



# CPA/CGA

CPA Australia/CGA-Canada

## **Report of the Forum on SME Issues**

Unlocking the potential  
of the SME Sector

July 2010

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### **About CGA-Canada**

Founded in 1908, the Certified General Accountants Association of Canada is a self-regulating, professional association of 73,000 students and Certified General Accountants — CGAs.

CGAs work throughout the world in industry, commerce, finance, government, public practice and other areas where accounting and financial management is required. CGA clients range from major corporations and industries to entrepreneurs. Their expertise is valued in the public sector, government and the corporate world.

CGA-Canada represents CGAs and students in Canada, as well as Bermuda, the nations of the Caribbean, the People's Republic of China and Hong Kong. CGA-Canada sets educational standards, professional guidelines, provides services and develops the CGA Program of Professional Studies.

CGA-Canada contributes to national and international accounting standard setting through co-operative professional relationships with other accounting bodies, represents the interests of the public and CGAs, and serves as an advocate for accounting professional excellence.

CGA-Canada establishes professional standards for its members through the Code of Ethical Principles and Rules of Conduct, the CGA Independence Standard and mandatory continuing professional development.

### **About CPA Australia**

CPA Australia is one of the world's largest accounting bodies with a membership of more than 129,000 finance, accounting and business professionals in more than 100 countries across the globe.

Our core services to members include education, training, technical support and advocacy. Staff and members work together with local and international bodies to represent the views and concerns of the profession to governments, regulators, industries, academia and the general public.

Our international presence continues to grow in terms of representation on international bodies and influence in the profession globally. In areas of financial reporting, taxation and corporate governance we are thought leaders in Australia and internationally.

A CPA is a finance, accounting and business professional with a specific qualification. The CPA designation is a mark of high professional competence. It indicates a soundness in depth, breadth and quality of accountancy knowledge.

The designation is widely regarded by employers and members. It provides members with an internationally recognized postgraduate qualification as well as the opportunity to complete specialist training and continuing professional development (CPD).

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## Executive Summary

In the spring of 2010, CPA Australia and CGA-Canada undertook to examine the financial and regulatory challenges facing the Small and Medium size Enterprise (SME) sector in their respective countries in the aftermath of the global financial crisis. The report is based on direct consultation with members of both organizations, as well as two roundtable discussions with government and business leaders held May 21, 2010 in Melbourne, Australia and June 9, 2010 in Gatineau, Canada.

*The Melbourne and Ottawa Forum on SME Issues* was designed to identify, evaluate, and highlight successful approaches to sustaining a robust, competitive SME sector through more efficient and effective public policy-making. Discussion targeted three key policy areas: access to funding/finance; regulatory burden; and taxation policy.

### **Access to Funding/Finance**

The nature of lending has significantly changed as a result of the global financial crisis. More information/data/research on supply-and-demand indicators for access to funding is needed to target appropriate solutions. One solution heard in Melbourne is to increase competition in the banking sector. This would likely provide small businesses with more flexibility. CPA Australia proposed that Australia follow Canada's example by implementing a code of conduct on lending to SMEs to improve transparency and the relationship between banks and SMEs. Furthermore, there was considerable discussion on the mandate of the Canadian government-owned Business Development Bank of Canada (see <http://www.bdc.ca/en/Pages/home.aspx>), as there is no equivalent in Australia.

Canadian stakeholders reported at the Ottawa roundtable that the SME sector was reasonably well equipped to weather the latest global financial crisis. This is attributed to a greater awareness by lending institutions of SME concerns — one borne of a strong customer focus and orientation toward building lasting lender/investor/business relationships. Notwithstanding, Canada's relatively strong economy is over-shadowed by a precarious global economic outlook. The result is a climate characterized by cautious, risk-averse behaviour that pervades the SME sector pending a strengthening of global economic indicators. While the effects of the global financial crisis have hit Canada much harder than Australia, the issue of access to finance was not identified as pressing during Ottawa roundtable discussion. There continues to be a concern, though, for those firms that might not have a pre-existing relationship with a financial institution.

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## **Regulatory Burden**

The Melbourne roundtable heard that top-down leadership counts when it comes to improving the regulatory environment. This, along with the diminishing burden of regulation will improve productivity and participation, while better scrutiny of regulations will ensure unnecessary burdens are not passed on to small business. Information is equally important, as SMEs want clarity and simplicity and need to know what is involved in the implementation of regulations. With this in mind, CPA Australia and its members continue to play a key role in helping businesses understand their regulatory obligations. Engaging practitioners at the start of the process will improve the design, impact and efficiency of regulation.

Ottawa participants commented that in light of the current fiscal constraints, governments are unlikely to introduce new business tax reductions. This further reinforces the importance of regulatory reform as a means of reducing burdensome costs that weigh heavily on SMEs. While governments have made some progress to date, more effort is needed to further simplify and reduce unnecessary red tape and paper burden as an effective, low cost means of enhancing productivity. Given Canadians have little appetite for large-scale deregulation, advocacy on regulatory affairs ought to ‘reframe’ the issue, highlighting governments’ responsibility to help seed a more entrepreneurial spirit predicated on improving productivity and efficiency. While regulatory harmonization is a laudable advocacy goal for the SME sector, the issue will continue to be a challenge. Ottawa participants agreed that political will is needed among government leaders, legislators, and public servants to clarify areas of jurisdictional overlap.

Government would do well to draw on private sector expertise to help devise strategies and tactics that aim to benefit SMEs, while reducing waste, red tape, and regulatory inefficiencies. To that end, professional organizations like CGA-Canada and CPA Australia have a leadership role to play in continuing to gather, analyze, and share with their many stakeholders, statistical data relating to the impact of regulations on SMEs. This data can help shape key messages that will fuel both government advocacy and public information initiatives.

## **Taxation Policy**

Australia’s federal government has announced that the 138 recommendations of the Henry Tax Review will be implemented over the next 10 years. The recommendations are primarily related to company and small business taxes, superannuation, infrastructure, and resources. Meanwhile, policy/tax incentives should encourage SME start-ups with good growth prospects, providing entrepreneurs with the much-needed support they deserve.

While the Government of Canada has made important gains in lowering personal and corporate income tax rates, tax simplification would go a long way toward reducing the unnecessary administrative burden associated with tax compliance. Moreover, the traditional tax auditor/client



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relationship can, at times, be perceived as adversarial. This misperception sows mistrust and is costly to small business. Considering SMEs as both customer and collaborator in the pursuit of sound financial oversight would help pave the way to a more productive, cooperative relationship, benefiting government and SMEs alike.

Some Ottawa roundtable participants suggested that further to the commitment to strengthen tax provisions relating to accessibility and transparency outlined in the 2010 federal budget, consideration ought to be given to introducing a Canadian taxpayer fairness code. This could include, among other things, the guaranteed right of Canadian businesses to receive written tax rulings, thereby clearly defining the Canada Revenue Agency's expectations of SME's tax obligations.

### **Observations**

Comparative analysis of Australia and Canada's SME sectors reveal several points in common. First and foremost, SMEs in both countries play a vital role in their respective economies — one that is expanding as the SME sector continues to experience growth. SMEs also need access to funding/finance in order to survive and thrive, particularly in these uncertain economic times. In addition, the sector would benefit from a simpler, more straightforward tax system.

On the other hand, owners and managers of SMEs need to improve basic management practice — including planning for the recovery, thereby minimizing financial risk. They also need to exploit new opportunities in a timely fashion as market forces dictate. Finally, SMEs stand to benefit from professional guidance to help meet the challenges of an increasingly complex, uncertain marketplace — a job for which professional accountants are optimally suited.

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## Introduction

In the spring of 2010, CPA Australia and CGA-Canada undertook to examine the financial and regulatory challenges facing the SME sector in their respective countries in the aftermath of the global financial crisis. The following is a summary report of a discussion and consultation carried out in Australia and Canada. The report is based on direct consultation with members of both organizations, as well as two roundtable discussions with government and business leaders held May 21, 2010 in Melbourne, Australia and June 9, 2010 in Gatineau, Canada. The conclusions and recommendations outlined herein are intended to help inform much needed refinements to SME-related public policy in Australia and Canada.

Given the vital economic role played by the SME sector in both Australia and Canada, the *Melbourne and Ottawa Forum on SME Issues* was designed with a specific purpose in mind: to identify, evaluate, and highlight successful approaches to sustaining a robust, competitive SME sector through efficient and effective public policy-making. In essence, lessons learned in one place may be appropriately applied in another, half a world away, without the need to re-invent the wheel. In a technology-driven world that is smaller than ever before, learning from one another serves a practical, cost-efficient, and responsible purpose.

At a glance, Australia and Canada's systems of government bear a remarkable resemblance. Moreover, this report (see *Appendix 6.2*) reflects equally striking likenesses between Australia and Canada's small and medium size enterprise sector. An exploration of the unique experiences and characteristics of the SME sector in both respective economies has fueled fruitful discussion and analysis among Australian and Canadian forum participants. CPA Australia and CGA-Canada hope these discussions will help to inform policy development in both countries — measures based on the 'tried and true' at a time where SMEs continue to be put to the test by economic uncertainty. More specifically, forum participants examined a range of different approaches used in Australia and Canada to address regulatory and statutory issues that challenge small and medium size businesses. Discussion targeted three key policy areas:

- Access to funding/finance
- Regulatory burden
- Taxation policy

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This report is the culmination of that discussion drawing on the SME sector's scope and strength of what is commonly known as the engine of economic growth in both countries. The following pages outline the many similarities, along with several distinctions that define Australia and Canada's public policy environments. The report also draws broad conclusions and offers recommendations aimed at strengthening SME-related public policy measures — advice that is intended for consideration by Australian and Canadian legislators, policy-makers, and regulators.

## **Methodology**

As part of the 2008 Mutual Recognition Agreement signed between CPA Australia and CGA-Canada, the two bodies committed to working closely together in areas of mutual interest to increase the level of services available to their respective members. In 2009, CPA Australia and CGA-Canada joined forces with the Association of Chartered Certified Accountants (ACCA) to produce a joint report on the issue of access to finance (see <http://www.cga-canada.org/en-ca/ResearchAndAdvocacy/Pages/Reports.aspx>). To expand on this report, the SME roundtable forums in Melbourne and Ottawa were proposed.

Under the joint leadership of CGA-Canada President and CEO Anthony Ariganello and CPA Australia CEO Alex Malley, staff of the two organizations collaborated to identify top-of-mind issues facing the SME sector in both countries. Direct consultation with members and research on these top-of-mind issues also informed the process.

Once priority issues were identified, discussion centred on the organization of two separate but jointly sponsored roundtable forums featuring facilitated dialogue among leaders from government, regulatory agencies, industry, the SME sector, and the financial sector. A summary of highlights of that discussion, including key observations and recommendations, are outlined in the following pages of this report.

## **Context**

### **Access to Funding/Finance**

The global financial crisis of 2007 to the present has seeded a widespread culture of risk aversion among borrowers, lenders, and investors. This continues to inhibit SME access to funding, which in turn undermines the sector's role as a vital economic driver. The situation in Australia, Canada, and elsewhere warrants careful monitoring by legislators, regulators, and the international financial community and may necessitate the introduction of remedial policies and actions.

The demands by borrowers, investors, and financial institutions for supportive documentation, market research data, and risk analysis input require valuable time, energy, and management expertise, all of which is in relatively short supply within most SMEs. Moreover, smaller investments can sometimes prove to be as costly to assess and manage as larger ones.

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Hard economic times can magnify the difficulties faced by smaller enterprises in search of funding. Lines of credit can be stretched beyond the breaking point, as lenders become predictably more demanding of borrowers as risks increase and available credit becomes scarce.

It is therefore very important for businesses seeking external funding to put in the time and resources needed to prepare a compelling business case for potential lenders/investors. This is where an accountant's advice and expertise can prove invaluable.

### **Regulatory Burden**

Other than taxation, regulation is the principal means by which government seeks to mould behaviour in order to effect change. While purposeful regulations, in moderation, are vital for a just society's safety and efficiency, over-regulation is often burdensome, confusing, and costly, particularly for SMEs. What is more, rising public debt and deficits will likely further discipline, if not constrain governments' actions for years to come. This reinforces the need for "smarter" regulations.

Reducing costly and unnecessary regulatory red tape can only help speed SMEs' recovery from the impacts of the global financial crisis, fueling new growth and opportunity through innovation and the creation of sustainable, long-term economic development.

### **Taxation Policy**

The SME sector is challenged by an unnecessarily complex, costly, and burdensome tax system and compliance regime. Lacking the resources of large enterprises, SMEs struggle to meet these demands at the expense of re-directing valuable time, energy, and scarce resources toward more competitive, innovative, and profitable pursuits — an outcome that would benefit business owners, government revenue, investors, as well as society as a whole. The SME sector needs supportive tax policies and regulations that enhance, not inhibit its ability to grow and thrive, fulfilling its traditional role as an engine of the economy. Sound tax policy is an essential lever of the economy — one that is integral to Australia and Canada's economic recovery, productivity, competitiveness, and long-term sustainability.

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## The Roundtables

### What was Heard in Melbourne

In the aftermath of the global financial crisis, the nature of lending has significantly changed. It was suggested that while banks were once lenders of money, they are now “allocators of scarce resources.” This has altered the traditional relationship between borrowers and investors/lenders, leading to increased pressure on SMEs to prove their case when applying for funding or credit. In essence, today’s lenders demand higher levels of security in an effort to lower risk. At the same time, governments, policy-makers and industry need more information/data/research on supply-and-demand indicators for access to funding to target solutions at the ‘right’ end of the issue.

There was considerable discussion on the Canadian government-owned Business Development Bank of Canada and the Canadian government’s SME loan guarantee scheme, as Australia does not have anything similar. There was considerable debate amongst participants of the merits or otherwise of Australia adopting these approaches. Also discussed was CPA Australia’s suggestion of Australia adopting the Canadian and Irish codes of conduct on bank lending to SMEs.

Finally, a strong resolution emerged from the discussions surrounding the need for more competition in the banking sector. Increased competition among institutional lenders is thought to be the most likely and effective means of providing small and medium size businesses with the greater flexibility they need.

***“The banks are now are allocators of scarce resources.”***

*Steven Münchenberg, CEO, Australian Bankers’ Association Inc.*

***“We are not out of the (global financial crisis). We are not out of the world’s financial troubles, but let’s have a reality check and understand things will change, and that will change the profile of bankers and of lenders.”***

*Graeme Samuel, Chairman, Australian Competition and Consumer Commission*

The roundtable discussion asserted that leadership is central to improving the regulatory environment. The required change in mindset and behaviour needs to be driven from the top-down. By favourably altering attitudes and behaviour, while diminishing the burden of regulation, productivity and participation/compliance is bound to improve measurably. Better scrutiny of legislation and regulations may also be the best safeguard against unfair or unnecessary burdens being passed on to small and medium size businesses.

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Given limited time and resources, SMEs require, above all else, clarity and simplicity. They need to understand precisely what is expected of them as regulations are put into operation. CPA Australia and its members play a key role in helping business people understand their regulatory obligations. Practitioners ought to be engaged early in the process, thereby influencing and improving the design, impact, and efficiency of regulations.

***“In a poll of our members, we asked them to focus on the six key priorities as advisors to business and the top three were all around burdens of regulations. We expected other more subtle areas but they kept saying that is an area that we need to look at.”***

*Alex Malley, CEO, CPA Australia*

***“It’s not just the bureaucratic cost associated with filling out a form, regulation changes behaviour so it has a wider economic impact.”***

*Greg Evans, Director — Economics and Industry Policy, Australian Chamber of Commerce and Industry.*

Roundtable participants agreed that the Henry Tax Review was a comprehensive document worthy of continued consideration. Initiated by the Government of Australia in 2008, the *Henry Tax Review* was an independent evaluation of the country’s tax and transfer system. The aim was to help position Australia to tackle the economic, social, demographic, and environmental challenges of the 21st century by designing a framework to make the tax system more simple, fair, and efficient. The review brought forward 138 recommendations and on May 2, 2010, the federal government announced its preliminary response to the report, along with the “first wave” of its reform agenda. These measures will be implemented over the next 10 years.

(See [www.taxreview.treasury.gov.au](http://www.taxreview.treasury.gov.au))

Discussion also centred on the need for policy/tax incentives that aim to provide start-ups boasting good growth prospects with much needed support. Many of Australia’s trade competitors are thought to excel in their ability to develop new, innovative, and highly competitive small businesses. Both Australia and Canada need to address this as part of a broader strategy on boosting competitiveness and productivity.

The roundtable also agreed that entrepreneurship in general and entrepreneurs in particular need fostering and greater overall support though no consensus emerged over the question of whose role it is beyond that of the government.

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***“One of the interesting comments that came through and drove the issues examined by the Henry Tax Review was that of the 125 taxes in Australia levied by all levels of government, 10 of them accounted for 90 per cent of the tax revenue, and yet we are going to spend a lot of time trying to work on how to get rid of the 115 that are left over. That is a very compelling issue.”***

*Alex Malley, CEO, CPA Australia*

### **What was Heard in Ottawa**

Canada’s SMEs were better equipped to weather the latest global financial crisis than was the case during the recession of the early 1980s and early 1990s. This is largely attributed to a greater awareness by traditional lending institutions of SME concerns — one borne of a stronger customer focus and orientation toward building lasting lender/investor/business relationships. Businesses are now challenged by Canada’s relatively strong economy, overshadowed by a precarious global economic outlook. The result is a climate characterized by overtly cautious, risk-averse behaviour that pervades the SME sector pending a strengthening of global economic indicators.

While the effects of the global financial crisis have hit Canada much harder than Australia, the issue of access to finance was not identified as pressing during the Ottawa roundtable discussion. There continues to be a concern, though, for those firms who might not have a pre-existing relationship with a financial institution.

***“Access to financing can be very challenging for SMEs and it is becoming more challenging. The bureaucratic maze of regulations and red tape consumes far too much of their time. It is costly and burdensome.”***

*Anthony Ariganello, President & CEO, CGA-Canada*

***“(Because of the recession) Entrepreneurs don’t want to grow their business. They don’t want to take any risk. They are not buying machines and equipment. They are not expanding. They have been burned and they are just waiting to see.”***

*Christianne Paris, Vice President, Business Financial Services,  
Royal Bank of Canada*

In light of the current fiscal environment, governments worldwide are running unprecedented budgetary deficits. While governments have made some progress, more concentrated effort is needed to further simplify and reduce unnecessary red tape and paper burden as an effective, low cost means of enhancing productivity. Public opinion data consistently reveals that Canadians have little appetite for large-scale political agendas focused on deregulation. The more advisable approach to advocacy on regulatory affairs may lie in ‘reframing’ the issue by highlighting governments’ responsibility to help seed a more entrepreneurial spirit predicated on improving

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productivity and efficiency. While regulatory harmonization is a laudable advocacy goal for the SME sector, the issue will continue to be a challenge given the complexities of Canada's various levels of government. What is needed is the political will among government leaders, legislators, and public servants to introduce necessary change aimed at clarifying areas of jurisdictional overlap. Moreover, government would do well to draw on private sector expertise to help devise strategies and tactics that aim to benefit SMEs, while reducing waste, red tape, and regulatory inefficiencies.

Professional national organizations like CGA-Canada and CPA Australia have a leadership role to play in continuing to gather, analyze, and share with their many stakeholders, statistical data relating to the impact of regulations on SMEs. These can help shape the development of key messages that will fuel both government advocacy and public information initiatives that span conventional inter-organizational lines. To date, both CPA Australia and CGA-Canada have well-established track records for publishing and sharing in-depth studies and reports on a broad range of topics, including regulatory reform (visit CGA-Canada: <http://www.cga-canada.org/en-ca/ResearchAndAdvocacy/Pages/Reports.aspx>; or CPA Australia: <http://www.cpaaustralia.com.au/cps/rde/xchg/cpa-site/hs.xsl/home.html>).

***“Canadian companies and the manufacturing sector have really had to embrace a lean mentality — trying to eliminate waste everywhere you find it. SMEs are very good at this because they have to be. If you can’t find it, you can’t survive.”***

*Jean-Michel Laurin, Vice President, Global Business Policy,  
Canadian Manufacturers & Exporters*

While the federal government has made some important gains in lowering personal and corporate income tax rates, the introduction of new business tax reductions in the interest of fine-tuning tax measures is highly unlikely given Canada's current fiscal situation.

Canada's current tax system is little more than a complex patchwork borne of nearly 150 years of economic history. Tax simplification would go a long way toward reducing the unnecessary administrative burden associated with tax compliance — a costly and inefficient by-product of the current tax regime. In order to achieve this, governments need to embrace a culture change. They require re-orienting their approach to the business community in general and the SME sector in particular.

The traditional tax auditor/client relationship can, at times, be perceived as adversarial. This misperception sows mistrust and is costly to small business. Considering SMEs as customer and collaborator in the pursuit of sound financial oversight would help pave the way to a different, more productive and cooperative relationship, benefiting government and SMEs alike.



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In reference to the commitment to strengthen tax provisions relating to accessibility and transparency outlined in the 2010 federal budget, consideration ought to be given to introducing a Canadian taxpayer fairness code. This should include, among other things, the guaranteed right of Canadian businesses to receive written tax rulings, thereby clearly defining the Canada Revenue Agency's expectations of SME's tax obligations.

***“Conceptually, CRA (Canada Revenue Agency) has never accepted or acknowledged that their client — people who pay taxes are also tax collectors. Has CRA ever thought of rewarding the SME as a tax collector?”***

*Derek Lee, Member of Parliament, Opposition Critic National Revenue*

***“Culture within governments also needs to change. Right now with a tax collection entity, it is a ‘got you’ mentality. I can’t tell you how many times an auditor goes into a business believing they have to find something to justify their audit.”***

*Catherine Swift, Chairwoman, President and CEO,  
Canadian Federation of Independent Business (CFIB)*

***“I think the problem with Canada is the patchwork — one fix on top of another. If you look at the Income Tax Act...it is just so complex, you need a lot of lawyers even for interpretation. It is not always clear...and it is extremely burdensome.”***

*Anthony Ariganello, President & CEO, CGA-Canada*

### **Roundtable Takeaways**

In this post global financial crisis world, economies worldwide are ridden with crippling public debt and operating deficits that, in turn, demand fiscally prudent measures, more efficiencies, simpler solutions, and greater cooperation than ever. Their survival depends on it. In these uncertain times, CPA Australia and CGA-Canada have taken steps to engage their members in discourse on the issues addressed herein. CPA Australia's opinion polls of its members, along with CGA-Canada's direct consultations have provided much of the fuel that has driven the forum process.

Throughout, one thing became clearly evident: Australia and Canada have much to learn from one another when it comes to formulating sound policies aimed at sustaining an efficient, productive, and competitive SME sector. The Australian government's Henry Tax Review is one such example where Canada would stand to gain much by embracing a similarly minded initiative to overhaul its 143-year-old “patchwork” tax system. Similarly, all levels of Canadian governments may learn from the Council of Australian Governments, where all levels of Australian governments discuss and agree on approaches to reduce regulatory overlap between jurisdictions. Australia might find similar value in the innovative Canadian approach to SME financing as conducted by the publicly

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owned and operated Business Development Bank of Canada. Moreover, the regulatory burden reduction successes achieved in British Columbia are examples worthy of further study and consideration by Australian authorities. This is not an end, but rather an auspicious beginning, as both organizations reach out to one another in an effort to learn from each other.

Below are some observations as well as specific public policy recommendations aimed at strengthening and unlocking the potential of the SME sector. It follows that governments, professional accounting bodies and lenders all have a part to play in ensuring that SMEs continue to play a central role in the national economies of both Australia and Canada.

### **General**

- ✓ The SME sector should be positioned at the top of the public policy agenda

#### **Australia-specific**

- Encouraging management capability-building and promoting entrepreneurship by SMEs would be beneficial
- Added emphasis on information and capability development would enhance SME's access to markets
- Governments need to foster free trade and resist any push for increased protectionism
- Sustainable business practices for SMEs must be encouraged

#### **Canada-specific**

- Costly barriers limiting Canada's interprovincial trade and labour mobility must be removed

### **Access to Funding/Finance**

- ✓ Tighter lending conditions are here to stay for the foreseeable future
- ✓ SMEs have little choice but to adapt to the new lending conditions
- ✓ Banks need to better communicate with their SME clients
- ✓ Business bankers need to be qualified and experienced for the role
- ✓ Governments and regulators need to exercise an open mind in exploring new ideas

#### **Australia-specific**

- Governments need to make a greater effort to increase awareness of the financing options available to SMEs and how to access such finance

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## Regulatory Burden

- Sowing throughout government a culture of eliminating unnecessary regulatory burden requires leadership from the top down
- Professional bodies and stakeholders must continue to press for regulatory reform without inviting more unnecessary, burdensome regulation
- The national economies of Australia and Canada have benefited significantly from formal structures of collaboration between state/provincial and federal governments (e.g. COAG; Council of the Federation, etc.)
- Productive federal/state, federal/provincial relationships are crucial for the regulatory reform agenda
- Incentives or ‘reward payments’ are important in encouraging regulatory reform among the states/provinces
- Globalization continues to present particular challenges for both Australia and Canada
- A commitment to continuous improvement in regulatory design and implementation will help fuel progress
- Maintaining momentum is a challenge
- States/provinces should be conscious of the national interest in formulating and implementing regulations

### Australia-specific

- The business environment would be enhanced by reducing unnecessary regulatory burdens

### Canada-specific

- The regulatory burden needs to be measured through the creation of a simple, standard means of assessing red tape and its impact on businesses
- Educating SMEs about regulatory obligations as well as providing resources to businesses would assist the SME sector
- Governments could play a leading role in coordinating efforts between various regulatory players, ranging from federal, provincial and municipal authorities
- The costs and benefits of regulation should be publicly disclosed
- More non-regulatory approaches ought to be explored

## Taxation Policy

- Political leadership from the top down is necessary to shepherd difficult tax reforms
- Consultation before policy decisions are made is important for a well-designed tax system
- A review of the tax system should be holistic and comprehensive
- Removing inefficient taxes can only be achieved if alternative, suitable sources of revenue can be identified

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- Governments could support innovation in SMEs by strengthening workforce skills and providing appropriate tax measures

**Australia-specific**

- Centralizing taxing powers creates a heavy reliance of the states on Australian federal government revenue redistributions
- An independent advisory body on the redistribution of tax revenues from the federal to state governments can help de-politicize a sensitive public policy issue

**Canada-specific**

- An independent panel of experts should be established to undertake a fundamental and comprehensive review of Canada's tax system

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## Key Messages

### ✓ **SMEs Play a Vital Role in the Economy**

Small and medium size enterprises (SMEs) are an integral part of national economies of both Australia and Canada. They contribute significantly to economic growth, national development, innovation, and employment.

### ✓ **SMEs are Continuing to Grow**

Despite the global financial crisis, Australian and Canadian SME owners and managers generally have a 'qualified' optimism about the future. Most express the expectation that future growth prospects, along with dependable sources of funding, will return to 2007 levels within a few years.

### ✓ **SMEs Need Access to Funding**

While some say we are nearing the end of the global financial crisis, a credit crunch remains. SMEs in Australia and Canada, as elsewhere, are often challenged when it comes to identifying and accessing funding sources. In the aftermath of the global financial crisis, evidence suggests that tighter lending/investment conditions will prevail for some time.

### ✓ **SMEs Need a Simpler Tax System**

More action is needed to address complex, cumbersome, and labour-intensive tax provisions, whose red tape is both difficult to decipher and costly to SMEs. CPA Australia and CGA-Canada have long been advocates of a reformed tax system based on simplicity, transparency, fairness, and international competitiveness.

### ✓ **SMEs Need to Improve Basic Management Practices**

Research reveals that there is scope for governments, industry associations, and accountants to assist SMEs improve how they manage their business, including their financial management practices.

### ✓ **SMEs Need to Plan for the Recovery**

Businesses must plan for the recovery by considering what investments ought to be made and how these will be financed.

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✓ **SMEs Need to Exploit New Opportunities**

SMEs in a strong financial position should consider opportunities to expand by acquiring competitors, making capital investments, and venturing into new markets.

✓ **SMEs Need Professional Guidance**

Accountants can act as a valuable resource to SMEs by assisting them to run and develop their businesses efficiently, including acting as a guide through the process of seeking funding to finance growth.

# Appendices

## COMPARISON OF KEY ECONOMIC INDICATORS

	AUSTRALIA	CANADA
Share of global GDP (IMF)	1980 - 1.36% 2014 - 1.51%	1980 - 2.28% 2014 - 2.29%
Real GDP growth 2009	2.7%	-2.6%
Forecast real GDP growth (IMF)	2010 – 3.0% 2011 – 3.5%	2010 – 3.1% 2011 – 3.2%
CPI	2.1% (Dec. 20 09)	1.9% (Jan. 10)
CPI projections (IMF)	2010 – 2.4% 2011 - 2.4%	2010 – 1.8% 2011 – 2.0%
Unemployment	5.3% (Feb. 2010)	8.2% (Feb. 2010)
Unemployment projections (IMF)	2010 – 5.3% 2011 - 5.1%	2010 – 7.9% 2011 - 7.5%
Participation Rate	65.2% (Feb. 2010)	67.0% (Feb. 2010)
Total GDP 2009	US\$920 billion IMF estimate	US\$1,319 billion IMF estimate
Current Central bank interest rate	4.0%	0.25% (Target for the overnight rate)
Population	22,100,000 (approx.)	33,850,000 (approx.)
Annual Population growth	2.1% (June 2009)	1.29% (October 2009)
Average weekly earnings	A\$956.20 (November 2009 – all employees)	A\$900.96 (December 2009 – exchange rate March 22)
Balance on Current Account (IMF)	2009 – -4.1% 2010 – -3.5% (projection) 2011 – -3.7%	2009 – -2.7% 2010 – -2.6% 2011 – -2.5%
Household savings rate as a percentage of disposable household income	2.5% (2009) 0.8% (2010 – OECD forecast) – lowest in OECD)	4.3% (2009) 3.3% (2010 – OECD forecast)
Government surplus/deficit as a percentage of nominal GDP	2008 – 1.0% 2009 – -4.0% 2010 – -3.5% (OECD forecast) 2011 – -2.6% (OECD forecast)	2008 0.1% 2009 -4.8% 2010 -5.2% (OECD forecast) 2011 -4.5% (OECD forecast)
Net government financial liabilities as a percentage of nominal GDP	2008 -7.3% 2009 -5.7% 2010 -1.3% (OECD forecast) 2011 1.8% (OECD forecast)	2008 22.4% 2009 28.6% 2010 32.6% (OECD forecast) 2011 35.7% (OECD forecast)
Gross government financial liabilities as a percentage of nominal GDP	2008 14.3% 2009 15.9% 2010 20.3% (OECD forecast) 2011 23.4% (OECD forecast)	2008 69.7% 2009 82.8% 2010 85.7% (OECD forecast) 2011 88.9% (OECD forecast)
Total tax revenue as a percentage of GDP	2007 – 30.8%	2007 – 33.3%
Share of tax receipts between different levels of government	Federal – 82% State - 15% Local – 3% Social Security – 0%	Federal – 45% Province - 38% Local – 9% Social Security – 8%

## SMALL BUSINESS COMPARATIVE STATISTICS

	AUSTRALIA	CANADA
Definition of small business	Those businesses with less than 20 employees (Australian Bureau of Statistics)	Those businesses that are goods-producing firms – less than 100 employees and service firms – less than 50 employees (Industry Canada)
Number of small businesses (0 to 19 employees)	1.93 million (June 2007)	2.15 million (June 2009) 2.26 million (June 2007)
Percentage of small businesses (those with 0 <sup>2</sup> to 19 staff) compared to all businesses	96 percent (June 2007)	94 percent (June 2009) 93.8 percent (June 2007)
Percentage of businesses with no employees	58.2 percent (June 2007)	58.3 percent (June 2009) 54.8 percent (June 2007)
Percentage of businesses with 1 to 4 employees	26.2 percent	25.9 percent 26.4 percent (June 2007)
Percentage of businesses with 5 to 19 employees	11.3 percent	15.3 percent 12.6 percent (June 2007)
Growth in the number of businesses	+49,695 (2006/07)	-96,984 (2008/09) +79,912 (2006/07)
Number of employees that work for businesses with less than 20 employees	5.1 million <sup>3</sup> or 51% of private sector employment or 47.2% of total employment	8.1 million or 60.4% of private sector employment or 48% of the total work force
Business that had sought debt or equity finance in 2007-8	0-4 employees 14.2% 5-19 employees 22.3% All business 18.3% <sup>4</sup>	0 employees 14% 1-4 employees 18% 5-19 employees 29% All business 18%
Export by small business	-38.2% of the 43,259 businesses exporting goods were small exporters - The value of goods exported by small exporters make up 0.5% of the total value of all goods exported <sup>5</sup>	Small exporters <sup>6</sup> represent 59% of the 45,641 exporting enterprises and 1.2% of the value of exports in 2006.  For enterprises with less than 50 employees (with no limit of the value of exports), they represent 72.9% of the number of exporting enterprises and 30.8% of the value of exports. <sup>7</sup>
Economic contribution of small business	For 2007/08, it is estimated that small business contributed around 39% of private industry value added or 31.8% of total value added to the economy. <sup>8</sup>	In 2007, small business <sup>9</sup> accounted for approximately 26% of GDP.

1 For the purpose of the below comparisons, we have attempted to align the Canadian definition with the Australian definition.

2 For Canada, this number includes businesses Industry Canada define as 'indeterminate' being those businesses that do not have a Canadian Revenue Agency payroll deductions account

3 Includes working proprietors and non-employed businesses

4 July 2007 to June 2008

5 The Australian Bureau of Statistics define small exporters as businesses with fewer than 20 payees, estimated GST turnover of less than A\$1 million and exports of less than \$1m

6 Defined as less than 50 employees and less than C\$1m in exports

7 See tables 4.3, 4.4 and 4.7 of *A profile of Canadian exporters 1993 to 2006* Statistics Canada

8 According to the OECD, in 2007 the government, health, education and other personal services added 18.4% value to the economy

9 Small business is defined in this case to be businesses with less than 50 employees.



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## Roundtable Participants

### Melbourne

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Shadow Minister for Small Business,  
Deregulation, Competition Policy and  
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Hon. Dr. Craig Emerson  
Minister for Small Business, Independent  
Contractors and the Service Minister Assisting  
the Finance Minister on Deregulation;  
Minister for Competition Policy

Greg Evans  
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Australian Chamber of Commerce and Industry

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SmartCompany (moderator)

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The Executive Connection

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Australian Consumer and Competition  
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## Ottawa

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President & CEO  
CGA-Canada

Terry LeBlanc, FCGA  
Chair  
CGA-Canada

Hon. Keith Ashfield, P.C., M.P.  
Minister of National Revenue, Minister of the  
Atlantic Canada Opportunities Agency  
and Minister for the Atlantic Gateway

Derek Lee, M.P.  
Member for Scarborough-Rouge River  
Opposition Critic National Revenue

George Arsenijevic, CGA  
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