Let’s look at transfer pricing. International companies are placing their profits in countries that have lower corporate tax rates. Although this is something naturally expected by shareholders, to countries affected, it is unacceptable. It instructs taxation offices to permit companies to become tax evaders.

Because companies are now globalized in seeking profit, they are withdrawing from countries in which they cannot secure profits. If these companies to continue to operate beyond reason, there are risks of fiduciary/breach of trust action by shareholders.

With the resource boom over, the Australian government must now seek new revenue sources. Transfer pricing has been considered as one option. Is it not the case however, that this would further induce the withdrawal of international companies from Australia?

Let us examine one country with a low corporate tax regime, Ireland. Why is it that Ireland has such a low corporate tax? Compared to Japan and other countries, the average age of Irish citizens is much lower. In other words, adjusting for differences in productivity, a younger population will result in a larger proportion of people working. By reducing the corporate tax rate and inviting international corporations to establish operations domestically, the Irish working population can be given more employment opportunities.

Were it possible to reduce the corporate tax whilst simultaneously increasing personal income and consumption taxes, the national revenue could increase overall. Why has the Australian government not utilized this strategy? In the case of Australia, personal income tax is already self-reported and rates are particularly high. It seems like the Australian government has an understanding that it cannot expect a higher level of revenue from personal income tax.

Another option is to increase the consumption tax whilst reducing personal income and corporate tax rates. Whilst it is understood this would be the best option to ensure economic recovery, no government would dare suggest this option. Should the government suggest an increase to the consumption tax, they are liable to lose the next election. In Australia, there are state, territory and federal governments. However, the power to collect taxes lies only with the federal government. State governments cannot collect taxes from residents.

When Australia was federated, the collection of taxes by state and territory governments was prohibited by the Constitution. If you look at past court cases, the federal government monopoly power of tax collection has been entrenched and strengthened. Without financial incentives and donations from the federal government however, local and state governments are unlikely to accept further implementation of taxes. Shouldn’t the Constitution be changed to empower state governments to collect consumption taxes?

Would this adjustment reduce the centralization of governmental power in Australia, and further activate the potential of the Australian economy?