

**PRIVATE SUBMISSION – NAME SUPPRESSED**  
**RE: The digital economy and Australia’s corporate tax system**

**Key Issues:**

- Australia needs to maintain a system of taxation that raises sufficient revenue to fund services that Australian society deems important – such as healthcare, education, defence, social welfare, disability services etc.
- The Australian tax system needs to be fair and balanced so that it does not place an undue tax burden on any single group or category
- With the development of simple and rapid systems to facilitate electronic transfer of funds around the globe, and the ability of large corporate entities to use sophisticated corporate structures in international jurisdictions, the **historical Australian tax mechanisms are no longer fit for purpose and are incapable of ensuring a fair and balanced system of taxation.**
  - For example, small local Australian businesses are usually taxed at the Australian corporate tax rate (up to 30%). Conversely, large/foreign corporations can channel transactions electronically/digitally so that they appear to be non-Australian transactions or so that transactions that have occurred in Australia (the purchaser and/or the goods/services are physically located/provided in Australia) are deemed to have been purchased from an entity based in an off-shore low tax jurisdiction, and any Australian related entity is a separately funded and/or ‘marketing’ arm that either makes a loss or makes minimal profit (for tax purposes).
  - The net effect is three-fold:
    - That Australian tax revenue is significantly diminished despite the foreign/digital entities having very large revenue streams and very high global profits (including significant profits derived from Australian consumer spending)
    - That money is removed from the Australian economy to off-shore locations/jurisdictions and never returned (ie not available to be spent locally within the Australian economy providing/stimulating more widespread local economic activity – ie spent in other local Australian businesses which will employ more Australians and contribute more GST revenue)
    - That local Australian-based businesses that cannot use the same off-shore structures/processes are at an unfair competitive disadvantage – because they will be paying tax at the local rates (up to 30%).

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**Recommendations:**

- Immediately move to implement an Australian corporate taxation system based on a direct percentage of turnover of the company/entity (including all ALL related-parties/entities)
- Ensure the ability to ‘look through’/uncover efforts to circumvent the location of the purchaser/vendor/service provider and/or the complexity of entities/structures used.
  - For example, allegedly some uber drivers use off-shore bank accounts so that, for a journey provided in Australia, Australian consumers pay money to uber (international transaction) who pay their Australian driver into an off-shore bank account (international transaction) and then the driver travels overseas (eg on a holiday) and spends the funds earned driving for uber in Australia) in a foreign country – in such a scenario, the funds leave Australia forever (to both uber and to the driver), and it is uncertain whether any tax (either income or GST) is ever collected/paid on these earnings) and the money is no longer available to stimulate further economic activity in Australia
  - Such a system needs to be robust enough to deal with all entities including circumstances where the products/services provided are 1) Physical (eg uber – transport services, Airbnb – accommodation services, Deliveroo – courier/food delivery services, airtasker – labour hire services etc), or 2) Digital services (eg online advertising such as Google/Alphabet, Facebook etc), or 3) Digital products/content (eg such as Netflix, Apple itunes etc), or 4) Products/services that *claim to be intermediary IT ‘platforms’* (eg such as ebay, gumtree, uber, airtasker, Airbnb etc)
- Disallow all/any deductions - as it seems that some foreign/digital corporations have established mechanisms to artificially avoid making significant Australian profits which are taxable under current Australian tax rules - by charging large and excessive (tax deductible) fees amongst related-parties for items such as ‘marketing’, ‘intellectual property’, ‘licensing’, ‘interest’ etc. All of these simply complicate the situation and provide an avenue for leakage and loss of fair and legitimate tax revenue for Australia
- Mindful of Australia’s obligations under various Free Trade Agreements, a universal system for all businesses (rather than just foreign or digital companies/entities) seems most appropriate and it is likely that setting a turnover threshold (eg above \$10 - \$50 million per year) would overcome problems with implementation that could occur with small local/family businesses in Australia, or with trying to impose a different mechanism of taxation on foreign companies compared to systems/rules imposed on local Australian companies.