



29 November 2018

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Dear Mr McKenna

### **The Digital Economy and Australia's Corporate Tax System**

The Minerals Council of Australia (MCA) welcomes the opportunity to comment on Treasury's discussion paper on *The digital economy and Australia's corporate tax system* released on 2 October 2018.

The MCA appreciates that highly digitised businesses present challenges for the international tax system and that Treasury is considering options to change the existing source-based taxation framework, in line with recommendations from the Organisation for Economic Co-operation and Development (OECD).

The MCA supports strong, balanced tax laws to preserve the integrity of the tax system and Australia remaining in step with international efforts on the Base Erosion and Profit Shifting (BEPS) reforms. The MCA strongly supports a multilateral approach to international taxation reform that proceeds through OECD consensus. An internationally coordinated approach provides comprehensive international solutions to challenges that extend across borders.

The MCA is concerned that the unilateral and uncoordinated options proposed in the discussion paper could result in double – and possibly multiple – taxation for Australian businesses, with significant and adverse effects on investment, growth and employment.

Sections 4.6 and 4.7 of the discussion paper raise the question on whether the current source-based tax framework should change and whether the change should be directed at highly digitalised businesses or should it be economy wide.

The MCA is particularly concerned about the option for broader unilateral reform that proposes to change the existing source-based international tax framework to allocate profits to the country where goods and services are consumed for all taxpayers. Such a drastic change may substantially reduce the amount of corporate tax allocated to business activities in Australia.

Australia has an established comparative advantage in resources exports. Resources generate more export revenue for Australia than all other sectors put together. Australia's resources exports reached a record high of \$220 billion in 2017-18, accounting for 55 per cent of total exports that year. The Australian resources sector employs approximately 220,000 people in highly skilled, highly paid jobs – predominantly in remote and regional Australia.

Further, Australia has almost always been a net importer of capital. Capital flows into Australia fill the gap between domestic savings and investment, alleviating the need for additional debt. Foreign direct investment is vital to the resources sector, facilitating transfers of technology, skills and capabilities, as well as access to global supply chains and export markets.

Given the importance of international trade and investment to the Australian economy, the MCA submits that any shift in the international approach to taxation must be carefully considered and approached with extreme caution, taking all of the broader consequences into account. There is a lot at stake for the Australian economy beyond the immediate digital exposure. Indeed, we question whether it is even desirable to move taxation of capital away from source in Australia to a destination-based consumption system.

If Australia were to adopt the proposals put forward in the discussed paper and apply them to the broader economy (instead of targeting only highly digitised businesses) profits would no longer be allocated to their source of production, but rather allocated to the place where goods and services are finally consumed. This could generate the unintended consequence of shifting a significant portion of tax revenues from sales of outputs of Australian mining and natural resource assets to countries that consume our resources.

The MCA recommends that the Federal Government continue to work through the OECD to reach international consensus and refrain from implementing any short-term, interim unilateral measures. A methodical and multilateral approach will alleviate uncertainty and complexity for the Australian minerals industry, and avoid any negative consequences for Australia's corporate tax base that could arise from any change to the existing source taxation framework.

Thank you for the opportunity to provide these comments. We would welcome the opportunity to discuss in more detail at a time convenient for Treasury. If you have any questions, please contact Ms Jenny Wong, Acting Director – Taxation at [jenny.wong@minerals.org.au](mailto:jenny.wong@minerals.org.au) or 02 6233 0600.

Yours sincerely



**DR MATTHEW STEEN**  
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