

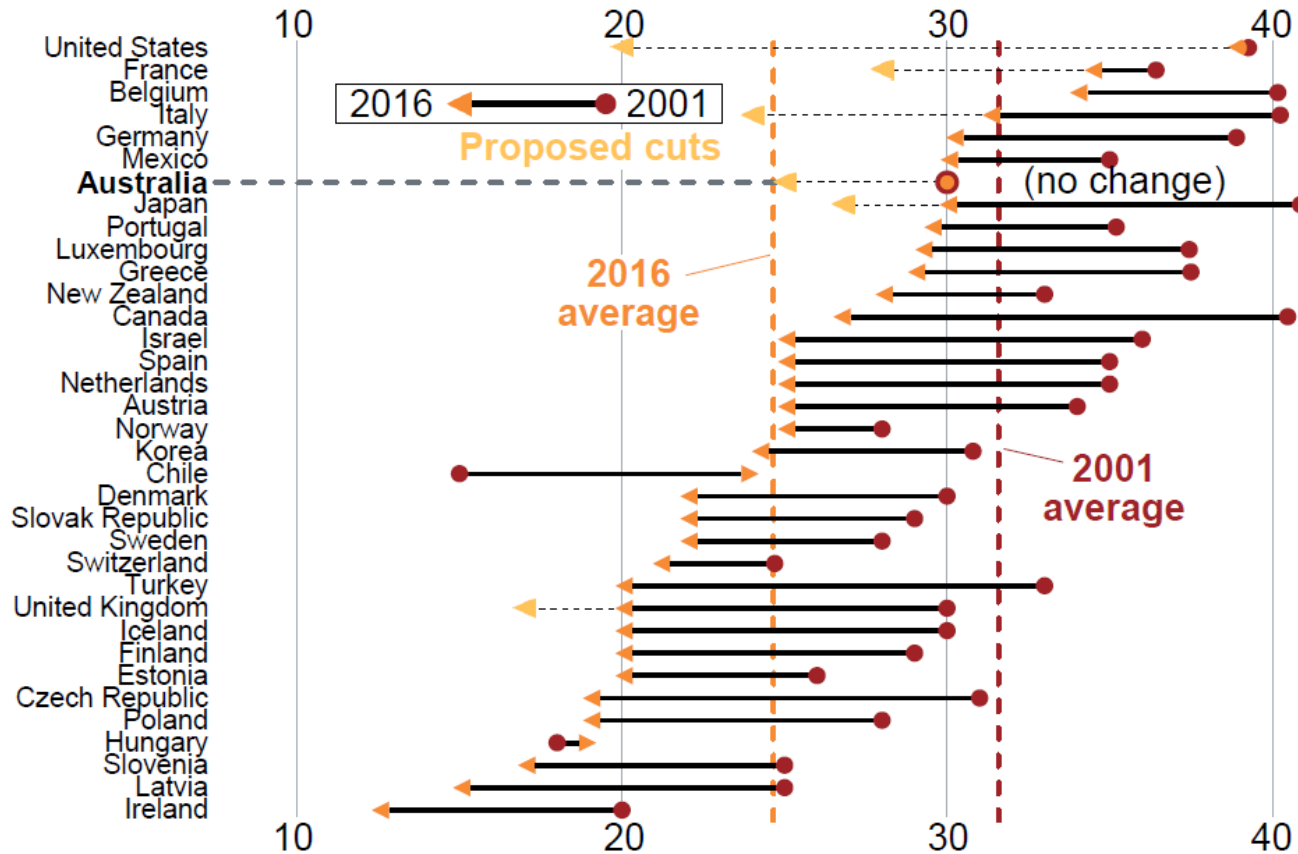
The impacts of a cut to company tax in Australia

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Nearly all advanced economies have reduced their corporate tax rate since 2001

Corporate tax rates, percentage, OECD countries, 2001 and 2016

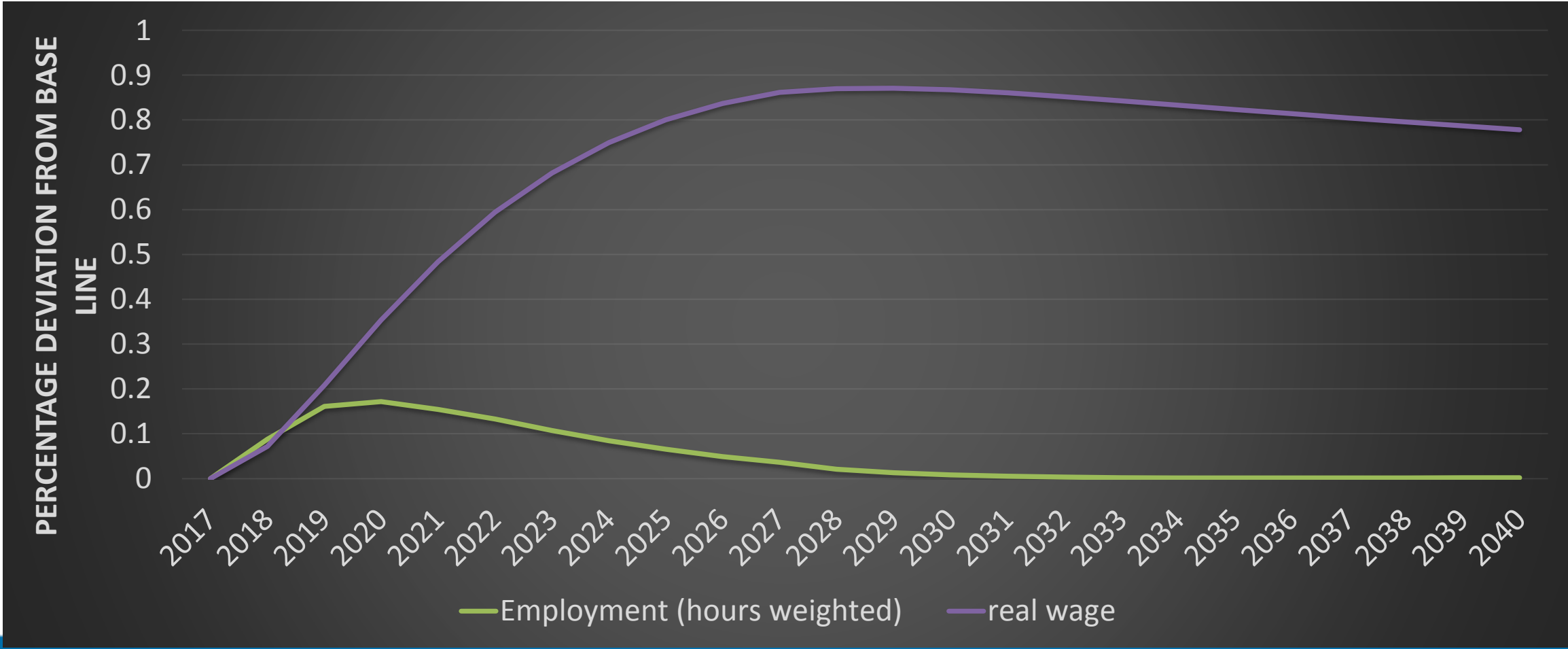


Notes: Includes taxes collected from central and sub-central governments
Source: OECD (2016a), and OECD (2016c)

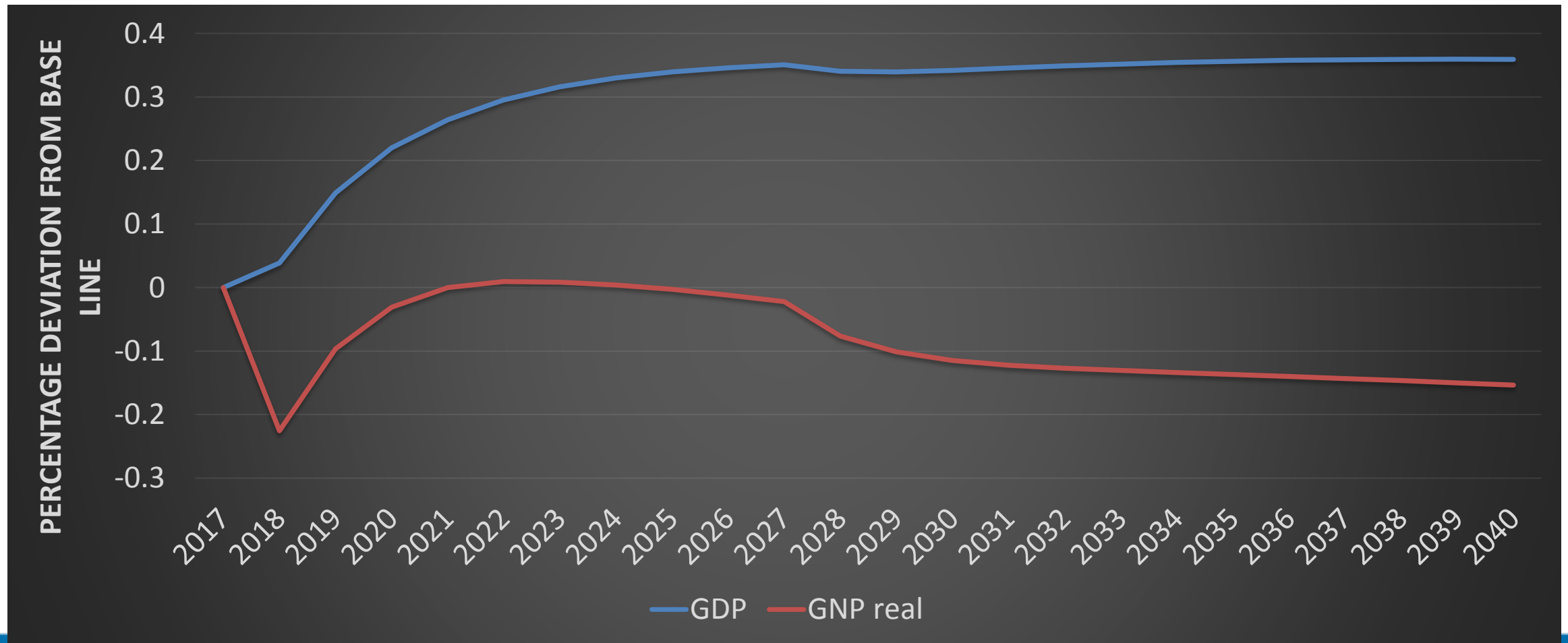
But dividend imputation is available to local investors only.

Around 20% of capital is foreign-owned

Macro effects: The “Jobs and Growth” mantra



Macro effects: The “cold shower” effect

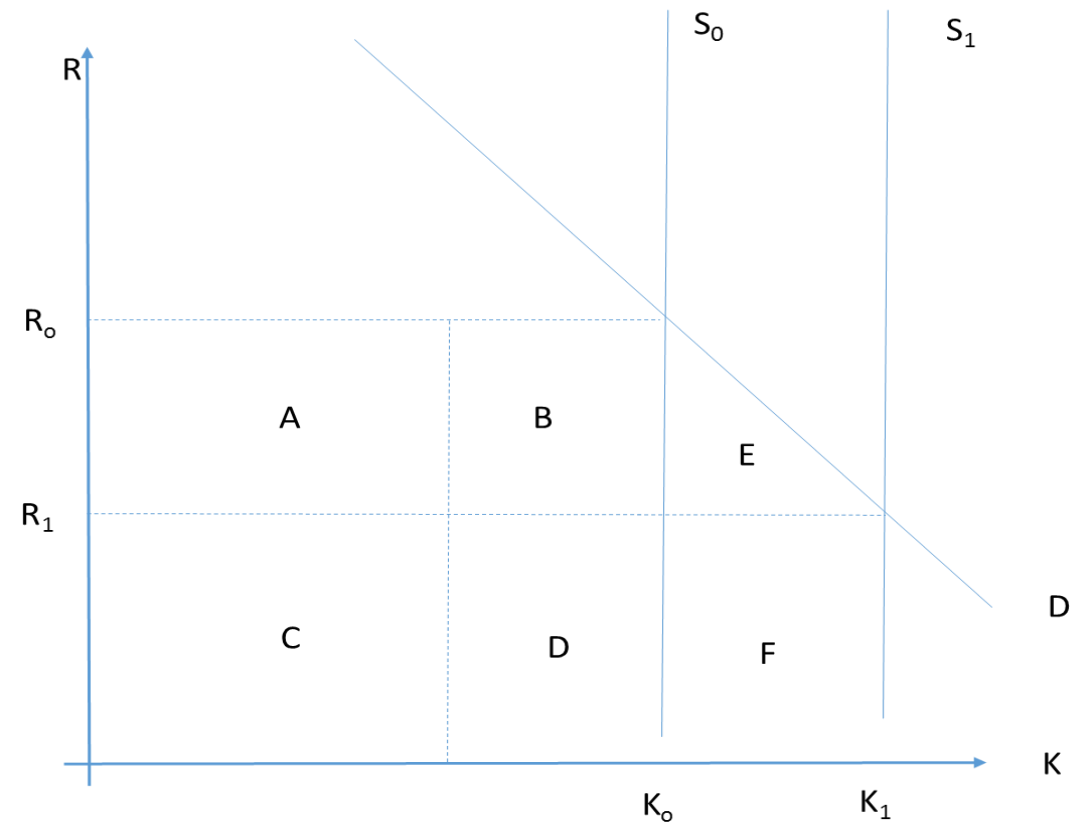


Initially:

- K_0 stock installed.
- Marginal product is R_0
- $A+B$ = tax revenue
- C = income of domestic investor
- D = income of foreign investor
- Part of A returned to domestic investor via dividend imputation
- National income = $A+B+C$

Immediately following tax cut

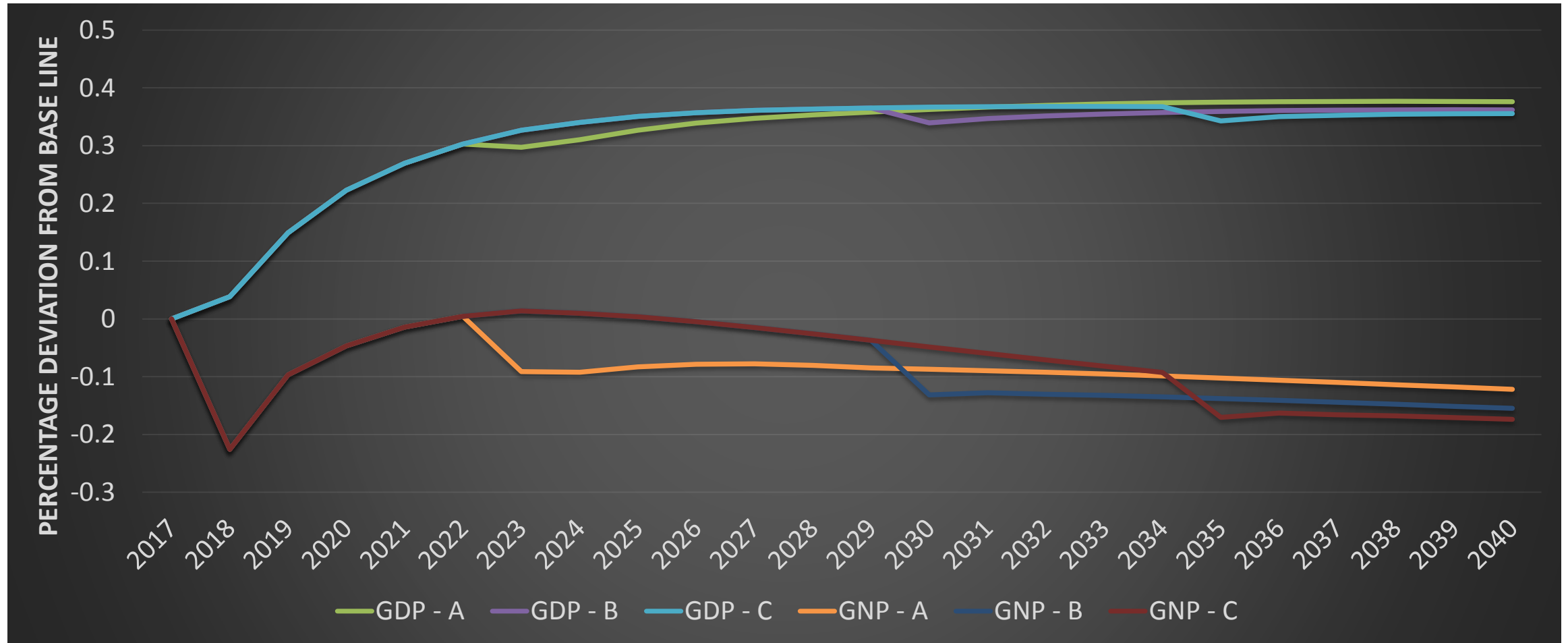
- K_0 stock installed.
- Marginal product is R_0
- No tax revenue (lose B and part of A)
- $C+A$ = income of domestic investor (gains part of A)
- $D+B$ = income of foreign investor (gain B)
- National income = $A+C$



Long run

- K_1 stock installed.
- Marginal product is R_1
- No tax revenue
- C = income of domestic investor
- $D+F$ = income of foreign investor
- $A+B+E$ = increase returns to other fixed factors
- National income = $A+B+C+E$ **minus interest payments on B**

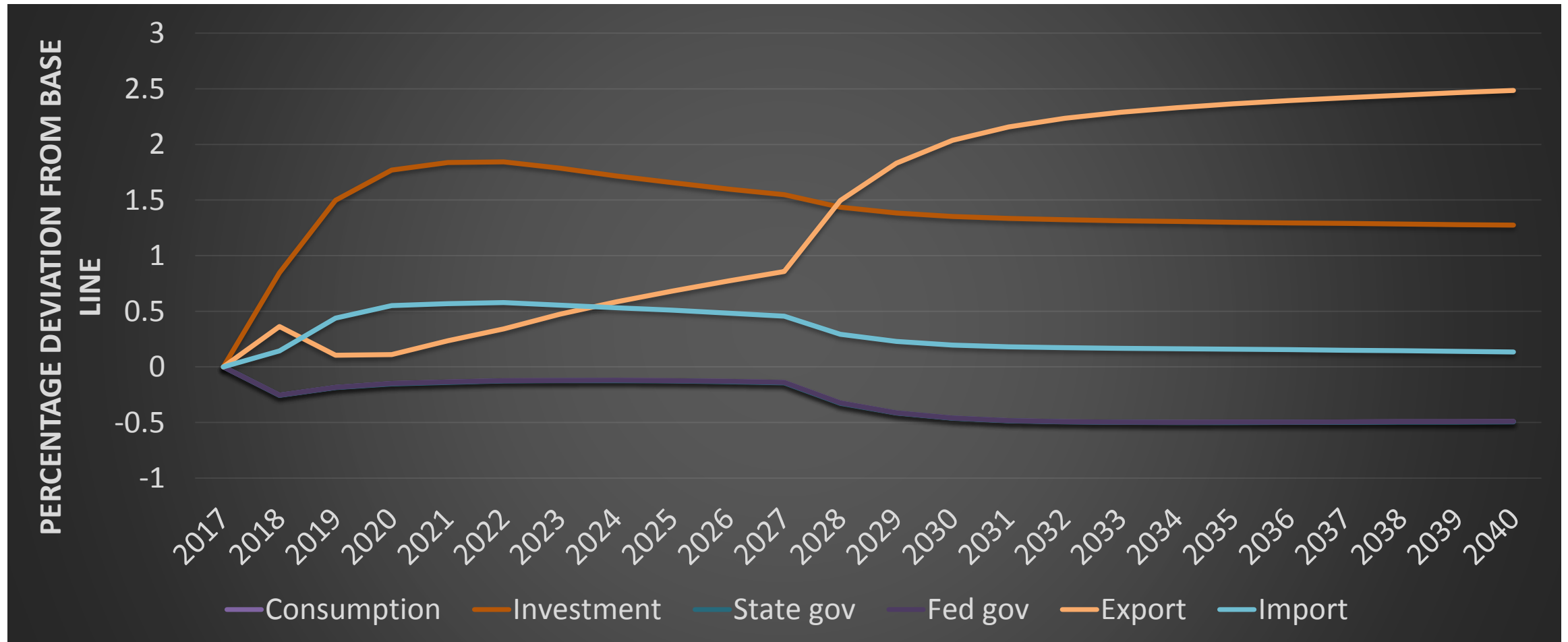
Alternative scenarios on NFL stability



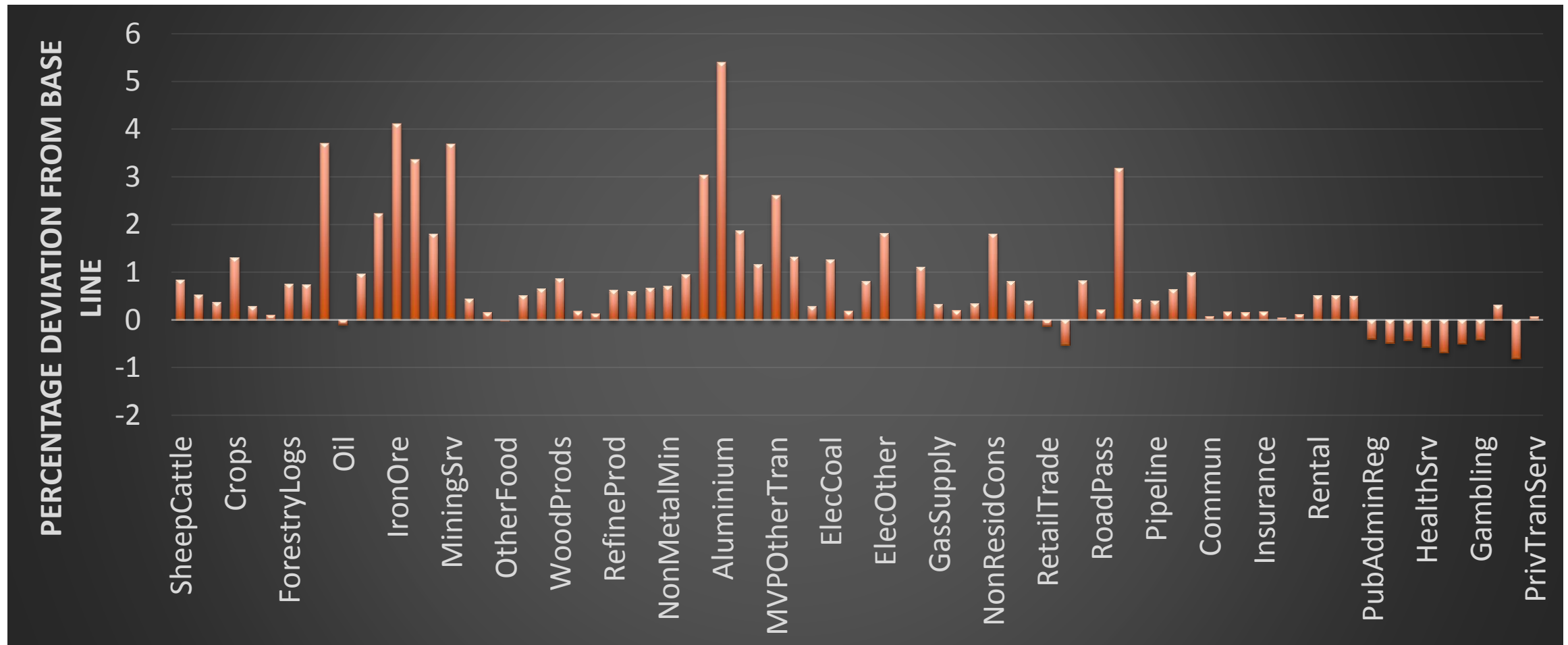
Current account considerations

- $NFL_{t+1} = NFL_t - CAB_t$
- Sustainable when:
 - $\frac{NFL_{t+1}}{GDP_t} = N^*$
 - $\Rightarrow CAB^* = -\frac{g}{1+g} N^*$
 - $\Rightarrow IAB^* = -\frac{r}{1+g} N^*$
 - $\Rightarrow TAB^* = \frac{r-g}{1+g} N^*$
- A permanent increase in N^* met by move towards current account deficit.
- Larger income account deficit, probably trade account surplus
- Structural implications

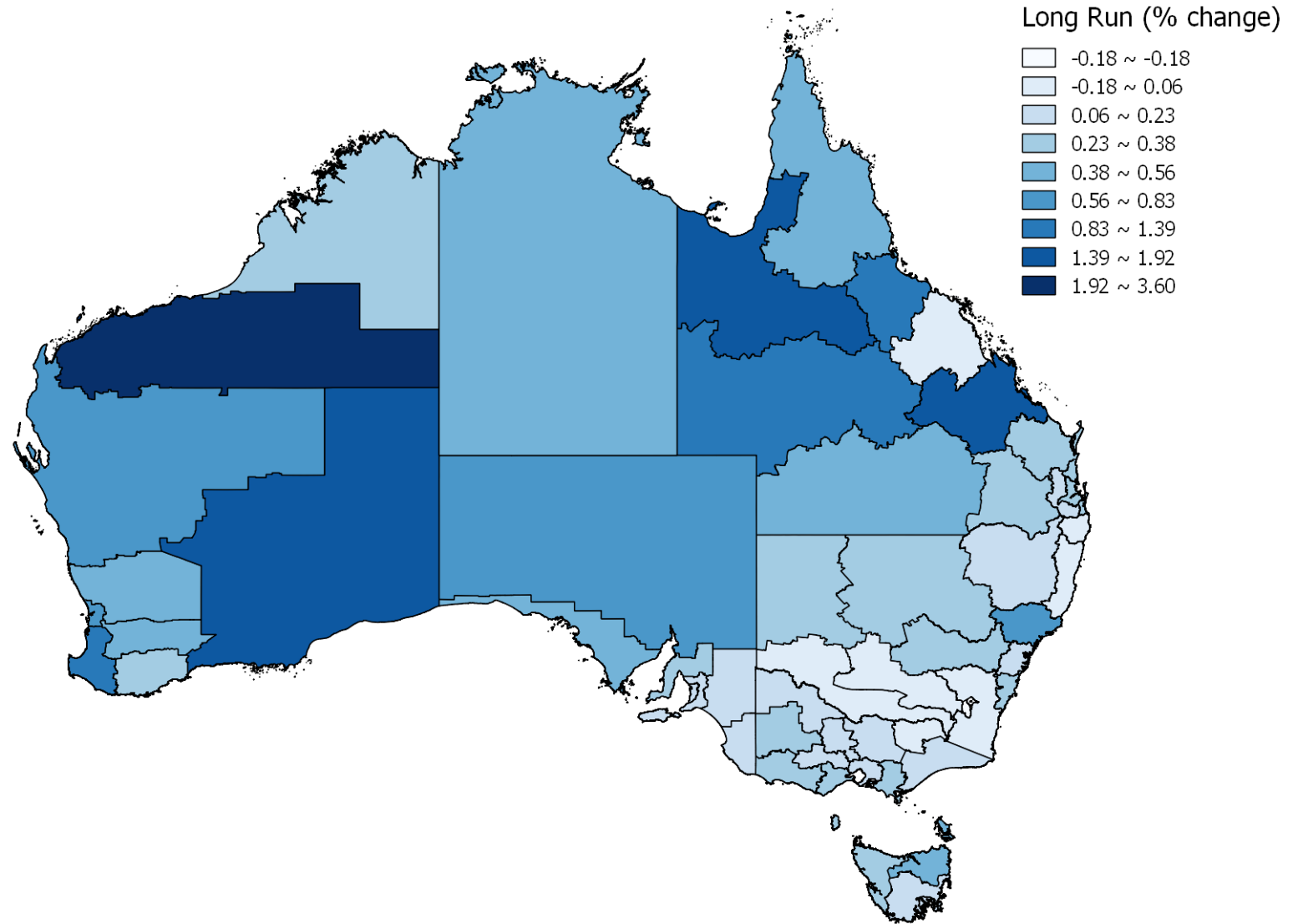
Macro structural change: expenditure



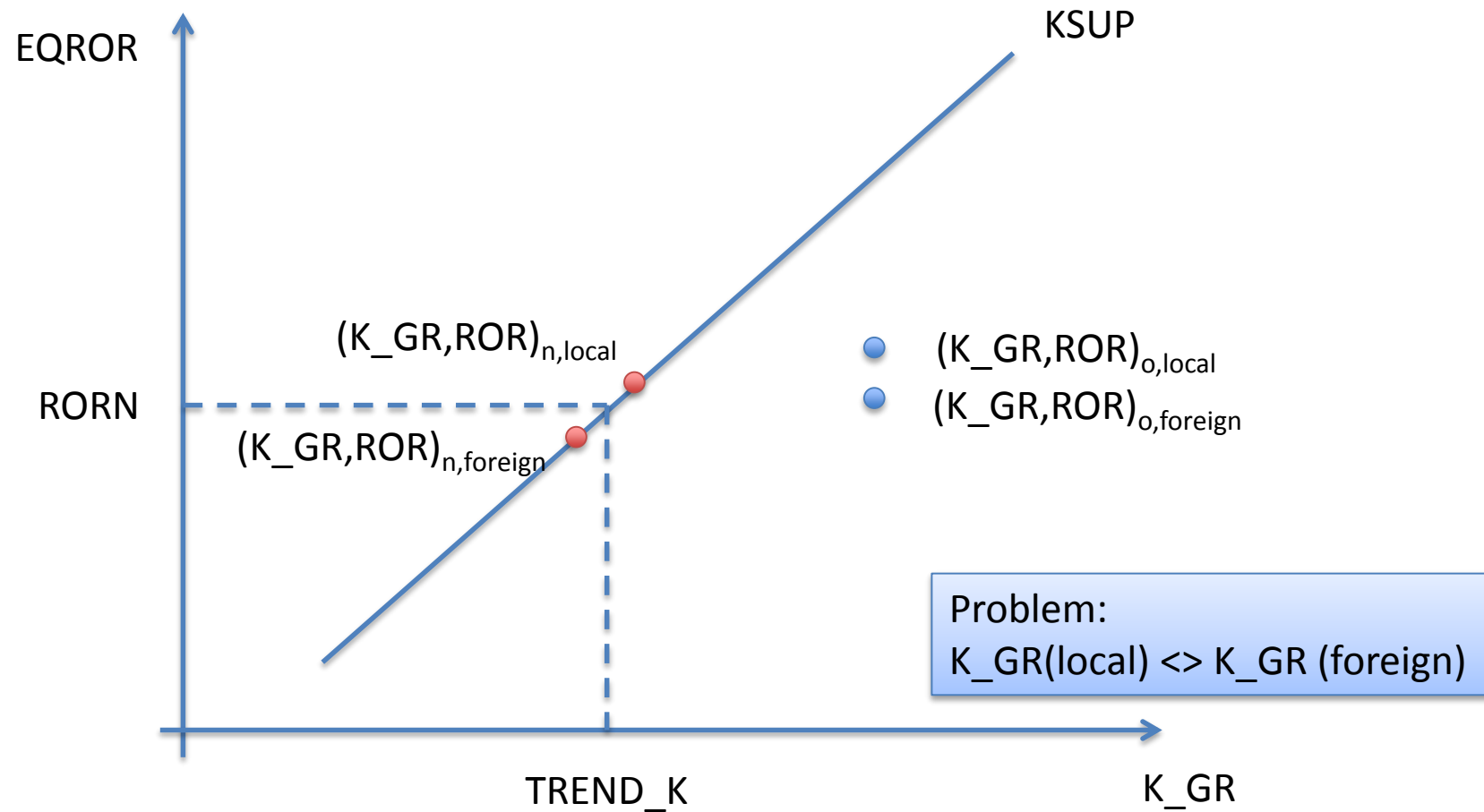
Long run structural change: industries



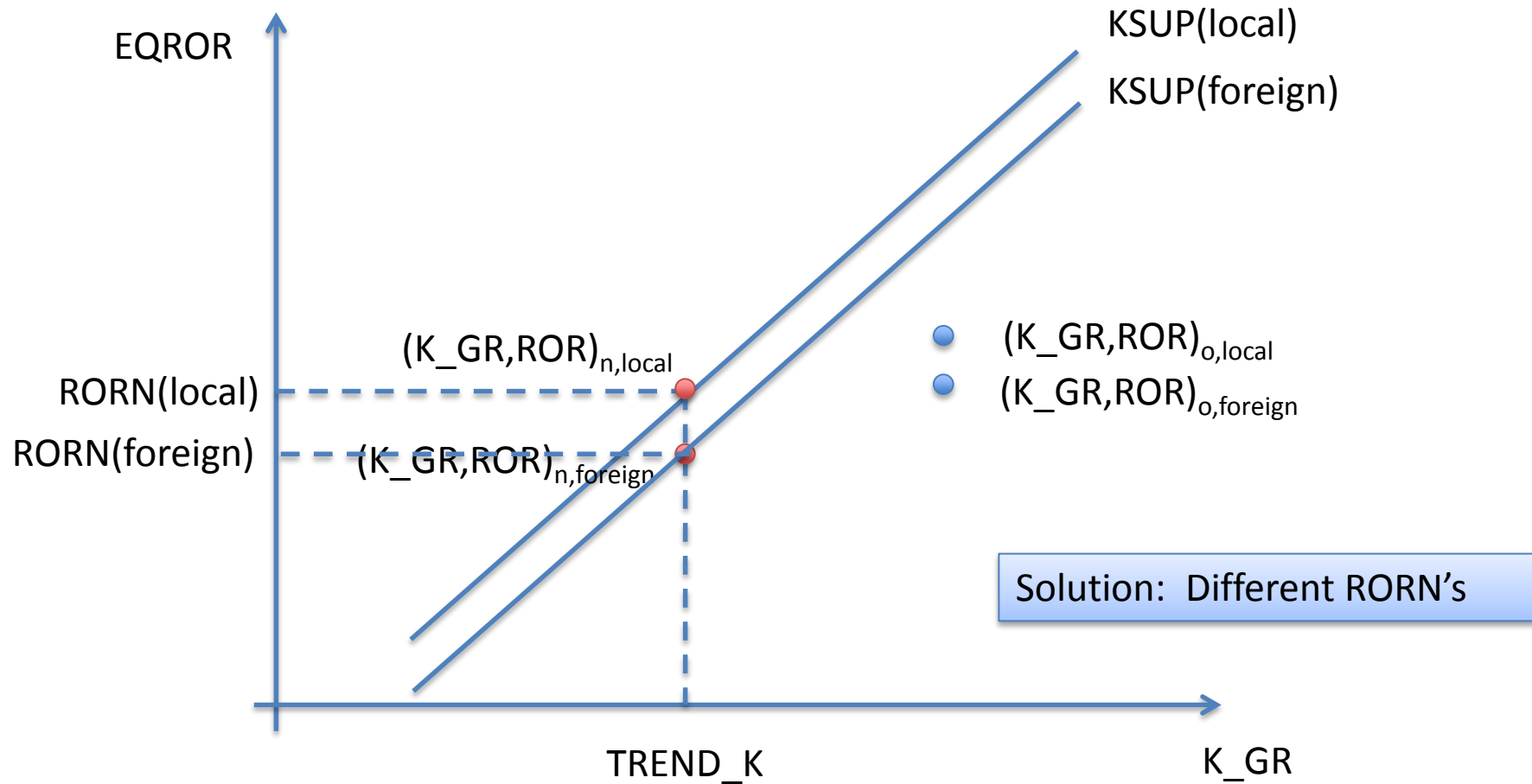
Long run
regional effects:
hybrid bottom-
up top-down
estimates



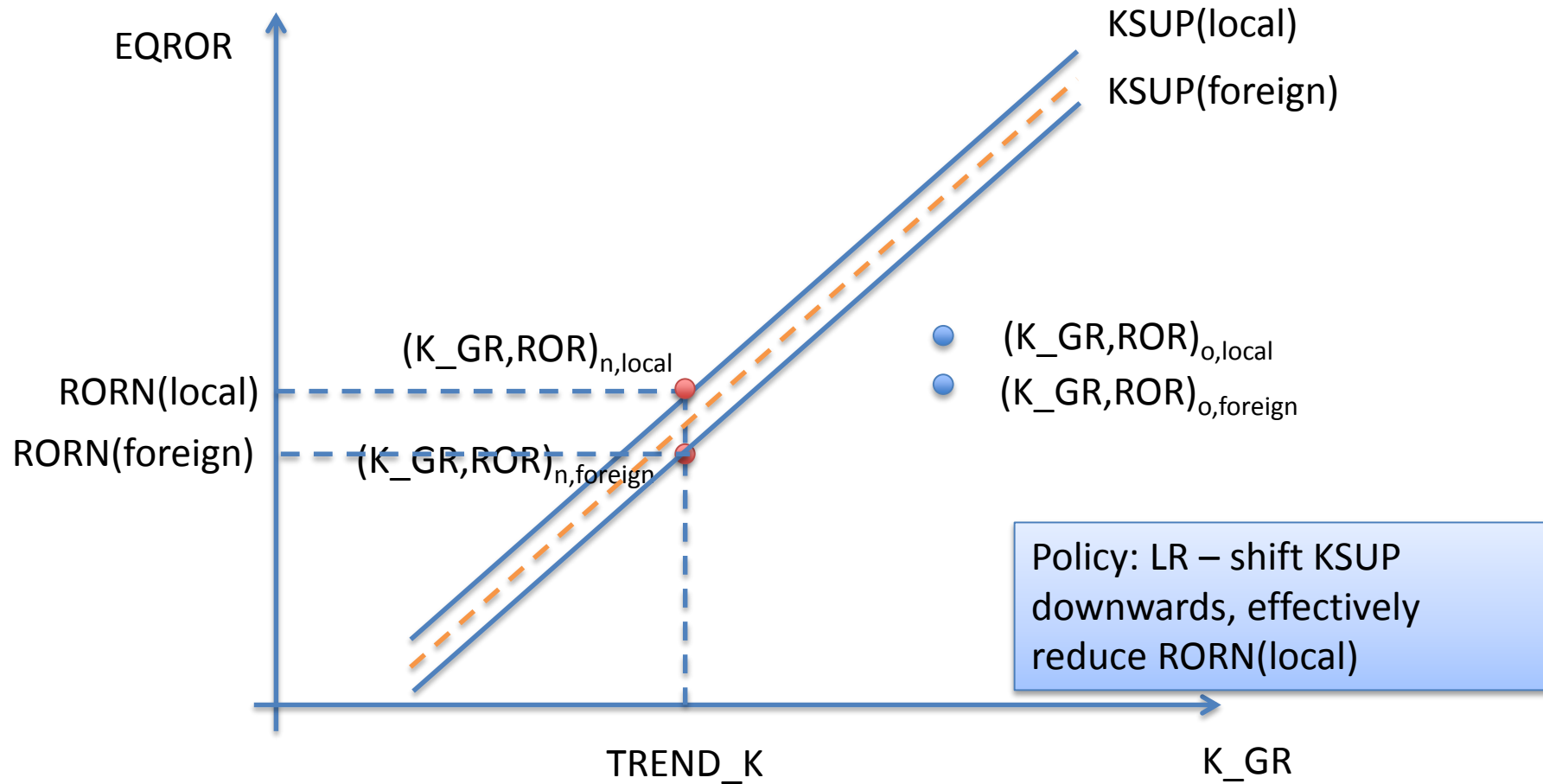
Complication: capital supply



Complication: capital supply



Complication: capital supply



Further work/comparison

- Old list
 - Franking
 - Optimal tax rate
 - Full model
 - Funding
 - Forward looking expectations - *WIP*
 - SIGMA_LK
- Other
 - Imperfect competition: pass on price cuts
 - Tax evasion (Murphy 2016)