2022-23 FEDERAL BUDGET SUBMISSION

January 2022

Introduction

CPA Australia represents the diverse interests of more than 168,000 members working in over 100 countries and regions around the world. We make this 2022-23 Federal Budget submission on their behalf and in the broader public interest.

The current conditions are challenging for business, despite Australia's unemployment rate falling to 4.2 per cent in December 2021. Many businesses face labour shortages, supply disruptions, increasing costs and weak customer demand. While these challenges are likely to fade, the risks of weaker than expected global growth, further supply and labour shortages, and future COVID-19 outbreaks and variants are real, adding considerable uncertainty to the short-term outlook.

Given this challenging environment, CPA Australia believes the key themes for this budget should be:

- short-term support for business
- longer term economic transformation.

Under these themes, the budget should seek to:

- support otherwise viable businesses that continue to be impacted by COVID-19
- reduce regulatory pressure, allowing business to concentrate on their challenges and opportunities
- support individuals affected by the economic consequences of COVID-19
- promote new growth prospects
- address the impacts of climate change.

The sub-themes of this budget should be workforce participation, skills development, digitalisation and environmental sustainability.

Accountants are at the front line of supporting businesses, including businesses in distress. They are telling us that business confidence is fragile, and the outlook is increasingly uncertain. CPA Australia therefore believes short-term government support for business is justified in this year's budget.

There are a range of low cost policy initiatives that can support business to enhance their capability to respond to short-term risks and long-term opportunities. We recommend that the Federal Government work with the states, territories, and other stakeholders to design a business support package for this year's budget that helps them:

- manage through current risks
- strengthen their ability to respond to future COVID-19 outbreaks
- take advantage of the recovery.

Not all support needs to be financial. A budget with fewer measures will reduce the compliance burden such changes impose on business. This will give businesses extra time to focus on themselves. In addition, there remains a strong need for the budget to include long-term policy proposals that drives Australia's economic transformation.

This budget will be framed against the backdrop of a virus that is likely to throw up further challenges and surprises. Business support should therefore be designed so that it is repeatable, scalable, can be adjusted for future events and builds the ability of businesses to manage through without the need for additional government support.

We believe it's currently appropriate for the government to intervene in the economy in a limited way. Allowing the economic consequences of COVID-19 to go unchallenged risks the successes governments generated through JobKeeper, the Cash Flow Boost and state-based assistance schemes. The economy faces its own version of 'long COVID' if there is not more support provided for business.

For more information

If you have any questions about this submission, please contact Gavan Ord, Senior Manager Business and Investment Policy, on gavan.ord@cpaaustralia.com.au or 0419 547 782.

Summary of Recommendations

SHORT-TERM SUPPORT FOR BUSINESS

ECONOMIC TRANSFORMATION

Short-term support for business

Assisting business access advice

COVID-19 continues to throw up new challenges for business. With new outbreaks and variants possible for some time, trading conditions are likely to wax and wane.

Businesses need support to respond to this environment. While we are not opposed to further direct financial support from government, we think it would be wiser for such support to be directed at building the capability of businesses to respond to crises and allowing businesses to position themselves for growth.

Recommendation 1

To support small businesses through the ongoing and evolving challenges of COVID-19, the government should provide small business financial incentives to access tailored advice from approved advisers of their choice.

Smaller businesses can build their business capabilities in a variety of ways. It's our experience that one of the best and fastest ways is through professional advice. Members have informed us that because of current business challenges, many of their small business clients don't have the capacity to pay for advice or have not prioritised seeking advice due to competing pressures. We know this can potentially endanger the viability of such businesses and limit their options for recovery.

This reluctance to seek advice can grow when small business gets further into difficulty. Members find that businesses in distress increasingly avoid communicating with others, including their trusted adviser. They attribute this to concerns over the cost of advice and a fear of appearing to be a failure.

The consequence of not seeking advice is that the range of options available to business owners to respond to their difficulties can reduce significantly. This may lead to otherwise viable businesses needlessly struggling. In a worst-case scenario, decisions on the future of a business may be made by creditors, not the business owner.

Expanding the business advisory services provide by governments or their contractors is not the solution. Such services only reach a small proportion of businesses. Further, small businesses are overwhelmingly more likely to seek advice from a private provider, especially accountants. For example, yet to be published research by CPA Australia shows that 44 per cent of Australian small businesses received advice from an accountant or business consultant in 2021, compared to eight per cent from government.

Government should instead roll out support programs that leverage the existing relationships small business has with professional advisers. This is likely to reach far greater numbers of small businesses in need of advice than if governments were to use their own advisory channels.

CPA Australia therefore proposes that the government consider providing small businesses, especially those in difficulty, a financial incentive to access advice. This incentive could be in the form of a voucher or grant (we suggest around $1500). The small business would use it to access the advice they need from an approved adviser of their choice (for example, their existing professional accountant, lawyer or technology consultant).

Such a voucher or grant should encourage greater numbers of small businesses to access the tailored advice and guidance they need. This should improve their business, financial and planning skills. This not only benefits the business, but also their employees and the broader economy.

The implementation of such a proposal would offer a safety net for businesses in difficulty resulting from a future COVID-19 outbreak or having to repay deferred expenses including rent, loans and taxes.

This proposal would also assist with the emergence of stronger, more competitive and sustainable small businesses in the longer term.

To ensure support is targeted to businesses most in need, eligibility could be limited to businesses in financial difficulty.

The Tasmanian Government's COVID-19 Small Business Advice and Financial Guidance Program provides an example of such a scheme.

Increasing labour supply

Upskilling the existing workforce

Skills shortages were present before the emergence of the Omicron variant. Identifying where such shortages are most pressing and increasing the size of the skilled labour pool is critical to supporting businesses, jobs and the economy.

Recommendation 2

The government work with states, territories and industry to identify where workforce pressures and risks are greatest and increase the number of free or highly subsidised training places in those areas.

Australian businesses have for some time found it difficult to access the skilled labour they need. Engagement with members indicates this experience impacted businesses in many different industries across the nation.

As a first step, identifying where the shortages are most acute will allow the government to focus its efforts. Providing free or highly subsidised vocational training in areas identified as of greatest short-term need will increase the size of the skilled labour pool, reducing skills shortages.

Longer term shortages should be addressed through measures that encourage more people to complete vocational or tertiary education courses in areas of skills shortages, and greater skilled migration.

International students and backpackers

International students and working holiday makers provide a significant pool of labour for Australian businesses. However, border restrictions have led to a significant reduction in the number of people in both categories in Australia. Our analysis indicates that there won't be a largescale snapback in numbers.

Recommendation 3

The temporary refund of visa application fees for international students and working holiday makers be extended until the end of 2022. The policy should be reviewed at that end of the year.

Recommendation 4

The temporary removal of the limit on working hours for student visa holders be extended until the end of 2022. The policy should be reviewed at the end of the year.

Recommendation 5

Consultation between governments, education institutions, education agents and industry on further measures that could encourage more international students to study in Australia.

The recent announcement of a refund of the visa application fee for offshore international students and working holiday makers is positive. It provides an incentive for such people to come to Australia in the short term.

However, acute labour shortages are likely to persist for some time. We therefore recommend that the refund be extended until the end of 2022, and then be re-evaluated.

For the same reason, we also recommend that the removal of the limit on working hours for student visa holders be extended until the end of 2022, and then be reviewed.

Our engagement in key markets for international students indicates we are unlikely to see a large-scale return of international students in the short term. Many believe that international student numbers will not return to pre-COVID numbers until 2023 or 2024. This is attributed to uncertainty over border restrictions, strong campaigns by key competitor markets and uncertainty over immigration eligibility. In short, other destinations are more appealing to potential students than Australia at the moment.

There are a range of measures to encourage greater numbers of international students to study onshore. One that should be discussed is how to make the migration pathway for those studying certain courses in Australia easier.

Investment in technology

Greater investment in labour-saving technologies can reduce the demand for labour or free up existing workers to do other tasks.

Recommendation 6

Funding the development and delivery of education and training for SMEs on labour saving technologies.

Our research on technology adoption by Australian SMEs indicates that a lack of knowledge of technology is a barrier to such investment.

We therefore suggest the government consider providing additional funding to increase the technology education and training available to SMEs. CPA Australia research indicates that this could help to convince more smaller organisations and their senior management to embrace suitable digital technologies.

Older Australians

Older Australians represent another potential source of labour. However, the number of older Australians willing to return to the workforce may not be large. The willingness of employers to employ older workers may also not be significant.

Recommendation 7

Measures be considered that would encourage older workers to return to the workforce, and employers to employ such people.

In 2020, OECD data showed Australia's labour force participation for those 65 and over was 14.2 per cent, compared to 67.1 per cent for those aged 55 to 64. The OECD average for those 65 and over is 15.3 per cent. Australia's participation rate is also below New Zealand (24.8 per cent) and the US (19.4 per cent), however it is higher than most European nations.

While the participation rate for this age group is low, Australia's unemployment rate for those 65 and over in November 2021 was 1.8 per cent, compared to 4.4 per cent for those aged 15 to 64.

Hence, while there is a potentially large pool of older Australians that can work, the number actively seeking work is very low.

Steps the government could take to encourage more senior Australians back into the workforce include offering free or highly subsidised training in areas with the greatest need. This would increase the probability of older Australians having the skills employers need.

The government should also consider other methods of encouraging older people back into the workforce and address the bias against employing older workers.

Reduce regulatory burden

Reducing the volume of changes in this budget

In this challenging and uncertain environment, business need to focus on managing risks and challenges, and positioning themselves for a potentially very different future. Reducing the volume of budget announcements that involve regulatory change would decrease the time commitment required to comply with new laws, allowing business to better respond to the current environment.

Recommendation 8

The volume of regulatory changes announced in this budget be reduced to give business more time to focus on their risks and opportunities.

Recommendation 9

The government ask its agencies to manage, delay or not proceed with regulatory changes to give business more time to focus on their recovery and growth.

A budget that has fewer short-term reform announcements than usual and pushes back previously announced measures will give businesses more time to focus on their business recovery and growth.

The time required to comply with new measures can be significant, especially for small business. Reducing the volume of proposed law changes in this budget (and administrative changes by government agencies) reduces the time required to understand and comply with such obligations. In turn, this gives business and their advisers extra time to focus on themselves in this difficult period.

Such an approach would be welcomed by many business advisers. Their workloads have remained significantly higher than usual since the beginning of the pandemic, primarily due to assisting clients with JobKeeper and state-based support schemes. They now need to focus their efforts on assisting clients through this period.

In addition, there remains a strong need for the budget to include long-term policy proposals (with long implementation timelines) to drive economic transformation. These are discussed in the next section of this submission.

Reducing existing regulatory burdens

Regulatory complexity is placing a significant burden on accountants in public practice. This has flow-on effects for the community. Regulatory technology can reduce burden by improving processes.

Recommendation 10

Continue funding government initiatives to reduce regulatory burden.

Recommendation 11

Funding for the Business Research and Innovation Initiative be increased. This will further support businesses developing technology solutions to improve regulatory processes.

The complex, multi-layered nature of Australia's current regulatory environment, especially the regulation of financial planning advice, is impacting many consumers and small business – the very people it seeks to serve and protect. This places a substantial strain on accountants in practice who operate under these regimes.

CPA Australia research found that almost 90 per cent of accountants in practice believe the compliance burden of differing legislative frameworks is a concern.[1] Less than a quarter say they have a clear understanding of their obligations. Further, regulatory complexity increases the costs many Australians pay each year to access the services of accountants, with almost 50 per cent of practitioners stating that they increased fees in the previous year to cover rising compliance costs.

This increasing regulatory complexity, cost and inconsistency is happening at a time when the financial services sector is experiencing a major structural adjustment, with service providers exiting the sector in significant numbers. The impact of this is a growing advice gap, in a world of increasing complexity and with an ageing population. A holistic review of financial regulatory frameworks is urgently required.

CPA Australia and other professional bodies have a shared goal of a regulatory environment that enables the community to access the advice it needs and to be able to fully understand that advice.

In stating this, we acknowledge the work that the government, led by Assistant Minister Ben Morton, is undertaking on regulatory burden. We look forward to continuing to work with them on this initiative. We also support the expansion of government incentives that encourage the development of technology solutions to regulatory burdens.

Digitalising small business

Over the past 15 years, CPA Australia has surveyed over 35,000 small businesses across the Asia-Pacific region. The results, presented in our annual Asia-Pacific Small Business Survey, shows that the digital capability of Australian small businesses is typically well behind their counterparts in Asia. This includes lagging Asian small businesses in selling online and in understanding cybersecurity.

[1] CPA Australia's Regulatory Burden Report – The Impact of Complex Regulatory Frameworks, 2019.

Recommendation 12

Funding be significantly increased for programs that assist small businesses to improve their capability and capacity to digitally transform.

Recommendation 13

A program providing direct financial support for small businesses to engage approved e-commerce platforms be implemented.

Recommendation 14

The technology training available to small business be increased. Such training should include cybersecurity and data privacy.

The digital gap between small business in Australia and Asia is likely to have contributed to Australia's small businesses reporting lower growth than their peers in the region in 2021 (32.2 per cent reported growing compared with the survey average of 47.3 per cent).

In turn, this is likely to have contributed to Australia's small businesses being the least likely in the region to have increased employee numbers every year since 2014 (only 7.1 per cent of Australian respondents reported that they increased employee numbers in 2021 compared with the survey average of 28.7 per cent).

For policymakers considering measures to support Australia's small businesses, improving the digital capability of the sector is essential. With a large majority of Australia's small businesses having less than five employees, access to professional advisers will be critical to this goal.

While COVID-19 has seen many small businesses increase selling online, Australian small businesses remain significantly less likely to do so than their counterparts in Asia (37.3 per cent of Australia's small businesses generated more than 10 per cent of their revenue online in 2021, compared with the survey average of 60.6 per cent).

We acknowledge that the government has implemented several programs to improve small business digital adoption, such as the Australian Small Business Advisory Service. However, the size and scope of these programs are significantly smaller and less ambitious than similar programs in other jurisdictions.

For example, Singapore's SME Go Digital (one of several SME digitalisation programs in Singapore), includes spending of S$250 million (A$259 million) to help businesses digitalise in partnership with digital platform solution providers. Hong Kong's HK$1.5 billion (A$270 million) Digital Business Programme supports enterprises to adopt IT solutions. Spain's Acelera PYME (SME Accelerate Plan) is designed to incentivise SMEs to accelerate the use of digital technologies. This plan comprises a EUR 200 million (A$316 million) fund to lend to SMEs for the purchase and leasing of equipment and services for digitalisation.

One local example of a technology support program the government should also consider is the Victorian Government's Small Business Digital Adaptation Program. This program provided a $1200 rebate to assist small businesses acquire a range of pre-approved technologies.

With Australian small business digital adoption rates well behind those in Asia, and with a strong link between digital adoption and business growth, the government should study and adapt some of these programs into Australia.

Soon to be released academic research commissioned by CPA Australia shows that uncertainty over how to best manage security and privacy is a major barrier to technology adoption. Other barriers include the attitude of senior management, compatibility, infrastructure and systems issues.

The research shows that these barriers can be reduced through better access to technology training, including on security and privacy issues, the business developing its own technology strategy and through more extensive incentivisation of technology use by governments.

Reducing or waiving certain government fees and taxes

The government should announce the reduction or temporary waiver of various fees it imposes on smaller businesses to assist them through COVID-19. This should include the removal of fringe benefits tax on rapid antigen tests (RATs).

Reduce or waive government fees

Recommendation 15

Government fees and charges imposed on business be reduced or temporarily waived, including fees imposed under ASIC's industry funding model.

Recommendation 16

Remove search and lifecycle fees on company information.

Many state and territory governments either reduced or temporarily waived fees they imposed on small business in response to COVID-19.

Doing the same at a federal level will help business and consumers, who invariably pay for such fees.

For example, the government should reduce or temporarily waive fees imposed under ASIC's industry funding model, including fees imposed on Australian Financial Services License holders and self-managed superannuation fund auditors.

As part of the migration of the ASIC registers to the Australian Business Registry Service (ABRS), we recommend the removal of registry search fees. This would bring Australia into line with the United Kingdom, United States and New Zealand. Lifecycle fees, such as notification of resolution, application to change a company name to omit the word 'limited' and application to use an alternative address should also be removed to support the integrity of records and reduce business costs.

FBT and RATs

Recommendation 17

Remove fringe benefits tax (FBT) on rapid antigen tests.

The current FBT rules impose significant costs on employers for providing rapid antigen tests (RATs) to their employees except where two narrow exceptions can be satisfied. This effectively doubles the cost of purchasing RATs for employees.

Removing FBT on RATs enables employers to deduct the cost of purchasing RATs for employees without imposing FBT. This can also somewhat mitigate the deductibility issues associated with employees purchasing RATs as employers will no longer have a tax cost barrier on their purchases.

Export assistance

It would be beneficial for business and the broader economy if the budget included announcements to support export diversification.

Recommendation 18

The Export Market Development Grant be enhanced to increase the support available to exporters seeking to diversify markets.

Recommendation 19

Austrade's funding be increased so it can expand the scope and intensity of support to Australian exporters and those considering exporting.

Recommendation 20

DFAT's funding be increased so it can initiate and complete further free trade agreements.

A challenge for Australian businesses is the rise of protectionist policies in other jurisdictions and heightened geopolitical tensions. As such, government assistance for smaller businesses to seek out new markets would be helpful in diversifying their risk.

This support could include a substantial funding increase for Austrade. This would allow it to significantly enhance the support it provides to exporters and those considering exporting, especially to non-traditional markets. Further, the government should increase its funding of the Department of Foreign Affairs and Trade (DFAT) so that it is better placed to initiate and complete more free trade agreements.

Targeted temporary industry support

Sectors that continue to experience significant disruption and financial impacts due to COVID-19 should be considered for targeted temporary support. The basis upon which industries should receive such support and when it ends should be published.

Recommendation 21

Establish publicly available criteria io assess which industries qualify for targeted support and when that support ends.

Increasing the transparency around when industries qualify for targeted support and when that support ends will provide more certainty to those industries. It may also improve community understanding as to why some industries receive support and others don't.

To increase transparency, the government should establish publicly available criteria to assess which industries qualify for targeted temporary assistance and at what stage such assistance ends.

As noted above, that targeted assistance could include financial incentives for businesses in deeply impacted industries to seek advice from their existing professional advisers.

Extending temporary tax relief to individuals

We are concerned with the impact rising inflationary pressures may have on those on lower incomes.

Recommendation 22

Consider further extending the low- and middle-income tax offset (LMITO) to address inflationary pressures

While the continued extension of the LMITO maintains, in effect, a double-dip tax cut for eligible taxpayers, we think extending the LMITO will ease cost of living pressures.

We suggest the further extension of the LMITO to 2022-23 to provide targeted financial relief for these individuals.

Managing the surge in assetless insolvencies

It is highly likely that there will be a larger than usual increase in the number of insolvencies due to COVID-19 in the coming two years.

Recommendation 23

Funding a program to support insolvency practitioners wind up assetless companies in distress.

To help manage this expected increase in insolvencies and better protect the rights of creditors, we suggest an increase in the Assetless Administration Fund administered by ASIC. Alternatively, the government could announce a new measure to support insolvency practitioners in the wind up of assetless companies.

Economic transformation

Improving stakeholder engagement

Effective stakeholder engagement by government is not only essential to good policy development and its successful implementation, but also to driving Australia's economic transformation.

Recommendation 24

The introduction of a centralised stakeholder engagement function within government agencies to coordinate external consultation. Such a function should be responsible for coordinating the timing of their agency's consultations, overseeing effectiveness and inclusiveness, and providing advice on process improvement.

While the Federal Government, and especially the ATO and Treasury, are generally good at stakeholder engagement with the business and professional community, there is room for improvement.

We have noticed that the quality and consistency of government consultation processes varies. While we fully understand the need for expediency on some issues, there have been recent examples of consultations with very short-turn-around times and agencies releasing multiple consultations due at similar times.

This impacts the ability of interested and affected parties to provide considered and quality feedback. Insufficient or rushed consultation increases the risk of poor policy development, unintended consequences and implementation issues. It can also impact the ability of industries to rapidly respond to or manage policy change.

In designing effective engagement processes, government agencies should recognise that external parties don't have the same level of resources as the government and often rely on small numbers of people who manage multiple portfolios.

Government consultation should not be seen as a 'tick-box' exercise – it should represent a genuine commitment to seek, consider and where appropriate act upon the input, advice and views of stakeholders.

To improve stakeholder engagement, CPA Australia recommends that centralised engagement teams be established within agencies to:

- coordinate the timing of consultations across the agency (and with related agencies), ensuring that stakeholders have sufficient time to respond to consultations
- ensure there are a variety of ways stakeholders can provide feedback, and consider developing new and innovative approaches to engagement
- advise the agency of process improvements and best practice, as well as measure the effectiveness and inclusiveness of the process,
  continue to coordinate the running of regular consultative meetings between the agency and stakeholders, and consider having an external co-chair for such meetings.

Budget policy and public debt

Federal and (most) state and territory governments face significant debt challenges arising from COVID-19. This will impact their budget strategy for many years.

Recommendation 25

The government's long-term budget strategy should support the country's economic transformation.

While calls for "paying down the public debt" will increase, the government's long-term budget strategy needs to balance such call with supporting Australia's economic transformation.

With the Australian economy facing a range of challenges including weak productivity growth and skills shortages, we currently believe the balance should be in favour of supporting the country's economic transformation, not austerity or increased taxes. It should be noted that Australia's net debt is still manageable and low by international standards.

Developing standardised support for businesses impacted by disasters

CPA Australia's submission to the National Natural Disaster Arrangements Royal Commission argued that governments should develop standardised support for business and individuals that can be quickly activated in response to a disaster. Such support should be able to be scaled up or down in response to the nature and magnitude of the disaster.

Recommendation 26

Funding the development of an "off the shelf" scalable disaster support policy for businesses. The level of support should reflect the nature and magnitude of a disaster.

A standardised and scalable disaster support package for business should expedite the delivery of appropriate support to business and individuals impacted by a disaster. This will provide greater certainty at a time where business and individuals could be facing significant distress.

Having an off-the-shelf, scalable disaster support plan for business that is based on robust risk analysis would enable future governments to implement tried, tested and sound disaster support quickly.

Tax reform

The government should prioritise reform of Australia's tax system, with existing structural challenges having been exacerbated by COVID-19. Tax reform is fundamental to raising Australia's productivity and achieving strong economic growth that will lift future living standards.

There also remain opportunities for targeted improvements to support taxpayers and the economy in the coming years.

Recommendation 27

Make temporary full expensing (TFE) permanent for small businesses.

The introduction of the instant asset write-off and TFE has assisted businesses to maintain or even increase their capital expenditure. It has also decreased the complexity of tax depreciation for many businesses.

To support economic transformation and increase capital investment by our small business sector, we recommend that the TFE be made permanent for small businesses.

Recommendation 28

Reduce the interest rate charged on outstanding tax liabilities to the interest rate paid by the government.

We support this recommendation of the Standing Committee on Tax and Revenue as small businesses, in particular, often incur above-market interest costs for tax liabilities that are usually paid within 90 days.

Other options include a smaller reduction towards the prevailing cash rate or consultation on market-based solutions which enable cheaper access to credit to improve cash flow.

Recommendation 29

Abolish the luxury car tax.

The luxury car tax (LCT) exists as a remnant of Australia's car manufacturing policies and contributes little to government revenues while creating complexity and purchasing distortions in the Australian car market.

The LCT is imposed on SUVs and sedans purchased by middle-income Australians, not just luxury cars, and is one disincentive for Australians to shift to electric vehicles (EV).

With the cessation of car manufacturing in Australia, consideration should also be given as to whether the customs duty of five per cent on vehicle imports should also be retained.

Recommendation 30

Release the Board of Taxation's Fringe Benefits Tax Compliance Cost Review and the government's response.

The design of and compliance with the FBT system remains an area of concern for many employers and tax practitioners. The release of the report and response will enable reform discussions to progress. This should reduce the costs of complying with FBT, particularly for small businesses.

Recommendation 31

Initiate and lead discussions on GST reform with state and territory governments.

The current dependence on personal and corporate taxes stands in contrast to other OECD economies that generate significantly more of their revenues from indirect taxes such as GST.

Reforming the GST system by broadening the base and considering an increase in the rate will not only improve the efficiency of federal taxes but will also allow the states to progress reform of their more inefficient taxes such as stamp duty.

Recommendation 32

Extend the proposed patent box regime to more industries.

The patent box regime can further support Australian research and development in growth industries such as clean energy, climate-related technologies and digital gaming to bolster our attractiveness in the highly competitive global market.

This should encourage diversity of Australia's research and development activity and should not disincentivise investment in industries other than the medical and biotechnology sectors.

Climate change initiatives

Climate policy is indivisible from environmental, health and economic policy. Consideration of climate change policy must therefore be a core principle in this budget.

Improving climate change strategies and initiatives

Recommendation 33

The government urgently reviews Australia's nationally determined contributions in line with the ratcheting mechanism of the Paris agreement. The long-term climate change strategy for the achievement of the temperature goals of the Paris agreement should be supported by a clear roadmap and defined metrics, updated at least annually, with an initial target of 2030.

Recommendation 34

The government models the economic impacts of current and possible emission reduction trajectories and temperature changes.

Recommendation 37

The government continue to incorporate the United Nations Sustainable Development Goals (SDGs) as a framework for policies that strengthen the economy and establish a sustainable and equitable recovery from the continuing COVID-19 impacts.

In an environment of economic ebbs and flows linked to successive waves of COVID-19 infections, rebuilding of the economy need not come at the expense of environmental, social and governance (ESG) issues broadly and effective climate change action more specifically.

There is momentum among many governments, businesses and investors to ensure delivery of sustainable and inclusive economic growth. This includes its decoupling from a fossil fuel over-dependency.

As the pandemic continues to provide a challenging landscape for decision-making and policy-setting there are certain key aspects that would be worthy of further consideration:

1. Governments around the globe have accepted public health scientific advice regarding restrictions, and their early and widespread application. The science of climate change also needs to be placed at the centre of emission reduction and related energy policy, as well as providing key guidance to building innovation-based economic growth and export diversification. While the government's broader long-term plan 'Australia's Long-Term Emissions Reduction Plan' for net zero emissions by 2050 is a sound policy piece, the importance of interim targets towards achievement are highlighted. As reporting and the estimation of trends during the pandemic was the cornerstone of the public health response, so too should the trends and achievement of Australia's 2030 and ultimate 2050 goals be managed. The recommendations contained in the Climate Change Authority (CCA) December 2021 report Economic data for a decarbonising world (CCA Report) provides a clear set of considerations on how various stakeholders could navigate the transition to a net zero world.
2. There needs to be greater appreciation of the connections between rapid climatic and environmental change, biodiversity loss and species redistribution and the cumulative impacts on humankind.
3. The nature of large-scale crises, the extent to which they can or cannot be predicted, and the increased risk of interconnection, are potentially heightened in severity, once climate change is brought into the equation.

We would urge a closer working relationship between government and the business sector. The delivery of Australia's Paris Agreement Nationally Determined Contributions (NDCs) is inextricably linked to the actions taken by a range of stakeholders. Locking in high carbon industries and industry dependency will have long-term deleterious effects that will be impossible to reverse within the widely acknowledged timeframe for climate action. Similarly, there should be renewed and strengthened commitment to international coordination and collaboration under the Paris Agreement.

CPA Australia recommends thorough and close consideration of the CCA Report as a key policy resource in guiding Australia's economic transition. In particular, recommendation 1 in Chapter 6 (Transitioning Australia to a low-emissions future) states:

> Develop a long-term climate change strategy that ensures Australia's contribution to the achievement of the temperature goals of the Paris Agreement and ensures we make the most of opportunities arising from the transitioning to a low emissions global economy.

As noted previously any long-term climate change strategy should be supplemented with interim goals, targets and metrics that should ideally be updated annually. CPA Australia is among a number of business, government and community groups urging a clear, long-term signal, such as a mid-century target. This is important for investment and will ensure a smooth transition to a low-emissions economy. The CCA's recommendation is, to a substantial degree, a reflection of these sentiments.

The investment and broader market signaling of setting a firm trajectory for reaching Australia's net-zero emissions position will be critical. Similarly, far greater regard will need to be given by government to the five-year interval "review, refine and rachet" mechanisms within Australia's NDCs, as part of appropriate and timely guiding of associated policy levers and business responses towards economic transitioning.

International sustainability developments

Recommendation 35

The government critically reviews the structure and resourcing of the current regulatory and standard-setting environment in Australia with due regard for the launch and subsequent structure of the International Sustainability Standards Board.

CPA Australia sees it as vital that the regulatory environment embeds developments in corporate reporting around climate change risk and pricing. We see these as key components in building a resilient recovery. In this regard, as indicated above we would urge the government to reflect on the formation of the International Sustainability Standards Board and its implications for the Australian environment.

Technology's role in reaching net zero

Recommendation 36

The government helps fund the development and deployment of technologies that will play a role in combatting global warming.

Recommendation 37

Implement a federal road user charge system for electric vehicles (EVs).

As the adoption of EVs grows, the excise revenues used to develop and maintain Australia's road infrastructure will decrease and the cost burden will need to transfer to EV users. For consistency and certainty, a federal tax is preferred to the unilateral imposition of such charges by states and territories. There needs to be an orderly and well-managed transfer of the revenue base at the federal level to avoid the devolution of funding of national infrastructure to the states and territories and the prospect of double taxation for EV users.

Unless wholistic and long-term approaches are pursued, Australia risks becoming subject to punitive trade measures from countries with stronger emissions reductions policies. Australia will also find it increasingly difficult to redress the dire state of our natural environment, with direct adverse economic consequences, as highlighted in the June 2020 Graeme Samuel AC review of the EPAC Act.

Encouraging saving and investment

Australia's superannuation system is under pressure from several areas, including the estimated $35.9 billion withdrawn[2] from superannuation in response to COVID-19, housing and wage growth on the supply side, investment in Australia's future on the demand side, and increasing costs of compliance on the administration side.

Recommendation 38

Formulation of a definition and objective of retirement.

Recommendation 39

Measures to increase access to financial advice, including the consideration of tax deductibility of advice fees.

Recommendation 40

A targeted range of incentives for investors to access for investment aimed at improving Australia's productivity and innovation.

Recommendation 41

Amend section 295-550 of the* Income Tax Assessment Act 1997 *to ensure alignment with other anti-avoidance provisions, require Commissioner determinations, and allow for Commissioner discretion for rectification and removal of excessively punitive tax measures.

Recommendation 42

Consideration of a range of tax and other policy measures aimed at encouraging long term savings outside the superannuation system.

Arguably, a question of equity may arise over the longer term when wealthier Australians are able to fund future lifestyles from their retirement savings, while less wealthy Australians have much lower levels of retirement incomes as a consequence of having accessed these funds prior to retirement.

In addition, a key finding of the 2021 Intergenerational Report was that Australia's dependency ratio, a key measure of Australia's ability to fund retirees and other non-working Australians from taxpayers, is forecast to reduce from four today to 2.7 in 2061.

The added pressure of accessing savings designed for retirement comes at a time when the superannuation system has been subject to other early access measures which are not generally regarded as retirement-related, such as the First Home Super Saver Scheme.

There are other jurisdictions which use retirement income systems for non-retirement related purposes, such as housing or health insurance. The retirement outcomes for these systems are suboptimal compared to systems which

[2] As at 20 December 2020 - https://www.apra.gov.au/covid-19-early-release-scheme-issue-35

restrict retirement incomes to retirement only. We note that other jurisdictions with top performing retirement income systems, such as Denmark and the Netherlands, are solely dedicated to retirement savings.

The Intergenerational Report also noted the increasing risks to national retirement policy through the accessibility of superannuation prior to retirement. It is important that our retirement income system be properly equipped to deal with its purpose - retirement. An appropriate definition of retirement will assist in more careful consideration being given to whether the superannuation system should be accessed in times of crisis. A definition could also assist in the design of potentially more appropriate policies to help households respond to future shocks.

We consider that the formulation of an objective of superannuation would also assist in determining when policy is at odds with the reason why Australia's superannuation system exists.

However, we also note that several other issues affecting savings and investment were highlighted by the Intergenerational Report, including:

- how to increase workforce participation, in order to combat the declining dependency ratio
- the difficulty in accessing financial advice for both retirees and working Australians
- the emerging need to support and encourage innovation and increase productivity through targeted investment incentives

Lastly, we note the increasing cost to regulated superannuation funds of measures to comply with the law at a basic level. In particular, CPA Australia has been, with other peak accounting, tax, financial advice, superannuation and actuarial bodies, in dialogue with both government and regulators regarding the 2019 expansion of the non-arm's length income and expenditure (NALI/E) provisions.

We consider the intent of the expansion to be correct. However, our overarching concern is that the ATO's interpretation of the law means that, rather than merely addressing the mischief at which the government policy was directed, the rules could result in unwarranted substantial and long-term detriment to fund members – in particular the potential for tax at the non-arm's length rate of 45 per cent on all fund income. It could also operate in conflict with a range of trustee obligations, including the newly enacted best financial interests duty (BFID) rule in the *Superannuation Industry (Supervision) Act 1993* (Cth) (SISA).

The government may also wish to consider incentives to encourage savings outside the superannuation system.

Support for not-for-profits and charities

The Australian not-for-profit (NFP) sector continues to play a vital role in delivering critical health, education and other support services to communities across Australia. Government funding through grants, tax concessions and other funding arrangements remain critical for the continued sustainability and survival of the NFP sector.

Recommendation 43

Continue ongoing efforts to streamline NFP sector regulation including:

- ***fundraising regulatory reform through the Council on Federal Financial Relations (CFFR).***
- ***a simplified and proportionate financial reporting framework that smaller NFPs can easily adopt in fulfilling their accountability and transparency obligations. We note the ongoing project of the Australian Accounting Standards Board to develop such a framework in due course.***

Recommendation 44

- ***The government ensures sufficient funding arrangements are in place to assist NFPs and charities carry out essential services to support the most vulnerable members of Australian society as we emerge from the pandemic.***
- ***The government provides support to assist the NFP sector to build the capability and capacity to invest in the most appropriate technologies for their organisations.***

While there is a need for appropriate levels of accountability and transparency to ensure that the funds entrusted with the NFP sector by both governments and private philanthropists are appropriately spent in the pursuit of the wide range of activities the NFP sector undertakes, the need for streamlined and simplified regulation that facilities such accountability and transparency remains equally important. In this regard we commend the Australian Government for its continued efforts to streamline and simplify NFP regulation.

A simplified and consistent framework applied to all NFPs across Australia is important for a sustainable and successful NFP sector that delivers on its wide-ranging objectives efficiently and effectively.

As we emerge from the COVID-19 pandemic it's important that there is adequate funding available to the NFP sector to ensure the uninterrupted delivery of health, education, disability care, aged care and other essential services.

Support is also required to build NFP capability and capacity to choose, implement and leverage the right technology in the post-COVID-19 environment. Recommendations made earlier in this submission on the digitising of small business are equally applicable to the NFP sector.

Establish an integrity commission

A body with necessary powers to act against inappropriate behaviour within the Federal Government and its agencies should boost community confidence in government.

Recommendation 45

A federal integrity commission be established, tasked with acting against and preventing corruption in the federal public sector.

A federal integrity commission, like the anti-corruption commissions in the states, should lead to improved behaviour in the federal public sector. This should improve the efficiency and effectiveness of the allocation of taxpayer money. This in turn builds community trust in government.

Community trust in government is critical for engagement, compliance and public confidence in the laws and advice of government.