

ISA Media Release

Superior cash flow tax should replace corporate tax, leading economists say

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Four leading economists have argued that the introduction of a *cash flow tax* to replace the current corporate income tax would remove market distortions and turbo charge new investment.

Launching their ground-breaking paper at today's Melbourne Economic Forum, Dr Stephen Anthony; Dr Craig Emerson; Professor Ross Garnaut; and Reuben Finighan argued the advantages of a new *cash flow tax* would far outweigh those of the existing corporate income tax.

Dr Anthony, Industry Super Australia chief economist, said the proposal represented a fundamentally different approach to taxing corporate income.

"Taxing cash flow, and therefore, economic rent, improves the trade-off between revenue collected and welfare enhancing investment," said Dr Anthony.

"A cash flow tax is relatively simple to administer; and removes distortions like the promotion of debt over equity which undermines economic stability".

"Most importantly, a cash flow tax would boost innovation and investment, reduce inequality, and capture multinational companies that shelter in low tax jurisdictions," he said.

The paper notes that, in recent years, governments have raced to cut corporate tax rates to attract foreign direct investment. But the actual impact of those cuts on investment decisions appears weak.

The paper also considers implementation issues, and presents modelling that suggests a ten-year phase-in of a cash flow tax to replace the corporate tax is feasible.


Dr Emerson said companies could choose to switch to cash flow tax in full at any time during the transition period.

"This would provide a powerful stimulus to new capital investment through its immediate expensing," said Dr Emerson.

A copy of the paper *Replacing corporate income tax with a cash flow tax* is available <http://www.industrysuperaustralia.com/assets/Reports/V.-2-181205-Cash-flow-tax-ISA.pdf>

Stephen Anthony and Craig Emerson are available to discuss the cash flow tax proposal.

Media contact Phil Davey 0414 867 188



Industry Super Australia provides policy, research and advocacy on behalf of 16 not-for-profit industry superannuation funds with around six million members.

Industry Super Australia Pty Ltd ABN 72 158 563 270, Corporate Authorised Representative No. 426006
of Industry Fund Services Ltd ABN 54 007 016 195 AFSL 232514