Sent: Wednesday, 14 February 2018 6:30 PM
To: Gaven Morris s22
Cc: Alan Sunderland s22 ; Craig McMurtrie s22
Subject: Corporate Tax.docx

Hi Gaven,

As discussed earlier, the attached document details our complaints about today's coverage.

Official complaint about Emma Alberici's coverage of corporate tax on ABC platforms - 14 February 2018.

- **http://www.abc.net.au/news/2018-02-14/corporate-tax-australian-companies-havent-paid-in-10-years/9443840**
- **http://www.abc.net.au/news/2018-02-14/company-tax-rate-cut-arguments-missing-evidence/9443874**
- *Related TV/Radio coverage.*

1) The coverage confuses 'income' with 'profit'. Alberici repeatedly compares the 'income' several companies have earned, with the taxes they pay. Corporate income tax is payable on profits, not gross income.

Examples:

"Despite generating income of $106.4 billion, the flying kangaroo has avoided paying tax on that bounty since 2009"

"For the three years to June 2016, Energy Australia's 1.7 million electricity and gas customers across eastern Australia helped it record $24 billion worth of income on which no tax was paid."

"The investment bank generated revenue of $1.84 billion over three years but paid zero corporate tax. Ditto for **JPMorgan Chase** which raked in $2.2 billion and hasn't paid corporate tax since at least 2013."

2) The opinion piece argues that since 1 out of 5 companies didn't pay corporate tax last year, there is no need for a company tax cut. But what about the 4 in 5 who did? Corporations paid $63 billion in company tax in 2015-16. The Government's company tax cuts are about the future, not about past taxes paid. The entire premise of the article is that if a company has made losses in the past that make its tax payable lower than it otherwise would be, it will therefore completely ignore the future tax rate when making investment decisions. That is a bizarre proposition.

3) Alberici again cites research by the Congressional Budget Office to claim Australia's corporate tax rate is "among the lowest in the world". She has been told several times that this report is based on outdated figures. The story acknowledges this, but then attempts to discredit that suggestion, by quoting Don Hamson, from Plato Investment Management:

- "Whilst the data used in the 2017 CBO report is from 2012, it is the best analysis available and I don't believe the Australian company tax landscape has changed significantly since 2012."

It is extraordinary that Alberici uses this quote in an attempt to reinforce her argument. This is a ranking so it's a ***relative*** position. What matters is how much the tax structures of *foreign* countries have changed since 2012, thereby leaping ahead of Australia in tax competitiveness. Our laws have also changed since then (see point (9) below as well as changes made to Thin Capitalisation rules).

Treasury considers the data from the Oxford Centre for Business Taxation to be more authoritative than the CBO data.

We have corresponded with Alberici and other ABC reporters extensively on this issue.

4) The articles argue that Treasury modelling relies on "theories that belie the reality that's playing out across the world." Alberici then goes further to argue that "in truth, it is hard to find real-world evidence to support these economic theories". She fails to acknowledge that:

- Countries across the world (UK, US and France to name a few) are cutting their company tax rates
- It is a theory supported by modelling and analysis from KPMG, Chris Richardson of Deloitte Access, the OECD, IMF, Ken Henry, Richard Holden and a recent study published in the AER to name a few. Further, Chris Murphy, the man who conducted the modelling for Labor's Henry Review said that the proposed company tax cut "is the top priority for tax reform".
- Modelling is not based on assertion, it is based on a theory of how the world works that is tested by applying the data to it. If she believes the results (based on historical relationships between data, ie. the real world) are not statistically robust or takes issue with the modelling approach we would be happy to have that conversation.

5) Alberici argues that "since the peak of the commodities boom in 2011-12, profit margins have risen to levels not seen since the early 2000's." Given her own chart that shows profits spike in 2016-17 this statement is not true. She also ignores the fact that the spike (given the chart is in growth rates and not levels) is again due to a large spike in commodity prices and the terms of trade! (terms of trade increased by 14.5% in 2016-17).

6) Losses being carried forward are not a rort, they are a feature of the tax system and have been since Treasurer Keating introduced them in their current form in the 1989 Budget.

7) Alberici argues that the overwhelming benefit of higher profits flow to shareholders. This completely ignores all of the economist evidence that shows the incidence of company tax falls overwhelmingly on workers. And indeed low paid and low skilled workers[1]. In the interests of balance, why does she not include any of this evidence?

8) The articles argue that “In most countries, companies pay tax and then shareholders pay tax on their dividends. Australia taxes just once. Cutting the company tax rate therefore doesn't result in a higher after-tax return on investment to Australian shareholders in Australian businesses so **Treasury's theoretical model doesn't hold**.” Factually incorrect and reflects a failure to examine and inquire about the modelling. The modelling is comprehensive and its **outcomes factor in all features of the tax system including dividend imputation**.

9) All of the data presented were pre-implementation of the Multinational-Anti Avoidance Law (MAAL) and the Diverted Profits Tax, which the ATO have described as a ‘game changer’ in terms of profit shifting. So egregious is the piece in its errors that the ATO felt the need to issue a statement in response.

10) Alberici has a habit of including comments from and interviewing *only* people who agree with her - ie Don Hamson (accomplished but not an economist) and Saul Eslake. And she didn’t bother reporting that in 2011 Eslake advocated a company tax rate for all non-mining companies of 27 per cent. How is this fair, objective reporting? It confirms the fact that she begins with a premise or a fixed viewpoint, and she sets out to prosecute that argument, and ignore or undermine anyone who disagrees. She then proceeds to call the proposed company tax cuts a “giveaway” on the basis of loose facts as described above. This phrase is a direct lift from ALP talking points. It is telling that so many Labor MPs and supporters promoted and distributed Alberici’s articles (Bill Shorten, Chris Bowen, Jim Chalmers, Stephen Koukoulas) Remarkably, Alberici then went on to **retweet and like** Bill Shorten’s tweet of her story. Is this appropriate for a ‘fair and balanced’ ABC journalist?

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[1] OECD: “Lowering the effective rate of corporate income tax (as part of a tax shift) can deliver substantial income gains for all with few consequences for the distribution of income”; Ken Henry “On the other hand, take company tax, which at first glance would be of most interest to wealthier Australians. Reducing it would seem to be inequitable. But there are strong arguments to the contrary. In the face of competition from countries with low company tax regimes, higher company tax rates could work to reduce overseas investment in Australia, which could reduce the number of jobs available, lower the demand for Australian workers and, in this way, lower wages. This is the reason why many economists argue that, in the long run, company tax affecting mobile capital is paid by labour — **predominantly geographically immobile unskilled labour**.”; American Economic Review “We find that workers bear about one-half of the total tax burden.....moreover, we show that **low-skilled, young, and female employees bear a larger share of the tax burden**”.

11) Alberici claims that GDP will double by September 2038 with the cut, as opposed to doubling by December 2038 without the cut. This statement deliberately mischaracterises and trivialises the estimated benefits of the policy. Modelling by Treasury and others indicates that the policy leads to a permanent increase in GDP - it is higher each and every year, not just for a couple of months.

12) The Alberici “Analysis” piece should not be labelled “Analysis”. It should be labelled “Opinion”. This is a frequently repeated ABC mistake.