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STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

Australian Chamber of Commerce and Industry (ACCI)

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

1.1. The objectives of Australia's future tax reform should be to reduce over time Australia's overall tax burden to the extent that it is sufficient to deliver effective public and social programs, eliminate economically damaging taxes, and generate greater incentives for workforce participation (including contracting and small business entrepreneurship), productivity, investment, research and development and improve Australia's international competitiveness.

1.2. While ACCI welcomes the proposed reduction in the company tax rate, it is considered necessary to further reduce the current high rates of personal income tax to better align with the company tax rate.

Personal income tax is much more than the often perceived tax on wages and salaries. Personal income includes individual income from saving and investment (interest, dividend, rent, capital gains) and from unincorporated businesses. Therefore, personal income tax is also a tax on capital. Given capital is more mobile than labour, saving, investment and entrepreneurial activity are more responsive to the level of tax than labour supply which reinforce the case for lower marginal rates. Moreover since a significant proportion of businesses are not incorporated a reduction in company tax has value, but the encouragement of further business investment and promotion of productivity requires a broader reform agenda.

1.3. The Government should allow depreciating assets costing less than $10,000 to be immediately written-off for small businesses as suggested in the Henry Review to simplify and streamline existing capital depreciation arrangements which will provide more certainty and cash flow benefits to Australian businesses.

ACCI also welcomes the Henry Review's consideration to increase the small business entity turnover threshold from the current $2 million to $5 million. In order to ensure that the real values of the immediate assets write-off and the $5 million small business entity turnover threshold do not erode over time due to inflation, ACCI considers that their values should be automatically indexed over time. A wider review of depreciation arrangement applying to businesses also needs to occur.

1.4. The Government should allow businesses to carry back a revenue loss to offset it against the prior years' taxable income. This mechanism can act as an automatic stabiliser during an economic downturn and provide much needed cash flow relief to businesses. The current taxation system treats gains and losses asymmetrically, where gains are taxed as they accrue, while losses are not refunded but can be carried forward and used against future income, subject to continuity of ownership test and the same business test.

1.5. The Government should retain the four current small business capital gains tax concessions, i.e. the small business 15-year exemption, small business active business assets reduction, small business retirement exemption and small business rollover concessions. Increase in CGT burden especially on small business will have a negative impact on small business investment, diminish incentives for entrepreneurship and job creation and detract the amount of capital which may be used to invest in other productive assets generating much higher returns. Thus, further examination also needs to consider how to reduce the impost of CGT and its detrimental impact on investment and risk taking activity. This includes the adoption of a stepped rate CGT arrangement with diminishing tax payable the longer an asset is held by a taxpayer.

1.6. GST reform, either broadening the base or increasing the rate, should be canvassed in the Government's tax reform agenda. However, it is important to ensure that any increases in the GST rate or broadening of base are not used to increase government revenue to fund higher government spending. Instead greater reliance on consumption-based taxes should be used to deliver further significant reductions in personal income taxes and to allow the abolition of inefficient state taxes, such as payroll tax and stamp duties.

1.7. ACCI notes that payroll tax negatively affects employer's decisions to expand business operation and increase wages and employment. Thus, payroll tax is not only one of the most punitive taxes on businesses, but also one of the most regressive taxes on workers, as workers bear the final incidence of payroll tax. The Henry Review found that payroll tax is the third most inefficient Australian taxes after royalties and crude oil excise and insurance taxes, which causes around 40 cents of welfare loss for each dollar of additional revenue raised.

1.8. The Government should not proceed with its intention to increase the compulsory employer funded superannuation guarantee levy from 9% to 12%. Instead, the Government should consider the alternative approaches recommended by the Henry Tax Review, which specifically recommended against a mandatory rise in the superannuation guarantee levy. If the Government were to proceed, it should at a minimum provide a compensating funding base for industry through, in part, tax reform.

1.9. The Government should reduce the complexity of tax legislation, streamline tax administration and minimise compliance burden of taxpayers, particularly by better measurement of the regulatory costs of all tax measures (legislative and non-legislative).

Excessive levels of complexity in the taxation system impede the ability of taxpayers to make optimal decisions. More importantly, complexity tends to have the greatest impact on those with the least capacity to deal with it. It is widely acknowledged that compliance costs have a proportionately greater burden on small businesses than on larger businesses and these costs have been increasing over time. The 2009 PricewaterhouseCoopers (PWC) report on *Small Medium Enterprises Total Tax Contribution Report* commissioned by the Department of Treasury found that the average *Compliance Tax Rate Equivalent,* which measures the percentage of profit that is consumed by tax compliance costs, was 12.9 per cent for SMEs compared with 3.8 per cent for large business sample. Resources devoted to comply with the complex taxation system could be channelled to more productive activities.

2. How are your proposals financed over the short and longer term?

ACCI argues that a meaningful tax reform can only be achieved through an independent and comprehensive review on government spending, which aims to identify wastage and inefficiency in the public sector, both Commonwealth and States and Territories governments.

LIST OF ATTACHMENTS

ACCI 2011, *ACCI Service Industries Blueprint – Services: The New Economic Paradigm,* p.23-32. http://www.acci.asn.au/getattachment/488771e1-a93f-4e29-a825-9a56f372ab05/Services-The-New-Economic-Paradigm-ACCI-s-Service-.aspx