Give Me Money: The BCA Wants a Gift of up to $75 Billion From the Budget

Abstract

The Business Council of Australia (BCA) is again proposing a cut in company tax rates. There is little that is new: the BCA has been advocating this proposal or a similar one ever since it came into existence in the early 1980s. Currently, the BCA proposes to cut by way of increasing the threshold below which companies currently pay 25 cents in the dollar compared with the standard rate of 30 cents in the dollar. Depending on the option presented by the BCA, it amounts to $75 billion of new concessions over a decade. It is unclear, however, what the benefit of such a move would be on overall investment in the economy.

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BACKGROUND

Introduction

According to the Australian Treasury, the concessional tax rate for smaller businesses (with turnovers up to $50 million pa) is estimated to cost $2.9 billion in 2021-22. Treasury forecasts a decline in the value of the concession in 2022-23 but an increase subsequently. The actual forecasts are given in Table 1.

Table 1: Cost of small business tax concession

	2021-22	2022-23	2023-24	2024-25
$m	2,900	2,000	2,500	3,200

Source: Treasury (2022) *Tax benchmarks and variations statement, 2021*, January.

There is no explanation of why the receipts would fall so significantly in 2022-23 only to recover in subsequent years. Possibly, the withdrawal of the stimulus in 2022-23 is expected to cause a reduction in receipts. Regardless, when things settle down, the cost of the concession is over $3 billion towards the end of the forward estimates

Compared with the benchmark company tax rate of 30 per cent, companies pay a lower tax rate if their turnover is below $50 million. That concession is equivalent to a cash payment to those companies.[1] Despite the large cost of this concession, there is a dearth of any serious work to see if it has any effect in increasing investment or employment on the part of the recipients of this subsidy.

Cost Calculations Based on BCA Proposals

The BCA proposes several options, including increasing the turnover threshold from $50 million to "either $250 million, $500 million or $1 billion and switch to a domestic turnover test".[2] In order to estimate the cost of these options it would be ideal if there was tax office data that had tax collections at the various turnover cut off points specified by the BCA. Unfortunately, the tax office data is organised by turnover for the following turnover intervals as set out in Table 2:

Table 2

Micro	$1 to less than $2 million
Small	$2 million to less than $10 million
Medium	$10 million to less than $100 million
Large	$100 million to less than $250 million
Very large	$250 million or more

Source: ATO (2021) Tax and superannuation statistics, 7 June at https://www.ato.gov.au/about-ato/research-and-statistics/tax-and-superannuation-statistics/

From this classification, the ATO provides estimates of the amount paid by each turnover interval and the $250 million interval coincides with one of the BCA options. We can

[1] Hence these payments are referred to as "tax expenditures".
[2] BCA (2022) Unshackling the private sector – a business-led recovery: Budget submission 2022-23, February at https://assets.nationbuilder.com/bca/pages/6740/attachments/original/1645121138/Budget_sub_2022_-_FINAL_18_February_2022.pdf?1645121138

make some progress by noting that, based on 2018-19 ATO data, all entities up to and including large (those with up to $250 million in turnover) account for 38 per cent of all corporate tax collections.[3] If we disregard the concessions paid back to small businesses (those with turnovers under $50 million) who pay at a lower rate than the usual 30% for big businesses, the figure increases to 38.7 per cent.

Assuming that the existing full tax rate would apply in 2021-22 then, without the existing concession, total corporate tax collections would have been $105.6 billion[4] (rather than $102.7 billion) and the tax liability for companies with revenue below $250 million would have been $40.9 billion.[5] A concessional 25 per cent tax on those companies (with turnover less than 250 million) would cost $6.8 billion, an increase of $3.9 billion (see second row, first column of Table 1 for comparison) from current concessions amounting to $2.9 billion that only apply to entities with less than $50 million in revenue.

To go beyond the $250 million threshold, we must use a different database. Here we use the ATO's *2019-20 Report of Entity Tax Information*[6]and rank the companies by turnover to find out how much additional tax is paid in the remaining intervals specified by the BCA. In the turnover interval of $250 to $500 million, tax paid by entities amounts to $4.1 billion, and so the tax concession being applied to that range would cost $680 million.[7] However, that is based on 2019-20 figures. Adjusting for the higher estimated collections in 2021-22 using the mid-year economic and fiscal outlook (MYEFO) figures gives $824 million.[8] Proceeding in the same manner the data in Table 3 is estimated.

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[3] ATO (2021) Tax and superannuation statistics, 7 June at https://www.ato.gov.au/about-ato/research-and-statistics/tax-and-superannuation-statistics/

[4] This adds back the tax concession from Table 1 to the 2021-22 estimate in Australian Government (2021) *2021-22 Mid-year Economic and Fiscal Outlook*, December.

[5] 105.6 * 0.387. Basically, 38.7% of all tax collections that total $105.6 b. For why 38.7%, see preceding paragraph.

[6] ATO (2021) *2019-20 Report of Entity Tax Information*, 9 December. https://www.data.gov.au/data/dataset/2019-20_report_of_entity_tax_information,

[7] Basically, the concession is the difference between the 25% and 30% tax rate. Since the $4.1 billion is the tax currently being paid by entities, estimating how much extending the concessions to this bracket will cost equals (4.1 * 5/30).

[8] Australian Government (2021) *2021-22 Mid-year Economic and Fiscal Outlook*, December.

TABLE 3: BCA DEMANDS FOR TAX SUBSIDIES

Range	Tax concession in range	Total tax concession
	$m	$m
To $50 million (existing concession)	2,900	2,900
$50 to 250 million	3,900	6,800
$250 to 500 million	820	7,620
$500 to 1,000 million	1,030	8,650

Source: Author's calculations based on ABS and ATO data.

Our estimates of the costs of the BCA proposal are given in Table 3. To interpret the table, take the example of wanting to know the cost of increasing the concessional company tax threshold to $500 million. In the third row of data the first column gives the range $250 to 500 million and we find the cost of the concession in that range is $820 million in the second column. Adding that to the concession for the earlier ranges we find in column 3 that the total cost of the concession would be $7,620 million or $4,720 million over the existing concession. In the same way the cost of the concession going to all companies with turnover below $1,000 million is $8,650 million or $5,750 million more than the existing concession.

Extending these estimates forward in time presents problems because the company tax estimates we are working with assume for example that company tax will fall from $102.7 billion in 2021-22 down to $81.9 billion in 2022-23. However, company taxes are expected to rise back to $106.9 billion in 2024-25. So, an interesting question is what might happen to revenue if the BCA tax cuts were introduced in 2024-25 and applied for a decade thereafter. To answer that, we must assume that the relevant ratios already discussed continue to apply and, further, that the company tax collections increase in line with the size of the economy generally. The latter is given in the MYEFO where it mentions GDP will return to 2.75 per cent growth and inflation at the midpoint of the target range or 2.5 per cent. Combined, that represents a nominal GDP growth of 5.3 per cent. We use that figure to estimate the cost of the new thresholds in Table 4.

Table 4: Annual and decade long cost of BCA concessions

Range	Cost in 2024-25	10-year cost
	$m	$m
$50 million (existing concession)	3,020	38,500
$250 million	7,080	90,300
$500 million	7,930	101,000
$1,000 million	9,000	115,000

Source: Author's calculations based on ABS and ATO data.

Table 4 gives the total costs of the concessions assuming they were implemented in 2024-25 and for the subsequent decade. It is apparent that the BCA proposal would soon see the cost of the 25 per cent tax concession rising to at least $90 billion and on the higher threshold scenarios, the concession would rise to well over $100 billion.

The official estimates provide ample evidence that the real world can be extremely unkind to any longer-term estimates. That said, it is apparent that the BCA is asking for something approximating $75 billion in *new* concessions over a decade.

DOMESTIC TURNOVER TEST

The BCA also argues that the turnover test- thresholds that determines how much tax an entity pays- should apply to just domestic turnover and says that would "ensure the two-tier company tax rate can be used to attract mobile global capital." (p. 32) This is a blatant attempt to rehash the foreign investment argument for tax cuts which the BCA has long pursued. It is worth noting that the BCA's members include a large proportion of CEOs from foreign owned corporations. This was pointed out in an earlier paper that explicitly tackled the foreign investment argument.[9] There are many companies in

[9] For a summary of the research see The Australia Institute (2018) "Australian investors are the big losers, so why does the Business Council want big company tax cuts so badly?" *Medium*, 22 March at https://australiainstitute.org.au/post/australian-investors-are-the-big-losers-so-why-does-the-business-council-want-big-company-tax-cuts-so-badly/

Australia that make little by way of domestic sales and whose output is largely exported. Companies like Chevron in the gas sector come to mind. These companies are likely to be the main beneficiaries of a domestic turnover threshold since all their product is exported.

The tax office data does not distinguish between domestic and foreign sales so making it very difficult to cost this part of the BCA's proposal. The ABS publishes data which includes export performance for small medium and large businesses. Unfortunately for our purposes "large" in this context is defined as having a turnover of $20 million or more and there are no larger categories.[10] For what it is worth that data does show the overwhelming share of exports, 96 per cent, is accounted for by large businesses.

However, even if it were possible to estimate the effect based on current data, such estimates may not be reliable given the potential for tax avoidance/evasion that would be realised. We mentioned that the beneficiaries would be companies that have large export sales. But other companies would be incentivised to *look like* they are large exporters with minimal local sales. Companies might invoice sales to the Hong Kong or Vanuatu branch for example. Exporters in Australia are overwhelmingly large businesses who might be able to split their companies and cleave off their export arm to enjoy the lower tax rate.

INVESTMENT ALLOWANCE

An investment allowance is a tax concession based on the value of eligible investments. This would be over and above any depreciation and other concessions. The BCA does also advocate an investment allowance. While this is largely expected to give some companies additional income, there is at least the prospect that a well-designed investment allowance might encourage new investment. The BCA suggests it be targeted at clean energy and digital technology/software. It would work as a 20 per cent bonus deduction on relevant new investment for business entities. This is very imprecise so we offer no costings.

In the past the Australia Institute has supported proposals for investment allowances especially if they are targeted at investment that would not have taken place otherwise.[11] There is little detail in the present BCA proposal so it would be useful to see this proposal when it is better developed. However, it is also worth noting that there are

[10] ABS (2021) *Australian Industry, 2019-20,* 28 May.
[11] The Australia Institute (2019) "BCA Investment Allowance Proposal Welcomed", *Media Release*, 16 August

already concessions for accelerated depreciation worth some $9.3 billion in 2021-22 as well as specific provisions for some particular investments, especially in agriculture.[12]

CONCLUSION

The BCA proposal for cash from the government is presented with a budget costing or analysis of wider benefits to the economy other than the obvious substantial cash benefits to various companies. Australia Institute analysis finds that over a decade the impact is to increase the value of the 25 per cent tax concession from $38.5 billion to at least $90 billion to over $115 billion depending on the scenario. So, the tax concession would cost up by $75 billion in round numbers. The BCA offers nothing in return.

Estimating the cost of the BCA's other proposals presents problems so we offer no new costings. However, we note that the proposed domestic turnover provision is likely to open up large opportunities for tax avoidance.

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[12] Details in Treasury (2022) *Tax benchmarks and variations statement, 2021*, January.