FINANCIAL REVIEW AUSTRALIA

Australia's tax take is second-highest in world

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Australia has the second-highest tax slug on personal income and business profits combined out of 34 of the world's leading economies, new figures show, renewing pressure on the Morrison government to embark on substantial tax reform to stimulate the soft economy.

An international tax report by the Organisation for Economic Co-operation and Development shows local companies are paying the third-highest share of tax to government coffers.

It follows weak economic data this week showing business investment shrank in the September quarter and pleas from business for tax incentives to spend more on capital expenditure to lift the economy's flatlining productivity.

The personal income tax impost also climbed to 40.3 per cent of total government revenue, below only the the Scandinavian welfare state of Denmark in 2017 – before the government's staggered income tax cuts take effect over the next five years.

Combining taxes on personal income and business profits, Australia raised 58.8 per cent of total federal and state government revenue from these sources, well above the OECD average of 34 per cent.

The report underlines how Australia is heavily reliant on taxes on personal income, business profits and property.

Australian governments raise only about half as much revenue (12.2 per cent of total tax revenue) from the goods and services tax (GST) compared to other similar value-added taxes (20.2 per cent) in other countries, according to the OECD's *Revenue Statistics 1965-2018.*

Centre for Independent Studies tax economist John Humphreys said the combined corporate and personal income tax take in Australia was "too high" and there would be marginal economic efficiency gains from giving the states control to raise more revenue from the GST.

To encourage business investment, Mr Humphreys said the government should stop taxing business profits that are reinvested and only tax dividends paid.

"The best reform for company tax would be to get rid of taxing reinvested profits. Our headline rate would still be 30 per cent, but it would be an important tax cut for investment and to grow businesses," he said.

Treasurer Josh Frydenberg has urged business to prioritise new investment over dividends and share buybacks to help lift the economy's feeble productivity.

He has signalled there is likely to be a business investment tax break – similar to accelerated depreciation – in next year's May budget.

Economic growth in the September quarter slowed to 0.4 per cent and annual growth edged up modestly to 1.7 per cent.

Business investment slumped 2 per cent in the quarter, largely driven by a surprise decline in mining.

Consumer spending eked out growth of only 0.1 per cent despite personal income tax cuts and Reserve Bank of Australia interest rate reductions.

KPMG chief economist Brendan Rynne said to achieve better economic growth the government needed to "rebalance" away from income-based personal and corporate taxes and towards consumption taxes.

Low tax-to-GDP take

"That's going to be absolutely necessary for the Australian economy to continue to provide government services to people," Dr Rynne said.

"Despite the personal tax cuts starting this year, the income tax contribution is still too high.

"A movement to a broader based consumption tax by increasing the 10 per cent GST rate and broadening the base is necessary to rebalance the tax base."

Australia recorded the equal-second largest tax-to-GDP increase of 0.9 of a percentage point in 2017, behind Israel and in line with the United States.

But Australia remains a relatively low tax economy by international standards, with the tax take as a share of the economy of 28.5 per cent versus the OECD average of 34.2 per cent.

Treasurer Josh Frydenberg said the OECD revenue statistics highlight the importance of maintaining our international tax competitiveness.

"That’s why the Morrison Government has delivered the biggest personal income tax cuts in more than two decades, fast tracked tax cuts for small and medium businesses and set a tax speed limit of 23.9 per cent of GDP," he said.

"At a time when Australia is facing global economic headwinds, we are focused on supporting business to create jobs, boost productivity and grow."

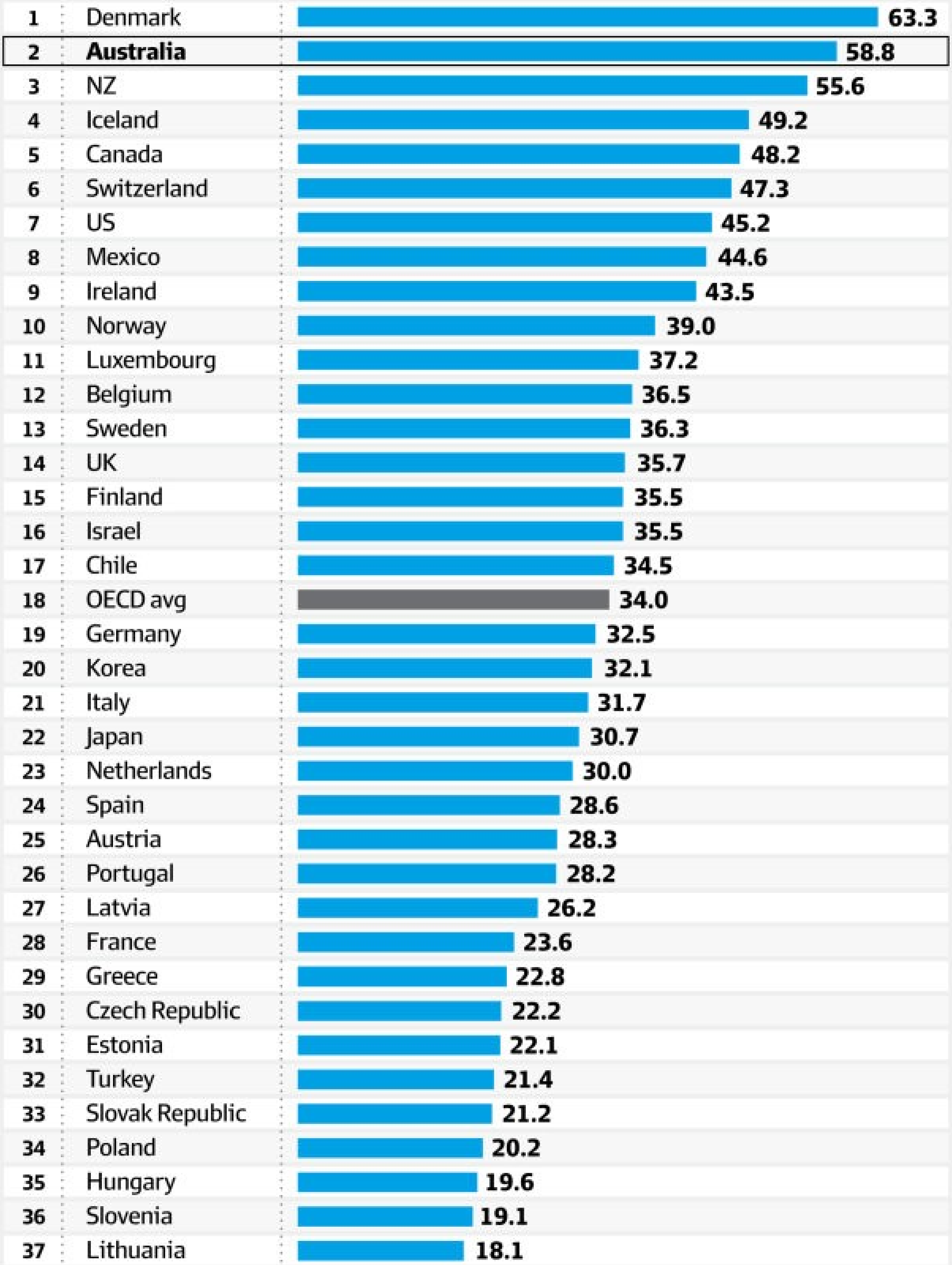
The OECD figures include taxes imposed by national governments as well as sub-national governments such as the states in Australia.

The corporate income tax figures exclude Australia's unique dividend imputation system, which lowers the cost of capital for business below the 30 per cent headline corporate income tax rate.

Amid calls from some Liberal backbenchers for the states to take more responsibility for raising their own revenue, the OECD report shows the federal government's share of tax revenue of 80.6 per cent was the highest out of the eight other central governments in a federation-like system.

Property taxes in Australia, chiefly state stamp duty and land tax, were about 10 per cent of tax revenue – above the average of 5.8 per cent average.

Taxes on income and profits, 2017 (% of total tax revenue)



SOURCE: OECD