



29 May 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

PACIA RESPONSE TO *Re:think Australian Government Tax Discussion Paper*

Thank you for the opportunity to provide a submission in response to the *Re:think Tax discussion paper*.

The Australian chemicals and plastics industry is the **second largest manufacturing sector** in Australia. Our industry **employs more than 60,000 people**, with every job also creating five more in related supply chains. The industry **contributes \$11.6 billion** to gross domestic product, and **supplies inputs to 112 of Australia's 114 industries**. PACIA is the peak national body representing companies large and small across the chemicals and plastics supply chain.

This industry is an essential building block for Australia's modern economy. However the industry is at a crossroads, with significant roadblocks threatening its future and its critical contribution to Australia. Action is needed right now to halt contraction and reposition the industry as strong, resilient and able to add significantly more value to the Australian economy.

PACIA is committed to working with all levels of Government and other stakeholders to achieve these outcomes. Regulatory and institutional roadblocks along with existing policy settings impinge upon the capacity of the industry to innovate, invest and grow. PACIA and our members are keen to continue to work with the Commonwealth Government to establish a clear, consistent, balanced and fair taxation system that encourages investment and innovation and maintains and improves the living standards of Australian communities.

Should you have any comments or questions in relation to this submission, please contact me.

Sincerely

A handwritten signature in blue ink, appearing to read "Ben Stapley", is written over a light blue circular stamp.

Ben Stapley
Director – Policy and Regulation
Plastics and Chemicals Industries Association

GENERAL COMMENTS

PACIA is seeking to help create a dynamic, globally competitive and highly valued Australian chemistry industry that is innovative, productive, profitable, responsible and sustainable. A strong and productive chemistry industry is a cornerstone of a diverse and sustainable Australian economy. Australia's tax policies have the potential to improve the incentive to make additional investments.

The Australian domestic chemicals and plastics industry is not only important in its own right, it has a multiplier effect on productivity and cost saving benefits to the broader economy. Each job in the chemicals and plastics sector creates five more in related supply chains. The industry's central role in multiple supply chains provides benefits that exceed the directly attributable benefit of the industry.

Our members add significant value to Australia's natural resources. Chemical manufacturers Australian natural gas and create value added chemicals that are key inputs to multiple supply chains. These include:

- Ammonium nitrate to produce fertilisers for agriculture and explosives for mining and extractive industries;
- Polyethylene for use in pipes, water infrastructure and packaging; and
- Polypropylene for industrial strapping, films, caps and blow moulded products.

Australia also relies on a strong chemistry sector to deliver solutions for a more sustainable future. Australian chemistry companies work actively with their product and service chains and, through innovation, deliver solutions for the many challenges facing humanity, including climate change, water shortage, population increases and resource constraints.

The industry is arguably the most diverse and broad in its reach across Australian society, environment and industry. It can be broadly categorised as follows:

- Basic Chemicals (organic and inorganic industrial chemicals, fertilisers, industrial gases, and synthetic resins)
- Specialty Chemicals (explosives, paints, rubber products, plastics, other polymers and inks)
- Consumer Chemicals (pesticides, soaps and detergents, cosmetics, personal care, medicinal and pharmaceutical)

The chemistry industry, with its supply chain relationships, research and development (R&D) and skilled workforce are central to Australia's current high income economy. The industry's outputs provide building blocks into most other sectors and supply chains, via products, technologies and services. The chemistry industry continues to work actively with its product and service chains to deliver solutions for the many challenges facing humanity, including climate change, water shortage, population increases, and resource constraints. It is uniquely placed to provide the solutions needed for a sustainable future.

PACIA and its members also have a long history of working to achieve positive environmental, social and economic outcomes at all levels of the supply chain through a strategic long-term focus. This paper highlights some of the key challenges and opportunities that the industry is currently working through to achieve a balanced regulatory environment, and one that delivers the greatest net benefit to the Australia.

Many of our members are global companies with operations in multiple economies around the world. Investment opportunities in Australian businesses need to compete with alternative investment opportunities available in other regions and locations. Companies may choose to invest in Australia due to:

- Access to natural resources essential for chemical manufacturing,
- Stable, accountable government with low sovereign risk, and
- A highly skilled and well trained workforce.

However, there are a number of factors that currently discourage additional investment in Australian chemistry, including:

- Relatively high labour costs in comparison to some markets,
- Limited investment incentives including relatively high corporate and income tax rates,
- A mature market with limited opportunity for domestic growth,
- Complex and burdensome regulatory environment characterised by duplication and inconsistency,

The review of Australia's tax policies represents an opportunity to build on our natural advantages, and minimise some challenges that companies currently face. Globally, taxation is now one tool that governments use to attract investment in their economies. Especially within the Asia / Pacific region, governments are using tax policy to compete for scarce investments from global companies. All Australian governments need to recognise this reality and develop taxation policies that reflect Australia's current mix of industries, encourage additional investment and enhance the competitiveness of critical existing businesses and infrastructure.

While taxation policies need to reflect the strong commitment to fairness demanded by Australian communities, this should not diminish the opportunity for appropriately targeted taxation policies that support the Government's other policies – especially in areas of deregulation, reducing red tape, support for small businesses and encouraging a diverse, resilient and productive economy. From the chemistry industry's perspective, a central principle of fairness is not inconsistent with policies that enhance the country's natural advantages, address challenges and benefit all communities and sectors of the economy.

PACIA COMMENTS ON THE DISCUSSION PAPER:

Corporate tax:

Australia's current corporate tax rate, as noted in the discussion paper, is high when compared to many other countries. Corporate tax rates remain an important consideration for global companies when assessing where to make additional investments. Many economies now recognise the competitive impact that corporate tax rates can have and are moving towards lower tax rates. Economies such as China, Canada, the United Kingdom and Singapore have each recently adopted corporate tax rates lower than Australia's 30% rate.

A number of our key regional trading partners (including China, Singapore, Thailand, Republic of Korea and Malaysia) each have corporate tax rates that are significantly below Australia's. Many of these countries produce chemicals and products that directly compete with those of our members. As Australia has recently concluded, or is in the process of concluding, free trade agreements with many of these countries, the difference between corporate tax rates becomes a relatively greater disincentive to investment in Australian capability.

As with many issues associated with Australia's regulatory environment, corporate tax regulation is extremely complex. This increases compliance costs for companies in managing their tax affairs, and diverts resources that otherwise would be available for reinvestment for productivity or distribution to shareholders.

PACIA and its members would welcome measures to simplify corporate tax collection. Members would also welcome reductions in the company tax rate to bring Australian corporate tax rates into line with key regional trading partners.

Goods and Services Tax:

PACIA and its members support a tax system that is fair, simple, discourages avoidance and encourages investment in productive industry. As noted in the discussion paper, PACIA agrees that Australia is heavily reliant on corporate and income taxes. This (along with other factors) is adversely impacting the capacity of PACIA members to attract the investment necessary to innovate and grow.

Consumption taxes, like the GST can be a more efficient way for governments to collect the resources necessary to deliver essential services. Broad based consumption taxes can be difficult to avoid and can be relatively straightforward for businesses to assess their liability and for governments to collect. While care would need to be taken to ensure that the overall tax system remains fair, PACIA would be likely to support a higher, and broader consumption tax that enabled lower corporate and personal income tax rates.

PACIA notes that one of the key objectives of the Government's *Industry Innovation and Competitiveness Agenda* is to support entrepreneurship and business innovation. A lower corporate tax rate facilitated by an increased consumption tax rate would not be inconsistent with the *IICA* objectives.

Research and Development:

Australia is fortunate to have access to a well-trained and professional research and development community along with highly capable scientific institutions. Australian companies and research institutions could take advantage of these resources to improve manufacturing production processes and develop new products and

technologies. Australia's tax system could be used to encourage greater collaboration between Australia's highly capable scientific and technical institutions and businesses.

Research and development conducted in Australia ensures that Australian businesses are able to produce products that are tailored to the specific requirements of Australian communities. This can enable businesses to not only meet Australian market requirements, but be able to do so in a more sustainable and profitable manner. For example, advanced packaging materials produced by chemistry in Australia can minimise the transport costs of agricultural produce. It can also ensure that products reach consumers in the best condition possible.

New-generation technologies in irrigation, plant nutrition, pest management and post-harvest crop protection can enhance the sustainability of farming enterprises by reducing crop losses and tailoring farm management practices to unique Australian requirements.

For manufacturers, research and development collaboration can deliver improved products, better profitability, safer workplaces and higher value-added products.

Tax concessions for research and development activities are an essential component of an advanced economy that is resilient, diverse and productive.

PACIA notes that the government has already made some decisions in relation to research and development tax concessions. PACIA would be concerned if tax concessions available to industry were significantly reduced. While some targeting of concessions available to commercial enterprises may be appropriate, the nature of research and development activities would mean that a broad based approach with limited exceptions would be appropriate. Further, PACIA continues to support ensuring that large companies are able to access research and development tax concessions. It is frequently these organisations that have the resources to make the sorts of investments needed to develop innovative new technologies.

Complexity of the tax system

Australia's current taxation system is highly complex. Such complexity results in excessive costs for enterprises to manage tax affairs efficiently. These costs are exacerbated for small enterprises that must divert disproportionate and scarce resources to managing tax affairs. Australia's chemicals industry includes a number of small and diverse companies servicing almost every sector of the broader economy.

Excessive complexity may also discourage both deliberate and inadvertent non-compliance with tax obligations as burdens continue to increase. Simplification of the tax system may therefore assist in minimising non-compliance, while enabling small businesses to manage their taxation commitments more efficiently.

PACIA would welcome the opportunity to discuss whether there may be measures that can encourage investment in Australian businesses while reducing complexity in administration costs for business. Overseas models that limit taxation at the corporate level in favour of taxing dividends as personal income tax might present one opportunity to drive greater investment and minimise compliance and administrative costs. PACIA would welcome the opportunity to discuss alternative models with the Government.

CONCLUSION

Australia's taxation systems are highly complex. In several key areas, current tax policy settings operate as a disincentive to investment and innovation. In some circumstances excessive complexity may operate to discourage compliance with legal obligations.

It remains appropriate for governments to use tax policy to deliver economic, policy and social outcomes. Indeed, in many ways, tax policy in Australia may be viewed as running counter to stated objectives of commitments to innovation, deregulation and support for economic development.

Corporate tax is now an area where Australia needs to be competitive. Just as Australian businesses need to be globally competitive to remain sustainable, so to do our tax policies. Our key trading partners and competitors recognise the persuasive power that tax systems now have in encouraging investment. Australia's governments need to design tax systems that encourage ongoing, sustainable development of key strategic industries (like the chemistry industry) that build upon our natural advantages and add value to natural resources.

PACIA supports taxation policies and systems that encourage investment in the Australian chemistry industry. This could occur through a system of corporate taxation that both lowers the tax burden and minimises administrative and compliance costs on companies. This remains consistent with the Government's other regulatory initiatives to both support productive industries and increase regulatory efficiency.

PACIA would welcome further consideration on what the appropriate mix of different types of taxation in Australia should be, including whether a broader based consumption tax may be a more efficient and fairer system than the current reliance on corporate and income taxes.