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2019-20 Pre-Budget Submission

NSW Business Chamber

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Introduction

The NSW Business Chamber (NSWBC) welcomes the opportunity to provide pre-Budget submission ahead of the 2019-20 Budget.

The Chamber is one of Australia's largest business support groups, with a direct membership of 20,000 businesses and providing services to over 30,000 businesses each year. The Chamber works with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, the Chamber represents the needs of business at a local, State and Federal level.

This submission makes the following recommendations:

- Continue fiscal consolidation efforts while protecting taxpayers by containing tax receipts as a share of GDP.
- Re-examine opportunities for tax reform in the context of Australia's federal financial relations, inefficient state-based taxes and workforce participation.
- Reduce ASIC registration fees so that total fees and charges are commensurate with ASIC's operating expenses.
- Increase the cap applying to the unincorporated tax discount in proportion with the scheduled increases to the discount rate.
- Calibrate the administration of the Australian Business Securitisation Fund to focus on improving access to finance.
- Make the instant asset write-off permanent and explore other types of investment allowances for asset purchases above $20,000.
- Invest unallocated funds from the Skilling Australia Fund to provide an incentive payment to employers taking on a new apprentice or trainee.
- Develop a social purpose leave funding framework prior to considering additional paid leave entitlements.
- Restore Export Market Development Grant funding to $200 million.

These recommendations are focussed on individual measures which can be adopted as part of the 2019-20 Budget process. However, these recommendations are not exhaustive and do not comprehensively reflect NSWBC's policy priorities in areas such as infrastructure delivery, regulation and protecting NSW's interests in areas such as federal financial relations.

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Fiscal consolidation remains a top priority

NSWBC shares the broader chamber movement's medium to long-term Budget priorities. This includes the need to build fiscal buffers to reduce the debt burden on future generations and to provide greater flexibility in dealing with future challenges that may arise. This requires ongoing effort to identify Budget repair measures and ensuring the sustainability of new policy initiatives while managing fiscal risks.

Recommendation

Continue fiscal consolidation efforts while protecting taxpayers by containing tax receipts as a share of GDP.

Tax reform is incomplete

When looking beyond the calibration of tax rates it is clear that tax reform remains an incomplete exercise. Reviews over the past decade reveal significant opportunities to improve the efficiency and simplicity of the tax system.

Many of the more compelling cases for tax reform span multiple levels of government. Accompanying reform to federal financial relations has the potential to unlock these opportunities to deliver shared successes such as those realised as part of the implementation of the GST. This includes the potential to facilitate reforms to inefficient state-based taxes such as stamp duty which is being increasingly relied upon despite being the most inefficient major tax available to state governments.

Equally, for growing small and medium enterprises payroll tax remains a significant frustration given its complexity of administration while punishing as they grow and taking on new employees.

The tax and transfer system, including impacts on workforce participation over the longer term, should also be front of mind when considering tax reform.

Recommendation

Re-examine opportunities for tax reform in the context of Australia's federal financial relations, inefficient state-based taxes and workforce participation.

Company registration fees for small and medium enterprises

Registry fees represent a cost to the small business sector and in early November the Chamber wrote to the Prime Minister to discuss options to relieve businesses of this unnecessary expense.

It appears, however, fees currently charged by ASIC go beyond what is needed to cover ASIC's operational budget and costs. Total fees and charges raised by ASIC for the Commonwealth were $1.2 billion in 2017-18 while ASIC's total operating expenses were $400 million. The annual review fee, which accounts for 61 per cent of ASIC's registry fees, totalled $562 million in 2017-18. The annual review fee, incurred at the time a business receives their annual statement, is seen by most businesses as a tax and a further cost burden they are compelled to pay with little, if anything, in return.

The annual review fee has no regard for the size of business or the potential actions required of ASIC. A proprietary company is obliged to pay the same fee whether it has a turnover of $200,000 or $200 million. With equivalent profit margins, this amounts to a smaller business paying a higher effective rate of tax (which is 1,000 times higher in this example).

NSWBC made a submission[1] to the recent Treasury Consultation Paper *Modernising Business Registers Program: Review of Registry Fees.* Our submission recommended halving the current registration cost for companies with a turnover of less than $5 million per annum. Further to this, the abolition or a 50 per cent discount should be applies to ASICs annual renewal fees for small business with a similar turnover.

Recommendation

Reduce ASIC registration fees so that total fees and charges are commensurate with ASIC's operating expenses.

Encouraging entrepreneurship by lifting the cap applied to the unincorporated tax discount for new entrepreneurs

The unincorporated tax discount was a welcome boost for unincorporated small businesses that do not directly benefit from the legislated company tax cuts. The unincorporated tax discount is scheduled to increase in line with the scheduled reduction in the company tax rate for small business.

While some unincorporated businesses will benefit from the increased tax discount, the benefits of the discount are limited by $1,000 cap which will not increase in line with the tax discount. This means that as the discount increases, more and more unincorporated entities will reach the cap and will lose any benefits associated with increasing the tax discount. By 2021-22, an individual with business income of just under $55,000 will have reached the cap.

While it is reasonable to limit the scope of the discount by means of a cap, it is important to recognise that small business owners face different demands than those faced by

[1] Submission can be downloaded from: https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/181221-ASIC-Registry-Fees.pdf

employees with many small business owners making a significant personal contribution to earn their business income. This is particularly true of sole traders and partnerships in the early stages of setting up and establishing their business. For this reason, the progressive taxation system is an insufficient mechanism to deliver on equity objectives as they relate to small business owners who do not conform to a standard working week. The unincorporated tax discount goes some way to recognising the challenges faced by unincorporated businesses, though the current cap of $1,000 limits the scope of relief.

NSWBC proposes the cap be increased to $1625 in advance of the 13% offset rate due in 2020-21 and to $2,000 in 2021-22. This will ensure the cap grows in proportion to the current offset rate of 8%.

Recommendation

Increase the cap applying to the unincorporated tax discount in proportion with the scheduled increases to the discount rate.

Australian Business Securitisation Fund

NSWBC welcomes the Australian Business Securitisation Fund as a mechanism to offset some of the challenges small businesses face in accessing finance. Australia's financial structure can be characterised as being dominated by large financial institutions which do not always fit the varying needs of Australia's small and medium enterprises. Viable and attractive business opportunities may be missed because they do not neatly fit into the one size fits all approach adopted by many lenders.

Thankfully, a number of new lenders are innovating the small business lending market while larger financial institutions are taking a more nimble approach to small business lending. NSWBC hopes the Australian Business Securitisation Fund will help accelerate this change. While lower lending costs would also be welcome, NSWBC encourages a focus on opening up new lending products to small businesses to improves access to finance (rather than a focus on just the cost of finance).

Recommendation

Calibrate the administration of the Australian Business Securitisation Fund to focus on improving access to finance.

Tax relief for businesses that invest

The $20,000 instant asset write-off has been a success for small businesses looking to expand their business or replace ageing assets. Not only does it simplify the depreciation of business assets and cash flow planning, but it provides immediate tax relief for businesses as they invest in their businesses. It has particularly beneficial to small businesses and family enterprises.

While first introduced in the 2015-16 Budget it has subsequently been extended in subsequent Budgets and is now due to expire on 30 June 2019. The success of the instant asset write off, as well as its relative modest revenue impact, provides a strong case for making the policy a permanent feature of the tax system with the $20,000 threshold indexed to maintain its real value.

In addition to the instant asset write-off, NSWBC supports policy proposals that would improve investment conditions. Australia's company tax rate is uncompetitive and imposes significant costs on the Australian economy. Investment-intensive industries such as manufacturing are put at a disadvantage to global competitors operating under more favourable tax regimes.

In the absence of further company tax cuts, there is a strong case to implement targeted policies that provide tax relief for businesses as they invest, including for assets worth more than $20,000. NSWBC encourages consideration of policies to improve the investment environment for Australian businesses, including other types of investment allowances.

Recommendation

Make the instant asset write-off permanent (with the threshold indexed to maintain its real value) and explore other types of investment allowances for asset purchases above $20,000.

Vocational Education and Training

The creation of the Skilling Australian's Fund (SAF) and the commitment to allocate money collected under the SAF to vocational education is supported.

NSWBC notes however that there remains unallocated funds in SAF arising from the non-participation of Victoria and Queensland and the underspend in 2017-18. As part of budget initiatives in 2019-20 this should be applied to:

- An additional kick-start commencement incentive to employers of $2500 for trade apprentices and $1500 for trainees to operate from budget night (or at latest 1 May 2019) for eight months to 31 December 2019.
- Promotion of the kick-start incentive throughout the period.
- Extra support for mentoring over the six-month period to focus on completions of trade apprenticeships.

Previous experience with well-targeted incentives indicates they have a greater impact on participation than any other policy or funding approach. The significant, positive impact of incentives on participation can be seen from the fluctuations in engagement that have been seen with their introduction, then removal.

Apprenticeship commencements in construction were declining, for example, in 2013. This decline was reversed when the Federal Government introduced a temporary Kickstart incentive for employers taking on a new apprentice in the industry.[2] The Kickstart incentive was particularly effective due to being paid at the early stages of the training relationship. Previous research performed by the University of Melbourne's John Polesel has shown completion of the first six months of an apprenticeship correlates strongly with ultimate completion of the entire program.[3] There is no additional burden on service providers at this point and an apprentice that progresses to this point is likely to complete.

[2] Polesel, J. (2015). Paving the Pathway: addressing post year 10 education, NSW Business Chamber, accessed 27 June 2017.
[3] Ibid.

Recommendation

Invest unallocated funds from the Skilling Australia Fund to provide an incentive payment to employers taking on a new apprentice or trainee.

Social purpose leave funding

Some stakeholders have proposed employees be granted paid leave entitlements for additional purposes not currently provided for. While the merits of specific proposals need to be examined individually on a case-by-case basis, the impact on business —particularly small business — must be a key consideration. For this reason, NSWBC proposes that these matters be considered only when there is a suitable framework to minimise the impact on small business.

An example of such a framework is the paid parental leave arrangements funded by Government. Similar arrangements could exist for purposes such as jury duty make-up pay and other leave arrangements where employees are absent to fulfil social or civic duties for which there is a public benefit.

Recommendation

Develop a social purpose leave funding framework prior to considering additional paid leave entitlements.

Export assistance

The Export Market Development Grant (EMDG) scheme provides export promotion support for eligible enterprises in order to boost exports of Australian produced goods and services. However, the EMDG scheme's funding levels have not been maintained, undermining the scheme's role as an enabler for businesses exploring opportunities abroad.

While export assistance programs involve an outlay from the Budget, the return from this investment can be significant. For example, KPMG's analysis of the EMDG scheme estimated that 88 per cent of its gross costs were self-funded, that is, paid back through increased tax revenue generated from additional economic activity.[4] That same analysis estimated that the EMDG scheme generated more than seven dollars for every dollar invested.

For these reasons, NSWBC proposes that funding for the EMDG scheme be restored to $200 million and for additional targeted support for small businesses to secure export opportunities. For example, the grant could be adjusted so that eligible small businesses could receive reimbursement of up to 75 per cent of their export promotion expenses.

Recommendation

Restore Export Market Development Grant funding to $200 million.

[4] KPMG (2015), Economic impact of the Export Market Development Grants scheme.