

About this paper

Competitiveness: The international dimension

The use and abuse of the idea of competitiveness

The idea that Australia needs a “competitive” tax regime is beguiling. It can also be actively misleading. If we choose to impose higher (or lower) taxes than our trading partners, this signifies that, as a community, we choose to enjoy more (or less) of the fruits of our labour collectively rather than individually.

Though Harberger's simplifications have been challenged with an ever increasing number of variations on his original model,¹⁴ Auerbach (2005, pp. 1, 40) observes after an extensive survey of the literature that:

- Reducing income tax rates to the current corporate tax rate has substantial budgetary costs and would benefit those on higher incomes.

A return to classical company taxation?

Dividend imputation was introduced in Australia in 1987 to eliminate the double taxation of dividends – that is, the process by which the company paid tax on its profits and then the shareholder paid further personal tax on its ex-tax dividend distributions from that company. Dividend imputation was a big and bold reform in its time. Yet like any tax arrangement it involved difficult trade-offs.

The third of these points leads the authors to a conclusion which is surely momentous for a scheme which forgoes up to \$20 billion in revenue. The reasoning is worth following closely:

[L]arge companies are unlikely to be financed solely by resident

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