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Media Release

Tax Transparency Data Reveals a Strong, Compliant Large Corporate Australia – If You Read the Numbers Correctly

Today the Australian Taxation Office (ATO) has for the fifth time published a report containing some limited data extracted from company income tax returns of certain Australian publicly listed and foreign controlled entities reporting total income of more than $100 million and private groups with turnover of more than $200 million in the 2017-18 income year. The 2017-18 report shows a 14.5% (or $6.6 billion) increase in tax paid to $52.3 billion compared to 2016-17 ($45.7 billion). The report also shows an increase in tax payments across all industry groups and that over the last five years to 2018, the number of large companies not paying tax continues to decline.

"In reviewing the transparency data, we once again remind commentators that **all businesses, including large businesses:**

- pay tax on their taxable income (i.e. net of deductible expenses), not on their 'total income' or turnover;
- do not pay tax when they do not make a profit;
- can deduct prior year losses against current year taxable income; and
- can claim tax offsets, such as the R&D incentive.

"And like all businesses, not paying tax in a particular year does not equate to tax avoidance. Commentators who ignore this fact and suggest that companies who do not pay tax in a particular year or over a number of years are engaging in tax avoidance are presenting an inaccurate and often patently false picture of the level of compliance by large corporates operating in Australia," Corporate Tax Association's (CTA) executive director Michelle de Niese said today.

"Any large business listed in the report released today that has not paid tax over a number of years will have been subject to ATO scrutiny. Where the ATO believes the tax profile of the large business in question does not align with the Australian corporate tax rules, it will employ further resources to that business and will challenge any aspect of its tax profile that, in the ATO's view, results in that large business not paying the right amount of tax. The public should take heart in the fact that no other sector in the economy is more compliant or is as heavily scrutinised by the ATO than large corporates – as it should be.

"The data released today reveals that 79% of large corporate economic groups paid tax in 2017-18, up from 77% in 2016-17. This percentage aligns with ASX 500 figures, which indicate that around 20-30% of ASX 500 companies report a current year net loss to their shareholders in any given year.

"The ATO's accompanying report sets out the reasons why 21% of the large economic groups covered did not have a tax liability in 2017-18:

- 7% incurred a current year accounting loss
- 9% utilised prior year losses (reported taxable income but were able to deduct prior year losses so no tax was payable)
- 5% incurred a current year tax loss (reported an accounting profit but tax adjustments, such as tax depreciation, resulted in a tax loss)
- 1% utilised tax offsets (such as the R&D incentive)

"These outcomes reflect the proper workings of Australia's tax law and the relevant accounting standards and importantly, would be reflected in the data of any business, large or small"

Large Corporate Tax Performance – The Tax Gap Story

The release of the ATO's third large corporate income tax gap estimate in August this year confirmed that compliance with Australia's corporate tax system is world leading, with 96% collected voluntarily and by compliance activity in the 2016-17 income year. This makes Australia's large corporate tax market the most compliant of all sectors of the Australian economy. As the ATO notes in its media release, this is world leading tax performance, and Australians should take great comfort in this.

While the CTA recognises the ATO's long term objective of bringing the large corporate tax gap down to 2%, we believe that objective should be accompanied, as is done by the UK revenue authority, by an indication of not just the value or percentage of the theoretical tax payable that is not collected, but also an indication of the number of taxpayers that are generating the gap and what is causing the gap. This should occur for all taxpayer groups to provide a comparison of the relative prevalence of voluntary compliance. If tax gaps across markets are to be meaningfully compared, the tax gap data needs a metric on the number of taxpayers who are voluntarily compliant for each taxpayer group and what is causing the gap - not just a gross and net figure. The large corporate income tax gap story of an 8% gross gap, with a 4% net gap, caused by a handful of taxpayers taking a technical view on interpretative issues is very different to the individual tax gap story of a 7% gross gap and 6% net gap caused by a large percentage of taxpayers not complying with the tax laws.

CTA Transparency Publications

"In recognition of the ongoing public interest in corporate transparency the CTA has released updated versions of two publications which complement and explain the data released today.

"The CTA's publication Public tax transparency - what the numbers do and don't mean provides some crucial context around the published data released today and what it means in the context of Australia's corporate tax system. The CTA's aim in releasing this publication is twofold - to make the numbers more meaningful to the public and to reduce opportunities for misinformed commentary around what these numbers mean in isolation.

"If transparency measures or disclosure requirements are to achieve the objective of better informing the public of how our corporate tax system works, they must take into account some of the inherent complexities of the corporate tax system. Like all corporate tax systems around the globe, the Australian corporate tax system is extremely complex. Transparency measures or disclosures that do not consider or simply ignore the complexities of the system to which they are being applied will raise more questions than answers and will place the vast majority of companies operating in Australia who do meet their tax obligations in a position where they can be unreasonably portrayed as not paying their "fair share".

"Those that seek to comment on the data released by the ATO today should do so in a way that considers what these numbers mean in the context of our corporate tax system.

"The CTA's second publication Tax Transparency - where Australia currently stands is aimed at providing the public with a snapshot of the level of disclosure large companies are already complying with in Australia, which is leading the world in terms of corporate transparency measures.

"The CTA recognises that corporate tax transparency has the potential to be a powerful tool in the development of a corporate tax system that is robust and effective, supports investment and job creation and is better understood by the public. **Transparency measures that lead to our system being better understood by the public should be pursued. Measures that misinform the public or give rise to misunderstandings around how corporate taxpayers interact with our system should be resisted.**

"Large corporates can rightly be expected to meet their tax obligations in an open and transparent manner. They also have the right to expect that disclosures of data which are intended to contribute to the public understanding of their tax position are not reported in an intentionally misleading or inaccurate manner."

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