FINANCIAL SERVICES COUNCIL

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FSC STATEMENT – ECONOMIC GROWTH THROUGH A NEW TAX MIX

The Financial Services Council has released a transformational tax reform package designed to grow the economy and reverse Australia's collapsing competitiveness and flat productivity.

The package of growth-enhancing tax reform delivers lower company and personal income taxes, as well as fully compensating all households for an increase in the GST to 15 per cent.

The FSC's proposal, modelled by KPMG, shows a deep cut to company tax is essential to increase growth, investment and employment.

The modelling shows Australia's economy will be two per cent bigger and there will be a significant increase in new investment of around four per cent.

Around half of the new investment comes from offshore. New jobs will be the dividend of higher investment levels.

Under the FSC's proposal, the new company tax rate of 22 per cent and lower, flatter, indexed income tax rates are paid for by a higher, broader GST.

In turn, it will be incumbent on states to remove stamp duties. The FSC has long campaigned for the removal of stamp duties on insurance which result in costs being passed on to consumers with little returned to the states. Insurance duties are one of the least efficient taxes. One quarter of the revenue collected is lost in administration costs.

Andrew Bragg, FSC Director of Policy said: "Australia needs a new tax mix to create growth, jobs and investment. Our modelling shows a new tax mix can be fully funded and fair for all Australians."

"Cutting company tax to 22 per cent is the centrepiece of the new tax mix package."

The average company tax rate in Asia is 22 per cent, compared to Australia's which is 30 per cent. The company tax rate in the UK will be lowered to 18 per cent in 2020.

The new tax mix package is fully funded and will create tens of thousands of new jobs.

The research demonstrates cutting company tax will drive capital into Australia for new enterprises, jobs and opportunities.

Another element of the plan involves indexing the personal income tax thresholds to make the package sustainable over the longer term.

Mr Bragg said: "Indexing the personal income tax thresholds means there is no more easy money for Canberra."

"Australia's ageing population demands that our governments restrain expenditure. Ending bracket creep will drive better fiscal accountability."

“Indexing the tax thresholds also prevents compensation given to households through tax cuts from being whittled away by bracket creep.”

The package provides compensation to households which means each household group will receive an increase in real incomes.

A lower company tax rate of 22 per cent is the essential ingredient of a tax reform package. It will:

- Increase GDP by 1.9 per cent, investment by 3.7 per cent and employment by 0.1 per cent, real wages by 1.4 per cent and labour productivity by 1.8 per cent;
- Reduce the federal budget’s reliance on corporate tax. The OECD average reliance on company tax is 8 per cent, while Australia’s is more than 18 per cent. (OECD);
- Reduce budget volatility – a lower reliance on company tax will mean Australia’s budgets will be less subject to revenue writedowns we have experienced over the past decade; and
- Lower the incentive for multinational companies to engage in profit shifting while a multilateral solution to base erosion and profit shifting is developed by the OECD and G20.

The modelling is available here:

http://www.fsc.org.au/downloads/file/ResearchReportsFile/GST.pdf

For further information contact 0418 420 949

About the Financial Services Council

The Financial Services Council (FSC) has more than 115 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees. The industry is responsible for investing more than $2.6 trillion on behalf of 11.5 million Australians. The pool of funds under management is larger than Australia’s GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.