A SPECIAL REPORT ON CORPORATE INCOME TAX CUTS – FROM A BUSINESS PERSPECTIVE

Based on responses from the March 2018 Quarterly Business Survey

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OVERVIEW

There has been much debate about the appropriate level of corporate taxation for sustained growth and how business might respond in the face of corporate tax cuts. As a special report we have used the Nab Quarterly Survey to pose a few broad based questions to our representative sample of businesses in Australia. In total 914 business responded to these questions.

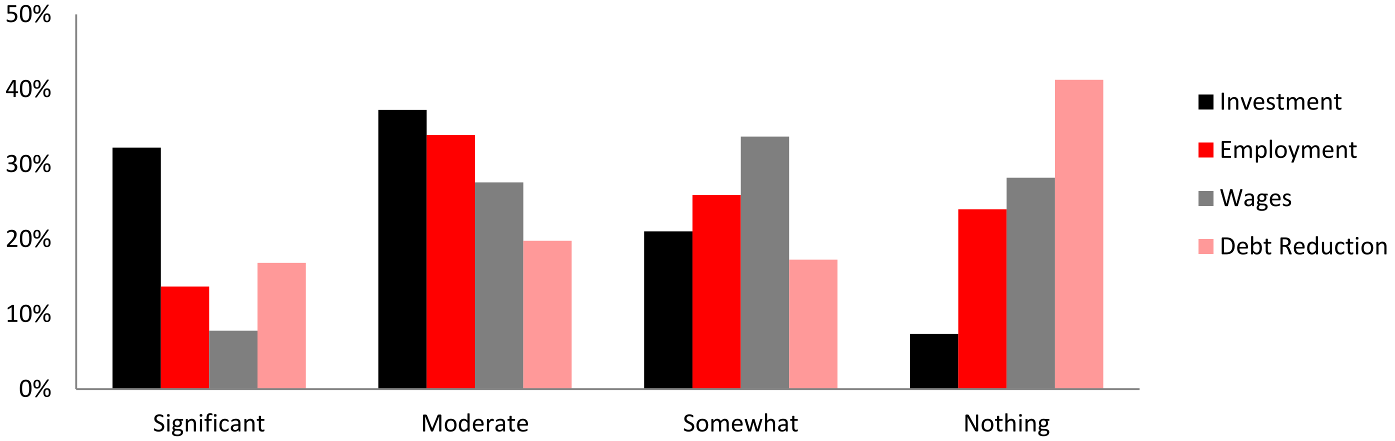
The first question was to ask business what reduction if any would be necessary to improve their business prospects. The second question asked, if you were given that level of tax relief, where would you focus those additional resources. Options given included: investment in your business; wages; employment; pay down debt and other. For each answer there was a scale from significant, moderate, somewhat, and nothing.

The results can be split by industry, size and by geographic region.

While there are more details below, key findings can be summarised as follows:

- On the size (in percentage points reduction) of corporate tax cuts necessary to better support your business outcomes: 20% of respondents didn't think a tax cut was necessary; 14% reported they did not pay tax in Australia; and 14% said they did not know. Of those suggesting a tax cut would better secure their businesses prospects (52%) the average reduction suggested was 6.7 percentage points (or around 4.9 percentage points on average including those who responded that they do not require a tax cut).
- Typically the smaller the business the larger the tax cut sought (less than 100 employees 7.4 points, 100-200 employees 6.7 points and above 200 employees 6.1 points). By industry, manufacturing, mining, and construction suggested the largest cuts while service industries suggested smaller cuts.
- In terms of where the tax cuts would be used, those businesses who considered a tax cut would improve their outlook pointed to the most significant impact being increased business investment. Those pointing to a tax cut having a significant positive impact, by category, are as follows (see chart below left hand column):
    - Investment growth 32%
    - Paying down debt 17%
    - Employment growth 14%
    - Wages growth 8%

BUSINESS RESPONSES – WHAT THEY WOULD DO SIGNIFICANTLY MORE WITH TAX CUT MONEY*



** % share of businesses indicating that a tax cut would improve their outlook*

- and by industry the investment impact was relatively larger in transport, manufacturing, construction and mining, with less impact in the services sector

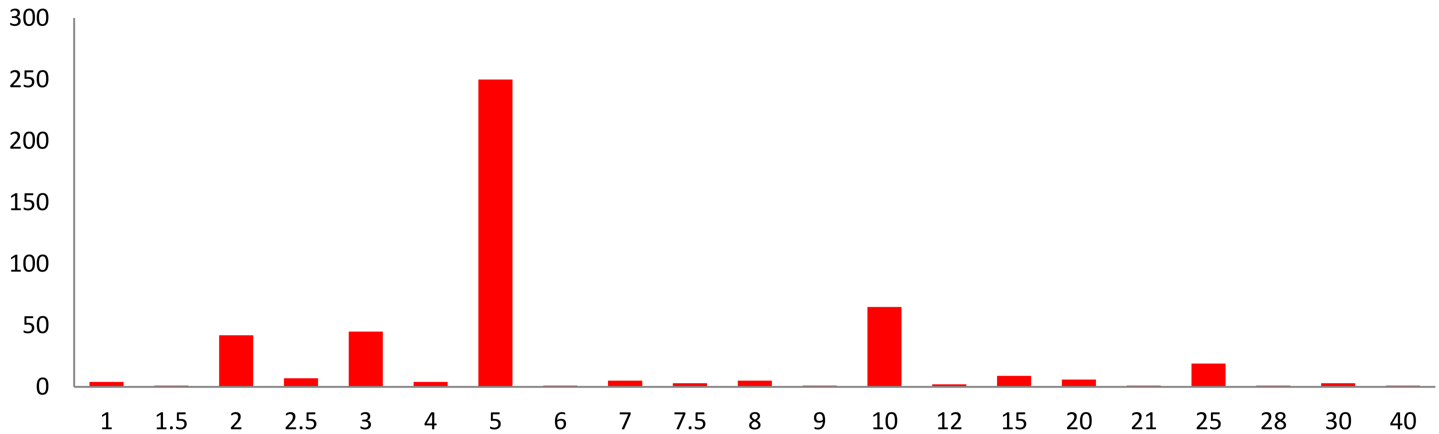
These responses mirror what economic theory would suggest – namely that desired company tax reductions would show up first and primarily via increased investment, with follow on impacts to employment and subsequently wages. The reluctance to pay down debt further was interesting and perhaps reflects the current low level of gearing in business today.

It is however worth noting that these results are only the first impact of desired tax cuts on business and do not necessarily reflect the full impact on the economy. That is because under our imputation system tax cuts to the corporate sector – without subsequent changes to the top marginal income tax rate – largely involve a switch between corporate tax and personal tax. Hence in many macro models the impact of corporate tax cuts on domestic demand are generally found to be relatively small – with the main impacts coming on capital inflows/ outflows.

MORE DETAILS ON TAX CUTS TO BETTER SECURE YOUR BUSINESS

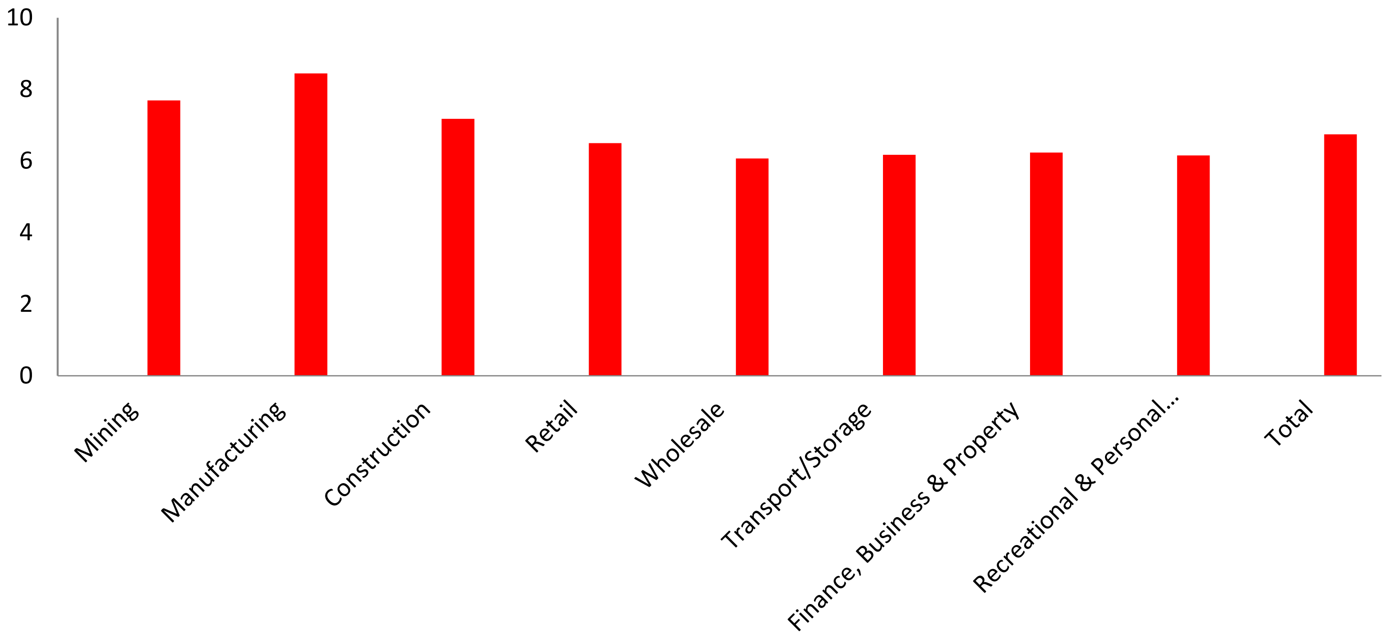
As noted above, for those suggesting a tax cut would better secure their businesses prospects (52%), the average reduction suggested was 6.7 percentage points (or around 4.9 percentage points including those who responded that they do not require a tax cut). However the distribution was very much centred around a reduction of around 5 percentage points as shown by the following chart - which shows the distribution of tax cut desired by the number of firms indicating for a cut would have a positive impact for them(total of 475 respondents). Other tax points that were popular were reductions of two, three and ten points.

NUMBER OF BUSINESSES SELECTING THE TAX CUT DESIRED



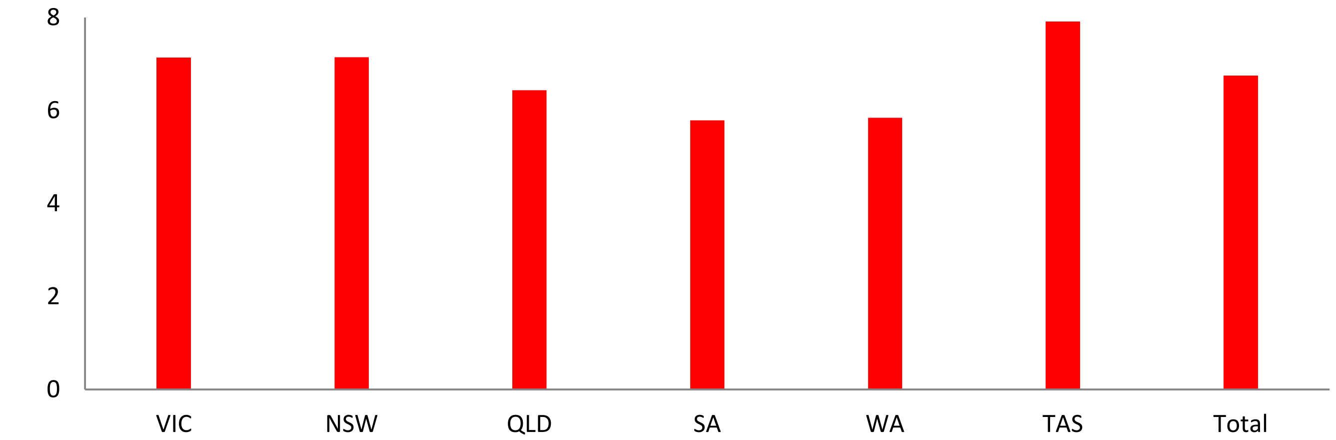
By industry, of those advocating tax cuts the largest cuts were advocated in manufacturing, construction and mining. See chart below:

PERCENTAGE POINT DEDUCTION FROM TAX TO IMPROVE BUSINESS OUTLOOK



And finally reflecting differences in size of firms and industry there were difference in the tax cut desired by region – with the largest cuts desired in Tasmania followed by Victoria and NSW.

PERCENTAGE POINT REDUCTION IN TAX TO IMPROVE BUSINESS OUTLOOK



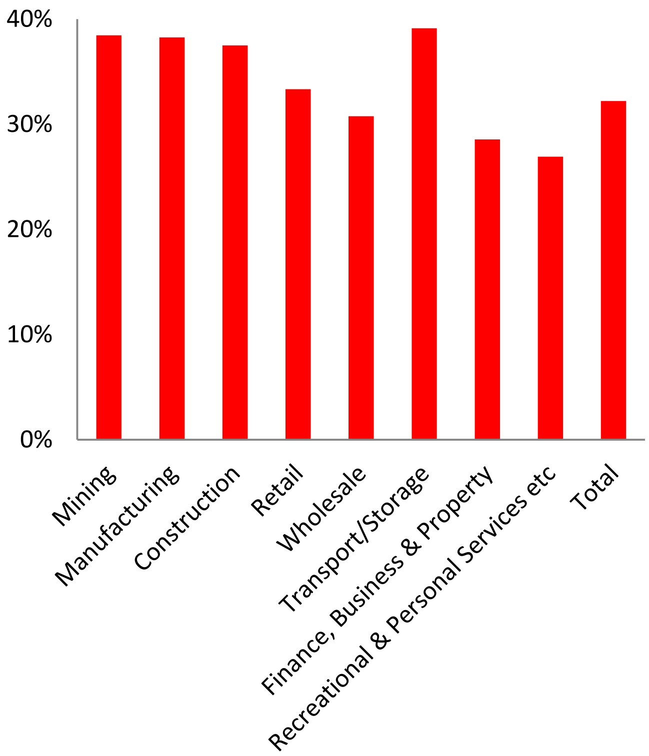
MORE DETAILS OF WHAT BUSINESS WOULD DO WITH THE DESIRED TAX CUTS

As shown on the overview page, business is pointing to business investment as the most likely significant reaction to tax cuts, with flow on impacts to employment and wages. However there is little sign of tax cuts being used to pay down debt (around 40 per cent said they would not pay down debt).

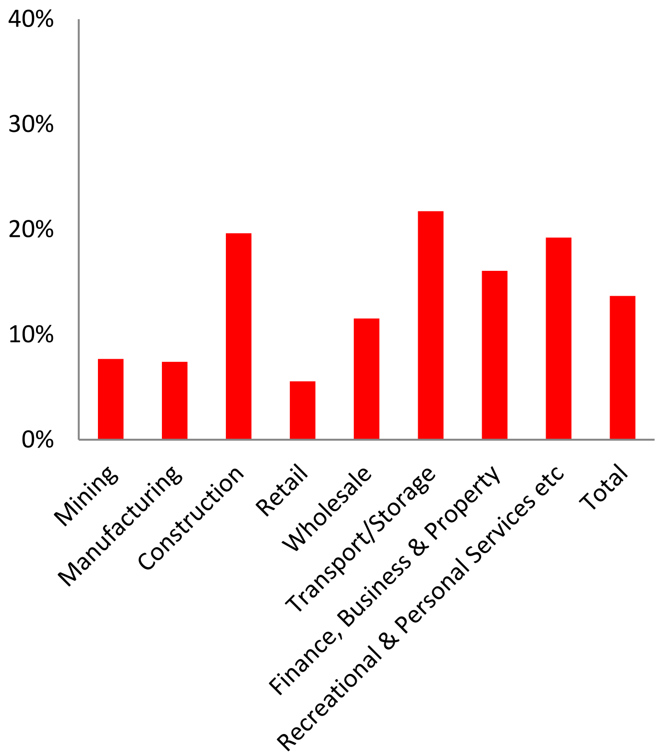
There are also significant differences across industry.

On investment the biggest impact would be expected in transport construction, manufacturing and mining – with smaller impacts in the service industries. While the direct employment effects are much lower, respondents suggested there could be some larger impacts in construction and transportation.

SIGNIFICANT EFFECT ON INVESTMENT*



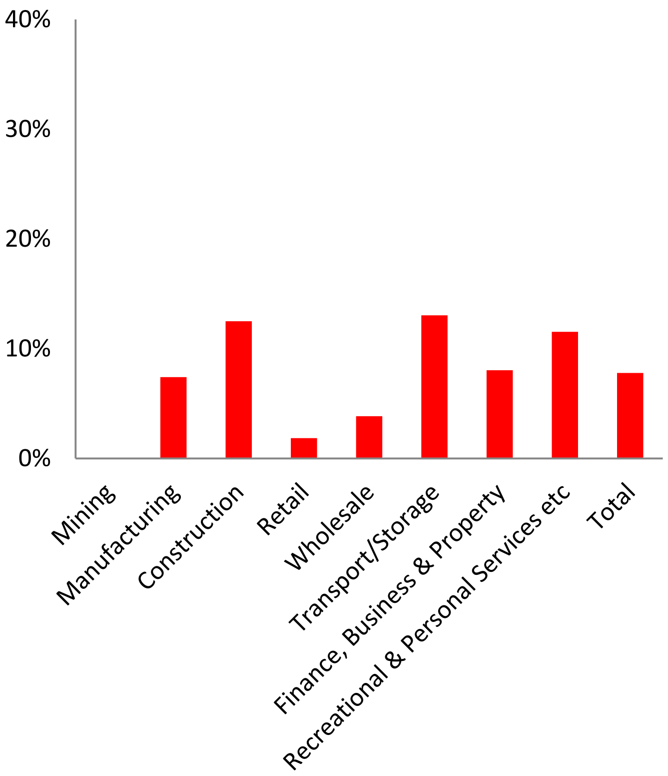
SIGNIFICANT EFFECT ON EMPLOYMENT*



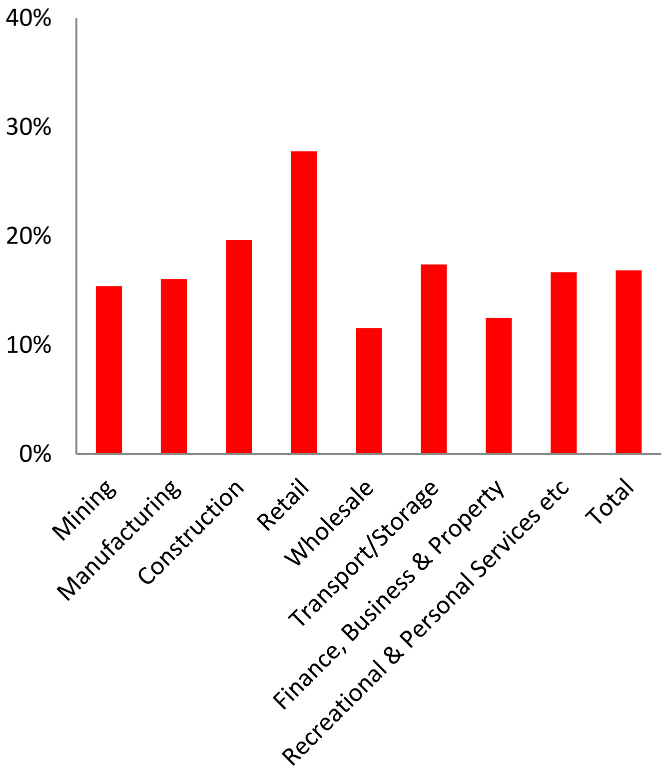
** % share of businesses indicating that a tax cut would improve their outlook, by industry*

Even lower direct impacts are suggested in wages growth. Debt reduction is also relatively low – albeit some sectors especially retail and (to a lesser extent) construction appear more likely to redirect tax cuts to paying down debt in the first instance. See charts below:

SIGNIFICANT EFFECT ON WAGES*



SIGNIFICANT EFFECT ON DEBT*



** % share of businesses indicating that a tax cut would improve their outlook, by industry*

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