Tax cuts may not be enough to keep up with the US as Trump reforms passed

ANDREW WHITE

Austalian companies doing business in the US could face an uphill battle to remain competitive even if Australia was able to match tax cuts planned for the world’s biggest economy, unless they move operations to the US.

As the Republican-controlled US Senate passed its version of the $US1.5 trillion Tax Cuts and Jobs Act, experts warned there was still a risk that a proposed “excise” tax on payments to foreign subsidiaries of US companies would be included in the final legislation.

Different versions of the tax and jobs legislation passed by the US House of Representatives and the Senate have proposed a charge on payments to offshore units of a business in a bid to avoid them being used to reduce taxable US income.

The measure is estimated to raise up to $US155 billion ($204bn) over 10 years to offset the estimated $US1 trillion cost of slashing the headline corporate tax rate from 35 per cent to 20 per cent.

The tax package, which also includes provisions to bring an estimated $US2 trillion of offshore earnings back to the US at concessional rates and allow an immediate write-off for new investment, is designed to turbocharge American industry by making it more attractive to bring investment and jobs back.

It has sparked renewed calls for the Labor opposition and the crossbench to support the federal government enterprise tax plan to cut the corporate tax rate from 30 per cent to 25 per cent over 10 years.

Business Council of Australia chief executive Jennifer Westacott said the passing of the US Senate bill made the case for tax cuts here “more urgent” and warned that foreign investment was likely to be sucked out of the country unless Australia lowered its rates.

A cut in the tax rate for businesses with up to $50 million in revenue to 27.5 per cent has been approved, but large corporates will not receive anything without support from the crossbench or Labor.

Peter Calleja, tax partner at PwC, said the consequences of the US package would be the most significant for business since the Reagan-era tax reforms of 1986.

“If the changes go through, the winners from Australia’s perspective include Australian companies who are seeking to use the US as a manufacturing platform for export to the Americas or more broadly to Asia and Europe.

“Australian companies that are exporting from Australia and importing to the US may find the proposed US changes to be disadvantageous, depending on their global operational footprint.”

The legislation, which also gives major tax cuts to wealthy Americans and ends estate taxes, had been pitched to appeal to Mr Trump’s voting base, which included blue-collar workers affected by the move of manufacturing to lower-cost destinations in Asia and eastern Europe.

The House bill includes a 20 per cent excise on payments made by US companies to related parties offshore, while the Senate version includes a 10 per cent add-on minimum tax on “base erosion payments” to a foreign related party.

“It is designed to make sure that it is cheaper to manufacture onshore than it is offshore,” Mr Calleja said.

“Companies may want to think about manufacturing in the US rather than importing into the US if they have a captive manufacturing entity offshore.”

The US standing as the world’s biggest economy has made it a magnet for investment, with companies including Macquarie Group, Incitec Pivot, Reliance Worldwide and ResMed the winners from Australia’s perspective.

Manufacturing has already undergone a renaissance thanks to the discovery of cheap shale oil and gas.

According to the US Studies Centre at Sydney University, the Australian investments in the US total $617bn, or more than a quarter of investment abroad.

In a study earlier this year it said more than 1200 Australian firms had operations in the US, 12 per cent of which had assets or income greater than $US20m.

Australian exports to the US last year were worth $US9.5bn, a fraction of the $US60.6bn that American companies made it a magnet for investment, in sales in the same period. But lower tax rates could make it more attractive for those companies to concentrate on the US.

Investment into Australia*

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Source: ABS

Australian investment in US

Professional, scientific, technical services

Source: US B.E.A.

* 2016

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