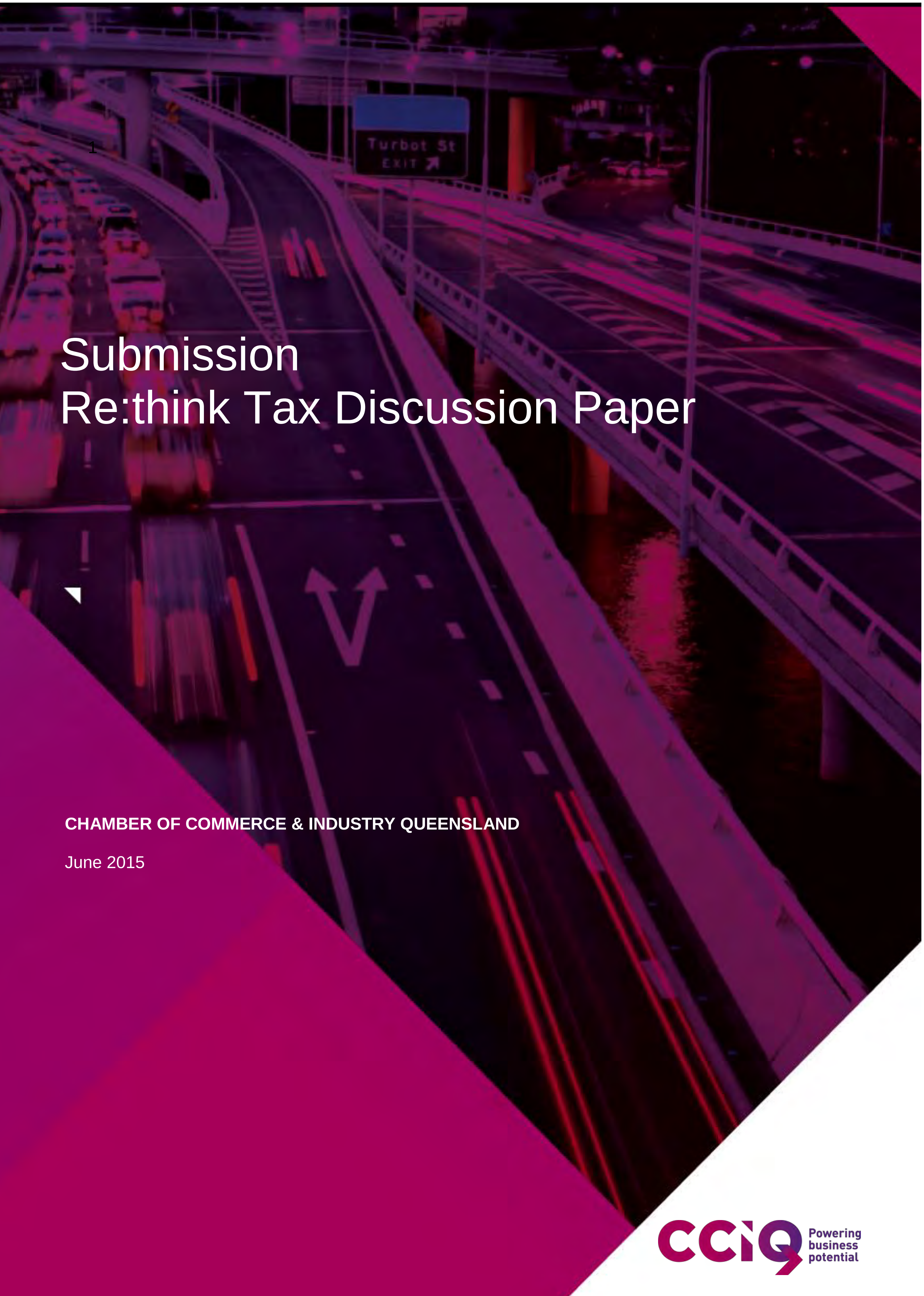


Submission
Re:think Tax Discussion Paper

CHAMBER OF COMMERCE & INDUSTRY QUEENSLAND

June 2015

CCIQ Powering business potential

Contents

1.0 Overview

1.1 As the State's peak body for business, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the Federal Government's commitment to a White Paper on the Reform of Australia's Tax System to take to the 2016 Federal election.

1.2 CCIQ highlights the mutual dependency between taxation and economic growth. By creating a low tax business operating environment with minimal compliance costs, we are laying the foundation for increased business investment, which leads to employment and real wages growth and ultimately, higher living standards.

1.3 Australia's tax system faces a number of challenges, including technological change, an ageing population, increased mobility of investment and declining terms of trade, all of which make the revenue from traditional tax bases more volatile. While the economic environment has changed substantially, Australia's tax mix has remained fairly static. The tax system is now considered by Queensland businesses to be outdated and a brake on economic growth.

1.4 CCIQ believes that a generational update to our tax system is needed to respond to these economic challenges and underpin our nation's productivity growth and future living standards. All levels of government must commit to comprehensive tax reform in a collaborative and decisive manner, recognising the transformational effect tax reform can have on our economy, especially if combined with federation reform.

1.5 It is a timely opportunity to ensure the economic and business policy settings are squarely focused on maintaining Australia's growth momentum into the future. A key challenge for governments will be keeping Australia's economy competitive in the face of fierce overseas competition. Quite simply there is no substitute for good forward planning and timely action.

1.6 The priority for the Queensland business community is for the reform process to consider the taxation system holistically, with a focus on addressing the complexity of the system and reducing the reliance on income taxes in favour of consumption taxes like the GST, which will enable removal of inefficient State taxes.

Summary of Recommendations

- Reduce the large number of taxes by shifting to a greater reliance on broad-based consumption taxes to raise revenue more efficiently.
- Tax reform must be pursued together with federation reform to:
    - consolidate taxing functions at the Commonwealth level and avoid introducing additional taxing functions at a State level;
    - ensure that the distribution of taxation revenue incentivises States and Territories to seek out efficiency savings in essential service delivery and implement economic reforms; and
    - encourage competitive federalism to attract investment and improve the business operating environment.
- Tax reform must be guided by the principles of adequacy, efficiency, simplicity, transparency as well as equity, cost minimisation and anti-avoidance.
- The company tax rate must be set at a rate that is internationally competitive, ideally below the OECD average. The company tax rate for small businesses must be lowered with eligibility extended to small businesses with a turnover of under $5 million.

- Continue to provide R&D tax incentives but ensure these are well targeted to support innovative activities that would not have otherwise occurred and subject to periodic review. Employee share schemes should be streamlined and additional concessions offered, recognising the importance of such schemes in supporting the small and medium business innovation.

- Maintain progressivity of individual income tax and as a longer-term strategy, seek to align the highest marginal tax rate to the corporate tax rate.

- Changing the GST is a top priority for tax reform, with the Federal Government to:
    - take a leadership role in forging unanimous agreement amongst the states and territories for changing the GST;
    - consider lowering the $1,000 threshold for imported goods and services that are currently not subject to GST, provided the cost of collection can be minimised; and
    - increasing the rate and/or broadening scope of the GST to achieve a more efficient and sustainable taxation mix.

- Completely phasing out payroll tax must be a long-term goal of tax reform. In the short-to-medium term, the Queensland Government must progressively lift the payroll tax exemption threshold and commit to annual indexation to ensure small businesses continue to benefit from not paying payroll tax until the full benefits of tax reform can be realised.

- Duty on insurance and duty on GST inclusive amounts should be immediately removed.

- There should be a gradual shift to making better use of a broad-based land tax while committing to a corresponding phase-out of duties on property.

- Ensure the tax system adequately caters for small business needs by:
    - Maintaining the Simplified Tax System for small businesses and extending the criteria to small businesses with turnover of under $5 million;
    - Implementing recommendations from the Board of Taxation report to address impediments facing small business; and
    - Exploring other small business company arrangements that could provide further benefits to this sector without introducing more complexity.

- Pursue targeted anti-avoidance measures that apply to both domestic and foreign multinational corporations. Consider outcomes of the OECD's Base Erosion and Profit Shifting review and adopt those guidelines if practical.

- Implement recommendations of this taxation review.

2.0 The case for tax reform

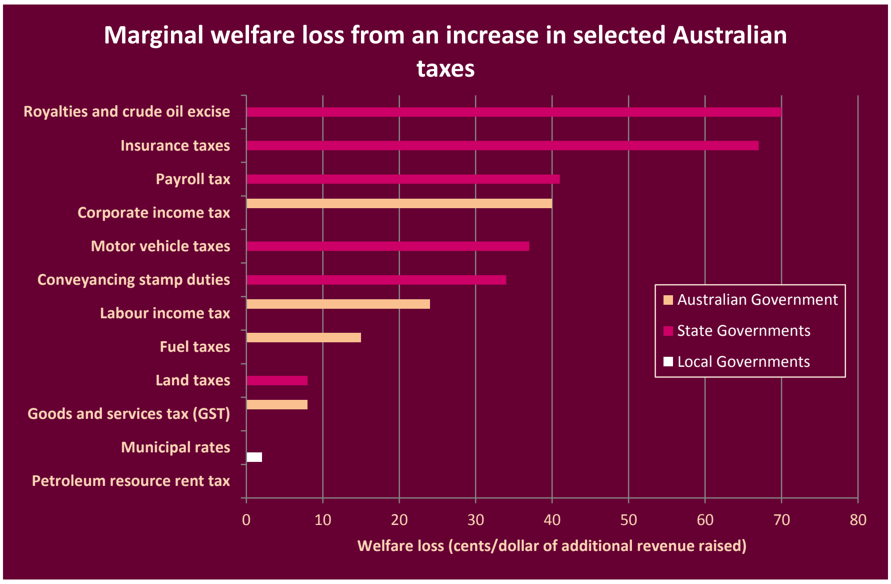
2.1 Tax arrangements are an important consideration for businesses when deciding whether to invest and the types of assets to purchase. Taxation can have a direct, positive impact on productivity if it allows businesses to allocate resources efficiently and encourages business investment. However, Australia's tax system has not kept pace with changes internationally and the current tax system is a break on economic growth and our productivity.

Current tax system is inefficient

2.2 The limitations of Australia's tax system have been well documented through numerous reviews. CCIQ believes the current review of our tax system must sharpen the debate around the impacts of these limitations to facilitate agreement in the community on the need for change.

2.3 Australia's tax system is highly inefficient with 115 of the 125 taxes generating just 10 per cent of the overall taxation revenue. As a result, the costs of administering and collecting tax revenue are unnecessarily high.

2.4 There is also an over reliance on capital and income taxes in the current tax mix, which distorts decisions about investment and workforce participation. The Henry Tax Review highlighted that the marginal welfare loss of various taxes ranges from 10 to 70 cents per dollar of additional revenue raised. Insurance taxes and payroll tax are highly inefficient, resulting in a loss of 67 cents and 41 cents per dollar of revenue raised. In contrast, indirect taxes like the GST and land tax are highly efficient and have a lower marginal welfare loss. CCIQ believes there should be a gradual move towards increasing the share of these taxes in the future tax mix.



Recommendations:
Reduce the large number of taxes by shifting to a greater reliance on broad-based consumption taxes to raise revenue more efficiently.

Commonwealth-State Fiscal Imbalance

2.5 CCIQ highlights the need for buy in from all levels of government to holistic tax reform. Further, all states and territories must commit to collaborating with the Federal Government on the federation white paper to set out a progressive agenda for achieving sustainable fiscal relations across levels of government.

2.6 A sustainable, long-term fiscal strategy will depend on a correction of the current vertical fiscal imbalance, whereby the Commonwealth raises the majority of the revenue and the States spend the majority of the money. This vertical fiscal imbalance means there is disconnection between spending responsibilities and revenue raising capacity. Correction of this imbalance would ensure Queensland has sufficient revenue raising capacity, which would then allow inefficient taxes, such as payroll tax, duties and insurance levies to be abolished.

2.7 The full scope of Commonwealth-State fiscal relations needs to be investigated, including:

- reviewing the methodology for GST distribution to the States;
- reviewing the effectiveness of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
- improving institutional arrangements of the federation; and
- improving the future tax mix that would enable streamlining of inefficient State taxes.

2.8 Government must continue to monitor and seek out efficiencies in government department program delivery. Due to the dominance of the public sector in the economy, the efficiency and effectiveness of government is essential if productivity is to improve across the economy. Anything short of optimum efficiency in the delivery of public services means that taxpayers are paying more in taxes and charges than they would otherwise need to. An improvement in the efficiency of Government Agency service delivery offers significant scope for enhanced budget flexibility that can be directly used to fund taxation initiatives.

2.9 CCIQ is a strong proponent of competitive federalism in respect to state tax arrangements for all businesses. There is no question that Queensland has attracted and retained business investment as a result of having more competitive tax settings than other states. The tax reform process should seek to encourage this competitive federalism, recognising that if all jurisdictions adopted this approach then Australia as a whole would dramatically improve its international competitiveness

Recommendations:

Tax reform must be pursued together with federation reform to:

- consolidate taxing functions at the Commonwealth level and avoid introducing additional taxing functions at a State level;
- ensure that the distribution of taxation revenue incentivises States and Territories to seek out efficiency savings in essential service delivery and implement economic reforms; and
- encourage competitive federalism to attract investment and improve the business operating environment.

Principles for tax reform

2.10 The process of tax reform must adopt the principles of adequacy, efficiency, simplicity, transparency as well as equity, cost minimisation and anti-avoidance. With these objectives in mind, CCIQ recognises that comprehensive taxation reform will necessarily impact on and require the commitment of the Commonwealth and all the States and Territories.

2.11 CCIQ prefers an approach to tax reform that does not apply retrospectively. From a business perspective, the retrospective application of tax leads to uncertainty, undermines business confidence and raises questions about sovereign risk to investors.

Principles for tax reform

Adequacy - tax systems raising sufficient revenue for public expenditure needs by shifting to a greater reliance on expenditure taxes rather than income and capital taxes;
Economic efficiency - taxation impacting neutrally on taxpayer groups and economic sectors with commercial decisions not skewed by tax considerations;
Simplicity - taxpayers being able to clearly understand their obligations;
Transparency - taxpayers understanding how and when they are paying tax, how much tax they are paying, and the ultimate impact of various taxes (i.e. no hidden taxes);
Equity - fairness in the distribution of resources between high and low income earners as well as similar tax burdens for taxpayers with similar means;
Cost-minimisation - compliance and collection costs minimised; and
Anti- avoidance - minimum incentive and potential for avoidance of taxation.

Recommendation:
Tax reform must be guided by the principles of adequacy, efficiency, simplicity, transparency as well as equity, cost minimisation and anti-avoidance.

3.0 Business tax system

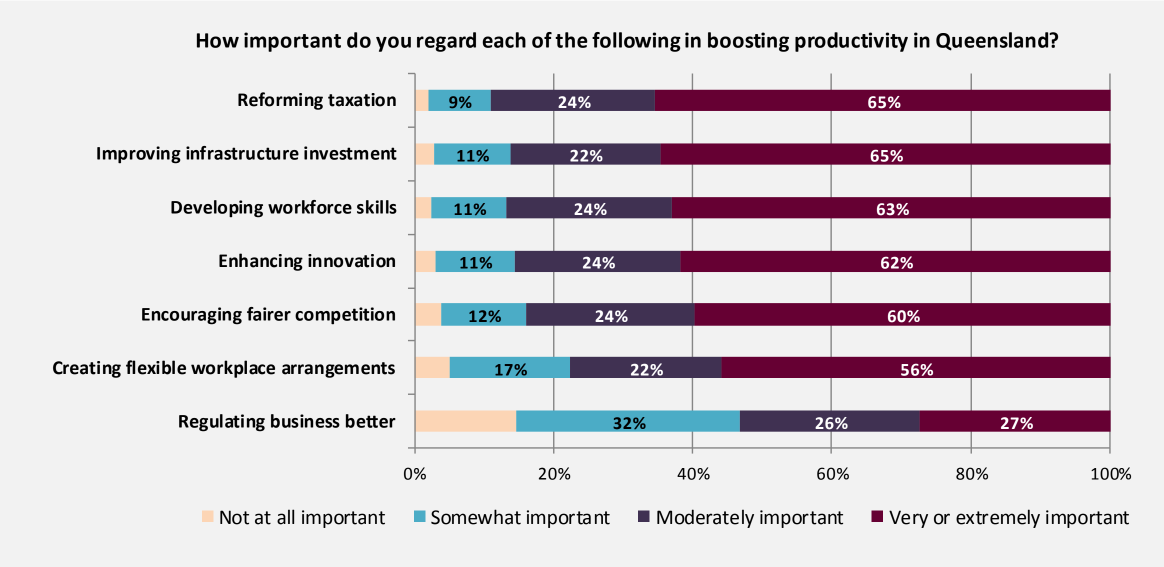
Corporate tax rate

3.1 CCIQ supports lowering the company tax rate and providing further concessions to small business through a separate, lower company tax rate.

3.2 Currently, Australia's corporate tax rate is 30 per cent compared to an OECD average of around 23 per cent. The discussion paper also points to Australia's heavy reliance on company tax, representing 5.2 per cent of GDP compared to an OECD average of 2.9 per cent.

3.3 Reform is necessary to improve the competitive standing of Australia's tax system by committing to a corporate tax rate below the OECD average. As a relatively small economy, Australia does not have the expansive consumer markets to lure international companies like its larger economic counterparts, so tax arrangements can be an influential factor in decisions about where to invest. The ability to attract foreign investment is increasingly a driver of productivity because of the market links and technology expertise that accompany it.

3.4 The majority of Queensland businesses (65 per cent) consider taxation reform to be the most important area of economic reform in terms of improving the State's productivity performance.



CCIQ State Election Survey, January 2015

3.5 Lowering corporate tax rates can boost productivity by enabling domestic businesses to compete effectively for global capital and creating incentives for business investments. The Business Tax Working Group estimated that a one per cent cut in the company tax rate would increase GDP by around $3 billion, lift wages by 0.2 per cent and add around 10,000 jobs.

3.6 CCIQ believes reductions to the company tax rate must be in addition to concessions within the existing business tax system such as depreciation allowances, exploration allowances and research and development tax breaks. This would ensure the lower company tax rate positively impacts after-tax returns and actually brings about change of investment behaviour at the business level.

3.7 There is merit in establishing a separate lower rate of tax for small business and CCIQ has welcomed the 1.5 per cent cut announced in the 2015-16 Federal Budget to apply a 28.5 per cent rate for businesses with a turnover of less than $2 million. CCIQ believes this turnover threshold should be increased to $5 million. This will bolster the competitiveness of our small business operating environment that enhances our ability to retain and attract investment that stimulates economic activity and inevitably taxation receipts.

Recommendation:

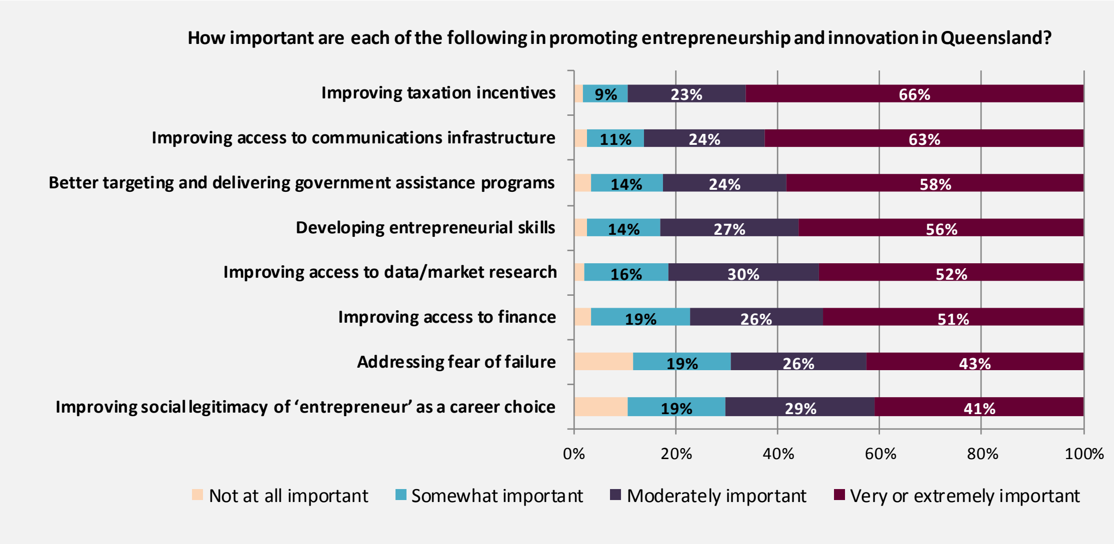
- The company tax rate must be set at a rate that is internationally competitive, ideally below the OECD average.
- Lower the company tax rate for small businesses and extend the eligibility to small businesses with a turnover of under $5 million.

Tax incentives and concessions for innovation

3.8 Business innovation appears to be highly responsive to taxation arrangements. The majority of Queensland businesses (66 per cent) believe improving taxation incentives was the best way to promote entrepreneurship and innovation.

3.9 With this in mind, there is merit in providing research and development (R&D) tax incentives to encourage innovative activities that will contribute to lifting Australia's productivity. However, CCIQ believes that R&D tax incentives should be carefully targeted to support innovative activity that would not otherwise have occurred.

3.10 CCIQ supports the Federal Government's recent commitment to offer additional concessions and streamline access to employee share schemes as a means of boosting entrepreneurial effort.



CCIQ State Election Survey, January 2015

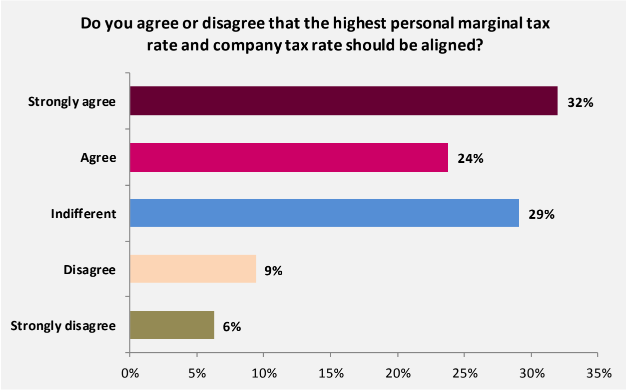
Recommendation:

- Continue to provide R&D tax incentives but ensure these are well targeted to support innovative activities that would not have otherwise occurred and subject to periodic review.
- Employee share schemes should be streamlined and additional concessions offered, recognising the importance of such schemes in supporting the small and medium business innovation.

4.0 Individual income tax

4.1 CCIQ supports progressivity of individual income tax, whereby those earning more pay more tax, and a well-targeted transfer system that maintains equity of the taxation system as a whole.

4.2 The majority of Queensland businesses (56 per cent) believe the highest personal marginal tax rate and company tax rate should be aligned. Currently, there is a 19 per cent difference between the highest marginal rate (49 per cent) and the corporate rate of 30 per cent, which creates a wedge between salaried employees and those earning income through a company structure.



CCIQ ReachTEL Survey on Taxation, May 2015

4.3 Feedback from Queensland small businesses suggests it is usually cost-prohibitive to change the legal structure of a business in order to minimise tax liability. Accordingly, it is not uncommon for a successful sole trader to pay income tax at the highest personal tax rate.

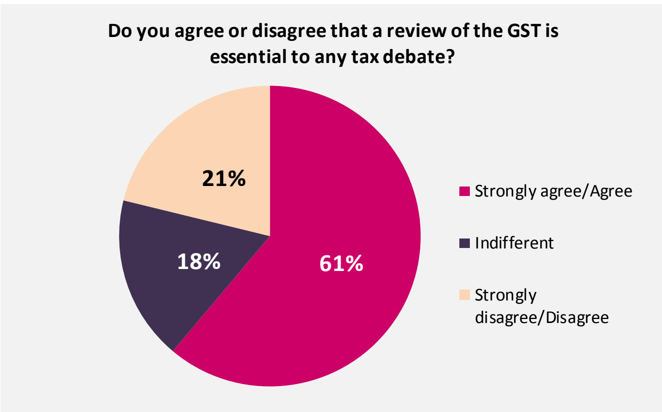
4.4 CCIQ believes lowering the corporate rate is an immediate priority for the tax reform agenda so Australia can be competitive internationally, but recognises that this will further exacerbate the differential with the highest marginal tax rate in the short-term. However, provided the tax system becomes more efficient through broadening of tax bases and a correction of vertical fiscal imbalance, there will be scope to reduce individual income tax.

4.5 Over the long-term, reducing individual income tax will improve productivity by ensuring Australia and Queensland remains an attractive place to work, invest and do business. A competitive personal income tax rate will help Australia attract the workforce talent needed to underpin productivity growth.

Recommendation:
Maintain progressivity of individual income tax and as a longer-term strategy, seek to align the highest marginal tax rate to the corporate tax rate.

5.0 GST

5.1 It is imperative that GST is given priority consideration in the tax reform agenda. The majority of Queensland businesses (61 per cent) believe review of the GST is essential any tax debate.



CCIQ ReachTEL Survey on Taxation, May 2015

5.2 While the introduction of the GST had the goal of replacing many inefficient State taxes levied on businesses, this has never eventuated and the GST is currently well short of what was originally intended. CCIQ believes improving the use of GST offers the most sensible solution to achieving an efficient and sustainable taxation mix. Queensland businesses understand that tax reform needs to be affordable and lifting the GST rate or expanding the GST base would provide additional revenue to fund the removal of inefficient taxes.

5.3 Currently, the GST is underutilised as a source of taxation revenue. The GST has a narrow consumption base, with high growth sectors such as food, education and health services excluded. GST exemptions are estimated to cost around $20 billion in foregone GST revenue. Treasury notes that GDP activity covered by the GST at the current time is about 47 percent of overall economic activity. A few years ago it was 56 percent.

5.4 CCIQ believes tax reform must consider increasing the rate or broadening the scope of the GST base by removing exemptions. Both approaches would need to be complemented by assistance measures for low-income households to maintain equity of the tax system.

5.5 Broadening the scope of the GST is preferred as it has two key advantages – it increases the overall efficiency of the tax system and provides a more stable source of tax revenue.

5.6 A broad-based consumption tax like the GST is more efficient than taxes on personal and company income that weaken incentives to work and invest. Broad-based consumption taxes, levied indirectly on goods and services, do not distort such decisions and support efficient allocation of resources in favour of earnings and investment, which leads to higher productivity.

5.7 Greater reliance on the GST also alleviates Australia's vulnerability to declining tax revenue growth. GST revenue in 2015-16 is estimated to represent 15 per cent of Australia's total taxation revenue, whereas personal income taxes are expected to contribute 48 per cent and company taxes 18 per cent. However, personal income tax will decline as a share of total tax revenue in line with Australia's aging population and company tax will be increasingly influenced by the volatility of global markets. Broadening the scope of the GST to capture high growth sectors will help offset these trends and allow the GST to provide a greater share of future tax receipts.

5.8 If consideration of raising or expanding the tax base of the GST is given consideration, then many revenue options present themselves to simplify taxation on business including:

- complete phasing out of payroll tax;
- transfer duty on business transactions being eliminated; and
- remaining business tax thresholds being indexed annually.

5.9 CCIQ notes that the Federal Government's announcement that it will not change the GST unless there is consensus of all the states and territories. CCIQ considers this approach unnecessarily limiting and will result in politicking of this issue when what is really indeed is an informed debate in the community about the trade-offs involved in changing the GST. CCIQ urges the Federal Government to take a leadership role in forging unanimous agreement amongst the states and territories for changing the GST.

Recommendation:
Changing the GST is a top priority for tax reform, with the Federal Government to

- take a leadership role in forging unanimous agreement amongst the states and territories for changing the GST;

- consider lowering the $1,000 threshold for imported goods and services that are currently not subject to GST, provided the cost of collection can be minimised; and
- increasing the rate and/or broadening scope of the GST to achieve a more efficient and sustainable taxation mix.

6.0 State taxes

6.1 There is no question that if Australia was to start afresh in designing its taxation system then State Government taxes such as payroll tax (a tax on employing staff) and the suite of transfer duties on business transactions would not exist.

6.2 CCIQ believes a priority for tax reform is eliminating inefficient state taxes. Increasingly sourcing State revenue from Queensland businesses has eroded our competitive position over recent years both domestically and internationally.

6.3 There is a tendency amongst policymakers to index fees and charges but not tax thresholds. This damaging and distorting practice means that businesses are quickly caught in the 'tax trap' due to the economy's inflationary trends. To counteract this impact CCIQ recommends indexation of all business tax thresholds on 1 July each year.

Payroll tax

6.4 One of the most burdensome taxes upon business is payroll tax and changes to reduce the complexity and burden of payroll taxes are necessary if Queensland businesses are to remain competitive. Payroll tax directly impedes employment and industry growth. Payroll tax represents a substantial disincentive for investments of significance either expanding or relocating. The burden of payroll tax invariably falls upon labour intensive industries such as mining, manufacturing and communications. Payroll tax compliance acts as a direct disincentive to employers expanding their workforce above the payroll tax threshold. It moves resources away from business investment and expansion.

6.5 Payroll tax represents almost one-third of total State taxation revenue and the Queensland Government is increasingly relying on payroll tax to fund services. Despite the contribution of payroll tax to State Government tax receipts, the negative effects of this regressive tax and its adverse impact on international competitiveness clearly places it at the head of any taxation reform strategy. The tax reform agenda must have as a long-term goal, the complete phasing out payroll tax.

6.6 Recognising that a complete phase-out is dependent upon longer-term tax reform and is unrealistic in the short-term, there should be instant payroll tax relief for small businesses through raising the threshold. CCIQ recommends lifting the payroll tax threshold form $1.1 million to $1.6 million to provide tax relief for small businesses and enable improved employment outcomes.

6.7 Lifting the payroll tax threshold addresses two flaws with this tax. Firstly, many small businesses are presently structuring their workforces to sit just under the threshold. By lifting the threshold we are allowing those small businesses to grow their workforces.

6.8 Secondly, because of wages creep many small businesses are inadvertently growing into having to pay a tax on giving their existing employees a job. There is a clear case for a major upgrade of the threshold given bracket creep which has occurred through wage and wage 'on cost' increases all of which has whittled away considerably at the value of the threshold.

6.9 The payroll tax threshold should be indexed to annual wages growth. Adjustments should also be made if there are legislative changes to other components of payroll tax, such as the superannuation guarantee levy. Further, consideration should be given to exempting broader business training expenditure, in addition to exemptions for wages of apprentices and trainees, from payroll tax. This arrangement would support workforce skills development.

Recommendation:
Completely phasing out payroll tax must be a long-term goal of tax reform. In the short-to-medium term, the Queensland Government must progressively lift the payroll tax exemption threshold and commit to annual indexation to ensure small businesses continue to benefit from not paying payroll tax until the full benefits of tax reform can be realised.

Duties

6.10 Duties on insurance, transfer of property and other business assets, vehicle registration and mortgages affect the competitiveness of Queensland businesses. Stamp duties have increased as a proportion of total State taxation revenue, rising from 23 per cent in 2004-05 to an estimated 33 per cent in 2014-15.

6.11 Stamp duty on the GST inclusive amount of fees and charges is a tax on a tax and is a significant design flaw of the current taxation system. CCIQ recommends the removal of stamp duty on the GST inclusive amount of fees and charges, as the first step towards phasing out duties on business transactions.

6.12 Stamp duty on property transfers fluctuate with increases and decreases in property prices, which can have a substantial impact on State Government revenue. Stamp duty on property also has a negative impact on labour mobility by creating a disincentive for people to move to take up new job opportunities.

6.13 CCIQ highlights that insurance premiums continue to be a hindrance to business operating circumstances and accordingly recommends a reduction in stamp duty on insurance for businesses. Taxes on insurance in Queensland are inequitable and are actively discouraging companies from adequately protecting their assets with appropriate insurance. CCIQ urges the State Government to further adjust duty rates to at a minimum ensure that taxation receipts remain neutral to increasing insurance premiums. CCIQ believes it is time for the State Government to reconsider the burden placed on businesses through insurance taxes.

Recommendation
Duty on GST inclusive amounts should be immediately removed and all duties on business assets should be reviewed in detail with the aim of eliminating those that are detrimental to the competitiveness of businesses.

Land taxes

6.14 Land tax receipts are estimated to contribute a modest 8 per cent of total Queensland Government taxation revenue in 2014-15. CCIQ supports making better use of land tax as it is more efficient and stable source of revenue for government and does not distort decisions about investment. However, any reform of land tax arrangements must consider small business capacity to pay and must be done in parallel with removal of inefficient stamp duty on property transfers.

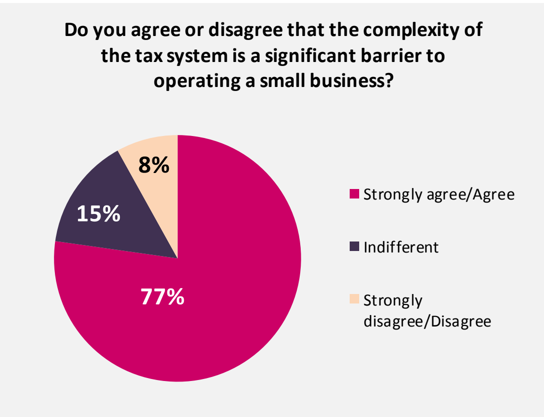
6.15 The rise in the market value of properties has forced land values up and increased the amount of land tax levied on the business community. Rising land tax costs have put enormous pressure on small businesses as the unrealised gain in the value of property has not been met by an increase in revenue or profitability. To better reflect small business capacity to pay, CCIQ believes there should be long-term transitional arrangements to a low rate and broad-based land tax regime.

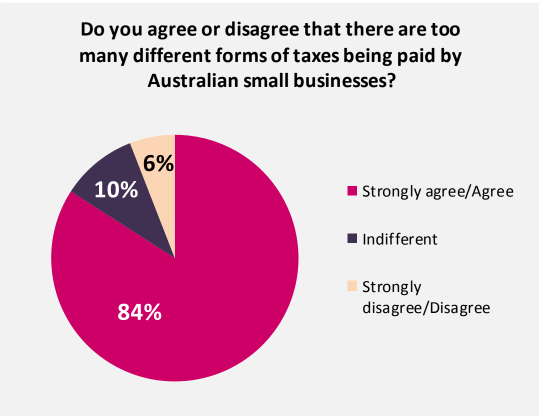
Recommendation
There should be a gradual shift to making better use of a broad-based land tax while committing to a corresponding phase-out of duties on property.

7.0 Small business interests

7.1 The current tax system does not adequately cater for small business interests. The majority of Queensland businesses (84 per cent) believe there are too many forms of tax being paid by small business and most (77 per cent) consider the tax system a significant barrier to operating a small business. The tax reform process should consider small business company arrangements that could address this complexity.

7.2 The choice of business structure should be a commercial decision not just a tax minimisation strategy, which tends to result in unnecessarily complex structures. CCIQ notes the suggestion of S-Corporation but questions whether the benefit of such arrangement would outweigh the additional administrative burden it introduces. CCIQ suggests that the tax reform process consider small business company arrangements that could provide further benefits in the future.

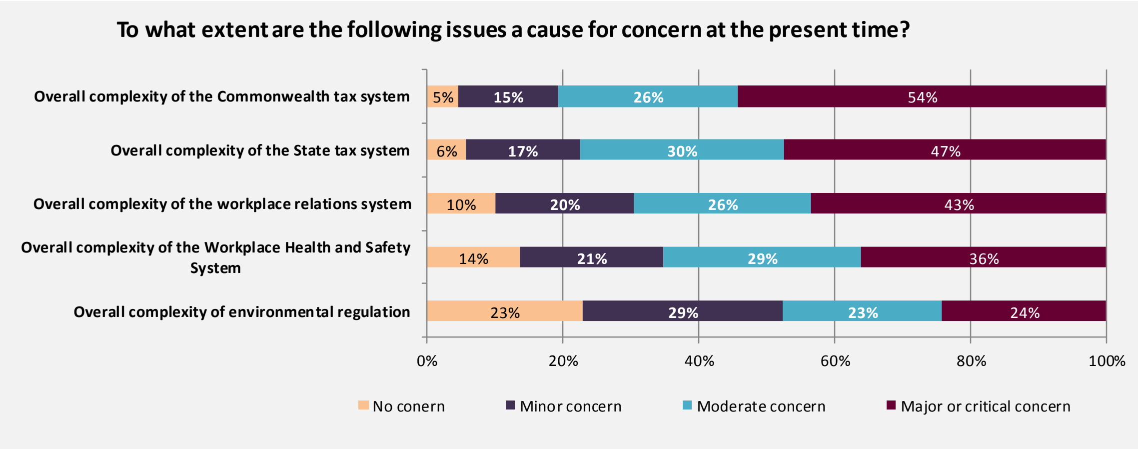




CCIQ ReachTEL Survey on Taxation, May 2015

7.3 Tax simplification must be a key priority for the tax reform process to help reduce business tax compliance costs and redirect resources to more productive business activities. Valuable time and resources is currently being spent on tax compliance and these costs are proportionally greater for small businesses. CCIQ notes in the discussion paper that compliance with the tax systems costs Australian taxpayers around $40 billion each year.

7.4 Tax compliance costs relate to the time spent by businesses recording information needed for tax as well as spending on external tax services for calculating and paying tax. These costs tend to increase with the number and types of business taxes, the complexity of tax rules and the levels of government involved. Not surprisingly, recent feedback from Queensland businesses highlights that the red tape associated with taxation is the most prominent area of concern.



CCIQ State Election Survey, January 2015

7.5 Simplification measures should target areas such as eligibility rules for small business tax concessions, information requirements for invoicing, record keeping and business activity statements, tax scales and indexing thresholds to address bracket creep, and small business administration of employee superannuation. The ATO's small business clearing house for superannuation and use of standard business reporting are examples of red tape reduction initiatives that have real benefit for small businesses.

7.6 CCIQ believes the Simplified Tax System should be retained as it provides benefits to small business with options to use cash accounting instead of accrual, simplified depreciation rules and simplified tax treatment of trading stock. To further leverage these benefits, CCIQ believes the eligibility criteria should be expanded to include small businesses with a turnover of under $5 million.

7.7 CCIQ urges the Tax White Paper give consideration to all recommendations from the Board of Taxation report, *Tax Impediments Facing Small Business*, which identifies practical reforms that can help ease the burden of tax compliance for small business. This includes considering whether small business could complete a combined Income Tax Return and Annual Business Activity Statement based on the same data.

7.8 Simplification of fringe benefit tax (FBT) arrangements is also a priority. While the vast majority of small businesses do not pay FBT, they must still spend considerable time demonstrating compliance with very complex fringe benefit rules. CCIQ considers there is merit in exploring the feasibility of a FBT exemption for small business as part of longer term tax reform.

7.9 Taxation simplification whilst not significantly impacting on revenues has the potential to deliver enormous benefits to the business community, which in turn will lead to high levels of economic growth and higher living standards.

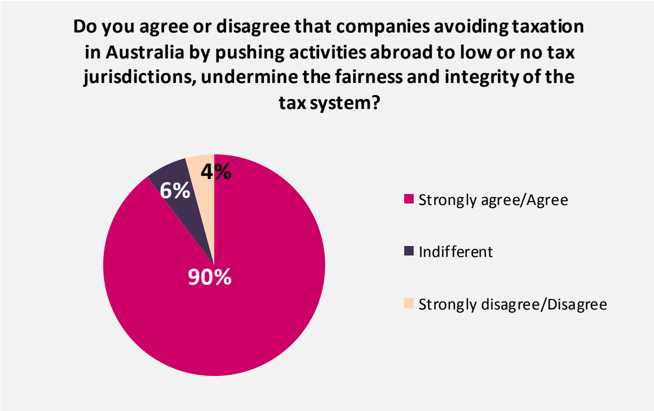
Recommendations:

Ensure the tax system adequately caters for small business needs by:

- Maintaining the Simplified Tax System for small businesses and extending the criteria to small businesses with turnover of under $5 million;
- Implementing recommendations from the Board of Taxation report to address impediments facing small business; and
- Exploring other small business company arrangements that could provide further benefits to this sector without introducing more complexity.

8.0 Tax avoidance

8.1 Queensland businesses are overwhelmingly in agreement that more needs to be done to address multinational companies from moving profits overseas to avoid paying taxes. CCIQ's recent survey on taxation matters shows 90 per cent Queensland businesses agree or strongly agree that tax avoidance undermines the fairness and integrity of the tax system.



CCIQ ReachTEL Survey on Taxation, May 2015

8.2 CCIQ considers that a lower corporate tax rate would reduce the incentive for multinational corporations to shift profits overseas. The Federal Government's proposed new anti-avoidance rules are also a step in the right direction, but need to apply equally to both foreign and domestically owned multinational and must consider the costs of collection. Multinational corporations have the depth of resources to develop anti-avoidance structures that would make it increasingly challenging for the ATO to substantiate a case.

8.3 CCIQ believes multinational companies that are able to structure their operations to avoid the full scope of taxes have an unfair advantage, particularly over small and medium businesses that only operate locally and do not have financial capacity to implement such intricate tax planning arrangements. This situation undermines the integrity of our tax system and prevents local businesses from competing on a level playing field.

8.4 Further, CCIQ suggests the Federal Government consider outcomes of the review of the OECD guidelines on countering Base Erosion and Profit Shifting, which has the potential to deliver a more comprehensive solution. A key priority for the Federal Government in adopting any new anti-avoidance measures will be ensuring it does not introduce unnecessary regulatory burden into the tax system and still maintains Australia's reputation as a favourable place to do business.

Recommendations:
Pursue targeted anti-avoidance measures that apply to both domestic and foreign multinational corporations. Consider outcomes the OECD's Base Erosion and Profit Shifting review and adopt those guidelines if practical.

9.0 Process going forward

9.1 Tax uncertainty can lead to business underperformance. It is therefore vital that the tax reform process engages with all sectors of the community and outlines a compelling case for change. The Federal Government must take a leadership role to outline the interconnectedness between tax reform and numerous other reforms, including the federation white paper, financial system inquiry, competition review and workplace relations review. Queensland businesses can then operate with some degree of confidence that the transition to a new tax system under the Federal Government's tax white paper will be effectively communicated and implemented.

9.2 The process of consultation must also give a clear sense of which areas of tax reform are of higher priority so the community can have an informed debate on those big-ticket matters. The priority for the Queensland business community is for the reform process to consider the taxation system holistically, with a focus on addressing the complexity of the system and reducing the reliance on income taxes in favour of consumption taxes like the GST, which will enable removal of inefficient State taxes.

9.3 The Federal Government must conduct thorough consultation with all sectors of the community to:

- establish genuine consensus on the need for change to our tax system to lift productivity growth;
- give business some degree of confidence that the process will be effectively communicated and implemented;
- accurately understand the trade-offs between introducing new sources of tax revenue and introducing further complexity into the tax system; and
- identify the transfers needed to maintain fairness and integrity of the system.

9.4 Above all else, the Queensland business community urges the Federal Government to implement the recommendations of this tax review.

Recommendation:
Implement the recommendations of this tax review.