communities they say they want to build in northern Australia. Imagine if a restaurant marketed itself solely in terms of the fact that it was the cheapest restaurant in Canberra. While some people might think it represented a bargain, most people would wonder why price was the only thing they could brag about.

Prime Minister Kevin Rudd is suggesting that companies based in the Northern Territory should face a reduced company tax rate of 20 per cent, compared to the 30 per cent payable across the rest of the country. To add insult into injury, he's also suggesting that the rest of Australia should invest heavily in new infrastructure to be used by the companies enjoying the lower tax rate.

But Mr Rudd is not the only one who wants the southern states to fund the infrastructure that a northern tax haven would need. In fact, the Opposition Leader's main criticism of the government's announcement seems to be that his party suggested it first. There are several problems with the century-old dream of "developing the north". The first is the potential for tax evasion.

It has recently been discovered that companies such as Google and Apple have been paying virtually no tax. They simply claim that while nearly all of their activities occur outside Ireland, nearly all of their profits are earned inside the tax haven of Ireland.

Despite revenues of about \$1 billion in Australia, Google paid only \$74,000 in Australian tax. The Australian government recently expressed concern about such behaviour and pledged to work on a solution. Who could have imagined that their "solution" would be to develop our very own onshore tax haven in the Northern Territory?

The second problem is that international evidence shows that these so-called "economic zones" don't work. They do a great job of attracting existing economic activity from other states across arbitrary borders, but they do a poor job of actually increasing economic activity. Except of course in the accounting firms.

The third problem flows from the fact that the first and second problems are highly interrelated.

The big banks, supermarket giants and telecommunications companies would likely employ an army of (probably Sydney or Melbourne-based) lawyers and accountants. They would then use them to develop a subsidiary in the Northern Territory that could pretend to "earn" a lot of their profits and, in turn, help them avoid paying a lot of tax.

Finally, and perhaps most concerning, is the complete lack of evidence that encouraging development in Australia's far north will benefit anyone except the miners and others hoping to pay less tax on existing projects.

The evidence that does exist shows that resurrecting the Ord River irrigation scheme, for example, is as bad an idea as trying to build it in the first place.

Sydney, Melbourne, Canberra and Brisbane are struggling to provide infrastructure for their rapidly growing populations. We are now being told by both our major political parties that we should divert tens of billions of dollars, which can't be found to address the existing needs of our actual cities, to instead provide for the potential needs of our imaginary cities.

The fact that bipartisan consensus can be found for such an expensive folly reveals much about the current state of economic and political debate in Australia. Put simply, there is virtually none of the former and far too much of the latter.

You would think that an expensive, taxpayer-funded investment in infrastructure would enrage the so-called "fiscal conservatives". In fact, the Liberals as well as right-wing think tanks and business groups are all for it.

It's not that they think it will work, it's just that it's a populist way to gain support for further tax cuts.

Think about it: Kevin Rudd and Tony Abbott are proposing expensive infrastructure funded by tax cuts and the so-called fiscal conservatives don't seem at all concerned about the deficit or the impact on public debt.

The politics behind this are the same as those that led Ronald Reagan to drive public debt through the roof by introducing massive tax cuts. Again, the fiscal conservatives lost their interest in the level of public debt - they were just happy that the wealthy were being asked to pay far less tax.

We already know that cutting taxes is creating structural problems in the budget and the PEFO has confirmed this by saying that revenue is growing more slowly than anticipated.

There is a fundamental asymmetry in the debate about the budget - namely, spending more on health and education allegedly drives up the level of the debt and deficit but spending billions on tax cuts is somehow good for the economy.

While John Howard didn't go as far as Ronald Reagan, he was certainly on the same track and, sadly, Kevin Rudd wasn't far behind. Mr Howard went to the 2007 election promising \$32 billion worth of tax cuts, a promise that Mr Rudd matched with \$30 billion of his own cuts.

No doubt they both thought those promises would help them win the election, but the cost in the long run is extraordinary.

According to modelling by the Australia Institute, if we had simply left our tax rates at 2006 levels, we would have collected more than \$170 billion more over the last seven years. This year alone we would have brought in an extra \$40 billion.

But we are then told it is the cost of ageing that is putting pressure on the budget. Or the cost of health, or the cost of education. It's never the enormous tax cuts, and it's certainly not the \$50 billion we plan to spend on 12 new submarines to replace the six we can't find a crew for.

For all of the talk about economic responsibility, the fact is that both major parties are willing to waste a fortune chasing the preferences of Bob Katter and the support of our mining magnates. In the long run, wasted public investment and forgone tax revenue will cause enormous harm to our economy and our society, especially our capacity to provide health, education and social infrastructure.

But maybe the fiscal conservatives don't really care about those things. Maybe they just want to pay less tax, and maybe they don't really care if we invest in a more civilised society.

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