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Mr Alan Raine
Acting Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Business Council of Australia

Inquiry into corporate tax avoidance and minimisation

Dear Mr Raine

Thank you for your invitation make an additional submission to the Senate Economics References Committee Inquiry into Corporate Tax Avoidance and minimisation. As you would be aware, the Business Council initially lodged a submission to the inquiry in February 2015.

The Business Council understands the committee resolved to broaden the scope of its inquiry to include Australia's offshore oil and gas industry. This line of inquiry overlaps with the government's Review of the Petroleum Resource Rent Tax (PRRT), to which the Business Council also lodged a submission (see attachment).

The Business Council believes that PRRT has worked appropriately to date and no changes should be pursued without a clear, demonstrable net benefit from doing so. The potential for policy reversals to jeopardise future investment is of serious concern.

Changes to any tax settings should improve the design and efficiency of the tax system, rather than seek to increase revenues to fund unsustainable spending growth.

However, the Business Council is concerned that ad hoc changes to the tax system are not considering the cumulative impact on the investment environment or the best design of the whole tax system.

The tax system is an important influence on the decisions to invest in Australia. The Australian economy is heavily reliant on trade and foreign investment, and capital for resources investments is highly mobile across different countries and industries. To continue to be an attractive destination for investment, Australia must remain competitive. A stable and competitive tax regime, as well as growth-enhancing policy settings are key to this. A competitive Australia is the best way to achieve an economy which is strong, builds investor confidence and continues to grow.

This is especially important as we look for the next wave of industry exploration, investment and growth. Exploration is currently at a low ebb, but there are many opportunities that could be unlocked.

But investment and exploration are less likely to occur if the investment environment becomes even less attractive. The cumulative impact of business regulation, unduly protracted planning and environmental approval processes and uncertainty about the tax system should not be underestimated.

Continued investment in the exploration and extraction of oil and gas resources is also vital for Australia's future energy supply. Increasing gas supply is critical to industrial users of gas and for reducing the cost of generating electricity. Access to affordable and reliable energy sources is vital for protecting Australian jobs. Gas will also play an important role in delivering a secure and reliable energy system as we transition to a lower emission electricity sector. Increasing the tax burden on the energy sector will simply impose yet another hurdle to energy producers obtaining access to the fuel sources that are desperately needed in Australia's current energy system.

Concerns about current PRRT revenue levels are misplaced. The tax is operating as intended and designed, with current revenues reflecting the confluence of the unique stage of the industry's cycle and oil prices. After almost a decade of large-scale investments, in a high-cost environment, the oil price has fallen sharply. Taxes, including company tax, will be paid in future when production and profits flow from those investments.

Changing the basis for the PRRT would risk undesirable consequences such as reduced competitiveness, diminished investor confidence (not just in the oil and gas industry) and deterrence of vital new investment. Changes that retrospectively affect current projects, where investment decisions have already been made, would be of particular concern as they would increase risks and uncertainty for future investments.

Of course, the tax system must ensure the community receives an appropriate return for its resources. But the community does not receive a return from resources that are left in the ground. Appropriately compensating the community also requires ensuring that investment is not discouraged.

Changes to the tax system should first and foremost be about getting the incentives right and bringing together the best tax system overall. It should not be about ad hoc measures which are designed primarily to be a quick fix to the budget problem. Higher taxes are not budget savings and will only dampen growth and incomes over time.

Yours sincerely

Jennifer A. Westacott
Chief Executive

Attachment/s: Business Council Submission to the Review of the PRRT