Research finds multinationals pay half statutory corporate tax rate

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New research shows that Australia is forgoing billions of dollars in revenue because of the low rates of tax being paid by large multinational companies here.

Financial data from 76 of Australia's largest multinationals, analysed by a team of corporate tax specialists from UTS Business School, shows the companies paid an average effective tax rate of 16.2 per cent – half the statutory corporate tax rate of 30 per cent.

The study, commissioned by community advocacy group GetUp! and based on company reports filed with the Australian Securities and Investments Commission, found that Australia could have raised $5.37 billion more in tax revenue in 2013 and 2014 had the full corporate tax rate been paid.

Big pharmaceutical companies paid the lowest effective tax rate at just 5.7 per cent, according to the report, Closing the Caribbean Connection: Solving Aggressive Tax Avoidance by Top Foreign Multinationals Operating in Australia. Technology companies paid 7.5 per cent on average and energy groups 20 per cent.

Associate Professor Roman Lanis, Dr Brett Govendir and fellow researcher Ross McClure say this is the result of multinational corporations shifting billions of dollars in profits offshore.

"The main methods used for aggressive tax minimisation are debt loading – most commonly employed by big companies in energy and resources – and profit alienation, which is used by pharmaceutical and technology businesses," Associate Professor Lanis says.

Debt loading, also known as thin capitalisation, is a process by which a foreign multinational corporation lends capital to its Australian operation at an unusually high interest rate. Any profit made in Australia is used to repay the foreign subsidiary. For the purposes of company tax records in Australia, the profits are recorded as a loss in the form of an interest payment on the loan.

With profit alienation, companies hold intellectual property rights or other intangible assets in low or zero tax jurisdictions. Profits made in Australia are then used to pay the parent company for the use of its intellectual property. This technique is most commonly exploited by high-tech and pharmaceutical companies, the researchers say.

"With the rise of digital, more and more corporations make money from intangible assets, allowing them to make use of profit alienation to avoid paying tax," Associate Professor Lanis says.

"Revenue lost through this loophole will continue to rise unless Australian tax laws address this reality," Dr Govendir adds.

The report recommends the Australian Government limit or even eliminate interest deductions and other financial payments on loans from foreign subsidiaries that are located in low or no tax jurisdictions.

"Hong Kong protects its tax revenue in this way, by prohibiting companies from claiming tax deductions for any interest paid to related entities based overseas," Mr McClure Govendir says.

The report suggests the federal government follow the United Kingdom's lead and introduce a Diverted Profits Tax, also known as a "Google Tax". The UK imposes a minimum tax rate of 25 per cent of profits sent overseas for corporations deemed to have arranged their business structure to avoid tax.

"This ensures company profits are taxed as they move offshore – so there's no tax advantage in shifting profits overseas," Associate Professor Lanis says.

Here, such a tax would be set at 30 per cent to reflect the statutory corporate tax rate.

The report also says foreign multinationals should also be required to comply with the same accounting standards as domestic companies, including the full disclosure of related-party transactions and executive remuneration. In addition, company financial reports submitted to the ATO and ASIC should be publicly available, it says.

It also calls for better resource of regulatory bodies such as the Australian Tax Office to facilitate investigation and prosecution.

"If just 76 multinationals were able to reduce their tax bill by $5.37 billion, imagine what the total lost revenue would be from the many thousands of corporations operating in Australia," GetUp senior campaigner Daney Faddoul said, releasing the report.

The low rate of tax compares with the average 24 per cent paid by construction workers and nurses in public hospitals.

"The report offers concrete, actionable solutions to rampant corporate tax dodging – setting the bar for a corporate tax crackdown in [Prime Minister Malcolm] Turnbull's May Budget."

Associate Professor Lanis discussed the report's findings at a Senate inquiry hearing in Canberra on Thursday. The Senate inquiry was called following the release of the so-called Panama Papers – documents detailing the creation of some 200,000 companies in "secrecy jurisdictions" for companies worldwide.

More information: Analysis of Tax Avoidance Strategies of Top Foreign Multinationals Operating in Australia: An Expose: cdn.getup.org.au/1507-Aggressi … ign-Multinations.pdf

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