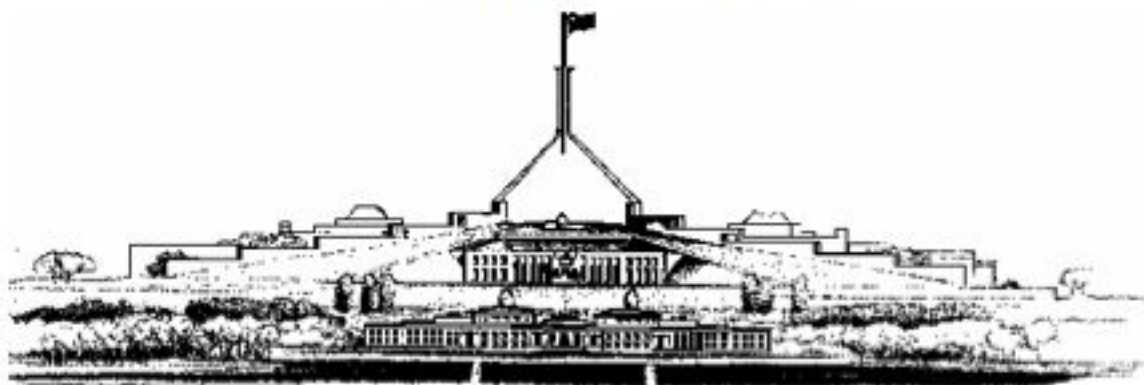




COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

PROOF

BILLS

**Treasury Laws Amendment (Enterprise
Tax Plan Base Rate Entities) Bill 2017**

Second Reading

SPEECH

Wednesday, 7 February 2018

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Speaker O'Brien, Ted, MP	Question No.

Mr TED O'BRIEN (Fairfax) (17:37): I found it very difficult to follow the member for Fenner's logic there, typically criticising the government. One thing that he failed to mention, despite his apparent background in economics, is that Australia is in fact a free market economy and, therefore, it needs to be competitive. He did not touch on what's happening in the United States, despite the fact that the reduction in corporate tax rates being introduced in the United States is going to have a devastating impact on the Australian economy, unless we respond accordingly. Indeed, we need to ensure that we make Australia even more competitive than it is today because, at the end of the day, that will provide jobs as it means companies can maintain and reinvest more of their profits.

I am happy to be here to talk about this topic, because believe it or not I'm one of those odd ones in this House who actually gets pretty excited by tax law. I find it particularly exciting when a federal coalition government is working hard to reform tax law, albeit often in the face of perverse partisan resistance, which is what we have seen from the member for Fenner. Our aim is to better support our competitiveness in capital markets and ultimately create more jobs. These are real jobs, and this government has achieved record growth because of these real jobs. As we have heard time and time again over the last few days: 403,000 new jobs were created across the Australian economy last year—403,000 jobs! That is more than 1,100 jobs created each and every day, more than three-quarters of which were full time. That's an outstanding achievement, and this government's hard-won tax reforms are a big part of that success. The bill before the House simply seeks to build on that momentum by ensuring the government's Enterprise Tax Plan is targeted to deliver job-creating stimulus, precisely where and when it will do the most good, with minimal waste and unnecessary expense to the taxpayer.

This House is well aware of the government's broad strategy to help guide and drive reforms—precisely targeted reforms that deliver real incentives for the job creators of the new economy, the innovative businesses and the visionary entrepreneurs. The Enterprise Tax Plan No. 1, which recently passed into law, and the Enterprise Tax Plan No. 2, which is currently before the parliament, are both key ingredients of the government's core strategy, which continues to drive jobs and growth across the economy. The genius of the government's plan has been to comprehensively reject the chaos and operational dysfunction of the Rudd and Gillard governments by imposing a carefully coordinated alignment of programs and outcomes across key portfolios.

A perfect example of such alignment is how the Enterprise Tax Plan nicely complements the Turnbull government's signature National Innovation and Science Agenda, both working together to support new and existing enterprises, and to encourage job opportunities and growth right across our national economy. This is an agenda that commits government to support a smart future. It's an agenda to advance Australia's international competitiveness and help us become a leading smart economy within that global international political economy. This is a new and rapidly evolving economy that requires new skills and delivers new opportunities, not only to lift the living standards of Australians but to firmly stamp our brand on a century just brimming with promise. This bill is part of that vision, as it helps to ensure both the efficacy and integrity of the government's cornerstone Enterprise Tax Plan. This is a great plan, the key concept of which has again been endorsed by no less than the International Monetary Fund. And that, of course, directly contradicts the economics that we heard from the la-la land of the member for Fenner in his address, just before mine.

The January 2018 update to the IMF *World economic outlook* reveals that half of the expected lift in global growth, up to an estimated 3.9 per cent over 2018-19, will be due to the effects of the Trump tax package, which sends US corporate tax rates plummeting to just 21 per cent. Does this tell us that lower corporate tax rates stimulate economic growth? Well, yes, it does—of course it does—but there's a sting in the tail with this one for us. The recent IMF report analysed the impact of a drop in the US tax rate on global growth, while an analysis from last year also released by the IMF suggests that the US tax cut would reduce Australia's GDP by one per cent and threaten the sustainability of Australia's tax system unless we respond. And it's not just the IMF. As eminently credible as that organisation is, this assessment is also consistent with the Australian Treasury's analysis. Treasury finds that the negative consequences to Australia of the US corporate tax cuts 'could be offset

by the implementation of the government's Enterprise Tax Plan'. The Treasury and the IMF—surely this crucial debate should be at its end, yet the opposition continues to try to fight the government's tax plans.

Labor have been caught out, pure and simple—caught out on their self-serving attempt to deny Australians the clear benefits of the government's plan. After months of misleading claims and self-righteous hyperbole, especially from their leader, who is desperately trying to fan the flames of class envy for an upcoming by-election and to feed his own personal ambition, Labor's position has been exposed as an utter sham and is now laid bare for all to see. After all, who could reasonably deny the common sense, the sheer logic of the government's enterprise tax plan? By gradually folding in predetermined corporate tax cuts to benefit higher turnover thresholds through to 2023-24, when thresholds are removed, Australia's corporate tax system will remain competitive compared to overseas markets and ensure critical capital inflows are maintained. While the natural bias of those opposite is to favour a command economy, the fact is we operate in a highly competitive free market global economy, and compete we must.

The additional benefit of the government's plan is to give more Australian businesses the ability to retain and invest their profits, to innovate and grow, and ultimately to employ more of our fellow Australians. The measures outlined in this bill will help do just that. This bill ensures that companies who have more than 80 per cent of their assessable income as passive income will not qualify for the lower 27.5 per cent corporate tax rate introduced as part of the government's enterprise tax plan no. 1. This new measure replaces the previous 'carry on a business' test as a prerequisite to access the lower rate and will apply from the current 2017-18 financial year onwards. However, subject to the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 passing this parliament without critical amendment, the lower corporate rate will then apply comprehensively to all companies from 2023-24. I fully support this measure, principally because it complements the government's strategy of applying the initial corporate tax cut directly at the coalface for those small and medium businesses best able to grow and create the jobs that will help deliver a more sustained spending burst to reinforce the consumer economy before the scaffolding of the higher corporate tax rate is completely removed in 2023-24 at the conclusion of the threshold phase.

This bill will determine eligibility for the lower corporate tax rate by imposing a new passive income test to effectively exclude those companies that derive most—defined as over 80 per cent—of their income from passive sources, such as interest, dividends, rents and so on, from assessing that lower rate. This is far different from what we hear defined by those opposite, far from the wild and reckless claims of the Labor Party. The bill being debated today further demonstrates just how targeted and balanced the government's comprehensive enterprise tax plan actually is. The second tranche of this plan, the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017, drives home this reform with a further reduction in the corporate tax rate to 25 per cent for all corporate entities by 2026-27. This will complete the task of ensuring Australia's corporate tax rate remains globally competitive, allowing Australian businesses to attract investment, employ more Australians and confidently base their future planning on a 25 per cent tax rate—a rate, I might add, that Treasury modelling indicates would generate a sustained increase of over one per cent to Australia's long-term GDP.

Rather than looking after the top end of town, as the Labor Party pretends to argue, this is actually a multi-staged tax reform package that benefits all Australians, a reform that is essential to our prosperity and competitiveness as a nation and as a people. It's worth noting that Australia has slipped 12 places in the overall Institute of Management Development World Competitiveness Ranking to 21st in the last seven years, from 2011 to 2017. As an aside, the House may be interested to know that China gained seven places in the 2017 listing to claim 18th spot, the second largest jump up the listing. For those who may be interested, the largest jump came from Kazakhstan, which went from 47 to 32.

So the cold reality is that Australia must become more competitive. Any Australian government, or opposition for that matter, that puts our global competitiveness at risk, either in our ability to attract capital or in our ability to export goods and services, compromises the prosperity and wellbeing of every Australian. Unlike the Labor Party, this coalition government both acknowledges and respects Australia's place in the world. We are relentless in our ambition to implement sensible, well-considered policy to better leverage Australia's global position and to improve the security and standard of living of all Australians. It's for this reason that I commend the bill to the House.