LOWER CORPORATE TAXES AND WE ALL BENEFIT

Herald Sun, 24 November 2017

In Korea earlier this month, President Trump contrasted North and South Korea which in 1950 had similar levels of income per head. Today South Koreans, having embraced free markets based on low taxes and secure property rights, earn 40 times more than their northern counterparts.

The North Korean regime deliberately stifles private initiative. Others – almost all the world’s poorest countries - do so with punitive regulations and high taxes on entrepreneurial income, especially on company profits.

In response to punitive taxation, individuals and firms alike seek to minimise their taxes.

This brings deadweight losses that range from paying tax accountants and investing in low tax activities, to the measures that include shifting funds into tax havens. The leaked “Paradise Papers” reveal such avoidance activity is undertaken by businesses, sports stars and even the Queen.

Prominent among President Trump’s plans to reinvigorate the US economy is a lowering of tax rates. In particular he intends to reduce the business profit tax from its current 35 per cent to 20 per cent. Australian businesses pay 30 per cent profit tax.

Trump’s low tax policy will reduce the attraction of tax havens and has immense implications for all countries, including Australia.

In seeking a dramatic reduction in corporate income taxes, the US President shows he has learned how poorly performing economies can lift themselves up.

Hong Kong is a well-recognised case. Totally wrecked in 1945, even sixty years ago its citizens on average earned a quarter of Australians’ income levels. Today they earn 20 per cent more. Looming large among the cause of this is a business tax rate of no more than 16.5 per cent.

Hong Kong’s performance was not lost on China’s Communist government which, swallowing its socialist principles, embraced capitalism and now dominates world manufacturing (China’s profit tax is currently 25 per cent).

Similarly, fifty years ago the Irish were less than half as wealthy as Australians but today earn 30 per cent more. Ireland’s 12.5 per cent corporate tax rate has underpinned this.

A low US corporate tax rate would greatly add America’s competitiveness, which is already showing relative strength as a result of abandoning the economy-crushing energy taxes required by the 2015 Paris Climate Change Convention.

Recognising the necessity of reducing Australia’s corporate taxes, especially with the prospect of a low tax US, the Turnbull Government is aiming to cut the present corporate tax rate of 30 per cent. The ALP and other opposition parties have stymied that attempt with claims that “big business” is undeserving of tax relief, preferring instead the populism of more handouts to the less well off.

Such claims erroneously assume that wealth is generated irrespective of taxes imposed on enterprises. Moreover, those claims misunderstand the nature of firms – businesses are entities collectively owned by people, including members of superannuation funds, and it is they who pay the taxes.
If we want to be more affluent – and most people other than green activists do – we have to cease regarding businesses and entrepreneurs as cash cows to be milked.

Nor should we try to favour particular forms of business like small businesses, since such measures result in costly corporate rearrangements to minimise tax.

Lowering corporate taxes is a proven winner in promoting income growth all-round.

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