



May 1 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: AFTSubmissions@treasury.gov.au

Dear AFTS Secretariat,

Re: Australia's Future Tax System Consultation Paper December 2008

The Construction, Forestry, Mining & Energy Union of Australia (CFMEU) welcome the opportunity to make this submission. It is made on behalf of all three Divisions of the CFMEU namely the Mining and Energy Division, Forestry and Furnishing Products Division and the Construction and General Division. The CFMEU is Australia's main trade union in these industries in which we represent approximately 110,000 members.

We note that our original submission addressed our principal concerns with regard to Australia's future tax system and this brief submission serves to supplement this with regard to corporate and individual tax rates.

The global financial crisis (GFC) has caused a large contraction in economic activity and projected tax revenue (estimated in Treasury forward estimates to be up to \$200 billion), necessitating the Federal Government's expansionary fiscal policies. In view of the need to fund increased outlays our position is that the case for further reductions in individual or corporate tax rates is weak. One exception to this would be for low income earners, for whom tax cuts are viewed as being stimulatory to the economy.

An analysis of the impact on equity of cuts to the corporate tax rate was made by the Uniting Church in Australia, in their October 2008 Submission to this Review they said;

- Reductions in the corporate tax rate have an even more significant impact on the distribution of income. What the figures in the table above show is that for every \$1 billion spent on reducing the corporate tax rate, \$357 million ends up in the bank accounts of the wealthiest 1 percent of Australians, \$644 million ends up with the wealthiest 10 percent, and more than three quarters, \$752 million, is captured by the wealthiest 20 percent of citizens. **For each \$1 billion in revenue lost to the Australian Government only \$248 million is returned as tax cuts to be shared amongst the remaining 80% of Australian tax payers.**

Some are arguing that notwithstanding the Government's shrinking tax revenues, that there is a case for a cut in the corporate tax rate¹. In our original submission we demonstrated the persistent and growing divergence in proportionate revenue contributions being made between ordinary PAYG taxpayers and corporations. This growing inequity is also compounded by the regressive impact of the GST, the historic highs in the percentage of GDP going to profits and the corresponding lows in the percentage going to wages. With the foregoing in mind and Treasury estimating the long term effective average rate of taxation for corporations at 18%, it is in our submission, hard to sustain an argument for a cut in the corporate tax rate.

In respect to individual marginal tax rates our original submission called for a reduction in tax incentives for sham contracting arrangements, we made the case for reducing these incentives through narrowing the gap between the corporate tax rate and the current top marginal rate. We also called for a crackdown on the inappropriate use of trusts. Recent material from the ATO² on the inappropriate use of trusts and company structures by mining industry contractors to access the lower corporate tax rate underline the case for our proposals to be adopted.

Finally, in the context of the GFC the Prime Minister wrote³ earlier this year

The great neo-liberal experiment of the past 30 years has failed ... the emperor has no clothes. Neo-liberalism, and the free-market fundamentalism it has produced, has been revealed as little more than personal greed dressed up as an economic philosophy.

We concur with this analysis and consider that this Review is ideally placed to consider a series of taxation measures to ensure that the top income earners in our community, who benefitted from neo-liberalism over the last three decades (while their share of total income doubled⁴), are those in the forefront of new progressive taxation policies.

¹ Address to ACOSS National Conference by Ken Henry, April 3rd 2009.

² Australian Financial Review, 'ATO Puts Mining Contractors under microscope', 23/04/09.

³ Kevin Rudd, *The Global Financial Crisis*, The Monthly, February 2009.

⁴ Atkinson, A.B. & Leigh, A., (2007), 'The Distribution of Top Incomes in Australia', *The Economic Record*, 83 (262), 247-61.

We reject propositions that would see ordinary workers shoulder the burden for the mistakes of the corporate and financial sector.

We would welcome the opportunity to give oral evidence in support of our submissions should the opportunity arise.

A handwritten signature in black ink, appearing to read 'J. Sutton', written in a cursive style.

John Sutton
National Secretary
Construction, Forestry, Mining & Energy Union of Australia