CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

19 January 2017

The Hon Scott Morrison MP
Treasurer
House of Representatives
Parliament House
Canberra ACT 2600

Treasury website online submission

Dear Treasurer

2017-18 Pre Budget submission

Chartered Accountants Australia and New Zealand (**Chartered Accountants**) welcomes the opportunity to respond to the invitation from the Minister for Small Business, the Hon Michael McCormack MP, to make submissions to the 2017-18 Budget.

Guiding principles for the 2017-18 Budget

Australia is in a period of transition.

As a nation we are facing a number of challenges (economic, geo-political, technological and environmental) and a variety of possible futures. It is difficult to predict what will unfold and what jobs will be in demand. Our limited resources need to be carefully allocated (through both actual expenditure and tax concessions) to ensure that they have the most impact.

Australians pride themselves on a sense of fairness and being egalitarian. It is important, both socially and economically, that the vulnerable in our society are assisted. Various OECD studies have shown that Australia has a relatively well targeted assistance programme: we rely on income testing more than any other OECD country, we have the most progressive benefit system in the OECD, and one of the lowest levels of churn.

Rather than just focusing on reducing welfare fraud and increasing efficiency dividends, the Government must continue to focus on investing in Australia. Targeted infrastructure spending (especially on information technology), the provision of appropriate education, child care and digital access to all raises the possibility of reaping the double dividend of growth and equity. From a tax perspective, this means ensuring that the tax system does not distort investment decisions and that it operates as seamlessly as possible by reducing complexity.

From a superannuation perspective this means ensuring that Australians have sustainable retirement incomes policies that allow them to invest and plan for their future with confidence and certainty.

From a governance perspective, it requires better budgetary analysis, clear communication with the Australian people of the challenges ahead, and decision making based on long-term, nation-building goals.

Sustainability of the tax base

Australia's tax system needs to become sustainable.

The most recent MYEFO has shown how Australia's over reliance on mining has resulted in an inability to predict, let alone control, the budget[1]. Australia needs to diversify its economic base and ensure that it is extracting appropriate compensation from sectors that have the ability to earn abnormal profits due to location specific rents.

To ensure Australia's long-term fiscal stability there is a need to increase the rate and base of the GST and explore scope for environmental taxes. To encourage risk-taking and personal endeavour, we need to reduce relatively high personal and corporate tax rates. Until this is done Australia will struggle to fund the expected increases in expenditure that are largely driven by an aging population[2].

Despite the political uncertainties associated with passing legislation through the current Senate, we urge the government to develop, announce and stick to a plan for what a sustainable tax base looks like. To focus on piecemeal changes to the tax system risks portraying the government as populist and devoid of a big picture, long-term strategy.

Tax efficiency and equity

In a period of transition it is vital that the tax system does not distort investment decisions and that it has a low compliance footprint from the perspective of both administrators and citizens. It also has to be equitable.

Work is already underway to enforce new tax integrity measures targeted at big business.

On 14 December 2016, the Government announced that it was establishing the Black Economy Taskforce and is expecting to receive an interim report in March 2017 and a final report in October 2017. Ensuring that all pay the appropriate amount of tax is integral to both the equity and efficiency of the tax system. It also helps ensure that there is a level playing field between businesses. The ATO has identified the cash economy as a major tax integrity risk, and is investigating the extent to which it has become systemic. Chartered Accountants supports this initiative.

The discrepancy in the tax treatment between individuals who derive capital gains (particularly pre-CGT gains) and those who derive ordinary income is significant. It is worth reconsidering the policy rationale for a number of CGT measures, in particular the treatment of pre CGT assets, the size of the CGT discount and the breadth of the principal place of residence exemption. Greater alignment of the treatment of capital gains and ordinary income could improve both equity and simplicity.

A substantial amount of tax planning can also occur due to the significant differential in tax rates between entities. The top personal tax rate is currently 49% (45% plus 2% Medicare levy plus 2% budget repair levy)[3], and the company tax rate is 30% or 28.5% depending on whether the company is a small business entity. The large rate differential encourages tax planning, which then adds complexity to the tax legislation. It is recognised that at this point in time, it is difficult to address this rate differential. However, recommendations made by various reviews about anti-avoidance mechanisms in the tax law should be addressed in the budget.

Sustainable retirement incomes policies

In terms of sustainable retirement incomes, we believe that the primary objective of Australia's superannuation system should be 'to create a national culture of saving and self-sufficiency in retirement'.

Investors who are forced participants in the superannuation sector must be more confident and engaged in the superannuation system. The sector's regulatory settings must foster competition and must be more efficient and cost effective to ensure the objectives of the super system are met over the medium to longer term.

In addition the government must address the income and assets tests for the aged pension.

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[1] A permanent 10% fall in non-rural commodity prices could reduce nominal GDP by 1% by 2017-18 compared with levels forecast. This, in turn, would be expected to affect tax receipts and payments, reducing the underlying cash balance by around $1.3 billion in 2016-17 and $4.6 billion in 2017-18 – page 16 MYEFO http://www.budget.gov.au/2016-17/content/myefo/html/index.htm
[2] Which both reduces a source of revenue and increases expenditure simultaneously.
[3] This will reduce to 47% as the budget repair levy expires after 30 June 2017.

Improve Budget decision making for the longer term

Our rapidly changing global environment means that Australia needs to continually evaluate various policy options and economic scenarios. To do this, sound information and a thorough understanding of the long term policy implications are required. The short term impact of a policy on the size of government and the size of the deficit are not sufficient measures.

Chartered Accountants calls upon the Government to put aside the size of government as a fiscal rule and instead initiate a public debate on the appropriate size of government in the context of the appropriate role of government.

Chartered Accountants advocates that governments forecast the fiscal implications of key policy decisions over 10 years. We also advocate that a body independent of Treasury be tasked with the role of defining the long-term structural budget balance and assessing the impact of proposed policy measures over a 10 year timeframe.

Red tape battle has not been won

Australians need assurance that our government services are provided efficiently and effectively, and that our governments operate seamlessly to reduce the costs of doing business in our country. This involves revisiting policy to ensure that regulations are aligned (e.g. that 'employee' means the same thing across various legislation). To the extent solutions are found in greater use of government online services, it also involves discussions about cyber security, privacy, and rights to access information by both citizens about themselves and between government organisations.

We support recent moves by the Assistant Minister for Cities and Digital Transformation to establish a clearer Digital Roadmap which will hopefully involve greater collaboration on key projects between a smaller number of key delivery agencies.

Chartered Accountants also welcomes the Government's recently announced draft of the Open Government National Action Plan and looks forward to working with the Government on implementing this plan.

Education, child care and workforce participation

Given that it is unclear where the jobs of the future will arise, Australia also needs to have an educated, creative and flexible workforce. This is best achieved by ensuring that Australians continue to have good access to the education system and child care, with a focus on encouraging workforce participation.

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Our detailed submission accompanies this letter.

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Finally, we would be grateful for an invitation to again participate in the Treasury stakeholder lock-up on Budget night (allowing 3 places if possible), so that we can communicate the Government's Budget announcements to our many members in Australia and overseas.

Yours faithfully

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Head of Leadership and Advocacy
Chartered Accountants Australia and New Zealand

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Pre-Budget Submission 2017-2018

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Summary of key recommendations

1. Sustainable tax base

- Chartered Accountants urges the government to reinstate big picture tax reform. We acknowledge that trade-offs will be required to achieve this.
- The GST rate should be increased to 15% across a broadened base with appropriate compensation to ensure it is fair and affordable.
- Reduce the corporate tax rate as part of fundamental changes to the tax mix.
- Reduce the gap between the top personal individual rate and the corporate rate and increase the tax free threshold for individuals.
- Investigate the benefits of environmental taxes.

2. Increasing efficiency and equity in the tax system

- Australia's tax system must be simplified and streamlined, including through integrating digital technology.
- Chartered Accountants encourages the timely and effective exchange of information between government departments.
- We also encourage the adaption of technology to meet the needs of people, especially the elderly, rather than having people adapt to government imposed technology solutions. Care needs to be taken to ensure that those who are not provided with sufficient digital services, particularly in rural and regional areas, can participate in government activities.
- Chartered Accountants supports government efforts to reduce Australia's company tax rate. Personal tax rates should also be monitored, as well as safeguards against the use of companies to shelter personal services income.
- The capital gains tax (CGT) provisions should be simplified by bringing pre-CGT assets into the tax net, reducing the CGT discount, and providing greater clarity about eligibility for the principle place of residence exemption.
- Small businesses need start-up assistance to better manage cash flow. That assistance can be provided through vouchers or tax credits for accredited professional assistance during the start-up phase. We also support the introduction of a national code for payment terms and greater alignment of government obligations with natural accounting systems – especially for superannuation contributions and PAYG withholding. It is also time to revisit the design of the PAYG instalment system, the effectiveness of the multitude of small business CGT concessions, and simplify FBT in conjunction with a review of work deductions. An update is required on proposed changes to Division 7A (private company shareholder loan rules).
- Chartered Accountants supports the Black Economy Taskforce, and recommends that particular attention be paid to non-tax 'social contract' sanctions, and enhanced tax withholding and reporting. We support protections for whistleblowers and look forward to the consultation process.

3. Sustainable retirement incomes

- Australia's retirement income policies should be comprehensively reviewed.
- Australia's superannuation system objective should be to create a national culture of saving and self-sufficiency in retirement. This should be reviewed every five years.
- The retirement income system should be flexible and incentive based.
- The government's superannuation policies must be legislated carefully and implemented practically.
- Investors must be encouraged to become more confident and engaged in the superannuation system.
- The superannuation system must be made simpler, more efficient and more cost effective.
- The superannuation system must foster competition.
- Minimum pension income limits must be reviewed every five years, ideally within six months of the publication of the Australian life tables.
- Annual contribution caps assessment must be reviewed.
- The Aged Pension income and assets tests must be reviewed and adjusted.

4. Budgetary analysis and decision making

- Introduce a mechanism to ensure that the fiscal implications of key policy decisions are considered beyond the forward estimates, for a period of 10 years.
- Establish a new platform to monitor and report on the long-term pressures on the Budget.
- Reduce the emphasis on the size of government as a fiscal rule, and instead, initiate a public debate on the appropriate size of government in the context of the appropriate role for government.
- Report Australia's ongoing progress in achieving the UN sustainable development goals.

5. Investing in people and technology

- Further invest in Australia's people and technology to ensure Australia's continued economic sustainability and prosperity in the longer term.
- Promote data convergence by, for example, aligning key definitions across Commonwealth, State and Territory legislation.
- Prioritise education and childcare in the Government's budget planning, with attention to the use of incentives to increase workforce participation.

6. Cyber security

- Australia's cyber security strategy must be rapidly implemented and regularly updated.
- A framework for cyber security information sharing and threat response should be developed.

7. Anti-corruption and bribery

- Australia needs to urgently strengthen its anti-corruption and bribery regime.

Detailed submission

1. Building a sustainable tax base

Sound fiscal policy rules ensure that government decisions are considered against the following characteristics:

- Sustainability: that the government's finances remain on a firm footing over time and ensures readiness for counter-cyclical action against any major economic shock;
- Preparedness: readiness against inter-generational pressure;
- Discipline: the size of government reflects its role and the scope of government reflects its purpose.

Australia does not currently meet these criteria and the need to reform our tax base has not disappeared.

Whilst some measures have been taken to strengthen the existing base and to increase transparency, fundamental reform has not been achieved. Chartered Accountants supports the government view that the corporate tax rate needs to be reduced. However, this needs to be accompanied by a refocusing of the tax base by widening the GST base and rate and also reducing personal income tax rates so that there is less incentive to incorporate to minimise personal tax.

Another medium-long term measure that Australia needs to consider is the world-wide trend of using environmental taxes as a means of raising new sources of tax revenue in a revenue-neutral way. That is, using environmental taxes as a substitute tax base for traditional tax bases, such as income taxes and payroll taxes. The idea being to 'tax the bads, not the goods', as the saying goes. The consequences of moving now on climate-change and being wrong about its impacts are significantly less damaging than doing nothing and the opposite being true. In that sense, climate change policies are insurance policies.

1.1 GST

GST reform is inevitable. By neglecting GST the government has turned its back on one of the fundamental, underutilised sources of revenue in our tax system.

Australia's GST is widely acknowledged as having many positive attributes as a tax base. For example, it is our nation's most efficient tax. It taxes consumption rather than income or profits, so it encourages saving. It has low volatility, so is reliable and forecastable for government budgets. It is also inherently fair as it is a relatively proportional tax.

We need to make better use of the GST, not only for its benefits but because of the potential risks if we don't. If we don't make better use of our GST base to generate revenue, we may soon find that traditional revenue sources are no longer fit for purpose, unable to meet future needs.

The 2015 Intergenerational Report tells us about the risks of continuing our heavy reliance on personal income taxes. Australia's aging population means there will be fewer people paying income tax to support a higher proportion of retired people. In Australia today there are 4.5 people of standard 'working age' for every person aged 65 and over. By 2055, that number will only be 2.7 people. Those numbers signal that a significant shift is required to switch the tax base to greater reliance on consumption taxes, such as the GST.

Australia's 10% GST rate is relatively low compared with other nations such as New Zealand at 15% and the United Kingdom at 20%. In Australia our GST currently taxes less than 50% of our potential GST consumption base. By contrast, New Zealand taxes roughly 96% of its potential GST base and is considered to have the most comprehensive, simple and efficient GST in the world.

In July 2015, Chartered Accountants undertook tax reform modelling which showed how a tax mix switch to a fully expanded GST base, covering education, health, financial services, and fresh food, could be done fairly and affordably, with appropriate compensation.

The Chartered Accountants tax formula shows that if GST is increased to 15% across a fully broadened base, it could generate revenue of $265 billion over four years, in a way that is both fair and affordable. The formula also includes corresponding cuts in personal income taxes and increases to benefits and pensions to compensate those on low or fixed incomes. After deducting this compensation, it could leave the Government with $94 billion over four years, out of which $38 billion of inefficient state taxes could be abolished. The net takings for the States and Government could be $56 billion over four years.

The formula shows how a rise in GST, and a sensible approach to other tax treatments, can be both fair and affordable. Our model demonstrates that at 15% we can provide appropriate levels of compensation to those who need it and still generate additional revenue.

Recommendation 1

Chartered Accountants recommends that the GST should be increased to 15% across a broadened base, with appropriate compensation measures to ensure that it is fair and affordable

1.2 Corporate tax rate

Chartered Accountants has consistently advocated for a corporate tax rate reduction roadmap so that businesses can see the tax reform direction in which Australia is headed, and start planning their investments accordingly.

The road map contained in the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 is helpful. However, there are concerns about the measure, including:

- The short-medium term cost;
- Equity concerns about the use of franking credits to help fund the tax rate reduction;
- The disconnect between the small business discount and the corporate tax rate; and
- Whether the benefits of the rate cut really do encourage investment and job creation.

Chartered Accountants remain convinced of the need for Australia to have a more competitive company tax rate.

In our view an implementation timeframe of less than 10 years and the speedy application of the lower company tax rate to *all* companies simultaneously would be preferable. The risk for the Australian economy is that a slow implementation path will mean that, by the time our proposed 25% company tax rate is achieved, other jurisdictions will have moved to much lower rates and our nation will continue to be seen as an outlier. Developments in the United States of America following the Presidential election and in our other major trading partners will be of particular interest and must be closely monitored by Treasury.

Our out-of-kilter company tax rate will continue to have ramifications for other parts of our tax law, most notably in the transfer pricing area, the Multi-national Anti-avoidance Law, and the proposed Diverted Profits Tax. In essence, we fear the ATO is being asked to defend a tax base against global forces we cannot control.

We understand that the immediate revenue impact of extending the corporate tax rate reduction to all corporates is significant and cannot be achieved without also implementing other major tax reforms. Chartered Accountants therefore urges the Government to restart important reform to the tax base/mix.

Recommendation 2

Chartered Accountants supports a reduction in the corporate tax rate, supported by fundamental changes to the tax mix.

1.3 Personal income tax rates

Higher marginal tax rates discourages some people from participating in the economy. Given that Australia has a highly trained female workforce and an aging population, this is concerning.

Any Budget decision to extend or make permanent the 2% Temporary Budget Repair Levy[4] – legislated to come off from 1 July 2017 – can be expected to create high levels of mistrust in the government and encourage high income earners to seek tax planning advice to minimise what they were led to believe was a temporary impost.

Future personal tax cuts should be focussed on providing a high tax free threshold with a simple progressive tax rate structure that incorporates (if applicable) levies and offsets. A constant marginal rate for the vast majority of individuals should apply to provide greater transparency and simplicity (especially to combat the effects of bracket creep).

Ideally, this rate should match the general corporate tax rate but that is now an unachievable outcome given the general trend worldwide to lower the rate of company tax. Nonetheless, Australia should seek to maintain a competitive top personal tax rate and reduce to some extent the discrepancy between the corporate rate and top personal rate to counter the incorporation of personal services activity. Existing integrity safeguards (such as the personal services income rules) and the PAYG tax collection mechanism should also be reviewed to determine whether they remain fit for purpose.

Recommendation 3

Chartered Accountants supports government efforts to ensure that most working Australians fall into the 'mid-rate' band of 32.5% and benefit from a high tax free threshold.

We do not support any extension of the 2% Temporary Budget Repair Levy.

As Budget circumstances permit, some attempt should be made to reduce the gap between the top personal individual and corporate tax rate. The effectiveness of integrity safeguards and the PAYG tax collection mechanism should be reviewed.

1.4 Environmental taxes

A recent report prepared for European policy makers states that "an update for our tax systems requires a long term vision on the role of taxation in facilitating growth based on human capital, skills and knowledge, rather than the extraction of natural resources."[5] This statement is of greater relevance to Australia given that Australia is ranked amongst the top 25 nations in the world in terms of reliance on limited natural resources.

The same report applies a revenue neutral scenario which broadly applies 'polluter pays' principles by introducing additional excise duties on fossil fuels and taxes on carbon, water and electricity (for bulk users rather than householders), raising GST rates, and lowering personal income tax and social contributions. This scenario is then analysed using an integrated value added statement[6]. The results are positive.

Despite our high reliance on limited natural resources, there is considerable debate about whether or not Australia is collecting an optimal amount of tax from them.

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[4] Refer https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-individuals/Temporary-Budget-Repair-levy/
[5] Page 14 https://www.trucost.com/wp-content/uploads/2016/12/New-Era-New-Plan-Europe-Extax-Report-DEF-compressed.pdf
[6] The integrated value added statement draws upon macroeconomic modelling of financial flows and employment, and extension modelling of the natural and social capital impacts.

For example:

- The Australian National Audit Office report on the collection of north-west shelf royalty revenue, found that there were "significant shortcomings in the framework for calculating NWS royalties" and that highly significant deductions were incorrectly being claimed from royalty income.
- A revenue comparison done for the International Transport Workers' Federation by the Tax Justice Network indicates that an international comparison of revenue from LNG exports is low[7].

In response to this the Government announced on 30 November 2016 that Treasury would conduct a review into the operation of the Petroleum Resource Rent Tax (PRRT), crude oil excise and associated Commonwealth royalties to help better protect Australia's revenue base and ensure that oil and gas projects are paying the right amount of tax on their activities in Australia[8].

Chartered Accountants supports this review and suggests that it be followed by a broader review of environmental taxes.

	Recommendation 4 Chartered Accountants urges the government investigate the benefits of environmental taxes.

2. Increasing tax efficiency and equity

Australia's tax system is overly complex and needs to be simplified, streamlined and modernised in order to reduce compliance costs and achieve greater efficiencies, including through integrating digital technology.

There is a danger that 'quick' fixes to the taxation system will just add another layer of complexity to an already complex tax system. Immediate tax changes (apart from minor technical changes or legislation dealing with announced but un-enacted measures) should not be made until such time as Australia has determined what its long term tax reform goals are and its international tax position in relation to the OECD's BEPS proposals.

Reducing compliance costs and enabling greater efficiencies through digitalisation require the tax system to become simpler. There is a limit to how much we can give the appearance that a complex tax system is easy to comply with.

Ultimately, we need to embrace the challenge set by the Henry Tax Review to reduce the difference in the tax treatment between various entities and types of investments.

	Recommendation 5 Chartered Accountants recommends that Australia's tax system be simplified and streamlined, in order to reduce complexity, reduce compliance costs and achieve greater efficiencies. This needs to be done with a long term view, because 'quick fixes' to the tax system just add more layers of complexity.

[7] International Transport Workers Federation (2016). "Australian LNG Exports to Boom, Tax Revenue is a Bust". ITF Briefing Paper, September 2016
[8] Refer http://www.treasury.gov.au/~/media/Treasury/Consultations%20and%20Reviews/Reviews%20and%20Inquiries/2016/Review%20of%20Petroleum%20Resource%20Rent%20Tax/Key%20Documents/PDF/PRRT_dn.ashx

2.1 Government online

2.1.1 Digitalisation of tax and other online government services

On 3 December 2015 the Department of Prime Minister and Cabinet (PMC) released the Public Sector Data Management Report. This has been followed up in July 2016 by an implementation report which states that “the Australian Government remains committed to effectively managing, sharing and publishing public data as a national resource for the benefit of the Australian people."

Pleasingly, the initial report noted that by and large there were limited restrictions on data sharing between government departments and that it was more a cultural change that was required. This cultural change has been supported by the release on 29 April 2016 of ‘Guidance on Data Sharing for Australian Government Entities’ which encourages sharing data by default between Australian Government entities, and the government’s Public Data Policy Statement on 7 December 2015 which provided a clear mandate for government agencies to optimise the use and reuse of public data.

Further support for this initiative can be seen by the publication on 17 May 2016 by the Office of the Australian Information Commission of a consultation draft on the guide to big data and the Australian privacy principles, and the tasking on 21 March 2016 of the Productivity Commission to investigate ways to improve the availability and use of public and private sector data.

Chartered Accountants is also encouraged by the identification of unneeded red tape surrounding the sharing of data between ASIC and the ATO.

Better digitalisation integration between government departments can increase the amount of tax collected whilst simultaneously reducing the costs of collecting tax.

The recent backpacker tax debate highlighted the importance of integration. Part of the reason the issue about the taxation of working holiday makers arose was that a large number of working holiday makers had been claiming that they were residents of Australia for tax purposes and thus had no or little tax deducted from their wages (or claimed tax refunds upon leaving). There is also evidence that a number of businesses which employ working holiday makers are operating in the cash economy. Our dealings with the Australian Business Register (ABR) also indicate that some working holiday makers were inappropriately applying for, and obtaining, Australian Business Numbers (ABNs) which allows an individual to provide services without attracting PAYG withholding.

The working holiday amendments passed by Parliament last year do not prevent or discourage this from occurring, which is understandable as this is largely an administrative enforcement issue. To assist the tax system in identifying and correctly enforcing the law in relation to working holiday visa consideration should be given to:

- Legislating the inability of 417 and 462 visa holders to obtain an ABN.
- Developing an electronic tax file number (TFN) look up facility and procedures for the ATO to check all new TFN applications against Department of Immigration and Border Protection (DBP) information. This could include re-designing how work visas are applied for so that TFNs are issued simultaneously with the visa and coded so that the appropriate tax treatment is applied to the holder of the TFN.

We understand that the ATO is pursuing technological solutions to implement our recommendations regarding data matching and TFNs. Once implemented, this should ensure that there are less incorrect tax claims at a reduced collection cost, particularly if it occurs in real time.

For government systems to be streamlined there also needs to be excellent communication and collaboration between the ATO and other agencies. The recent furore over Centrelink debt notifications illustrates how data sharing alone does not create good outcomes.

As the Assistant Minister for Cities and Digital Transformation recently noted with the release of the Digital Roadmap and changes to the Digital Transformation Agency, key agencies working effectively together is of particular importance.

A recent ANAO report has also highlighted the importance of how both the establishment of a framework and its implementation is important for laws to be successfully introduced.

	Recommendation 6 Chartered Accountants encourages the timely and effective exchange of information between government departments, with better collaboration between a smaller number of key implementation agencies to achieve better outcomes.

2.1.2 Digitalisation and an aging population

Whilst automating government services and encouraging digital interactions may be driven by the need for efficiency, the human elements of participating in society should not be overlooked.

We can contextualise this by reference to Australia's aging population. As part of the digitalisation process, careful consideration needs to be given to how this segment of the population will be able to interact with Government.

It is readily acknowledged that generally as people grow older there is a decline in cognitive, physical and sensory functions. This combined with the pace of technological change can make digital communication difficult.

ATO research in 2011 also highlighted other issues amongst the elderly: computer illiteracy, "technophobia", concern over the security of their information, and the perceived greater risk of making a mistake online.

Aged persons may also be forced to rely on others and here we note growing concerns about elder financial abuse, as evidenced by the current enquiry by Australian Law Reform Commission. We are strongly of the view that there is a need for improved safeguards and consideration of the role that trusted intermediaries can play in helping the aged manage their financial affairs.

Other segments of the population will have different issues with technology and in this regard we look forward to the Australian National Audit Office report on myGov, expected in February 2017.

	Recommendation 7 Chartered Accountants encourages the adaption of technology to meet the needs of people, especially the elderly, rather than having people adapt to technology. We suggest that the government explore the currently regulatory framework for intermediaries who help manage the financial affairs of the aged and consider whether further safeguards are required.

2.1.3 Digitalisation for all

A prerequisite for successful digitalisation of government services is sufficient internet coverage. Our members continue to express on-going concerns about this issue, particularly in parts of rural and regional Australia.

Their concerns are backed up by the Telecommunications Industry Ombudsman who has reported nearly a 100% increase in the number of NBN related complaints in 2016. The same report noted that new complaints about faults on NBN services jumped by 147.8%, while complaints about NBN connections rose by 63.2% and that more than a quarter of new complaints came from regional and rural Australia.

	Recommendation 8 When implementing digital solutions, care needs to be taken to ensure that those who are not provided with sufficient digital services, particularly in rural and regional areas, can participate in government activities.

2.1.4 ATO system outage – What went wrong and what are the learnings?

The major ATO systems outage which occurred in December 2016 is still adversely impacting some ATO systems at the time of lodging this submission.

We note the Commissioner of Taxation has appointed an Independent Expert (PwC) to investigate the cause of the incident and the ATO's response. Chartered Accountants has provided the ATO with a number of suggested additions to the Terms of Reference which the Independent Expert may choose to consider.

As a lead agency in the implementation of government online systems, it is important to maintain and build the community's confidence in the ATO's ability to implement technology-based change. If there is a silver lining to the ATO outage, it is that the ATO (and other agencies) will learn from this event and implement better IT disaster recovery plans and develop better insights into the impact of technology change on the community.

	Recommendation 9 If not published beforehand, the government should use the Budget as a platform for the Commissioner of Taxation to announce the findings of the Independent Expert's report, the ATO's response and learnings for other stakeholders (e.g. tax agents, software developers).

2.2 Capital gains tax (CGT)

The CGT provisions contain a number of very generous tax concessions which have a substantial cost in terms of tax expenditure[9].

On public policy grounds, we think it is time to consider whether the policy objectives of some of these tax concessions are still appropriate and sustainable. In particular consideration needs to be given to their impact on investment decisions and the complexity of the tax system.

2.2.1 Simplifying tax by bringing pre-CGT assets into the net

CGT was introduced over 30 years ago. At the time of its introduction it was decided that the tax would only apply to any asset acquired on or after 20 September 1985. Any assets acquired before that date have been exempt and are generally known as 'pre-CGT assets'.

With the passage of time, the quantum of assets that can access this concession has declined. The latest tax expenditure statement indicates that the financial impact of this measure is not available but it is estimated to have an order of magnitude of $10 million to $100 million over the forward estimates.

The continued existence of this concession complicates both the existing and future tax legislation. To reduce complexity it is time to consider bringing pre-CGT assets into the taxation net by deeming the cost base of any such remaining assets to have a value equal to the market value of the asset at the time it is

[9] Refer http://www.treasury.gov.au/PublicationsAndMedia/Publications/2016/TES-2015

brought into the CGT net. Following this legislative change, the relevant provisions of the income tax law which recognise pre-CGT assets should be amended and simplified.

	Recommendation 10 Chartered Accountants recommends that consideration be given to bringing pre-CGT assets into the tax system.

2.2.2 Reduce the CGT discount

The discrepancies between tax rates is not limited to types of entities: it also applies to types of income.

Ideally, economists would have capital gains and losses recognised as they accrue. However, due to the practical difficulties of paying tax on something that has not crystallised, capital gains are taxed when realised.

This gives rise to another problem: the taxation of inflationary gains. Thus, when CGT was introduced, to ensure that real rather than nominal gains were taxed, the cost base of a capital gain was able to be indexed. Subsequently, in the name of simplicity, indexation was scrapped and replaced with a 50% discount if an asset was held by an individual for one year or longer. In 2012, limitations were placed on the ability of non-resident individuals to access the 50% discount.

The rationale behind the size of the 50% discount has always been unclear. Whilst the Ralph Review recommended some simplification through the use of a discount, the quantum of the discount was not discussed. The 50% discount has over compensated asset holders for the effect of inflation over the past 15 years[10]. The discount arguably encourages some to try and convert income gains into capital gains. The Grattan Institute[11] has estimated that reducing the CGT discount to 25% would raise $3.7B a year.

Further, the one year holding period needed to attract the 50% discount can lead to tax-driven, short-term decision making. A stepped approach is used in other countries, with greater tax concession attracted the longer an asset is held.

The one-third CGT discount applicable to superannuation funds should be similarly reviewed, although superannuation funds more naturally have a longer-term investment strategy.

	Recommendation 11 Chartered Accountants recommends that consideration be given to reducing the CGT discount, possibly using a stepped approach so that the longer an asset is held the greater the discount.

2.2.3 Principal place of residence exemption

The tax system encourages resident individuals to buy houses, renovate them, then on-sell and start the process over again.

Technically, there is an argument that the gain from undertaking such activities should be taxed on revenue account as the circumstances indicate a profit-making purpose. The argument is bolstered when the investment is debt financed, and the interest is claimed as a deduction during periods when the property is not used for personal occupancy, but to derive rent.

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[10] Since the introduction of the CGT discount in 1999, house prices have grown annually by an average of 7.3%. Inflation over this period averaged 2.8% annually. Page 10 https://grattan.edu.au/wp-content/uploads/2016/04/872-Hot-Property.pdf

[11] https://grattan.edu.au/wp-content/uploads/2016/04/872-Hot-Property.pdf

We acknowledge that profit-making intent can be enormously difficult for the ATO to prove.

However, it may be time to rein in the enormous tax expenditure associated with the CGT main residence exemption. Ideas to explore here include caps on the exempt amount and minimum occupation periods.

Better ATO data matching with State and Territory land titles and residential tenancy offices may also uncover more instances of exemptions claimed on multiple properties, or questionable claims about whether a property is in fact a main residence.

	Recommendation 12 Chartered Accountants recommends that a review be conducted of the CGT main residence exemption to determine how the cost of this concession can be contained in a fair way. The ATO should also review its CGT enforcement strategy for residential investments.

2.3 Small business

Small business is a significant part of Australia's economy.

During 2016 the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) conduced a nationwide consultation of small businesses to determine the biggest issues impacting their business. This survey found that late payments, and other adverse payment practices, are a critical issue. This finding is consistent with what our organisation has been hearing from members, that is, cash flow management is a major factor in the success and failure of small businesses.

2.3.1 Cash flow education

Chartered Accountants has been working closely with the ATO on small business cash flow and debt issues.

We are currently participating in an ATO pilot programme which assists accountants educate small business operators on cash flow. Feedback on this pilot has been overwhelmingly positive and we look forward to the full rollout of this project.

Research regarding the operation of small businesses, indicates that people who start small businesses are passionate about what they do, however, the majority of people (75%) starting a small business fail to obtain any professional advice about how to run a business. As a result, many small business people could be described as unconsciously incompetent in relation to how to run a small business.

The ATO has undertaken some initial research indicating that small businesses that receive professional advice in the start-up phase are more successful than those that don't – even if they only see an accountant annually after that.

Given the valuable assistance that this cash flow and general business knowledge intervention provides, it may be worthwhile encouraging people to obtain such advice by providing a voucher to ABN applicants who meet specified criteria, with the voucher used to undertake this educational activity alongside an accredited accountant to help ensure that their business is starting on realistic assumptions and goals. Standard materials would be used for this purpose. Alternatively, a tax offset approach could apply.

Research in both the UK[12] and Australia indicate that delivery of financial advice by accountants is more effective than delivery through government programmes. This is due to small businesses knowing that accountants are working in their best interests. Accountants offer more personal and specific information and advice because they are attuned to the specifics of an individual's business and the broader context of their business. Accountants are also willing to invest some of their own time to the exercise as part of an investment in a burgeoning client relationship.

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[12] SME Policy Support in Britain since the 1990s: What have We Learnt? - Jan 01, 2008
http://journals.sagepub.com/doi/abs/10.1068/c07118

	Recommendation 13 Chartered Accountants recommends consideration be given to providing new ABN registrants with vouchers (or a tax offset entitlement) to undertake cash flow training with accredited accountants.

2.3.2 Small business payment times and practices - eInvoicing

The ASBFEO has begun an inquiry into payment times and practices[13]. This inquiry will be looking at:

- The practice of corporations setting payment terms, particularly for small businesses;
- Trends in payment terms and late payment with emphasis on commercial dealings between small business with large corporations;
- The effects and impacts that long payment times have on small businesses; and
- Potential regulatory and market-based responses available including recent developments such as unfair contracts legislation

Discussions with our members indicates that there are often great disparities in payments terms between small businesses and other businesses. Small businesses are usually required to pay their bills in 30 days yet some of their major customers can have up to 120 day payment terms and impose complicated payment requirements. For example, invoices have to be submitted in a particular form by a particular deadline to be processed (there is great potential for eInvoicing to help address such issues). From an economic perspective the disparity of payments terms can be seen in terms of market failure – i.e. larger organisation use their market power to effectively demand that smaller organisation fund their operations.

The use of market power in such a manner is extremely damaging. Small businesses usually have trouble accessing finance through established financial markets and if they do, pay higher interest rates than their larger counterparts (which is a reflection of the relative risk that they bear), and the owner\operators often have to mortgage their home. The financial stress that this causes also has flow on effects for other small business creditors, employees, and ultimately the government. The inability of one small business to generate cash flow to pay its bills, means that other small businesses will have cash flow issues too. It can also mean that employees may not be paid.

	Recommendation 14 Chartered Accountants supports the efforts of the ASBFEO to improve small business payment times and practices. We expect that the ASBFEO may recommend to government the adoption of a Code of Conduct similar to that which has been embraced in the United Kingdom[14]. The Federal Budget provides a platform to publish the ASBFEO report and the government's response, particularly if the government is to embrace a range of other measures we put forward in this submission to reduce the level of unpaid tax debt owed by Australian small businesses (see below). The Budget also provides an excellent opportunity for the government to convey its support for greater adoption of eInvoicing within the Australian business community, and the work of the Digital Business Council[15].

[13] Refer http://asbfeo.gov.au/inquiries/payment-times-and-practices
[14] Refer http://www.promptpaymentcode.org.uk/
[15] Refer http://digitalbusinesscouncil.com.au/

2.3.3 Employee superannuation entitlements

Until Single Touch Payroll is implemented, difficulties remain in detecting the non-payment of voluntary (often salary sacrifice) and compulsory Super Guarantee contributions. The non-payment of super by employers effectively places the burden of an employee's retirement back on the Commonwealth government through the need to supplement any employee savings through the pension.

Compulsory or salary sacrifice super is effectively foregone wages, and we think that the government needs to amend the law – over a suitable transitional timeframe – so that employer super contributions have to be paid at the same time that employee salaries are paid (or very shortly thereafter).

	Recommendation 15 Chartered Accountants recommends consideration be given to gradually eliminating the current time lag that businesses enjoy in remitting their employee Superannuation Guarantee and salary sacrificed superannuation contributions to a complying superannuation fund.

2.3.4 Remitting PAYG withholding to the ATO

In keeping with the comments in the preceding paragraph, consideration should also be given to reducing the time that small businesses currently enjoy before remitting PAYG withholding amounts to the ATO. The time lag could, for example, be made consistent with that enjoyed by medium sized employers.

This policy change should only be implemented if accompanied by other initiatives such as the prompt payment code of conduct.

	Recommendation 16 Chartered Accountants recommends consideration be given to gradually eliminating the time lag that small businesses currently enjoy in remitting their PAYG withholding amounts to the ATO.

2.3.5 Reporting business unpaid tax debts to the ATO

The latest ATO Annual Report notes that whilst 89% of tax liabilities are paid on time, the small business sector only pays 72% of tax liabilities on time. Or to put it another way, overall 11% of tax liabilities are not paid on time, but in relation to the small business sector this amount almost triples (the small business rate of not paying on time is 28%). The lack of timely payment is contributing to Australia's stubbornly high tax debt of $19.2 billion, of which small business accounts for 65.2% of the total collectable tax debt.

The government therefore announced in the 2016 MYEFO that, from 1 July 2107, the ATO would be empowered to disclose tax debt information to credit reporting bureaus, where a business has a tax debt of more than $10,000 which is at least 90 days overdue.

We support this measure but on the proviso that further policy design work be done on the reporting thresholds, and also that taxpayers be given written notice that disclosure is about to occur. The equivalent New Zealand legislation is instructive in this regard[16].

[16] New Zealand has a threshold of NZD$150,000 and 30 day notification that disclosure is about to occur – refer http://taxpolicy.ird.govt.nz/publications/2016-commentary-bteirm/disclosing-unpaid-tax-credit-reporting-agencies

	Recommendation 17 By the time the Federal Budget is delivered, the government should have released for consultation a much clearer outline of the tax debt disclosure measure, containing appropriate safeguards to ensure the reputation of a small business is not inadvertently tarnished by the ATO.

2.3.6 Time to reform the PAYG instalment system

The other component in our submission on small business payments of tax and superannuation is the PAYG instalment system.

Employees have tax (PAYG withholding) deducted at the same time that they receive their salary/wage. Contractors pay tax (PAYG instalments) either monthly or quarterly (typically 28 days after the quarter in which the income is earned). Some self-employed persons are eligible for twice yearly payments and those with very small obligations can pay an annual instalment.

This lag in paying PAYG instalments can give contractors using cash basis accounting a significant cash flow timing advantage (i.e. there is a disconnect between the receipt of income and the payment of tax). We do not have access to ATO research, but understand that this disconnect is contributing to the unpaid tax problem being experienced by the ATO.

Even where the taxpayer uses accruals basis accounting, there can be a substantial lag between receipt of the income and tax remittance time.

But perhaps the biggest design flaw which has emerged with the PAYG instalment system is the delay which occurs in actually issuing a PAYG instalment rate to the taxpayer, thus triggering the obligation to pay instalments. PAYG instalments only commence after the first income tax return (e.g. for income year 1) is lodged and processed. This lodgement can occur as much as 18 months after business operations commenced. Upon initial assessment of this Year 1 tax return, the taxpayer is then confronted with two tax debt obligations:

- The assessment of tax for all the income tax owing for income year 1; and
- (Typically) One quarter of the total PAYG instalment owing for year 2.

Significant hardship can arise if the taxpayer has not set aside sufficient tax funds according to ATO research[17]. In some cases and in some industries, it is questionable whether taxpayers ever intend to pay the tax and they seek to re-establish themselves under new business names.

	Recommendation 18 Together with other reforms to help small business with cash flow (see above), Chartered Accountants feels that it is time to revisit the design of the PAYG instalment regime. That is, when a PAYG instalment rate is issued, how PAYG instalments are calculated, and the timing of PAYG instalment remittance. The aim of the policy review should be to ensure that: • Businesses start putting aside income tax from the commencement of business, and • Compliance burdens, particularly from a cash flow perspective, are minimised.

[17] Refer https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/General-research/PAYG-instalments--exploratory-research-2011/

2.3.7 Small business tax concessions – Time for a policy re-think?

An alternative (and perhaps unpopular) way of looking at small business tax policy is to consider what role the tax system should play in helping businesses grow, as distinct from focusing on tax breaks for those businesses that start small and intend to remain that way.

If that approach is taken then factors other than 'smallness' should have a greater influence over Australia's tax policy thinking – i.e. factors that encourage innovation, investment and the hiring of employees would become more important.

The OECD[18] recommends that countries must first decide what problems are faced by small businesses and then, if they consider the problems are sufficient to warrant government action, consider the relative merits of preserving a neutral tax system and using direct expenditure to pursue small business policy objectives, since non-tax measure will often be better targeted than tax measures.

Given the multitude of small business concessions we think it is time to consider them holistically and reconsider their objectives, outcomes and cost. This is particularly true of the small business CGT concessions which clearly fail the tax criteria of simplicity.

	Recommendation 19 Chartered Accountants recommends that the Board of Taxation conducts a review of the multitude of small business concessions, and in particular the CGT small business concessions with a view to: • Considering whether they are delivering worthwhile economic objectives, and • Streamlining them.

3. Division 7A - Integrity rule for closely held groups

The different outcomes where income is received by a company and an individual give rise to tax planning opportunities. The main policy reason for the existence of Division 7A ITAA 1936 is to limit the ability of private company shareholders to exploit these tax arbitrage opportunities.

Division 7A is notorious, both for its complexity and the tax problems surrounding the use of tandem structures involving a private company and a related discretionary trust (i.e. the unpaid present entitlement issue).

There have been many reviews of Division 7A, the latest of which has been the Board of Taxation's "Post Implementation Review of Division 7A of Part III of the Income Tax Assessment Act 1936"[19]. Chartered Accountants contributed to the Board's review.

The complexity of the issues associated with Division 7A is reflected in the protracted process in releasing this latest report. On 18 May 2012, the then Assistant Treasurer announced that the Board would undertake a post-implementation review of Division 7A to be completed by 30 June 2013. On 8 November 2013, the Assistant Treasurer announced an extension to these terms of reference and extended the reporting date to 31 October 2014. It was only on 4 June 2015 that the Board of Taxation's report into Division 7A was finally released. The Board's report contains a number of recommendations which have merit.

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[18] Refer http://www.oecd.org/ctp/tax-policy/38007088.pdf

[19] Refer http://taxboard.gov.au/consultation/post-implementation-review-of-division-7a-of-part-iii-of-the-income-tax-assessment-act-1936/

The 2015-16 Federal Budget indicated that at least some of the Board's recommendations would be implemented[20] but to date nothing has happened. The changes were to come into effect from 1 July 2018 and impact both pre-existing and new loans.

Chartered Accountants take no comfort from the 1 July 2018 implementation date announced in last year's Budget. This is because many have clients who have not been able to adjust existing unpaid present entitlement arrangements in accordance with ATO guidance published in 2010[21]. The ATO timeframe for rectification of arrangements is expiring.

All of this uncertainty is giving tax practitioners the distinct impression that Division 7A is too hard to fix.

	Recommendation 20 Chartered Accountants urges the Government to elucidate on what Division 7A changes will be implemented. The ATO must then quickly respond with revisions to its current Division 7A guidance. Detailed, fast-tracked consultations must accompany changes in policy and administrative approaches.

4. FBT and work-related deductions – Time to simplify?

FBT is an unnecessarily complex area of the law – especially for small business employers.

We note the United Kingdom has taken an innovative approach to fringe benefits. From April 2017, in the UK most salary sacrifice schemes will be subject to the same tax as cash income, although all arrangements in place before April 2017 will be protected for up to a year[22]. The ramifications of any similar policy change would need to be carefully considered here, although we do think there would be many employers here who long ago decided that salary sacrifice arrangements were not worthwhile from an administrative cost viewpoint.

We think FBT is an area of the tax law where there would be bi-partisan political support for an attempt by a group of government and private sector experts to radically simplify the law.

This exercise should be undertaken as part of a broader review of work-related deductions. In 2016, the Standing Committee on Economics was tasked to examine: "the personal tax system as it applies to individual non-business income, with particular reference to the deductibility of expenditure of individuals in earning assessable income, including but not limited to an examination of comparable jurisdictions such as the United Kingdom and New Zealand"[23].

Chartered Accountants made a submission to this inquiry, but we have not yet seen any report from Committee members. Our submission made clear the inter-connections between FBT and income tax deductions, as well as other factors such as negotiated workplace agreements, occupational health and safety etc (for example, the overall tax treatment of employees receiving benefits such as work boots from their employer, and employees who must pay for such items themselves).

[20] Refer http://budget.gov.au/2016-17/content/bp2/html/bp2_revenue-10.htm
[21] Refer https://www.ato.gov.au/business/private-company-benefits---division-7a-dividends/in-detail/fact-sheets/division-7a---unpaid-present-entitlement/
[22] Refer https://www.gov.uk/government/consultations/salary-sacrifice-for-the-provision-of-benefits-in-kind
[23] Refer http://www.aph.gov.au/TaxDeductibility We note that the Committee also looked at business interest deductions but understand that this aspect of the Terms of Reference will be considered as part of the government's response to the OECD's BEPS Action Plan.

	Recommendation 21 Chartered Accountants recommends that the Treasurer seek from the Board of Taxation a report on how FBT and work-related deductions could be drastically simplified. The Board would seek community input to this exercise.

5. The black economy

A prerequisite for an efficient tax system is that it is perceived to be fair. People who operate outside the tax system or who exploit the tax system reduce confidence in the tax system and increase the costs for both administrators and other taxpayers. Chartered Accountants is supportive of The Black Economy Taskforce and looks forward to contributing to it.

The size of the prize is substantial. The Minister for Revenue and Financial Services has stated that: "According to the ABS, it is estimated that the black economy in Australia could be as large as 1.5 per cent of our gross domestic product or around $24 billion dollars"[24]. In the same press release the Minister also stated that the Taskforce will look carefully at tax integrity measures that have been successfully employed overseas.

Experience from both Australia and overseas shows that successful black economy strategies must avoid one-size-fits-all approaches, include a mix of both traditional tax enforcement and other tools and provide positive incentives as well as sanctions. For example, the tax system should reward (by way of a lower ATO risk rating) those small businesses who dispense with cash transactions and embrace point of sale technology.

Chartered Accountants has met with the Taskforce Chair, Mr Michael Andrew, and discussed a number of policy suggestions.

	Recommendation 22 The Federal Budget provides an ideal stage to announce the initial findings of the Taskforce and canvass input from the community on policy options suggested by the Board.

5.1 Building and construction industry

The ATO submission to the 2015 Senate review into insolvency in the Australian construction industry noted at paragraph 60 that: "The building and construction industry is an industry where there is a significant prevalence of cash transactions and ranks in the ATO's top 10 industries from an omitted income risk perspective. This is borne out by ATO audit results with some of the largest tax adjustments and penalties in the cash economy activities arising from construction industry audits".

Since 2012, the building and construction industry has been subject to the taxable payments reporting system, which requires businesses in the building and construction industry to report the total payments they make to each contractor for building and construction services each year. Whilst we understand that this measure has been helpful, the lack of compliance by the building and construction industry continues to be concerning.

[24] Refer http://www.kellyodwyer.com.au/black-economy-taskforce/?mkt_tok=eyJpIjoiTkRFeU9ESXdNR0ZoTTJSaylsInQiOiJmTHJ5am9CRkRmSTNCbENRd3k0RmRvcXZTVG1XQTE5YVhMSEF1YXNGTUZ5cWNzYzVmcFhxalwva0hweWRcL001aXpZalhzMzN6SXd1bkxMRkV0RzhiOEZIb3R4ckhGNXNmVzROMDB2OVQwMExyS0xteDJTdnlsaFYxXC9HOE8wbVQzVSJ9

It might be time to consider:

- Introducing more frequent reporting (possibly real time or coinciding with BAS deadlines), and
- A domestic, business to business PAYG withholding system to help further improve compliance in this particular industry[25].

	Recommendation 23 Consideration should be given to introducing real time reporting and PAYG withholding in relation the Australian building and construction industry.

5.2 Other ideas to encourage tax compliance

As noted above, the latest ATO annual report indicates that there is $19.2 billion in outstanding tax debts:

> "The ATO has identified that the population at risk of operating in the cash economy is approximately 1.6 million businesses (mostly micro and small businesses with an annual turnover up to $15 million) operating across 233 industries that are more likely to have regular access to cash. The ATO has also identified that 58 of those industries are at a higher risk of operating in the cash economy, particularly restaurants, cafes and takeaway businesses, building and construction, and personal services (hair and beauty)."[26]

We all live in a community and tax compliance is a basic community obligation. Tax compliance needs to become more embedded in how the community thinks and operates, rather than something that the ATO 'enforces'. Those who continue to choose to operate outside the tax system in the black economy, or who facilitate such non-compliance, should not enjoy all of the entitlements and protections afforded to law-abiding members of the community.

Rather than expecting the ATO to do all the compliance work on the hidden economy, we think it is time for a whole of government and community response which involves non-tax agencies and entitlements we often take for granted. For example:

- A landlord could be denied standing at law (e.g. in tenancy disputes) unless in possession of a tax compliance certificate from the ATO, indicating that rents have been disclosed and tax payments are up to date;
- Consumer protection mechanisms could be denied unless the complainant is in possession of a valid tax invoice issued by the business against whom the compliant is made;
- Business licencing and renewal could be made conditional on possession of a tax compliance certificate from the ATO (South Africa provides a possible model with its tax compliance status report[27]); and
- Contractor compensation and public liability claims would require presentation of a valid tax invoice issued by the injured service provider.

It may also be worth exploring a taxpayer 'good behaviour' bond which could be used (perhaps as an alternative to penalties in suitable first offence or repeat offender cases) to help bring taxpayers back into a compliance mindset.

Another option that is available to the ATO is to precede any crackdown on the hidden economy by a domestic tax amnesty arrangement for taxpayers to regularise their affairs (somewhat similar to the ATO's

[25] Note here the differences between the New Zealand and Australian tax withholding regimes: https://www.ato.gov.au/business/international-tax-for-business/in-detail/trans-tasman-rules/comparing-the-new-zealand-and-australian-tax-system/?page=8
[26] Para 1.3 https://www.anao.gov.au/work/performance-audit/strategies-and-activities-address-cash-and-hidden-economy
[27] Refer http://www.sars.gov.za/ClientSegments/Individuals/TCS/Pages/default.aspx

Project Do IT). It has always seemed odd to us that Project DO IT provided a voluntary disclosure opportunity (with drastically reduced penalties) to generally wealthy Australians, when no such opportunity has ever been granted to the self-employed, contractors etc.

	Recommendation 24 To promote compliance, the government should seek ATO input on whether measures such as tax compliance certificates, tax bonds and tax amnesty are worthy of consideration in a tax policy and tax administration sense. In terms of current ATO initiatives, it would good for the Commissioner to advise the outcome of consultations on the proposal for a "last chance" tax penalty remission rule for an individual or small business operator who fails to take reasonable care or lodge a tax return on time[28].

6. Protecting whistleblowers

The Treasurer announced in the last Budget that the government would introduce new arrangements to better protect individuals who disclose information to the ATO on tax avoidance behaviour and other tax issues. This measure is to take effect from 1 July 2018 and Treasury has recently issued a consultation paper[29] in relation to the implementation of this measure (we are in the process of preparing a submission on the consultation paper).

Chartered Accountants supports this measure. Whistleblowers not only draw the attention of regulators to behaviours which may be unlawful, they can change cultures within organisations and improve management practices. Individuals who report misconduct deserve to be supported and protected.

	Recommendation 25 We would hope that (if not before) the Budget will include the release of additional information in response to submissions received on the Treasury's whistleblower consultation paper.

7. Sustainable retirement incomes

7.1 Australia's retirement incomes policies should be comprehensively reviewed

Chartered Accountants supports a comprehensive review of Australia's retirement incomes policies, including the interaction between superannuation, the Age Pension, healthcare and aged care including the important emerging issue of elder financial abuse (which the Australian Law Reform Commission is currently investigating). With an aging population, a sustainable system is needed for the long term that will enable Australians to live comfortably and with dignity in their retirement.

The government must be careful to ensure that the retirement income system is both sustainable and stable, in order to instil investor trust and confidence.

Continuous tax and budgetary changes should be minimised to the greatest extent possible, to help build confidence in the system.

[28] Refer http://lets-talk.ato.gov.au/penaltyconsultation
[29] Refer http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/Review-of-whistleblower-protections

	Recommendation 26 Chartered Accountants recommends that Australia's retirement incomes policies be comprehensively reviewed. The review should consider the interaction between superannuation and the Age Pension, healthcare and aged care. It will be important to identify the actions required to ensure a sustainable and stable retirement income system that will enable Australia's ageing population to live comfortably and with dignity in their retirement.

7.2 The primary objective of Australia's superannuation system

Australia's superannuation system needs clear and long term objectives, including primary and secondary objectives, established with broad political agreement and community support. This will help provide greater certainty for the superannuation industry and allow Australians to invest and plan for their future with confidence.

The government's proposed superannuation changes announced in the 2016-17 Federal Budget and currently before Parliament broadly accepted the Financial System Inquiry (FSI) objective for superannuation and proposed to legislate this objective.

We do not agree with the FSI's recommendation that the primary purpose of superannuation should be 'To provide income in retirement to substitute or supplement the Age Pension'. Further, we do not believe it is necessary to legislate this objective.

We recommend that the primary objective of our nation's superannuation system should be 'To create a national culture of saving and self-sufficiency in retirement'.

We also believe it will be more effective to encourage and incentivise the desired behaviour, rather than legislate this objective.

By self-sufficiency we mean full replacement of family income for households earning up to male average weekly ordinary time earnings, which are currently just under $83,000 per annum, and then a reduction from that point. That reduction could be 1% for each additional $10,000 of household income earnt. For example, if household income was $133,400 per annum then self-sufficiency could be defined as up to 95% of that amount.

We believe that one of the consequences of encouraging national savings and self-sufficiency in retirement is that fewer Australians would rely on the government for the Age Pension or other older age expenses such as healthcare, which would therefore lead to budgetary savings.

Nevertheless, a key point is that lowering government outlays is not the main aim of our proposed primary objective for the superannuation system, but merely a result.

In setting the objectives we recommend taking a holistic view of all aspects that may impact on wealth and retirement savings, particularly funding health and aged care needs for older Australians. It is also important to consider the implications of current and future government policies in other relevant areas such as tax reform, financial services and social services. The objectives should be reviewed every five years to take into account the nation's evolving circumstances.

	Recommendation 27 Chartered Accountants recommends that the primary objective of Australia's superannuation system should be *'To create a national culture of saving and self-sufficiency in retirement.'* With an ageing population in Australia, people will need to start saving and planning for self-sufficiency in retirement because we can longer continue to rely on the Age Pension into the future.

	We believe that a national culture of saving and self-sufficiency will be more effectively created by encouraging and incentivising the desired behaviour rather than legislating this objective. Establishing clear and long term objectives for the superannuation system, with broad political agreement and community support, will help provide greater certainty for the super industry and allow Australians to invest and plan for their future with confidence. These objectives should be reviewed every five years.

7.3 The retirement income system should be flexible and incentives based

Australia's retirement income system needs to be flexible and have the ability to accommodate individual circumstances. It will be a long time before we have a mature superannuation system in which Australians have spent their entire working lives with a 12% super guarantee. Until that time, community expectations, beliefs and needs will vary greatly.

We need to encourage product innovation to address these issues and provide better levels of affordable, quality advice and education for consumers. The best outcomes will be achieved by incentivising rather than mandating behaviour. For example, incentivising Australians to save and become self-sufficient in their retirement.

	Recommendation 28 Chartered Accountants recommends that Australia's retirement incomes system be flexible and adaptable to individual circumstances, in order to better meet the changing needs of Australia's ageing population. This can be assisted through greater retirement income product innovation and providing access to more affordable and reliable education and advice for consumers. We also believe that any changes to the retirement income system will be more effective if they are encouraged and incentivised rather than legislated.

7.4 Superannuation policies must be legislated carefully and implemented practically

Although we believe it is generally more effective to incentivise behaviour rather than mandate it, where possible, any superannuation policies to be legislated must be done so carefully in order to avoid any adverse and unintended consequences.

	Recommendation 29 Chartered Accountants recommends that the government's superannuation policies be legislated carefully to avoid any adverse and unintended consequences. This should be done following meaningful consultation on the draft legislation, allowing an adequate consultation period. The legislation should then be implemented in a practical way in consultation with key stakeholders.

7.5 Investors must be made more confident and engaged in the superannuation system

Most Australians compulsorily participate in superannuation. However it is commonly accepted that consumers have a low level of engagement with their money and investments held in the superannuation sector. The government must work cooperatively with the financial services sector and the superannuation industry to ensure investors have adequate knowledge and education to engage actively and with confidence in the superannuation sector.

	Recommendation 30 Chartered Accountants recommends that the government take action to increase investor confidence and engagement in the superannuation system. This will also help to create a national culture of saving and self-sufficiency in retirement.

7.6 A simpler, more efficient and cost effective superannuation system

Ensuring that the superannuation system is made simpler and easier for the public to understand, more efficient and more cost effective will help to boost investor confidence and engagement. To achieve this it will be important to simplify the regulatory environment and reduce the frequency and number of regulatory changes. This will require a review of product disclosure rules, tax and industry supervision.

Any review should not reduce consumer protections. There must be appropriate safeguards for super fund members so that the potential for fraud and other crimes is minimised to the greatest extent possible.

The government, the financial services sector and the superannuation industry have a shared responsibility to protect the public interest, restore trust and build investor and consumer confidence through raising professional, ethical and education standards and increasing transparency and accountability.

The government also needs to ensure that regulatory settings do not unnecessarily increase costs for funds and therefore reduce overall savings.

	Recommendation 31 Chartered Accountants recommends that the superannuation system be made simpler, more efficient and more cost effective.

7.7 The superannuation system must foster competition

The regulatory environment must foster competition in order to enable participants in the superannuation system to compete fairly and ethically in an open market. The government should not express any preference for the type of superannuation fund investors may elect to use. All superannuation fund types should receive comparable regulatory oversight based on their size and number of members.

Care should also be taken to ensure that the regulatory environment doesn't impede innovation and the greater use of technology, especially in areas such as electronic delivery of documents and the use of electronic and digital signatures. The tax and regulatory environment should also provide incentives for industry participants to innovate and make use of technological advancements.

	Recommendation 32 Chartered Accountants recommends that the superannuation system foster competition, in order to enable participants to compete fairly and ethically in an open market. Care should also be taken to ensure that the regulatory environment does not impede innovation and the greater uptake of technology.

7.8 Minimum pension income limits must be regularly reviewed

As Australians are living longer, and this trend will likely continue for the foreseeable future, the government must introduce a simple solution that allows retirees to ensure their retirement savings are adequate.

We support the government's announcement on 3 May 2016 that it will review the minimum pension income regulations every five years. We believe that this review should be made a regulatory requirement. Ideally this review should be conducted within six months of the Australian Life Tables being published.

	Recommendation 33 Chartered Accountants recommends that minimum pension income limits be regularly reviewed every five years, ideally within six months of the publication of the Australian Life Tables. This review should be made a regulatory requirement. .

7.9 Annual contribution caps assessment must be reviewed

The government has legislated a $100,000 non-concessional cap that will apply from 1 July 2017 and this limit can only be accessed if an investor's total superannuation balance is less than $1.6 million. The government has also proposed a mechanism to allow some superannuation investors to make catch-up concessional contributions (again, from 1 July 2017) if a person's total superannuation balance is less than $500,000.

In our view, the government must review the:

- Process of assessing annual concessional contributions made for each superannuant;
- Severe tax penalties on those who exceed this contribution cap.

The annual assessment process is complicated, costly to administer and does not work. It is based on the false assumption that every superannuation investor will make contributions at a constant rate throughout their working life. It has a particularly negative impact for those with broken work patterns, such as women who take a break from paid work to raise their family. However, the proposed catch-up contribution cap mechanism will ameliorate this problem to some extent.

Nevertheless, the reality remains that most people's ability to make significant super contributions only occurs later in their working lives and well-advised individuals *plan* for this opportunity. The concessional and non-contribution caps need to be set at a level that acknowledges this typical experience.

The patch-work solutions introduced by previous governments to fix annual concessional contribution tests are complicated and costly to administer. It is unfair that these costs are borne by superannuation investors who may never pay excess contribution taxes. We recommend that the government remove the annual contribution cap assessment process and replace it with lifetime contribution caps, including appropriate transitional arrangements.

	Recommendation 34 Chartered Accountants recommends that the government review the process of assessing concessional contributions annually for each superannuant, because it is complicated, costly to administer and does not work. We recommend that the government replace the annual contribution cap assessment process with lifetime contribution caps, including appropriate transitional arrangements. The lifetime cap numbers should be meaningful to allow a person and their family to be self-sufficient in retirement.

7.10 The Age Pension income and assets tests must be reviewed and adjusted

The government must introduce sensible reforms to the Age Pension income and assets tests, as they are not fiscally sustainable in the longer term. Budgetary pressures created by Australia's aging population mean the Age Pension will need to increasingly become a safety net for those who have insufficient resources to provide for themselves.

Any changes to the income and assets tests must give investors time to adjust their investments and should not achieve the perverse objective of rewarding retirees who reduce their assessable assets by hiding money in non-assessable assets or spending their money. In addition, the revised rules should not unfairly penalise those who have made plans based on the current rules.

The government should review and adjust the structure of these tests every five years. We recommend reform of the Age Pension system that takes into account demographic changes, longevity, changes in the economy and the long-term nature of retirement and aged care planning.

	Recommendation 35 Chartered Accountants recommends that the government review and adjust the Age Pension income and assets tests, as they are not fiscally sustainable in the longer term. Budgetary pressures created by our aging population mean the Age Pension will increasingly need to become a safety net for those who cannot be self-sufficient. The structure of the tests should be reviewed and adjusted every five years.

8. Improving budgetary analysis and decision making

Australia's limited revenues need to be used in the most appropriate manner. To do this, better budgetary procedures and information is required.

8.1 Longer time frames required

A recent Parliamentary report recommended that longer term estimates of tax expenditures be provided[30]. This is can be seen as a reaction against a number of decisions, made by both major political parties, to implement policies whose real impact occurs outside of the forward estimates.

Despite having in place fiscal objectives, strategies and rules, the stance of fiscal policy has sometimes found itself at odds with sound policy making, including for example:

- Misreading the structural budget position;
- Implementing asymmetrical fiscal policy; and
- Failing to prosecute long term budget pressures.

An earlier Coalition Government implemented a series of tax cuts during the mining boom, failing to recognise the transitory nature of the change in Australia's terms of trade and its impact on government finances. A later Labor Government provided stimulus measures in the wake of the Global Financial Crises but did not ensure that these measures and others taken at the time were either temporary or offset by other measures so that their long term impact was contained. The legacy of these episodes has been a national debate that has been consumed by debt and deficits, threatening Australia's policy flexibility in the face of future downturns and distracting policy makers from focusing on the nation's long term economic challenges.

In our view, the Government should introduce a mechanism to ensure that the fiscal implications of key policy decisions are considered beyond the forward estimates. This is especially important in instances

[30] For example, see response to recommendation 11 of http://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Tax_Expenditures/Government_Response

where the biggest fiscal impacts occur beyond the four-year forward estimate horizon. Consideration should be given to:

- Implementing a requirement that the fiscal impact of key new policy decisions are forecast over a 10 year period and compared to a scenario without the policy; and/or
- Mandating a role for the Parliamentary Budget Office (PBO) to develop independent estimates of the fiscal impact of key new policy decisions over a 10 year period, compared to a scenario without the policy.

	Recommendation 36 Chartered Accountants recommends that the fiscal implications of key policy decisions are considered beyond the forward estimate period, for a period of 10 years.

8.2 Independent body needed

It is unrealistic to assume that in the current economic circumstances that Australia can return to a surplus in the short to medium term. Indeed, some of the assumptions included in the long term forecasts undertaken in relation to the Australian economy have used assumptions that may need updating. For example, the 2015 Intergenerational Report[31] suggests that bracket-creep will largely drive the recovery of tax receipts, but Australia's low wage growth rate makes it unclear whether this still holds true.

Given the sensitivity of the structural budget balance to the assumptions and parameters used to construct it, if the structural balance budget were to play a larger role in public discourse, there is value in ensuring that they are as credible as possible. Accordingly, there may be a role for an independent reviewer to report on the veracity of the adjustments. The Parliamentary Budget Office (PBO) has already published research on the structural budget balance[32] and this looks to be emerging as an important part of the nation's governance on budget related matters.

While the Treasury will necessarily continue to estimate the structural budget balance as part of its core role in the budget process, expanding the remit of the PBO and providing it with additional resources to develop parallel estimates of the structural budget balance will allow the PBO to play the role of an 'honest broker' in the debate around the veracity of numbers in the budget papers.

In practical terms there may be little difference in the modelling outputs but if there is more confidence in the process there is likely to be greater engagement and it would help to focus attention on the policy issues at hand rather than their political context.

	Recommendation 37 Chartered Accountants recommends the Government establish a new platform to monitor and report on the long-term pressures on the Budget. This platform should be independent of executive government and the central agencies. Consideration should be given to a role for the PBO or an independent institution (along the lines of the Institute for Fiscal Studies in the United Kingdom) or an expert panel (along the lines of Germany's Council of Economic Experts). As part of its mandate, this body would be tasked with:

[31] Refer http://www.treasury.gov.au/PublicationsAndMedia/Publications/2015/2015-Intergenerational-Report
[32] Refer http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Reports/Research_reports/Estimates_of_the_structural_budget_balance_of_the_Australian_Government_2001-02_to_2016-17

	• Reviewing periodically the assumptions and parameters used by Treasury to estimate the structural budget balance; • Promoting a greater understanding of the structural budget balance in the national debate; and • Undertaking ongoing research to refine the measure of the structural budget balance.

8.3 Alternative economic measures

The Federal Budget provides an opportunity to present alternative economic measures to the Australian people.

8.3.1 The size of government

In our view, the government should reduce the emphasis on the size of government as a fiscal rule.

In the short term, the size of government rule may provide policy makers with some fiscal discipline by making them more aware of the fiscal impacts of decisions. However, the optimal size will change over time and whilst the size of government is indeed a vital issue for society, this is a different issue.

We feel the government should initiate a separate public debate on the appropriate *size* of government in the context of the appropriate *role* for government.

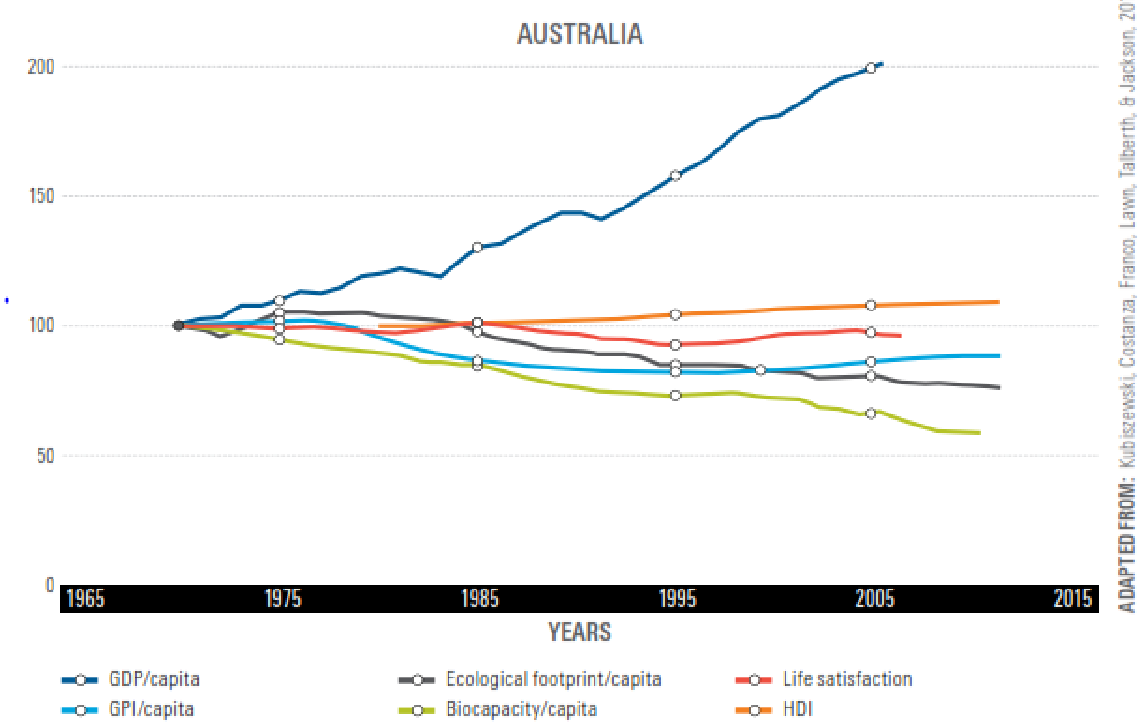
	Recommendation 38 Chartered Accountants recommends that the government should put aside the size of government as a fiscal rule. Instead the government should initiate a separate debate on the appropriate size of government in the context of the appropriate role of government.

8.3.2 Developing alternative wellbeing measures

In the quest for measuring progress and being able to compare this progress against other nations, welfare has become synonymous with Gross Domestic Product (GDP). Yet GDP is not a welfare measure – rather it is a measure of economic activity. Interest is growing in communities, governments and internationally as to how a more complete picture of progress can be shown, one which recognises environmental and social outcomes (inequality, intergenerational equity) as well as economic aspects.

In our publication *"Is policy making measuring up? Rethinking how we measure the success of a nation"*, we compared GDP/per capital against various alternative measures of national progress (see diagram below). Our analysis indicated that alternative measures of progress are now poorly correlated with changes in GDP for Australia. Yet these alternative measures of progress are a closer reflection of the aspects that society values most.

FIGURE 6: COMPARISON BETWEEN GDP/CAPITA AND SEVERAL ALTERNATE INDICES



All indictors are trended averages indexed to 1970 = 100.

These results are consistent with international findings that the correlation between an increasing GDP per capita and other measures of national progress tends to be strongest at lower GDP levels, with the rate of change in welfare tending to decrease at higher GDP per capita levels.

In Australia, recognition of the importance of a more holistic view of national progress led to the development and revision of Measure of Australia's Progress (MAP) by the Australian Bureau of Statistics (ABS). In 2013, ABS published *"Is Life Getting Better in Australia, Measures of Australia's Progress"* to explore precisely this question. The multiple indicators of MAP were published in addition to GDP data, allowing a deeper understanding of the successes, and areas of improvement. However, due to funding cuts this was discontinued. The loss of MAP raises an important question: how can the evolution of long term national progress measurement be best supported in an environment focussed on short term economic change?

In September 2015, Australia (one of 193 nations), adopted the UN sustainable development goals. The 17 goals were finalised after significant international consultation, including from Australia and will run from 2016 to 2030. They represent the broad global perspective of what our future looks like and cover all aspects of sustainable development from poverty and climate change to innovation and economic growth. The SDGs explicitly call on all nations and businesses to help solve these sustainable development challenges.

We recommend the government use its reporting to the UN of progress in achieving the goals as a replacement to the Measure of Australia's Progress initiative. These will again enable a deeper understanding of Australia's progress in a broader, more holistic way and the areas of development.

	Recommendation 39 The Government report Australia's ongoing progress in achieving the UN sustainable development goals as a way of reporting broader national progress.

9. Investing in people and technology

Record low interest rates internationally have led to calls for increased spending on infrastructure as a relatively low-cost, high-return stimulus measure for weakened economies.

Chartered Accountants believes that investment in information technology by government in its own operations and ensuring that Australians have digital access is a prerequisite to economic success. More particularly, we feel that developments in technology will:

- Lower the cost of government operations;
- Improve access to Asian markets for Australian businesses (and vice versa but it will also increase competition);
- Enable the productivity gains required to offset the reduced productive capacity from the aging population, and enable participation of young parents and semi-retired; and
- Help cities to work more efficiently and help address disparities between urban and regional areas.

9.1 Improving data usage

For a number of years it has been recognised that data is an asset and that government efficiency could be improved through better integration of data. Unfortunately, until very recently, there has been little progress on this front. Most government departments (and levels of government) operate as silos rather than taking whole of government approaches[33]. More recent initiatives have had adverse impacts on low income Australians because data analysis programmes have not worked as intended[34], or the information technology itself has failed[35].

These incidents do not mean that the idea of better data integration and use should be rejected. Rather, they provide opportunities to learn how better to implement change and invest more wisely – from both a technology and human perspective – to ensure government information infrastructure is fit for purpose and sustainable. Closer engagement between government departments on data sharing will be important. We also await with interest the Australian National Audit Office's report on the operation of myGov which is due to be tabled in February 2017.

	Recommendation 40 Chartered Accountants recommends that the Government increase its investment in Australia's technology and people, to ensure that our information infrastructure is fit for purpose and sustainable into the future.

Associated with this investment is a need to consider the human impacts of such technology change, and in this regard, Chartered Accountants is pleased to see the Open Government National Action Plan. This plan includes extensive consultation on issues such as a whole of government digital transformation roadmap, alternative models for information access laws, improving whistle blower protections, and data sharing.

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[33] It is noted that there have recently been changes proposed to allow the exchange of data from ASIC to the ATO to occur more easily. Refer http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/ASIC-ATO-information-sharing

[34] See: https://www.theguardian.com/australia-news/2016/dec/30/centrelink-debt-notices-idiotic-big-data-assumptions-expert

[35] See media statement by the ATO on systems outage at https://www.ato.gov.au/Media-centre/Media-releases/ATO-systems-update/?mkt_tok=eyJpIjoiTkRFeU9ESXdNR0ZoTTJSayIsInQiOiJmTHJ5am9CRkRmSTNCbENRd3k0RmRvcXZTVG1XQTE5YVhMSEF1YXNGTUZ5cWNzYzVmcFhxalwva0hweWRcL001aXpZalhzMzN6SXd1bkxMRkV0RzhiOEZIb3R4ckhGNXNmVzROMDB2OVQwMExyS0xteDJTdnlsaFYxXC9HOE8wbVQzVSJ9
Also see media statement by ABS - http://www.abc.net.au/news/2016-10-25/abs-ibm-to-be-grilled-over-census-outage-in-senate/7961438

	Recommendation 41 Chartered Accountants commends the Government and supports the implementation of the Open Government National Action Plan

While data sharing is important, data convergence is also important. At present, convergence is hampered by our inability to even define key terms (e.g. "employment" or "small business") consistently across different legislation. Often, attempts at convergence require reconsideration of the policy objectives of a diverse range of legislation across many government agencies with varying levels of expertise.

Ideally, convergence would also involve different levels of government as well. Harmonisation of laws across state and territory jurisdictions would greatly reduce compliance costs. Given the difficulties associated with obtaining any Federal/State and Territory agreements, it may be best for the Commonwealth to work extensively with one State initially to get some 'wins' on the board, and then encourage others to follow suit.

	Recommendation 42 Chartered Accountants recommends that the meaning of key definitions and phrases be aligned across Commonwealth, State and Territory legislation

9.2 Education and child care – Incentives to join or return to the workforce

To succeed in the future, Australia will need a flexible, diverse and creative workforce. This means an on-going challenge for the government in addressing key issues such as inequality, education and child care.

As the December 2014 Senate Community Affairs References Committee Report *Bridging our growing divide: inequality in Australia* notes, inequality is increasing in Australia. Our November 2014 publication, *Risk-wise and a fair go - A plan for Australia's continued prosperity*, noted that high levels of inequality can reduce growth through its limited effects on education and labour mobility, particularly in periods of rapid change.

Remedying this gap would not only increase equity but also lead to more economic growth and higher government revenues. And not all gains can be measured economically: the social cohesion promoted by increased equity helps bind the community together and increase wellbeing.

As the government plans for Australia's future, we encourage further investment in education, particularly early childhood education for lower income families, to not only meet the needs of Australia's growing population but also as one way to address the increasing inequality in society. Education is a key area where public investment can result in both social and economic dividends.

Furthermore, the education of our future workforce will be critical to Australia's future economic success. Access to affordable, flexible and safe child care plays a critical role in enabling parents to return to and stay in work. This access is not just needed before children begin school, but also access to out of school hours care for those whose occupations are not aligned to school hours. As the 2015 Productivity Commission's report into child care and early childhood learning recommended[36], "State and territory governments should proactively encourage the provision of outside school hours care on school sites".

Marginal tax rates also impact decisions whether to return to work, particularly for the second income earner in a family. The Productivity Commission's report recommended that "the proposed White Paper on the Reform of Australia's Tax System should include consideration of how taxation and the design of family

[36] Refer http://www.pc.gov.au/inquiries/completed/childcare#report

income support and transfer payments impact on effective marginal tax rates.” Although this tax reform process was not concluded, we recommend that the government nonetheless address this recommendation.

	Recommendation 43 Chartered Accountants recommends that the Government prioritise education and child care in its budget planning, with particular attention on how programs can encourage greater workforce participation.

10. Cyber security

In April 2016 the government released Australia’s updated cyber security strategy. Chartered Accountants encourages the government to rapidly implement this updated strategy. With the cost of cyber-attacks to businesses and individuals estimated to be around USD $133 billion globally, cyber security is an escalating risk and a top priority for the boardroom agenda according to our research.

Australia cannot afford to wait.

The April 2016 update to our national cyber security strategy is the first major update to occur since the strategy was introduced in 2009. It is vital that our cyber security strategy is rapidly implemented and regularly updated in order to ensure Australia’s continuing security, stability and prosperity.

We support the initiatives announced by the government, especially the important appointments of the first Cyber Ambassador and a new Minister Assisting the Prime Minister on cyber security. We are also pleased to see a national cyber partnership announced that recognises the importance of businesses, many of which own assets and infrastructure that may be targeted in a cyber-attack.

Assistance to business, particularly small business to develop their cyber security defences through cyber security governance ‘health checks’ and testing of their cyber security is also strongly supported. In addition, we believe that the proposed framework for collaboration between government and private sector is a step in the right direction, as is the relocation of the Australian Cyber Security Centre out of Canberra. This will ensure it will be more accessible to businesses than ever before.

These initiatives will be supported by the new Cyber Security Growth Centre, scheduled to be established in mid-2016, to develop a strategic vision to secure the long term future of the cyber security industry and to create opportunities for Australian businesses in this area.

As cyber threats are rapidly changing and evolving in terms of both the types of threats as well as the protagonists, the government must continue to work closely with industry and the owners of infrastructure assets to establish a cohesive national cyber security plan and to keep our cyber security strategy and policies up to date.

Cyber threats can potentially impact not just individual organisations but entire sectors such as the financial sector as well as the workings of government and the economy as a whole.

Australia’s cyber security strategy must anticipate and respond to changes in our threat environment, improve cohesion in policy implementation and help to progress public-private sector and cross industry collaboration.

It is vital that mechanisms are in place for it to be reviewed on a regular basis.

While Australian regulators have cyber security strategies, their focus has not necessarily been on cyber preparedness. Increasingly, overseas regulators and governments are looking at the cyber preparedness of their regulated communities. Regulators in Australia have not been public in their statements about their role in working with stakeholders on preparing for cyber threats. Nor has there been any co-ordinated effort across States and Territories to manage regulations.

Cyber security is also becoming increasingly important as government agencies increasingly require citizens to interact with them electronically. This issue is of particular importance for the ATO given its increasing importance as a whole of government data collection agency.

Recommendation 44

Chartered Accountants recommends that Australia's updated cyber security strategy be rapidly implemented and regularly revised in order to secure our nation's continuing security, stability and prosperity.

As cyber threats are rapidly changing and evolving, the government must continue to work closely with industry and the owners of infrastructure assets to establish a cohesive national cyber security plan and to keep our cyber security strategy and policies up to date.

The future roll-out of government online services and data collection by key agencies such as the ATO must address cyber security issues and establish minimum cyber security standards.

We also recommend that the government establish a formal framework for cyber security information sharing and responding to cyber threats.

It has become evident that coordination is required across government agencies and the private sector in order to plan for cyber threats, share information as well as respond to threats.

As significant cyber infrastructure is owned by the private sector, particularly the telecommunication and financial sectors, the private sector needs to understand its role as well as the role of government to ensure a rapid and coordinated response in the event of a cyber-attack. It is also important that information about cyber-attacks is shared between industry and government in order to combat future threats.

Recommendation 45

Chartered Accountants recommends that a framework for cyber security information sharing and threat response be developed, given that cyber threats are continuously evolving at a rapid speed and scale.

This will require coordination across all sectors, particularly with the owners of significant cyber infrastructure in the private sector, such as in the telecommunications and financial sectors. It is also important that information about cyber-attacks is shared between industry and government in order to combat future threats.

11. Anti-corruption and bribery

The government should urgently establish a comprehensive and sustainable plan to strengthen Australia's anti-corruption and bribery regime in order to address the growing threat of corruption and cybercrime in the region, to repair the damage to our international reputation and rankings for corruption, and to send a clear message that we do not tolerate bribery and corruption.

Australia currently ranks 13th in Transparency International's annual Corruption Perceptions Index which measures world-wide perceptions of corruption. This 2015 result marks Australia's continued slide down the rankings for the past three years, following our fall from a ranking of 7th in 1995 when the index was first launched. The 2016 rankings will be released on 25 January 2017.

We support Transparency International (TI) Australia's call to the government to enact the OECD's reforms to address overdue foreign bribery law reforms. We also support TI Australia's recommendations to establish a strong, broad-based federal anti-corruption agency; reform anti-corruption and political finance regimes at state and federal levels; and strengthen our nation's anti-money laundering regime to ensure that public regulators, and key industries like finance and real estate, are not compromised by the flow of dirty money from overseas

According to our 2015 publication *Are Australia and New Zealand Corrupt?* corruption is on the rise, with both nations increasingly trading with countries considered to be corrupt. Research suggests that bribery and corruption has increased by upwards of 80% and both Australia and New Zealand have fallen in global rankings for transparency and corruption.

Our report provides a ten point plan which could be adopted to combat corruption and bribery in Australia and New Zealand. Major recommendations for the public sector include increased transparency in awarding public sector contracts; regulation to prohibit the awarding of public sector contracts to those with past convictions; and a prohibition on public sector contracts for companies without corruption policies

Other key recommendations in our report include compulsory anti-bribery and corruption policies in NZX and ASX listing rulings; better cross border cooperation on bribery, particularly on foreign bribery; harsher sanctions applied more broadly; and reviewing the income tax deduction rules for "facilitation" payments.

The government should also provide a clear mandate to all Australian bodies involved in corruption and bribery cases and properly resource our nation's anti-corruption and bribery regime. A discrete unit needs to be established and adequately resourced to handle the increasing volume of cases.

Recommendation 46

Chartered Accountants recommends that the government urgently strengthen Australia's anti-corruption and bribery regime, in order to help to address the growing threat of corruption and cybercrime in the region, to repair the damage to our international reputation and rankings for corruption, and to send a clear message that we do not tolerate bribery and corruption. To support this the government should properly resource and provide a clear mandate to agencies which enforce our nation's anti-corruption and bribery regime.