Ms Parveer Kaur

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1st June 2015

Hon. Joe Hockey, Treasurer

Tax White Paper Task Force

The Treasury

Langton Crescent

PARKES, Canberra, ACT 2600

Dear Mr Hockey

Re: Tax White Paper Submission

I enclose my submission to the Tax White Paper Task Force 2015about a corporate tax rate change for Australia.

Yours Sincerely

Parveer Kaur

Monash University, Business School Student.

Should Australia's corporate tax rate be changed? A comparison of Australia to Canada and Singapore

Introduction

"Changes in global economy have put strain on the tax systems around the world."[1] These changes can "weaken the ability of tax systems to raise revenue from traditional tax bases and they can increase the economic costs of taxation, dampening economic growth."[2] This paper specifically focuses on the corporate tax rate in Australia. The corporate tax rate is 30 percent in Australia currently.[3] Other countries such as Canada and Singapore have a very low corporate tax rate as compared to Australia. The current corporate tax rate in Canada is 26.5 percent[4] and in Singapore, it is 17 percent[5].

The Australian corporate tax rate is highly uncompetitive. This can discourage foreign investment in Australia and impact on economic growth.[6] Also, high corporate tax rate can provide an incentive for profit shifting.[7] If the corporate tax rate is lowered in it would discourage firms from profit shifting and attract necessary investment.[8] However, it would also lead to revenue loss in the short term.[9] In order to determine whether the corporate tax rate in Australia should be changed or not, firstly this paper reviews the literature to determine analysis which have been made in the past regarding the corporate tax rate in Australia.

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[1]Department of Treasury (Australia), 'Re:Think – Tax Discussion Paper' (2015), 7.
[2] Ibid.
[3] Deloitte, Corporate Tax Rates 2015' (2015), 1 <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-corporate-tax-rates-2015.pdf>.
[4] KPMG, *Corporate Tax Rates Table KPMG GLOBAL* (2015) <http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx>.
[5] Deloitte above n 3.
[6] Department of Treasury (Australia), above n 1, 10.
[7] Ibid.
[8] Ibid, 74 – 80.
[9] Ibid.

The question asked in this paper is 'Given the lowering of corporate tax rates in in Canada and Singapore, should Australia's corporate tax rate be changed? Furthermore, this paper provides an overview of the Australian economy as well as the Canadian and Singaporean economy. And then, it discusses the benefits and drawbacks that Canada and Singapore had when they made changes to their corporate tax rates, along with the implications that the Australian economy could have if any similar changes are made to the Australian corporate tax rate.

Literature Review

The corporate tax rate has been 30 percent for many years in Australia.[10] However, other nations such as Canada have reduced its corporate tax rates over the last few years except in 2014 where it was increased by 0.5 percent.[11] Similarly, Singapore has a low corporate tax rate. It was reduced from 20 percent to 18 percent in 2008, and further reduced in 2010 to 17 percent, and subsequently, it has been 17 percent since 2010.[12]

According to Shaheen, the Henry Review stated that the corporate tax rate should be changed from 30 percent to 25 percent.[13] The Henry Review asserted that the reduction of the corporate tax rate in Australia during late 1980s to 2000 led to strong growth, and that "adjustment would underpin further growth."[14] Similarly, Allesandra Fabro, policy director of Business Council Australia, said that the Australian corporate tax rate is less competitive than many around the world, and that the Australian government should review the business

[10] 'Taxation', (2012) *Australia Country Review*., 1.
[11] KPMG, above n 4.
[12] Ibid.
[13] Salman Shaheen, 'The Future of Falling Corporate Tax Rates' (2010) 21, no. 8 *International Tax Review*. <http://web.ebscohost.com.ezproxy.lib.monash.edu.au/ehost/detail/detail?sid=27224bd4-c62a-4362-808c-570f63f6844a%40sessionmgr4003&vid=0&hid=4209&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=55384734>
[14] Australia's Future Tax System, *Part 1: Overview - Chapter 1: The Need For Reform - Australia's Future Tax System: Final Report* (2010) <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_1.htm>.

tax system.[15] Likewise, Yasser El-Ansasty, tax counsel of the Institute of Chartered Accountants highlighted the significance of reduction in corporate tax rates in an interview and so, he asserted that it will lead to greater investment and will help small, medium and large scale businesses.[16]

On the other hand, Flavio Menezes has discussed the issues which could arise if the corporate tax rate is reduced. These include the time it will take for reductions in corporate taxes to flow through to workers and consequently, widen gap that would be created between the maximum personal rate and the corporate rate.[17] Likewise, Chris Richardson has discussed the problems with tax cuts; he asserts that the Australian government does not have enough finances to change the tax rate.[18]

A review of the tax reform by Geoffrey Kingston argued that the mainstream view of the tax reformers to decrease personal tax rate closer to the corporate tax rate is the best way of prosperity, however he uses international evidence which suggests that cutting the corporate tax rate would be more effective in increasing output and wages.[19] Kingston refers to a study by Hassett and Mathur that found that a reduction in a country's corporate tax rate by 10 percent is associated with an 8 percent rise in domestic before tax wages in manufacturing.[20]

According to John Fraser, who is Secretary of the Australian Treasury, corporate tax rates were a second or third issue for corporates considering investments based on his

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[15] 'Under-Fire Australian Government Announces Draft Tax Reforms', (2007) 18, no. 8 *International Tax Review*. <http://web.ebscohost.com.ezproxy.lib.monash.edu.au/ehost/detail/detail?sid=36be48b9-8c68-452a-b46a-c1b2abd0999a%40sessionmgr4002&vid=3&hid=4209&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=27079527>

[16] Yasser Ei-Ansary, 'Media Update' (2011) 82, no. 11 *Charter*, 1.

[17] Flavio M. Menezes, 'The Business Tax Reform Agenda*' (2012) 31, no. 1 *Economic Papers*., 4-5.

[18] Chris Richardson, 'The Problem with Tax Cuts' (2009) 31, no. 42 *Business Review Weekly,* <http://web.ebscohost.com.ezproxy.lib.monash.edu.au/ehost/detail/detail?vid=8&sid=36be48b9-8c68-452a-b46a-c1b2abd0999a%40sessionmgr4002&hid=4209&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=47021676>

[19] Geoffrey Kingston, 'Tax Reform: A Different View' (2007) 26, no. 2 *Economic Papers,* 128-129

[20] Ibid, 128-129.

experience as former investment manager.[21] Additionally, he asserted that it is not important whether the corporate tax rate is 30 per cent or 35 per cent as there are other important issues such as governance and dispute resolution addressed.[22] However, on the other hand, he supports a reduction in the corporate tax rate in order to help small and medium sized firms.[23]

In the Federal Budget 2015 proposes a corporate tax rate cut of 1.5 percentage points for small businesses, which will reduce the rate for that sector to 28.5 percent. [24] A company tax rate reduction “will improve the cash flow of incorporated small business and increase their capacity to engage in the economy.”[25]

The tax discussion paper released by the Australian Government in March 2015 discusses about changing the corporate tax rate in Australia as well as other taxes.[26] It states that Australia’s high corporate tax can deter investment and as a result, leading to lower wages and prosperity.[27] Furthermore, it discusses that the current corporate tax rate is uncompetitive which will make it more difficult for Australia to attract necessary investment. Also, a high corporate tax rate can provide an incentive to firms for profit shifting.[28]

Additionally, the 2015 tax discussion paper conveys how Australia relies heavily on corporate tax income compared to other countries. For example, in 2012, Australia’s corporate taxation was 5.2 percent of GDP, whereas the OECD counties average was 2.9 percent of GDP.[29]

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[21] Peter Martin, 'Company Tax Cuts Won't Spark Investment Explosion Says Treasury Chief John Fraser' *The Age*, 2015 <http://www.theage.com.au/business/company-tax-cuts-wont-spark-investment-explosion-says-treasury-chief-john-fraser-20150517-gh3lp4.html>.
[22] Ibid.
[23] Ibid.
[24] Australian Government, 'Growing Jobs And Small Business' (2015) <http://budget.gov.au/2015-16/content/glossy/sml_bus/download/Growing_Jobs_and_Small_Business.pdf>, 7.
[25] Ibid.
[26] Department of Treasury (Australia), above n 1.
[27] Ibid., 7.
[28] Ibid., 10.
[29] Ibid., 75.

Furthermore, reducing Australia's corporate tax rate would attract higher levels of investment and lead to capital deepening. This would ultimately promote growth in productivity, innovation, employment and wages.[30]

Moreover, the 2015 tax discussion paper highlights the impact of corporate tax rate on economic growth and standard living. One of the main reasons that discourage investment in Australia by foreigners is its high uncompetitive corporate tax rate. In other words, investment decisions can be influenced by the tax. Generally, high taxes mean fewer investments.[31] "As economies become more open, barriers to investment can have a greater impact on economic growth and real wages growth."[32]

By reducing the corporate tax rate, it might encourage a higher level of investment. In the short-term, the lower tax rate would attract non-residents to invest in Australia and in the long run, all Australians would benefit from the increase in investment.[33] Additionally, for multinational companies, the "lower tax rate would reduce the incentive for tax planning and profit shifting from Australia."[34] The money which is spent on tax planning would be saved and eventually lead to higher revenue and could be used more productively in the economy.[35]

However, a reduction in the corporate tax rate would have significant impact on tax revenue in the short term. These loses would be partially offset in medium to long term as there would be more investments due to lower tax rate, which would generate additional revenue. Existing investors would also benefit from the reduction as well as new investors.[36]

[30] Ibid., 78.
[31] Ibid.
[32] Ibid, 74.
[33] Ibid.
[34] Ibid., 80.
[35] Ibid.
[36] Ibid.

Moreover, the risks to base erosion and profit shifting (BEPS) are increasing.[37] Therefore, in order to maintain integrity and fairness, it is very important that companies who operate their businesses in Australia pay taxes in Australia.[38] Reducing the corporate tax rate would reduce the companies' incentive to be involved in profit shifting, debt loading and tax avoidance.

Hence, there are different views about the corporate tax rate change in Australia. Some are against changing the corporate tax rate and some views represent that it would be beneficial for Australia if the corporate tax rate is reduced. This paper will consider the views which assert that the corporate tax rate should be in changed in comparison to Canada and Singapore.

Methodology

This paper has been prepared using a qualitative approach. "Qualitative research focuses on the building of theories, the identification of patterns, and the making of both meaningful and analytical generalisations that are limited in context to the population studied."[39] The research for this paper identifies patterns of the corporate tax rate changes. The paper reviews the literature by using online resources such as journal articles, periodical articles, government reports, discussion papers and newspaper articles in order to determine supporting and opposing arguments for reducing corporate tax rates. In addition, the paper focuses on the Australian Government's March 2015 tax discussion paper in order to recognize the advantages and disadvantages of reducing the corporate tax rate in Australia.

Comparative research "is the selection and analysis of similarities and differences of two or more phenomena, with the aim of providing an explanation of the similarities or

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[37] "BEPS refers to situations where the interaction of different tax rules allows profits to be shifted away from the countries where the activities creating those profits take place, leading to low taxation or even no taxation." Ibid., 81.
[38] Ibid., 81-82.
[39] Margaret McKerchar, *Design And Conduct Of Research In Tax, Law And Accounting* (Thomson Reuters/Lawbook Co., 2010), 94.

differences found."[40] Furthermore, comparative analysis "highlights the different interpretations of the same information to achieve the desired outcome."[41] Therefore, this paper would follow a comparative approach in order to understand the benefits and drawbacks of reduction in the corporate tax rates in Canada and Singapore and accordingly, comparing those results with Australia.

Description Australia's economy

Australia is a prosperous nation that is consistently ranked as one of the strongest advanced economies in the Organisation for Economic Co-operation and Development.[42] It is also the twelfth largest economy in the world along with having top performance in "almost every measure of excellence, health to wealth, from ease of doing business to educational attainment". [43] Furthermore, it is one of the world's most open economy[44]; with low unemployment and inflation as well as a highly skilled workforce. [45] "Almost 40 percent of Australia's workforce holds a tertiary qualification."[46]

"Australia is a global leader in five significant and diverse sectors; agribusiness, education, tourism, mining and wealth management".[47] Subsequently, the largest part of the Australian economy is the services sector which accounts around three quarters of GDP and four out of five jobs.[48] In 2013, "the mining sector accounted for approximately 11 per cent of the Australian economy."[49]

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[40] Lynne Oats, *Taxation* (Routledge, 2012), 221.
[41] Ibid, 223.
[42] Department of Foreign Affairs and Trade, 'Australia In Brief' (2014) <http://dfat.gov.au/about-us/publications/Documents/australia-in-brief.pdf>, 7.
[43] Ibid.
[44] Ibid, 18.
[45] Ibid, 7.
[46] Ibid, 41.
[47] Ibid, 19.
[48] Ibid, 18.
[49] Ibid, 35.

Additionally, foreign investment stock in Australia at the end of 2013 was $2.5 trillion[50] and tourism industry added more than $42 billion to the Australian economy in 2013 as well as directly employing half a million people.[51]. Moreover, the education sector added $15 billion to the Australian economy with more than 410,000 international students studying and living in Australia in 2013.[52]

The World Bank ranked Australia as the fourth fastest place in the world to start a new business in 2013.[53] The total value of Australian exports is $318.5 billion which comprises of iron ore ($69, 494 million), coal ($39,805 million), education travel services ($15,020 million), natural gas ($14,602) and gold ($13, 897).[54] On the other hand, the total value of Australian imports is $328.7 billion which is made up of personal travel ($24,725 million), crude petroleum ($20,226 million), motor vehicle ($18,292 million), refined petroleum ($18, 230 million) and freight transport ($9,348 million).[55]

Description of the Canada's Economy

"The Canadian economy was the 11th biggest economy in the world by GDP in 2013 according to the International Monetary Fund's World Economic Outlook, October 2014 database."[56] Additionally, "Canada has retained its ranking as the 15th most competitive nation economically among 144 countries ranked by the World Economic Forum in the 2014-2015 WEF Global Competitiveness Report."[57]

Canada has rich natural resources. It "has more fresh water than any other country with at least 2 million lakes (more than all other countries combined) and almost 9 % of

[50] Ibid, 38.
[51] Ibid, 47.
[52] Ibid, 48.
[53] Ibid, 40.
[54] Ibid, 33.
[55] Ibid.
[56] Department of Foreign Affairs and Trade, *Canada Country Brief* <http://dfat.gov.au/geo/canada/Pages/canada-country-brief.aspx>.
[57] Ibid.

Canadian territory is water."[58] Like Australia, Canada also has a fair, open and non-discriminatory world trade system.[59] Manufacturing, mining and service sectors growth after the World War II transformed Canada from a large rural economy into one primarily industrial and open.[60] Due to Canada's abundant natural resources, "highly skilled labour force, and modern capital plant, Canada enjoyed solid economic growth from 1993 through 2007."[61] Afterwards, the Canadian economy dropped into a sharp recession due to the global economic crisis in the final months of 2008.[62] "Canada's major banks, however, emerged from the financial crisis of 2008-09 among the strongest in the world, owing to the early intervention by the Bank of Canada and the financial sector's tradition of conservative lending practices and strong capitalization."[63] "In addition, the country's petroleum sector is rapidly expanding" and now Canada ranks third in the world in proven oil reserves.[64]

Canada has high-tech industrial society, market oriented economic system and high living standards.[65] It also has low inflation rates, 1 percent in 2013 and 2 percent in 2014.[66] The main businesses in Canada include agriculture (this includes products such as wheat, barley, oilseed, tobacco, fruits, vegetables, dairy products, fish and forest products) and industries such as transportation equipment, chemicals, processed and unprocessed minerals, food products, wood and paper products, fish products, petroleum and natural gas.[67]

Canada exported $465.5 billion worth of goods and services during 2013 and 465.1 billion in 2014. This included commodities such as motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment; chemicals, plastics, fertilizers; wood

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[58] Ibid.
[59] Ibid.
[60] Central Intelligence Agency, *The World Factbook, Canada* <https://www.cia.gov/library/publications/the-world-factbook/geos/ca.html>.
[61] Ibid.
[62] Ibid.
[63] Ibid.
[64] Ibid.
[65] Ibid.
[66] Ibid.
[67] Ibid.

pulp, timber, crude petroleum, natural gas, electricity and aluminium.[68] On the other hand, Canada imported $472.6 billion worth of goods and services during 2013 and $482.1 billion in 2014. The import commodities included machinery and equipment, motor vehicles and parts, crude oil, chemicals, electricity, durable consumer goods.[69]

Description of the Singapore's Economy

Singapore "provides the world's most business-friendly regulatory environment for local entrepreneurs and is ranked among the world's most competitive economies."[70] "In the decades after independence, Singapore rapidly developed from a low income country to a high income country. GDP grew with an average of 7.7 percent since independence; in the first 25 years growth topped 9.2 percent. Per capita GDP over the same periods grew by 5.4 percent and 7.2 percent."[71] Likewise as Canada, the inflation rates in Singapore are also low, 2.4 percent in 2013 and 1.5 percent in 2014.[72]

Singapore "has traditionally had a dynamic economy, with strong service and manufacturing sectors, and one of the highest per capita gross domestic products (GDP) in the world. Its airport, port and road systems are among the best in the world. Singapore's economy has always depended on international trade."[73] "Singapore's small population and dependence on external markets and suppliers has pushed it towards economic openness, free trade and free markets. This, as well as government policies that foster economic development, have been key factors in Singapore's historically strong economic

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[68] Ibid.
[69] Ibid.
[70] The World Bank, *Singapore Overview* (2015) <http://www.worldbank.org/en/country/singapore/overview>.
[71] Ibid.
[72] Ibid.
[73] Department of Foreign Affairs and Trade, *Singapore Country Brief* <http://dfat.gov.au/geo/singapore/Pages/singapore-country-brief.aspx>.

performance. The Government has pursued an outward-looking, export-oriented economic policy that encourages two-way flows of trade and investment."[74]

The Singaporean economy is highly developed and free-market. "It enjoys a remarkably open and corruption-free environment, stable prices, and a per capita GDP is higher than that of most developed countries."[75] Additionally unemployment is very low.[76] "The economy depends heavily on exports, particularly in consumer electronics, information technology products, pharmaceuticals, and on a growing financial services sector."[77] "The economy contracted 0.6 percent in 2009 as a result of the global financial crisis, but rebounded 15.1 percent in 2010, on the strength of renewed exports. Growth in 2014 was slower at 13.9 percent, largely a result of soft demand for exports during the second European recession."[78] Furthermore, "Singapore has attracted major investments in pharmaceuticals and medical technology production and will continue efforts to establish Singapore as Southeast Asia's financial and high-tech hub."[79]

The main industries in Singapore include "electronics, chemicals, financial services, oil drilling equipment, petroleum refining, rubber processing and rubber products, processed food and beverages, ship repair, offshore platform construction, life sciences, entrepot trade"[80] as well as agriculture which includes products such as orchids, vegetables, poultry, eggs, fish and ornamental fish.[81]

In addition, Singapore exported $437.5 billion worth of goods and services during 2013 and $449.1 billion in 2014. The exported commodities include machinery and equipment (including electronics and telecommunications), pharmaceuticals and other

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[74] Ibid.
[75] Central Intelligence Agency, *The World Factbook, Singapore* <https://www.cia.gov/library/publications/the-world-factbook/geos/sn.html>.
[76] Ibid.
[77] Ibid.
[78] Ibid.
[79] Ibid.
[80] Ibid.
[81] Ibid.

chemicals, refined petroleum products, foodstuffs and beverages.[82] Also, Singapore imported $369.8 billion during 2013 and $375.5 billion in 2014. The imported commodities include machinery and equipment, mineral fuels, chemicals, foodstuffs, consumer goods.[83]

Overview of corporate tax rates in Canada and Singapore

The current corporate tax rate in Canada is 26.5 percent and in Singapore, it is 17 percent.[84] Both countries tax rates are lower than Australia's corporate tax rate which is 30 percent.[85] A countries' corporate tax rate can have "powerful, symbolic and visceral influence" on retaining existing businesses and attracting new ones and such influence can be beneficial for the economy.[86]

"The Government of Canada is committed to achieving the lowest overall tax rate on new business investment in the Group of Seven (G7)."[87] The Group of Seven includes Canada, France, Germany, Great Britain, Italy, Japan and United States. Furthermore, a lower corporate tax rate will encourage domestic as well as foreign investment by firms operating in Canada and so, this will ultimately lead to new and better jobs along with increased living standards for Canadians. "An important, but by no means the only, consideration in setting Canada's corporate income tax rate is therefore international competitiveness."[88]

Tax payers in certain countries are taxed on their worldwide income by their home jurisdiction, which a credit for foreign taxes paid. The income earned from investments by multinational companies, based in such countries, is taxed at a higher rate by either the home or the host country. In the case of foreign direct investment in Canada, a lower corporate tax

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[82] Ibid.
[83] Ibid.
[84] KPMG, above n 4.
[85] Taxation, above n 10, 1.
[86] Nathan Boidman and Peter Glicklich, 'The Impact on Canada-U.S. Business of Diverging Corporate Tax Rates' (2011) 40, no. 4 *Tax Management International Journal*. <
http://search.proquest.com.ezproxy.lib.monash.edu.au/docview/859017092?accountid=12528>
[87] Department of Finance, Canada, 'Tax Expenditures and Evaluations' (2008), 39.
[88] Ibid.

rate might not reduce the overall tax liability of multinational companies in such countries. That is, the lower corporate tax rate in Canada could just simply reduce the amount it allows as a credit for foreign taxes paid in a host country; and hence leads to higher taxes paid in Canada (in this case, the home country). As a result, Canada would lose that revenue without any favourable impact on investment.[89]

Similarly, the corporate tax rate in Singapore is also low. Corporate taxes determine multinational corporations' (MNC) decision for location of its business.[90] MNC's prefer countries with a low corporate tax rate as opposed to a high corporate tax rate. "Quality of labour force and physical infrastructure is yet another important determinant."[91] In Singapore, 60 percent of goods and services are produced by public sector, 25 percent by foreign MNC's and 15 percent by the private sector of Singapore. Therefore, MNC's account for a quarter of Singapore's national output.[92]

As well as offering low corporate tax rates, Singapore also offers exemptions of up to 100,000 Singapore dollars (SGD) out of the first SGD 300,000 of taxable income. Also, "a three year tax exemption on the first SGD 100,000 and a further exemption of up to SGD 100,000 on the next SGD 200,000 of taxable income are available for qualifying start-up companies."[93] Therefore, Singapore offers a range of tax incentives that allow "companies doing business there to pay no or very little tax."[94]

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[89] Ibid., 47.
[90] Donghyun Park, 'Foreign Direct Investment And Corporate Taxation: Overview Of The Singaporean Experience' *Nanyang Technological University*, 4.
[91] Ibid, 5.
[92] Ibid.
[93] PricewaterhouseCoopers, 'Worldwide Tax Summaries Corporate Taxes 2014/15' (2014), 1765, <http://www.pwc.com/gx/en/tax/corporate-tax/worldwide-tax-summaries/assets/pwc-worldwide-tax-summaries-corporate-2014-15.pdf>.
[94] Nassim Khadem, 'Singapore Not A Tax Haven, It's A Real Hub: Taxation - Low Company Rate Defended' *The Age*, 2015. <http://search.proquest.com.ezproxy.lib.monash.edu.au/docview/1676588366/2D1C313283FF49FAPQ/5?accountid=12528>.

Companies such as Google, Apple, Microsoft, BHP Billiton and Rio Tinto have admitted corporate tax avoidance for their use of Singapore hubs from which they have made hundreds of millions of dollars of income.[95] However, a spokesperson for Singapore's Economic Development Board stated that "its tax incentives were legal and in the spirit of fair tax competition."[96] Furthermore, the spokesman asserted that tax incentives are given to companies with substantive economic activities in Singapore, and that this will significantly add value to the Singaporean economy by bringing new capabilities and creating new jobs for Singaporeans.[97] The spokesman also stated that "Singapore is a neutral gateway for companies looking to expand in emerging Asia."[98] Therefore, low tax is not the only reason why firms choose to operate in Singapore.

Analysis: corporate tax rate changes in Canada and Singapore and implications for Australia

The reduction in corporate tax rate in Canada has led to an increase in business investment. It boosted Canada's capital stock by $467 billion.[99] Furthermore, evidence has suggested that Canada has been benefiting from the profit shifting by multinational companies despite of its steadily lower corporate tax rate, there was little or no effect on revenue collected.[100] For instance, the lower corporate tax rate was the reason of the merger of an American based company, Burger King, with a Canadian company, Tim Horton.[101]

[95] Ibid.
[96] Ibid.
[97] Ibid.
[98] Ibid.
[99] 'A Few Kind Words for Corporate Tax Cuts', (2012) 125, no. 39 *Maclean's*. < http://web.b.ebscohost.com.ezproxy.lib.monash.edu.au/ehost/detail/detail?sid=336da6f2-7740-4bd8-aaed-c8f1f42437ac%40sessionmgr115&vid=1&hid=102&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=82180680>
[100] Ibid.
[101] Don Frendberg, 'Burgers and Free Enterprise' (2014) *HVACR Distribution Business,* 1.

Between 1988 and 2000, Canada had a top corporate tax rate of 43 percent and averaged GDP by corporate tax revenue was 2.9 percent. However, since 2000s, as the corporate tax rate has been lowed, corporate tax revenue increased to 3.3 percent of GDP.[102]

In 2000, the federal corporate tax rate was reduced from 29 percent to 15 percent in 2012. "Canadian experience shows that the governments don't lose money when they cut high corporate tax rates."[103] Even with the lower tax rate, "tax revenues have not declined."[104] This is because the tax rate cuts bring an expansion in the tax base due to an increase in economic activity and a decrease in tax avoidance.

Therefore, just like Canada, it is also possible for Australia to have no or little effect on revenue collected if the corporate tax rate is changed as the economic activity could increase and tax avoidance could decrease. Similarly, the average corporate tax revenue of GDP could also increase in Australia, just the way it did in Canada after the corporate tax rate was lowered. The total taxation revenue as a proportion of GDP is currently 27 percent in Australia.[105] "Australia's company income tax revenue as a proportion of GDP is 5.9 percent."[106]

In 2009, the corporate tax rate in Singapore was reduced by one percent from 18 percent to 17 percent. By reducing the corporate tax rate, it narrowed the gap with its regional

[102] C. O. X. W. Michael and A. L. M. Richard, 'Lower Corporate Rate a Bonanza for Shareholders and Uncle Sam' (2014) *Investors Business Daily*. < http://web.b.ebscohost.com.ezproxy.lib.monash.edu.au/ehost/detail/detail?sid=428d6f41-e5db-4064-858d-18eb198d7dc6%40sessionmgr114&vid=1&hid=102&bdata=JnNpdGU9ZWhvc3QtbGl2ZSZzY29wZT1zaXRl#db=bth&AN=98184250>

[103] Chris Edwards, Canada's Fiscal Reforms, (2013) *CATO Journal,* 33(2): 299-306, 303.

[104] Ibid, 304.

[105] Australian Bureau of Statistics, '5506.0 Taxation Revenue, Australia, 2013-14' (2015) <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5506.0Main%20Features42013-14?opendocument&tabname=Summary&prodno=5506.0&issue=2013-14&num=&view=>.

[106] Australia's Future Tax System, *Part 2: Detailed Analysis – Chapter B: Investment and entity taxation:* Final Report (2010), 159 <http://taxreview.treasury.gov.au/content/downloads/final_report_part_2/AFTS_Final_Report_Part_2_Chapter_B.pdf>.

competitor, Hong Kong, where the tax rate is 16.5 percent.[107] According to a report by PricewaterhouseCoopers, "this rate reduction will deplete the government revenue by S$400 million to S$500 million a year."[108] Furthermore, the reduction would serve the growth for Singapore economy for longer terms. The total assets as at the year-end by all industries in Singapore increased by 6.0 percent from SGD 4,156,893 million in 2008 to SGD 5,156,752 million in 2012. In addition, return on equity increased by 12.1 percent from 13.7 percent in 2008 to 15.0 percent in 2012.[109]

Moreover, the foreign direct investment (FDI) by MNC's into Singapore has helped the economy to grow. In 2002, FDI inflows were 5,822 which increased to 16,060 in 2004.[110] In 2004, the ratio of FDI to national output was around 150 percent.[111]

The corporate tax rate was reduced between 2001 and 2011 from 25.5 percent to 17 percent.[112] At the end of 2011, inward FDI stock in Singapore was amounted to SGD 672 billion which is higher than its outward FDI stock of SGD 449 billion. Both inward and outward FDI stock has tripled than to what it was in 2001. Inward FDI stock was SGD 217 billion and outward stock was SGD 132 billion in 2001.[113] As high taxes generally mean fewer investments[114], therefore, it could be concluded that the increase in the number of investments was due to the lower corporate tax rate and hence it benefited the Singaporean economy.

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[107] PricewaterhouseCoopers, 'Budget Commentary Singapore' (2009) <https://www.pwc.com/sg/en/budget-commentary/assets/budget-commentary-2009.pdf>.
[108] Ibid, 4.
[109] Singapore Department of Statistics, 'Singapore's Corporate Sector 2012' (2014) <http://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/corporate_sector/scs2012.pdf>.
[110] Ibid, 6.
[111] Ibid.
[112] Guidemesingapore.com, *UPDATED: Singapore Corporate Tax Rates - 2015 Guide, Corporate Income Tax In Singapore* (2015) <http://www.guidemesingapore.com/taxation/corporate-tax/singapore-corporate-tax-guide>.
[113] Singapore Department of Statistics, 'Trends In Singapore's Inward And Outward Direct Investment, 2001 - 2011' (2013) <http://www.singstat.gov.sg/docs/default-source/default-document-library/publications/publications_and_papers/investment/ssnsep13-pg1-9.pdf>.
[114] Department of the Treasury (Australia), above n 1.

If the corporate tax rate is lowered in Australia, our economy would be more competitive in attracting investment. Similarly to Singapore, the reduction could also serve the growth of the Australian economy as well as possible increase in assets, return on equity and FDI.

In the case of Canada, "the government's own stimulus multipliers show that corporate income tax cuts are the least effective means at the government's disposal of creating economic growth and jobs in the short run. Instead, social housing and infrastructure investments top the list, creating 10 times as many jobs per dollar spent."[115] In addition to that "a recent study by University of Calgary business professor Jack Mintz extolled the benefits of corporate tax cuts but conceded that it would take seven years for the full effects to be felt."[116] "In essence, Canadians need to pay big bucks now and hope they will see the benefits almost a decade later."[117]

"However, the claim is that by lowering corporate income tax rates, companies will have more money to invest in their machines, technology, and employees."[118] "These investments will help to spur Canada's chronically low productivity growth, driving long term economic growth while creating employment and wealth in the process."[119]

In a study of 198 major Canadian corporations, if the companies had paid the same corporate tax rate in 2009 as they did in 2000, the federal and provincial governments would have collected additional $12 billion a year in revenue. As the study only included 198 corporations, the overall loss of revenue from all other corporations in Canada would be

[115] David Macdonald, 'Corporate Income Taxes, Profit, And Employment Performance Of Canada's Largest Companies', *Canadian Centre for Policy Alternatives* (2011), 1 <https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2011/04/Corporate%20Income%20Taxes%2C%20Profit%2C%20and%20Employment.pdf>.
[116] Ibid.
[117] Ibid.
[118] Ibid.
[119] Ibid.

larger still.[120] Moreover, "from 2005 to 2010 the number of employed Canadians in the economy overall rose from just over 16 million to just over 17 million, for a growth rate of 6 percent over the five year period. That is not bad considering the worldwide recession that hit in 2008. That 6 percent growth in the number of people employed represents the average across all sectors of the Canadian economy."[121]

The major 198 companies studied showed employment growth of only 5 percent over the five year period, increasing from 2.0 million to 2.1 million employees, however, the figure also includes the jobs which were created by these companies in their operations outside of Canada. Hence, "the actual number of jobs created in Canada is in fact less."[122]

Despite of the big tax savings, the major companies in Canada "did not keep up with the average number of jobs created in the Canadian economy. These companies saw the largest benefit from corporate tax cuts, worth over $12 billion dollars a year and counting, yet they are actually pulling the employment growth average down."[123]"The only noticeable result from the decade-long corporate tax cut experiment is that Canada's largest companies have larger profits."[124]

Therefore, Australia could have similar negative effects of a corporate tax rate cut as Canada did. The major Australian corporations could possibly benefit from the cuts in the corporate tax rate as they would have to pay a lower tax rate. The Australian economy overall might not benefit from the reduction in the corporate tax rate in the short term, however, it probably would boost economic growth in the long term, similar to what has happened in Canada after the corporate tax rate was lowered. Additionally, the overall employment rate in Australia has to increase, but it needs to be aware that in Canada the big corporations might actually pull the employment growth average down.

[120] Ibid, 4.
[121] Ibid.
[122] Ibid, 5.
[123] Ibid.
[124] Ibid.

Conclusion

This paper reviewed the literature in order to obtain an understanding of different views regarding corporate tax rate changes in Australia. In addition, it provided a review of the Australian economy, followed by a review of the Canadian and Singaporean economy. Furthermore, it looked at advantages and disadvantages that Canada and Singapore had after the corporate tax rate was changed in both countries.

The analysis of Canada and Singapore argues that both countries benefited from lowering their corporate tax rates. In both economies, a reduction in corporate tax rates has attracted investment, increased economic activities, decrease in profit shifting and increased GDP as well as an increase in employment. However, these benefits took time and not evident immediately after the corporate tax rate was lowered. It took nearly a decade for Canada to achieve these benefits, but nonetheless it has benefited the economy.

Therefore, it is concluded that the corporate tax rate in Australia should be changed, that is, it should be lowered, just like Canada and Singapore have done. This would benefit the Australian economy in the long run. Similar results to that of Canada and Singapore are possible, which includes higher investments, increased employment and decreased profit shifting.