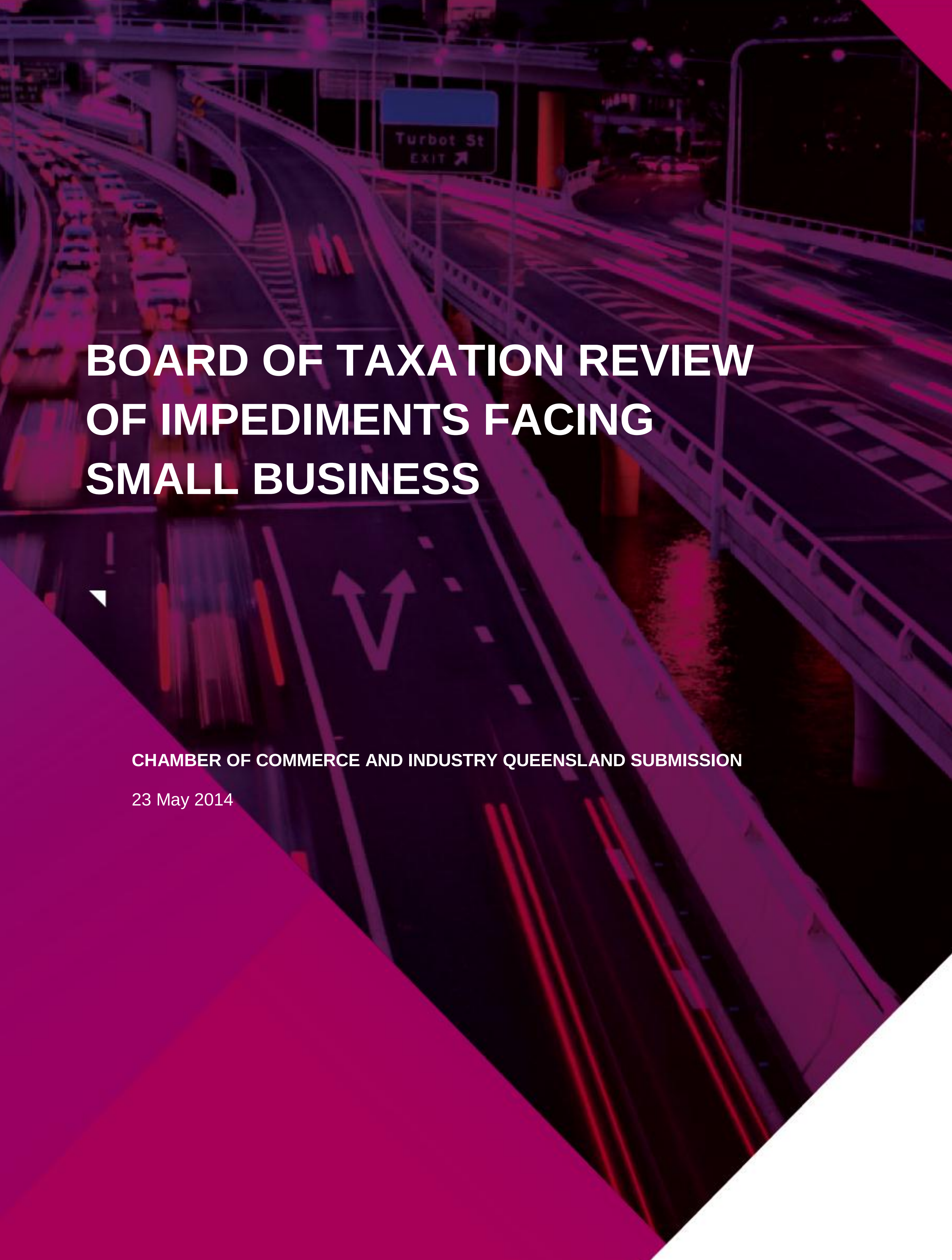


BOARD OF TAXATION REVIEW OF IMPEDIMENTS FACING SMALL BUSINESS

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

23 May 2014

Chamber of Commerce & Industry Queensland

Overview

The Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide a submission to the Board of Taxation review of impediments facing small business.

Queensland's economy has become more dynamic, efficient and productive over recent decades. However, the tax system has not moved at the same pace. As a result, Commonwealth and State taxes are now considered by Queensland small businesses to be a brake on the State economy achieving its full potential and being as internationally competitive as it can be.

Taxes imposed on business need to reflect the economic imperative of Australia remaining internationally competitive, should not inhibit job growth and should encourage investment.
As with all government economic and regulatory programs, Australia's competitiveness should be enhanced by the tax system not disadvantaged.

At present, Australia's finances are in a difficult position. We have a significant level of debt, a precarious AAA credit rating, an embedded structural deficit and unwillingness on behalf of the general public to consider the sale of many of the state and national assets. At the same time, there is expectation of continued investment in public services.

CCIQ sees a great opportunity for the Queensland State Government and Federal Coalition to commit to a tax system that better suits our State's modern and evolving economy. Queensland small businesses have highlighted a number of key tax concerns creating costly burdens on the everyday running of their operations.

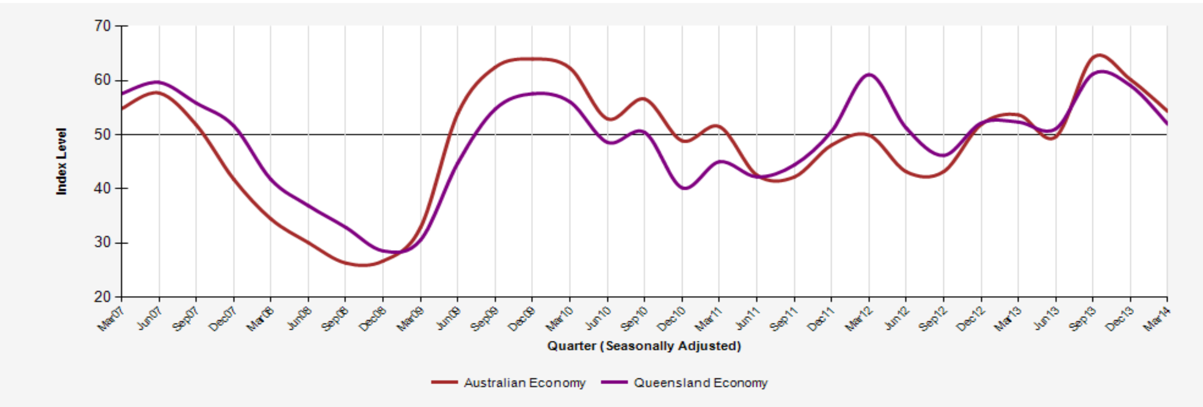
This submission recommends options for improvement where impediments are identified in the current tax system for small business. These strategies will focus on State and Commonwealth taxation that will reinforce Queensland's competitive position and promote ongoing economic growth. These recommendations will aim to create the optimal environment for small business success, laying the foundations for a strong economy and a thriving Queensland community.

1. Queensland Economic Climate

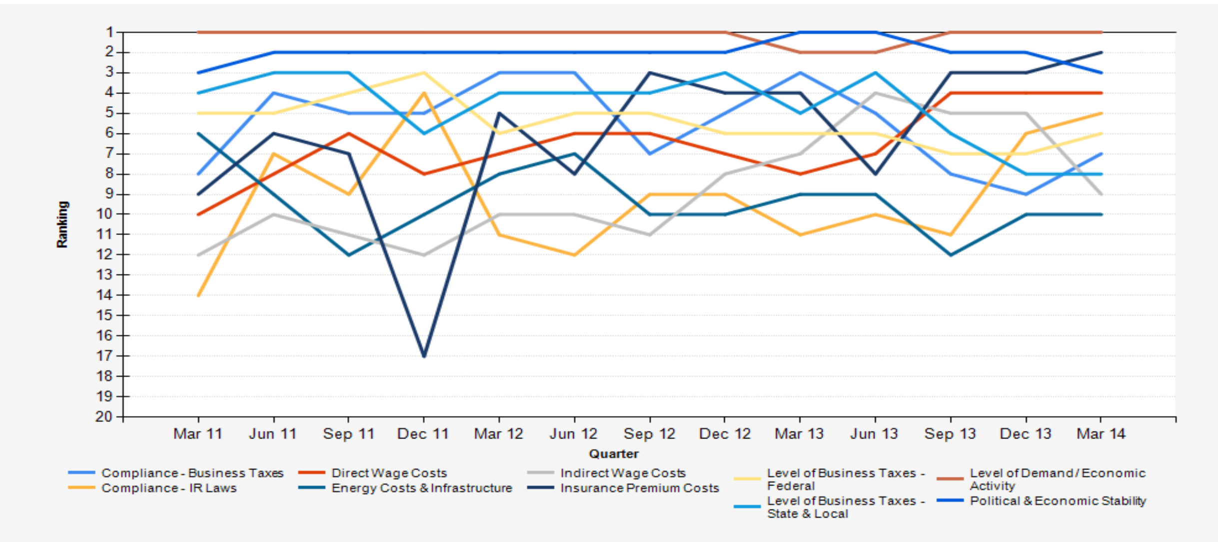
In the wake of the handing down of the Federal Coalition's first budget, it is evident that Queensland's economic environment has a difficult road ahead. CCIQ's March quarter pulse survey revealed a number of factors affecting the 12 month outlook for businesses.

The March Quarter Pulse Survey of Business Conditions has identified a downturn to the strong business sentiment recorded over the last six months. Although remaining in positive territory, substantial falls in business confidence in both the Queensland and National economies have been experienced over the three months to March 2014. These results are unfortunately further reflected across all key business indicators with falls recorded in general business conditions, sales and revenue, profitability, employment and capital expenditure. Diminished consumer and business confidence, government deficit and debt discussions and rising business costs have been identified as key contributing factors influencing results. The outlook remains similar for the coming June quarter 2014.

12 Month Outlook: Australian and Queensland Economies



Major Constraints on Business Growth



2. Australia's Tax System

Now 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.

Australia must respond to today's challenges in a concerted and decisive manner. The Australian Government must lay the foundations today if our country is to ensure that it continues to enjoy strong economic growth and prosperity well into the future. Quite simply there is no substitute for good forward planning and timely action.

CCIQ's overarching policy objective is to achieve fundamental reform of Australia's taxation system consistent with the following objectives and criteria for a competitive tax system:

- **Equity** – fairness in the distribution of resources between high and low income earners as well as similar tax burdens for taxpayers with similar means;
- **Economic efficiency** – taxation impacting neutrally on taxpayer groups and economic sectors with commercial decisions not skewed by tax considerations;
- **Adequacy** – tax systems raising sufficient revenue for public expenditure needs;
- **Simplicity** – taxpayers being able to clearly understand their obligations;
- **Transparency** – taxpayers understanding how and when they are paying tax, and how much tax they are paying;
- **Cost** – compliance and collection costs minimised; and
- **Anti avoidance** – minimum incentive and potential for avoidance of taxation

In adopting these principles and objectives, CCIQ recognises that comprehensive taxation reform will necessarily impact on and require the commitment of the Commonwealth and all the State and Territories. CCIQ will work with all levels of government in an endeavour to achieve comprehensive tax reform which encompasses the above critical elements.

3. Argument for Business Tax Reform

CCIQ recognises the vital role that Government plays in building and sustaining the Australian economy.

The main reasons for further reform of Australia's tax system include the following:

- Improving the efficiency and international competitiveness of the Australian economy
- Continuing Australia's strong growth and productivity results

- Ensuring Australia can meet long-term challenges, particularly demographic changes, in the most cost effective way
- Promoting innovation, risk taking and entrepreneurship
- Encouraging investment in human capital, for example through education and training
- Achieving appropriate retirement incomes for Australians

More specifically CCIQ believes the following are key arguments for tax reform:

3.1 Improving the competitiveness of the Queensland and National economies: Every region in Australia is in competition with each other to some extent in the area of investment attraction through competitive taxation regimes. Businesses see the responsibility of government as creating an environment which is conducive to economic growth. Queensland businesses operate in a global environment. Greater priority must be given to examining and bringing down the cost of doing business in Queensland and Australia. Creating a strong business operating environment that allows local businesses to compete globally is pivotal to the economic well-being of Queensland.

3.2 Suring up future tax receipts: Positive action by Government to improve the business environment will ultimately result in increased taxation receipts stimulated through greater business activity. Carefully crafted business tax reductions ultimately do not reduce Government income as they generate significant improvement in economic activity further stimulating tax receipts. CCIQ has consistently stated that positive action by the Government to improve the business environment will ultimately safe guard its taxation receipts. There can be no doubt that the best way to enhance Government revenue is to generate private sector economic activity.

3.3 Meeting Social Policy Objectives: A key consideration when setting taxes is the tension between taxation acting as an impediment to business growth and taxation providing a revenue stream to deliver social and transfer benefits to the broader community. CCIQ believes tax reform can assist in meeting the Government's social goals by providing higher employment levels, resulting in improved community wealth and great social inclusion through increased participation in society. It will also result in greater economic development which will allow the Government to provide increased funding to social and environmental areas. The single greatest contribution a business can make to enhancing Australia's social wellbeing is quite simply providing a job and in turn a livelihood.

3.4 Aging Population: The inherent ageing of Australia's population means that the proportion of retirees will continue to increase substantially and the demand for taxation, health care and aged care will also increase as well as having significant implication for the working age population. By 2047, Australia's population is projected to be 28.5 million. A quarter of the population is projected to be aged 65 and over, nearly double the current proportion. Currently there are 5 people of working age to support every person aged 65 and over, but by 2047 there will only be 2.4. The tax base will come under greater pressure as Australia's age dependency ratio (the ratio of those of working age to those not of working age) declines. Consequently, the sustainability of the current system of tax and superannuation is in serious question.

4. Key tax compliance concerns

4.1 Payroll Tax

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. Contrary to popular belief, payroll tax is a small business issue. Payroll tax directly impedes employment and small business growth. Payroll tax acts as a direct disincentive to employers expanding their workforce above the payroll tax exemption threshold. It moves resources away from business investment and expansion.

CCIQ recognises the relative importance of payroll tax to Queensland State Government receipts but believes that the negative effects of this regressive taxation and its adverse impact on competitiveness clearly places it at the head of any taxation reform strategy. Accordingly CCIQ recommends a long term view of completely phasing out payroll tax through progressively lifting the exemption threshold.

In the interim period of phasing out payroll tax there is a clear case for indexing the threshold given bracket creep. 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.

Recommendations:

- *Remove the diminishing exemption threshold and replace it with a flat exemption threshold set at least at $2 million and then indexed to annual wages growth.*
- *Commit to completely phasing out payroll tax from the Queensland tax stable through progressively lifting the exemption threshold.*

4.2 Stamp Duties

Removing duties on insurance, transfer of property and other business assets, vehicle registration are of critical importance to Queensland small businesses.

The Queensland Government under the terms of the 1999 Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations committed itself to review the need for inefficient stamp duties, including those applied to non-residential conveyances, leases, credit and rental arrangements, and unquoted marketable securities. CCIQ acknowledges that the State Government has removed some duties, in accordance with the Intergovernmental Agreement. Taxes and duties that remain in place must now be reviewed in detail with the aim of eliminating those that are detrimental to the competitiveness of small businesses in Queensland.
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.

The State Government's decision to increase the stamp duty on insurance from 7.5 per cent to 9 per cent has also contributed to the rising cost of insurance premiums. Taxes on insurance in Queensland are inequitable and are actively discouraging companies from adequately protecting their assets with appropriate insurance. At a time when businesses are feeling the added pressure from the recent insurance premium rises, the added burden of insurance taxes need to be reconsidered.

Recommendations:

- *Stamp duty taxes such as those on insurance in Queensland are inequitable and are actively discouraging small businesses from adequately protecting their assets with appropriate insurance. CCIQ believes it is time for the State Government to reconsider the burden placed on businesses through insurance taxes. CCIQ recommend that these taxes be removed or reduced.*
- *Stamp duties should be reviewed in detail with the aim of eliminating those that are detrimental to the competitiveness of small businesses in Queensland.*

4.3 Land Tax

The issue of land tax is increasingly important to businesses, particularly in light of significant rises in property prices. 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 profit margins or revenue. As a result of the land tax regime, industry is increasingly being penalised for operating their businesses. Land tax in Queensland is becoming an increasing burden on both the business community and investors.

Recommendations:

- *The Government should commit to maintaining the value of the land tax threshold.*

4.4 Carbon Pricing Mechanism

CCIQ advocated strongly against the introduction of the carbon pricing mechanism and are pleased to see the Abbott Government's commitment to removing it. While the Queensland business community acknowledges that it has a social responsibility to minimise the impact that its activities have on the environment, overwhelmingly, the majority of Queensland small businesses do not support the operation of the tax, especially in the absence of international agreement and unilateral action to address climate change.

In December 2013 the Queensland Competition Authority (QCA) released its draft price determinations on electricity prices, recommending increases of between 10 and 15 per cent for businesses if the carbon tax stays and 5 per cent if it is abolished. Additionally, in its first year the carbon tax also added around $1.20 per gigajoule to the cost of using gas. This increase in simply unsustainable for businesses to manage and the government must act in repealing the tax.

Recent reports have highlighted the minimal decline in carbon emissions despite the carbon tax raising billions of dollars of revenue.

Price increases for business customers from 1 July 2014

Retail tariff	**Increase for customers with carbon tax** (%)	**Increase for customers without carbon tax** (%)
Tariff 20 (flat rate)	13.3%	5.3%
Tariff 22 (time of use)	13.0%	2.7%
Tariff 44	14.6%	3.4%
Tariff 45	11.4%	-0.8%
Tariff 46	9.8%	-4.1%

Source: QCA Fact Sheet Draft Decision: Business electricity prices from 1 July 2014

4.5 Minerals Resource Rent Tax

CCIQ's position on the Minerals Resource Rent Tax (MRRT) relates to the negative impact that it is having on the resources sector and in turn on broader Queensland small business confidence and investment decisions. CCIQ is pleased to see the Abbott Government's commitment to removing it. Queensland's mining industry provides the basis for many value-adding industries that underpins much of the State's prosperity.

However CCIQ does not support the proposed amendments to the *Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Act 2011* schedules 3 and 4 which remove benefits to small business through:

- **Schedule 3** effects changes to the capital allowances for small business. In consequence, small business entities will be able to claim a deduction for the value of a depreciating asset only if it costs less than $1,000 (previously $6,500) in the income year the asset is first used or installed ready for use.
- **Schedule 4** effects changes to the special rules that currently apply to motor vehicles, so that they are subject to the same rules as other depreciating assets. A small business entity can at present deduct the first $5,000 of the cost of a motor vehicle in the income year that it is first used or installed ready for use. This concessionary treatment will be withdrawn.

Schedules 3 and 4 of the *Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Act 2011* introduced the increase to the small business instant write-off threshold and small business entities' accelerated deductions for motor vehicles. For tax purposes, small business means 'small business entity', which is an individual, partnership, trust or company with aggregated turnover of less than $2 million.

The higher instant asset write-off threshold was first announced by the previous Government as part of its response to the Henry Tax Review in May 2010. The increase in the threshold from $5000 to $6500 was announced as part of the Clean Energy package in July 2011. The modifications to motor vehicle depreciation arrangements were announced on 8 May 2011.

CCIQ continues to support these measures and **Schedules 3** and **4** should remain a permanent feature of the tax system.

4.6 GST

CCIQ has always recognised the realities of Federal and State Government's limited finances and the means to address these recommendations have not always been in place. Business recognises that tax reform needs to be affordable and raising the GST rate or expanding the GST tax base introduces this opportunity. Funding tax reform by increasing the rate of the GST is a realistic and necessary objective as is broadening the base of the GST by removing exemptions. For example the three major GST exemptions: food, health and education, in total summed to almost $10bn. Removing these exemptions and or lifting the tax rate would enhance efficiency, reduce compliance costs and at the same time provide additional revenue to fund the removal of inefficient taxes.

Australia must increase its reliance on more efficient broad-based taxes. Both broadening of the GST tax base and an increase in the rate should be considered in the years ahead. With these recommendations actioned many of the specific tax reforms for small business including abolishing payroll tax, a lower personal and company tax rate, duty on business transactions, indexing thresholds and tax simplification will follow.

5. Family Business Issues

In March 2013 the Parliamentary Joint Committee on Corporations and Financial Services conducted an inquiry into Family Businesses in Australia and addressed their unique challenges. Concerns were notably raised with regards to capital gains tax (CGT) requirements, particularly during the succession process of a business. Family business owners and advisors identified that CGT can undermine the prospects of a successful succession process, as CGT rules are 'restrictive and impact on their ability to structure and continue to operate into the future'.

Family trusts were presented as a legitimate means to avoid the financial implications of CGT and, thereby, reduce the financial impact of a succession event. However, it was further noted that due to changes to the *Income Tax Assessment Act 1997*, family trusts could no longer operate to protect businesses from incurring CGT when transferring business ownership to the next generation.

Succession of a business is a necessary transition of family firms to the next generation via management buyout or sale. It is critical for the next generation to take control and truly feel ownership of the business, benefitting employees and allowing the business to flourish and grow. By not completely transferring ownership to the next generation as a means of avoiding CGT obligations, family businesses struggle to maintain effective operations. CCIQ recommends that the Board of Taxation consider what measures can be taken to support family businesses, and by extension the Australian economy, while giving due regard to appropriate taxation obligations.

6. Red Tape

The small business community does not object to paying tax. However, they do object to a taxation system that is hard to understand, difficult to navigate and at its core deeply inefficient and fails to deliver for State and Federal finances. There has been a lack of follow through and commitment to modernize Australia's tax system, resulting in a situation that leaves small business bearing the brunt of an inefficient tax regime that drowns them in red tape.

Tax reform will invariably deliver substantive reductions in the cumulative burden and cost of red tape for small business through the streamlining and simplification of regulatory compliance including through the following initiatives:

- Small businesses need to be supported through timely and targeted information on their tax compliance obligations and any changes to existing regulation (including reductions and/or repealed requirements as the tax reform agenda progresses)
- Reviewing existing online resources and publications. This improves the language used by Government to communicate with small and medium businesses to increase understanding and reduce the complex nature of the tax system.
- Develop tools to aid small businesses in their tax compliance obligations. For example, the use of online tools to track compliance requirements as well as reporting tools.
- Provision of training and accreditation services to allow business owners to complete their own audits and/or compliance management to reduce the cost of external consultants.

7. Conclusion

CCIQ recognises that tax compliance costs have a proportionately greater impact on small businesses than on larger businesses and the burden has continued to increase over time. Reducing small businesses compliance costs is vital to the Australian economy, with the small business sector being a key contributor to growth and employment. Unfortunately National Tax Reform stalled following the Ken Henry Review. We have observed a lack of follow through and commitment to modernise Australia's tax system and a proper structural review across the taxation system is long overdue and a necessary step for the Australian economy to continue growing. The objectives of tax reform should be to reduce the overall burden of tax, eliminate economically damaging taxes, provide the states with financial sovereignty and generate greater incentives for business to grow and employ. CCIQ aims to work with both the State and Federal Government's to address streamlining and rationalising the impost unnecessary taxes has on the viability of the small business community.