

2022-23 TASMANIAN BUDGET SUBMISSION

February 2022

Introduction

CPA Australia represents the diverse interests of more than 168,000 members working in 100 countries and regions supported by 19 offices around the world. This includes over 1700 members in Tasmania. We make this submission on behalf of our members and in the broader public interest.

Current conditions are challenging for Tasmanian business. Many businesses face labour shortages, supply disruptions, increasing costs and weak customer demand. While some of these challenges are fading, the risks of weaker than expected global growth, further supply and labour shortages, inflation and future COVID-19 outbreaks and variants are real, adding considerable uncertainty to the short-term outlook.

Professional accountants are at the frontline of supporting businesses, including those in distress. Our members are telling us that business confidence is fragile, and the outlook is highly uncertain.

Given this challenging environment, we recommend that this year's budget include a business support package that helps businesses to:

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

We recommend that this package include additional funding for the COVID-19 Small Business Advice and Financial Guidance Program to further build small business capability. Emergency financial aid should only be offered in limited circumstances.

Our research shows that the digital capability of Australian small businesses is typically well behind their counterparts in Asia. This is likely to be a major reason why smaller numbers of Australian small businesses experience growth than small businesses in Asia. More extensive government incentives for business to use technology will help to address this digital gap.

We also recommend that the budget have fewer measures. New budget measures often include new compliance requirements. Less measures in this budget should therefore give businesses extra time to focus on themselves and their recovery.

CPA Australia believes that the budget should include important announcements on:

- building small business capability
- small business digitalisation
- tax reform

- reducing regulatory changes
- stakeholder engagement.

Our detailed recommendations on each of these topics are included below.

This budget will be framed against the backdrop of a virus that is likely to throw up further challenges and surprises. Therefore, future business support should be designed to build businesses' ability to manage through without the need for significant additional government support.

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.

Recommendations

Building small business capability through 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 effectively to this changing environment. Future support packages should include additional funding for businesses to build their capability to respond to crises and position themselves for growth. For future outbreaks, emergency financial aid should only be offered in limited circumstances.

Recommendation 1

Provide further funding to the COVID-19 Small Business Advice and Financial Guidance Program.

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.

Expanding Enterprise Centres Tasmania (ECT) is only part of the solution. If ECT is expanded, it's critical that new staff have appropriate business advisory experience and qualifications.

Such services only engage a small proportion of businesses and are of limited scale. Small businesses are instead significantly 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 who received advice from government.

Given the risks of future COVID outbreaks and shocks, the government should aim to quickly and efficiently build the capability of significant numbers of Tasmanian businesses to respond to those challenges. To do this, we recommend the Government provide additional funding to the COVID-19 Small Business Advice and Financial Guidance Program.

This proposal would assist with the emergence of stronger, more competitive and sustainable small businesses in the longer term. It would benefit not only the business, but also their employees and the broader economy.

Digitalising small business

Over the past 13 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](#), show that the digital capability of Australian small businesses is typically well behind their counterparts in Asia. This gap is likely to be an important contributing factor to the low growth rates and poor productivity amongst many Australian small businesses.

Recommendation 2

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

Recommendation 3

Increase the technology training available to small business. Such training should include cybersecurity and data privacy.

Australian small businesses are generally well behind their counterparts from Asia on technology adoption.

Examples of this gap include the percentage of businesses selling online. Of Australian small businesses included in our survey, 37.3 per cent generated more than 10 per cent of their revenue online in 2021 compared with the Asia-Pacific average of 60.6 per cent.

Another example is investment in technology. Australian small businesses were the most likely to **not** invest in technology in 2021 (35.1 per cent did not invest in technology compared with the survey average of 17.5 per cent).

When Australian small businesses do invest in technology, many do not seem to be making the best decisions. Of those that invested in technology in 2021, only 40.1 per cent said it increased their short-term profitability compared with the survey average of 67.4 per cent.

The digital gap is likely to have contributed to Australia's small businesses being less likely to have grown in 2021 than their peers in the region (32.2 per cent of Australian small businesses reported growing in 2021 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 Tasmania's small businesses, improving the digital capability of the sector is essential. With a large majority of

the state's small businesses having less than five employees, access to professional advisers will be critical to achieving this improvement.

The size and scope of other programs to improve the levels of small business digitalisation should match the scale and ambition of 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) incentivises 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 Tasmania.

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, businesses developing their own technology strategy and through more extensive incentivisation of technology use by governments.

Tasmania faces a growing debt challenge arising from COVID-19. This will impact the budget strategy for many years. However, with the economy facing several significant challenges, now is not the time to increase the tax burden or pursue austerity.

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

Reforms of the tax system can support economic recovery by improving the efficiency of revenue

Tax reform

collection, reducing the costs of tax administration and compliance, and improving the balance between state tax revenues and federal government grants.

Recommendation 4

Progress GST reform with the federal government and 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 tax rate will not only improve the efficiency of federal taxes but will also allow Tasmania to reduce its dependence on more inefficient taxes, including stamp duty.

The government can take a leadership role in this essential reform by engaging the federal, state and territory governments and the Australian public in meaningful and progressive discussion on the GST system for the future.

Increased revenues from GST grants will then enable state tax reform to progress as grant revenue replaces inefficient and comparatively high state taxes.

Recommendation 5

Initiate public discussions on property tax reform.

The inefficiencies and distortions introduced by stamp duties are well-understood and accepted. The government should publicly consult on managing the transition from stamp duty to annualised land and property taxes.

This reform could help improve housing affordability. In turn, this could reduce the need for current policy responses to housing affordability, such as first homeowner incentives, subsidised housing, transfer payments and public-private projects. It could also provide a more stable revenue stream for the government which is generated from the residents who directly consume and benefit from the public goods and services provided by the government.

The experience of the New South Wales Government's 2021 consultation provides insights into the appetite for change, the potential reform options and the management of the transition from a revenue perspective. This serves as a strong base from which to begin consultations with Tasmanian stakeholders on property tax reform.

Recommendation 6

Improve the design of payroll tax.

For businesses that operate between and across our state and territory borders, payroll tax is disjointed, inefficient and time-consuming. The Australian Chamber of Commerce and Industry (ACCI) 2021 [Issues Paper](#) sets out the key challenges for business. We support efforts that seek to unify, simplify and streamline payroll taxes across the nation.

Working with the Deregulation Taskforce on streamlining business reporting to integrate state payroll tax reporting requirements into a RegTech solution such as Single Touch Payroll will enable the government to enhance business productivity, improve certainty for employers and reduce expenditure on compliance activity. The outcome should involve nationally

consistent concepts, definitions and reporting requirements using a nationally integrated platform.

Reduce regulatory changes

In this challenging and uncertain environment, businesses 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 by businesses to comply with new laws, allowing them to better respond to the current environment.

Recommendation 7

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

Recommendation 8

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

A budget that has fewer short-term reform announcements than usual, and one which 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 businesses and their advisers extra time to focus on themselves in this difficult period.

Improving stakeholder engagement

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

Recommendation 9

The introduction of a centralised stakeholder engagement function within government agencies to coordinate external consultation.

As an organisation that is regularly engaged by governments around Australia and the world, we believe there is room for the Tasmanian government and its agencies to improve their engagement with the business and professional community.

Insufficient, rushed or overlapping consultations increases the risk of stakeholders not being able to appropriately respond to consultations. This can lead to poor policy development, unintended consequences and implementation issues.

In designing effective engagement processes, government agencies should recognise that external parties don't have the same level of resources as the government. They should also ensure they engage with relevant national, as well as local, organisations to get a broader perspective on important issues.

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 agencies of process improvements and best practice, as well as measure the effectiveness and inclusiveness of the process
- coordinate the running of regular consultative meetings between the agency and key stakeholders and consider having an external co-chair for such meetings.