Review of Taxation - a proposed company tax reform **Words: 704**

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At June 2014, the company tax rate in Australia was 30 per cent with the prospect of being lowered slightly. Many companies pay significantly less than 30 per cent due to allowable deductions. Companies that pay the full 30 per cent company tax can provide tax-free (franked) dividends to shareholders to avoid the double payment of taxes on the same income.

There is frequent criticism that the Australian corporate tax rate of 30 per cent is uncompetitive by international standards. Given that the average tax paid by many companies is much less than 30 per cent due to allowable deductions, this argument is less cogent than it appears at first sight.

However, in the interests of creating both a competitive company tax rate and a more efficient and effective tax environment, I propose that the Australian company tax rate be reduced to zero. A corporate tax rate on profits would not be eliminated, just reduced to zero - it could be raised later if necessary.

Instead of paying tax on their profits, companies would pay a flat percentage on the value of their outputs. The tax rate would be between 10-15 per cent - the actual rate would be determined in the light of further analysis so that a zero-sum effect on tax revenue is achieved. The Government would not want to collect less revenue than under the current system and companies would not want to pay any more than they do currently.

In return for a lower tax, companies would no longer be able to claim deductions on their inputs. This would result in a much less costly tax administration for companies, accountants and the Australian Taxation Office - a significant productivity improvement. In addition, there could be a tax-free threshold of $100,000 in output value to benefit small businesses.

There would be implications for franked dividends. With no tax on the company's profits, the income from dividends would be taxed only once in the hands of share-holders so franking credits on dividends would not be necessary.

On the other hand, it could be argued that because the output tax replaces the company tax, then dividend payments should be subject to the franking credit at the output tax rate. This aspect of the proposed tax reform could be developed further.

Another significant benefit of the tax on company outputs is that corporate profit-shifting to lower-tax regimes would no longer be attractive. The Australian Government would collect the output tax in a simplified process and would not be concerned how companies then disposed of their profits.

Companies do not pay the Goods and Services Tax (GST). They are, therefore, happy to encourage an increase in the GST from the current 10 per cent while, at the same time, arguing for a lower corporate tax rate. An output tax to replace the corporate profit tax would help to redress the imbalance inherent in the current taxation arrangements.

It could be argued that the proposed output tax be rebated at each step in the supply chain. This is not a supportable argument. The output tax replaces the tax on profit and is not a sales tax that is paid ultimately by consumers as is the case with the GST. One cost of doing business - the corporate profit tax rate - is replaced by another cost of doing business - the output tax. Profit is the cost of staying in business.

Another advantage of the output tax is that - being fixed - it is a known cost. The actual tax amount paid will depend on the value of the company's output, but everyone will know that - whatever the value of the output - the amount of the output tax can be calculated easily. The removal of deductions is likely to make the annual reports by companies much easier to read and understand thereby improving the productivity the capital and financial markets.

The move to the output tax might even result in a profound reduction in the size of the Tax Acts – another significant improvement in productivity for the economy.

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