Federal Budget Submission

February 2024

Introduction

CPA Australia represents the diverse interests of more than 172,000 members working in over 100 countries and regions around the world, including nearly 120,000 members in Australia. We make this pre-Budget submission on their behalf and in the broader public interest.

Accountants are at the front line of supporting Australian business, including businesses in distress. They are telling us that 2024 is likely to be characterised by:

- continued cost pressures
- weak demand
- labour and skills shortages.

Recent indicators point to a slight improvement in business confidence from lows experienced mid-way through 2023. However, it is too early to say whether this improvement is the beginning of a trend. What we can say from our engagement with members and business is that the economy will remain weak well into 2024.

The other major challenges facing business are cybersecurity threats and the extent and pace of regulatory change.

More broadly, significant community concerns over the cost of living, including the cost of housing is having a material impact on consumer confidence. This in turn is affecting consumer demand.

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

- alleviating cost of living and cost of doing business pressures
- capability building for business and not-for-profits (NFPs)
- improving business dynamism
- tackling skills and worker shortages
- climate change action
- economic transformation
- reducing regulatory pressure
- improving public finances.

This Budget must support efforts by the Reserve Bank of Australia to bring inflation down to within its target range of two to three per cent. Any cost-of-living relief measures should therefore be targeted to reduce its inflationary impact.

The funding of these measures should come from reductions in spending or improved efficiencies. We do not believe they should have been funded by changes to the stage three income tax cuts.

We reiterate our recommendation from previous pre-Budget submissions that the government must collaborate with stakeholders to design budget measures that help business and not-for-profits (NFPs) build their capability to respond to risks and opportunities. Such measures should improve the resilience of businesses to manage through shocks and challenges.

The government should also consider budget measures that encourage more younger Australians to start or purchase their own business. Data we have collected over 15 years shows that increasing the share of younger Australians owning their own business should lead to a more dynamic, innovative and productive economy.

Improving public finances need not come at the expense of environmental, social and governance (ESG) issues broadly and effective climate change action more specifically.

Our members are telling us that in an environment where many businesses are facing significant risks, it is more difficult than usual to keep up with regulatory change. Providing greater regulatory certainty and stability should help business at this time.

For more information
For any questions on this submission, please contact Gavan Ord on gavan.ord@cpaaustralia.com.au.

Andrew Hunter

Chief executive Officer
CPA Australia

Summary of key recommendations

Alleviate cost of living and doing business pressures

- Deliver cost of living relief to lower income households and retain the legislated Stage 3 tax cuts
- Reduce business cost pressures by assessing the merits of industry levies
- Reduce the interest charged on outstanding tax liabilities

Support businesses and NFPs build their capability

- Incentivise small business and NFPs to access professional advice
- Increase digital uptake by small business and NFPs
- Encourage companies to resolve solvency issues early

Improve business dynamism

- Promote the benefits of starting or purchasing a business to younger Australians
- Set a target to increase the percentage of Australians under 40 owning a business

Tackle skills and worker shortages

- Feature accounting, audit and finance professionals prominently in Australia's skilled migrant intake
- Incentivise students to undertake degrees in areas of shortage, including accounting
- Offer subsidised training to older Australians to help them remain in, or re-enter the workforce

Climate change action

- Announce what contribution is expected from the business community and by industry towards Australia's 43 per cent greenhouse gas emissions reduction target
- Support smaller entities with climate-related disclosures
- Address the climate-related disclosures and assurance skills gap

Economic transformation and improve public finances

- Fund a comprehensive review of Australia's tax system
- Improve how the ATO exercises their general powers of administration
- Address the punitive nature of super guarantee charge penalties
- Make financial advice fees tax deductible

Reduce regulatory pressure

- Improving policy development
- Continue fundraising regulatory reform for the charities sector
- Fund an independent audit of ASICs industry funding model

Alleviating cost of living and doing business pressures

Alleviating cost of living pressures

Cost of living relief and income tax cuts

Recommendation 1

Deliver cost of living relief to lower income households and retain the legislated Stage 3 income tax cuts

Cost of living pressures are most acutely felt by those on lower income. We therefore support the delivery of additional assistance to lower income earners. The funding for such measures should come from reductions in spending and improved efficiencies, not changes to the Stage 3 tax cut.

We also support the delivery of the legislated Stage 3 income tax cuts. These cuts were part of a three-stage process to cut taxes for all individual taxpayers, including low-income taxpayers.

These cuts were designed to refund (in part) taxpayers for bracket creep - that is, extra income tax they pay due to not indexing tax brackets with increases in average wages.

Australia has a significant labour shortage. We're competing internationally for skilled labour. Higher income taxes in comparison to other markets makes it more difficult for local employers to secure the talent they desperately need.

It should be noted that the legislated stage 3 tax cuts have been factored into the inflation forecasts by Treasury and the Reserve Bank of Australia (RBA). Those forecasts showed that the inflation rate is expected to be in decline after the cuts were legislated to begin.

CPA Australia has for many years been encouraging federal, and state and territory governments to re-commence serious discussions on holistic tax reform. For a more prosperous, productive and competitive economy, we need governments across Australia to embrace meaningful tax reform. Breaching promises on stage 3 tax cuts undermines the community's confidence in the willingness and ability of government to deliver broad tax reform.

Alleviating the cost pressures on business

Industry levies

Recommendation 2

The government include in its Budget Process Operational Rules an overarching economic framework to assess the merits of industry levy proposals and review existing industry levies.

It's not only households that are feeling cost pressures. Small businesses are also experiencing similar pressures. According to yet to be published data from our recent Asia-Pacific Small Business Survey, increasing costs were the dominate small business concern in 2023. The cost increases most detrimental to Australian small businesses last year were fuel (36 per cent), utilities (34 per cent) and insurance (33 per cent).

One approach to alleviating cost pressures on business is reducing industry levies imposed by government.

As the recent Productivity Commission's research report *Towards Levyathan? Industry Levies in Australia* finds, there has been a proliferation of industry levies. Further, the report states such levies add complexity, can be costly to collect and can have negative impacts on productivity and competition.

More rigour is needed around the assessment of industry levy proposals. We therefore support the Commission's finding that there needs to be an overarching economic framework to assess the public policy merits of such proposals. Such a framework should also be applied to all existing levies on an ongoing basis.

We agree with finding 2.2 of the report that to restore policy discipline to industry levy development, the government should amend its Budget Process Operational Rules. The amendments should require all levy proposals to identify the type of levy being introduced and how they respond to each of the tests established in the associated decision tree provided in the report.

Figure 2.5 of the report sets out a good example of the type of decision tree policymakers should follow in analysing proposals to impose cost-recovery levies on regulated entities.

Reduce the interest charged on outstanding tax liabilities

Recommendation 3

Reduce the interest rate charged on outstanding tax liabilities.

We support the recommendation of the Standing Committee on Tax and Revenue to reduce the interest charged on outstanding tax liabilities. Small business often incurs above-market interest costs for tax liabilities that are usually paid within 90 days.

Adding to the strong need to reduce both the general interest charge (GIC) and the shortfall interest charge (SIC), is the proposal to deny deductions for GIC and SIC from 1 July 2025. This will add to the cost borne by the taxpayer.

Furthermore, the effective suspension by the ATO on tax debt collection (in most circumstances) due to COVID contributed to the current build-up of business tax debts. Given this, we believe it is unfair for the GIC and SIC to be non-deductible.

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

Supporting business and NFPs to build capability

Incentivising small business and NFPs to access advice

Recommendation 4

Provide payments to small business and NFPs to encourage them to access tailored advice from professional advisers of their choice.

There are several ways to build the management capabilities of small businesses and NFPs. However, with many facing threats to their viability, this budget should include cost-efficient programs that builds capability quickly.

It is our experience that one of the best, fastest and most cost-effective ways for small business and NFPs to build capability is to seek advice from those who have the knowledge, skills and experience – their existing professional advisers. We therefore recommend this budget funds a program that provides direct financial incentives to small business and NFPs to access advice from their adviser of choice.

We suggest the federal government model such a program along similar lines to the Victorian Government's former Small Business Specialist Advice Pathways Program.

Our members have informed us that due to the current challenging environment, many of their small business and NFP clients don't have the capacity to pay for advice or have given it a low priority. They often find that this reluctance to seek advice grows when small business and smaller NFPs get further into difficulty.

The consequence of not seeking advice early is it potentially endangers their viability and limits recovery options. This may lead to otherwise viable businesses and NFPs needlessly struggling. In worst-case scenarios, decisions on their future will be made by others.

Expanding business advisory services provided by governments or their contractors is not recommended. Such services only reach a small proportion of businesses. Small businesses are overwhelmingly more likely to seek advice from a professional adviser, especially accountants. For example, CPA Australia's Asia-Pacific Small Business Survey found that 49 per cent of Australian small businesses received advice from an accountant or business consultant in 2023, compared to just 7 per cent who received advice from government.

The reported decline in volunteers will have significant impacts on the ability of NFPs to provide services to the community and raise funds. Many smaller NFPs would benefit from advice on how to tackle these significant challenges and improve their operations.

Small businesses and NFPs could also use such an incentive payment to seek advice on improving energy efficiency.

Increasing digital uptake by small business and NFPs

Recommendation 5

Provide financial incentives to smaller businesses and NFPs to encourage them to invest in selected technologies, such as e-commerce.

The performance of small businesses and NFPs can be improved by helping them build their capability and capacity to choose, buy, implement and leverage technologies. With many having limited resources, government support is necessary to drive this.

Over the past 16 years, CPA Australia has surveyed over 43,000 small businesses across the Asia-Pacific region. The results, presented in our annual Asia-Pacific Small Business Survey, show that the level of digital uptake by Australian small businesses is typically well below larger local businesses and their counterparts in Asia. This includes lower levels of online sales, social media use and adoption of technologies such as business intelligence software and artificial intelligence.

This digital gap is likely to have contributed to Australia's small businesses reporting lower growth than their peers in the region in 2023 (41 per cent of Australian respondents reported their small business grew in 2023 compared with the survey average of 60 per cent).

This result is likely to be having broader repercussions for the economy and productivity. The relatively low levels of digital uptake (beyond technology used to meet tax compliance and payroll obligations) should therefore be considered a major policy challenge.

The low level of digital uptake is also observed in smaller NFPs. This is impacting their ability to deliver services. Unfortunately, NFPs could not access previous tax incentives designed to encourage investment in technology by smaller businesses.

A consequence of COVID-19 was an increase in the number of small businesses selling online. However, Australian small businesses remain significantly less likely to do so than their counterparts in Asia (39 per cent of Australian respondents reported generating more than 10 per cent of their revenue online in 2023, compared with the survey average of 62 per cent).

A key barrier to effective technology investment by small business and smaller NFPs is their generally low understanding of technology that is best suited to their organisation.

The Digital Solutions – Australian Small Business Advisory Services (ASBAS) program is helpful in addressing this, however the scale of the challenge is such that it needs to be complemented by programs with significantly greater reach and impact.

Therefore, we recommend that this budget include funding for programs that encourage investment in selected technologies, such as e-commerce.

One example of a program that could be adopted and adapted by the federal government is the Victorian Government's former Small Business Digital Adaptation Program. This program provided a $1200 rebate to help small businesses buy a range of pre-approved technologies.

If the government's preference is to deliver such measures through the tax system, a comparable support program should also be available to NFPs.

Encouraging companies to resolve solvency issues early

Recommendation 6

Fund ASIC to visit companies displaying solvency concerns to raise awareness of directors' duties and their options.

Our members working in insolvency are expecting many corporate insolvencies this year. The government should therefore consider measures which help businesses resolve solvency issues early.

We therefore recommend that this budget funds the reintroduction of the Australian Securities and Investments Commission's (ASIC) National Insolvent Trading Program. The program involved ASIC visiting companies displaying solvency concerns, raising awareness of directors' duties and encouraging them to seek professional advice.

The key aims of such visits should be to:

- assist directors to identify insolvency indicators
- encourage businesses in distress to seek professional advice early
- increase awareness of directors' duties.

The visits should result in more companies taking early action to address their solvency problems. This could involve a restructure or the appointment of an external administrator. Such prompt action should result in better outcomes for the owners of the company, creditors and employees.

The government should also consider offering a grant to businesses that are visited by ASIC to encourage them to seek expert advice. A model for this is the Professional Services Fund Grant, which provided eligible rural and regional businesses up to $5000 to help them obtain specialist advice.

Managing the increase in assetless insolvencies

Recommendation 7

Reinstate the extra funding for the Assetless Administration Fund announced in the March 2022 budget.

The expected increase in insolvencies is likely to include an increase in insolvent companies with no, or negligible, assets.

To enable liquidators to carry out proper investigations of such companies, we recommend reinstating the funding increase for the Assetless Administration (AA) Fund, announced in the March 2022 budget. Paragraph 9.47 of the Parliamentary Joint Committee on Corporations and Financial Services report on *Corporate Insolvencies in Australia* also suggests "an immediate increase to the overall AA Fund".

Such funding should help curb fraudulent phoenix activity and better protect the rights of employees and creditors.

These monies (capped to $7500) should be made available to Registered Liquidators who have recovered no payment for undertaking the wind up of a company.

Alternatively, the government could announce new measures to support insolvency practitioners in the wind up of assetless companies.

Improving business dynamism

Recommendation 8

The government work with stakeholders to design programs that promote the benefits of starting or purchasing a business to younger Australians.

Recommendation 9

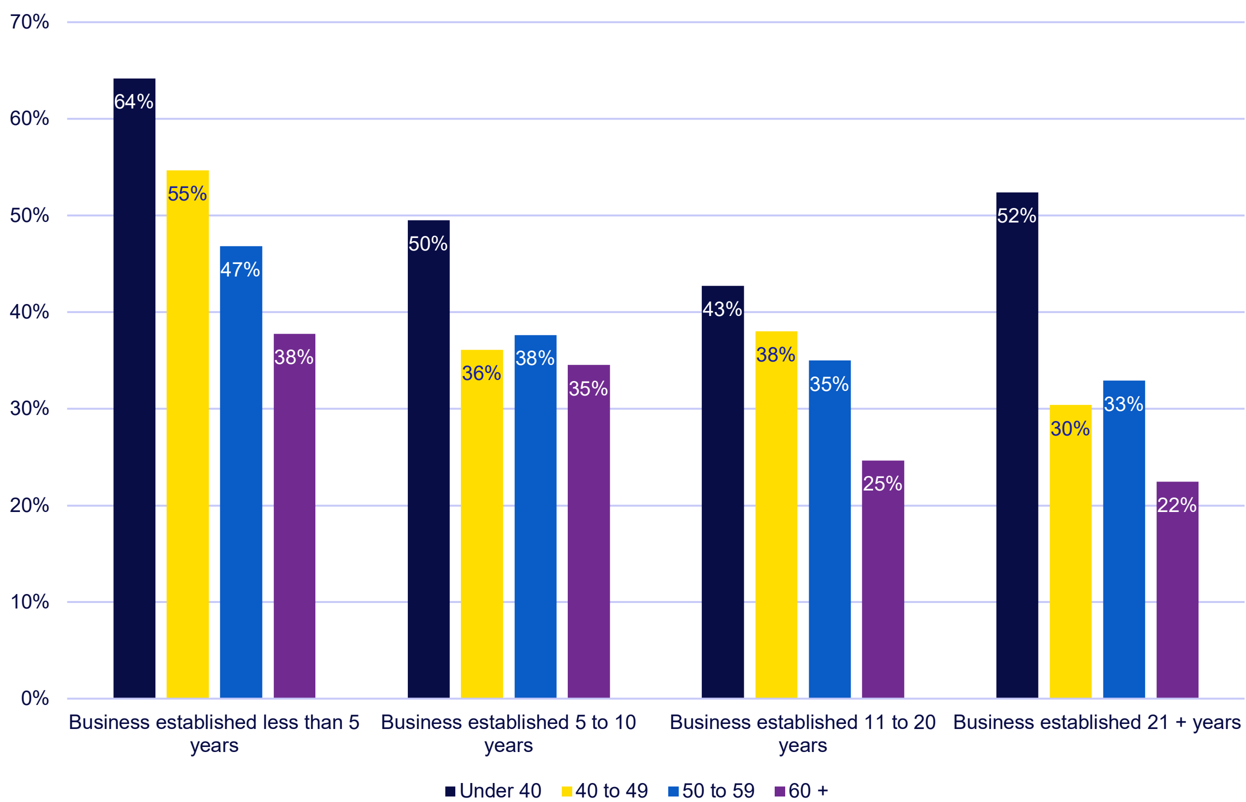
The government track and report on the proportion of small businesses owned by Australians under 40 and set a target to increase that percentage.

There are many elements that contribute towards greater business dynamism.

While encouraging more people to start a business improves dynamism, our research shows there needs to be a more nuanced discussion on the drivers of this. Data from our annual Asia-Pacific Small Business Survey demonstrates that the age of the business owner is more likely to influence business performance than the establishment of a new business. That is, policies aimed at increasing the proportion of Australians under 40 that start or purchase a business are likely to have a better economic outcome than policies focused on increasing the number of new businesses.

Figure 1 below shows that Australian small businesses that are owned by someone under 40 are more likely to grow, regardless of how long the business has been established.

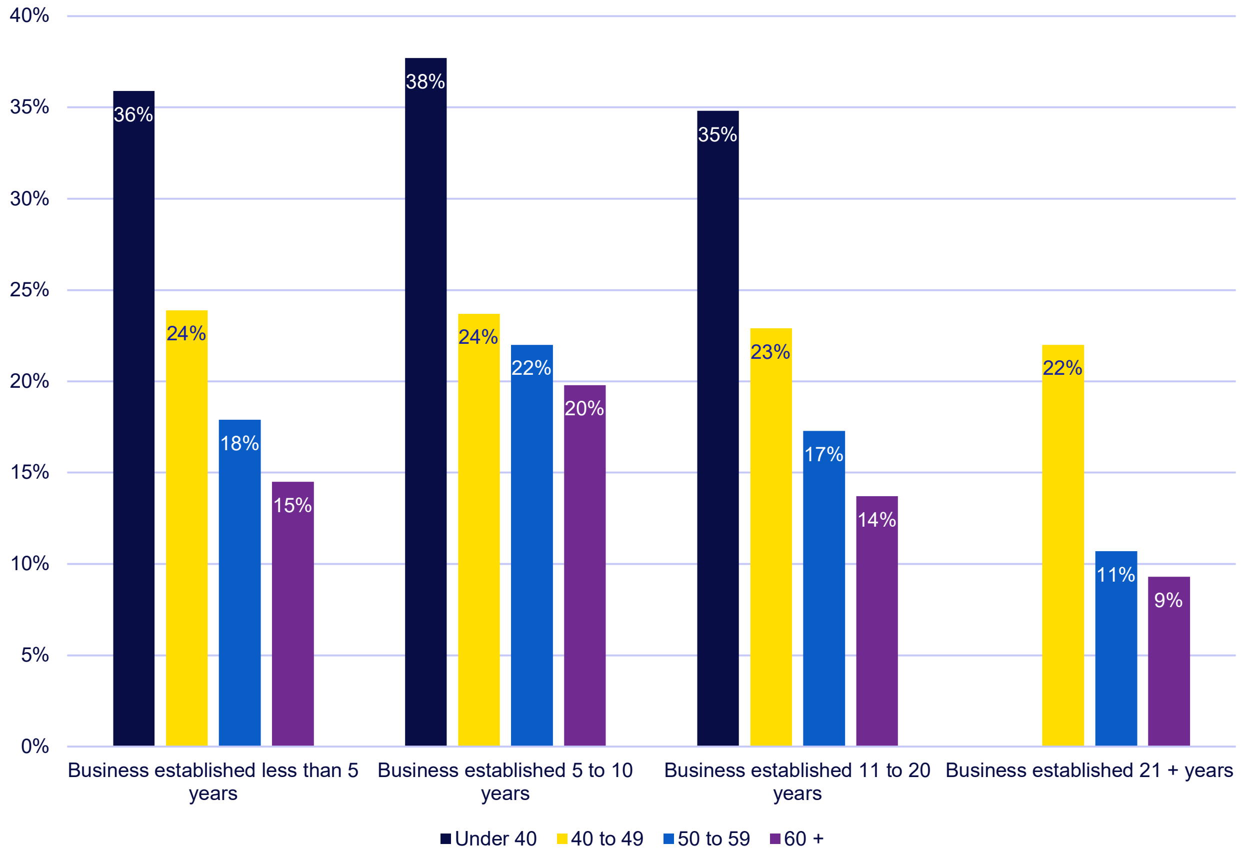
Figure 1 - Percentage of Australian small businesses that grew (average for 2014 to 2023) by age of business owner and business age



The survey data reveals that there are a range of reasons why small businesses run by younger people are more likely to grow and create jobs. These include their higher probability of using technology in their business, a stronger focus on innovation and exporting, and being less risk averse.

For example, Figure 2 shows that younger Australian business owners are more likely to invest in technology that gives them a quick return on investment.

Figure 2 - Percentage of Australian small businesses that reported their investment in technology in the past 12 months improved their profitability (average for 2017 to 2023) - by age of business owner and business age



NB – there is insufficient data for businesses established for 21 plus years where the owner is under 40.

Figure 3 illustrates that Australian small businesses owned by someone under 40 are much more likely to innovate or expect to innovate, regardless of how long the business has been established.

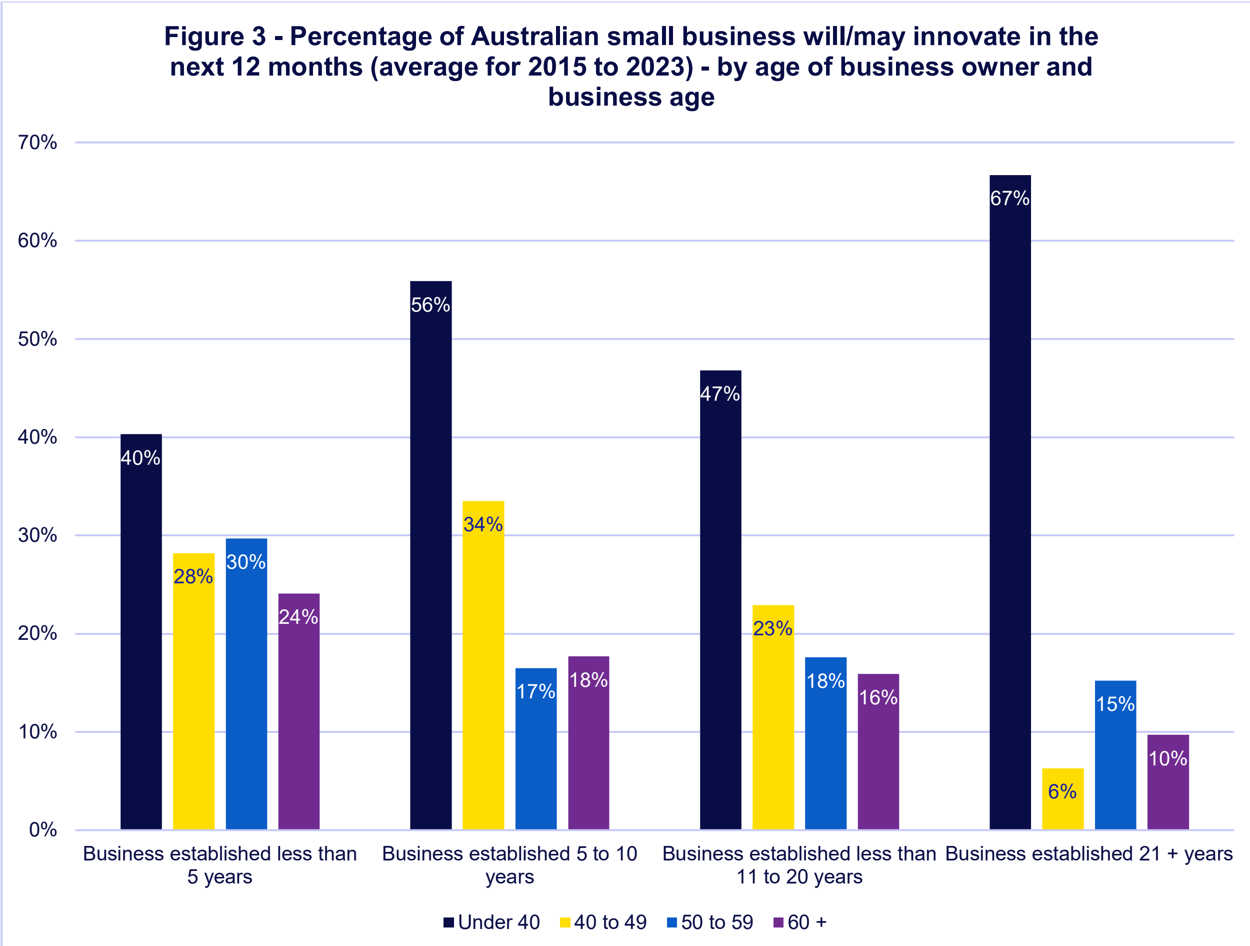
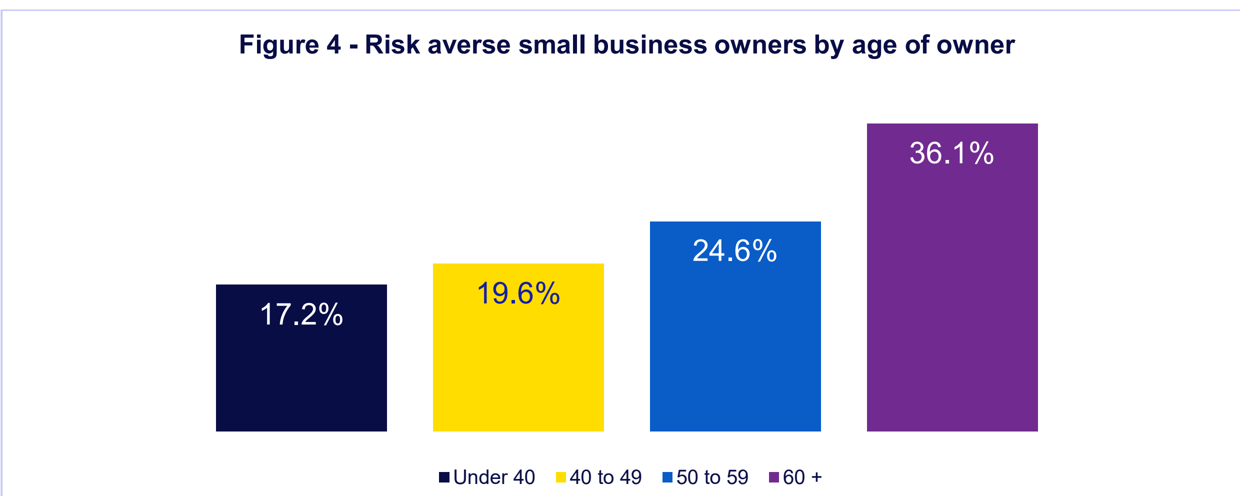


Figure 4 indicates that older small business owners are more likely to be risk averse. The survey data shows that risk averse businesses are less likely to grow, invest in technology and innovate.



As the above data demonstrates, one of the best ways to improve Australia's business dynamism is to increase the proportion of Australians under 40 owning a business.

We recommend that the first step to increasing small business ownership among younger Australians is to develop a campaign to promote its benefits. Such a campaign should focus on the primary motivators for establishing a business, which our research show are:

- being your own boss / independence
- work-life balance
- pursuing a passion or personal interest.

Such a campaign should also inform and educate aspiring business owners of the characteristics of high growth small businesses, which our survey data establishes are:

- focusing on customer satisfaction, and improving business strategy and management
- having online sales as an important channel for transacting with customers
- using social media to learn about customers and potential customers, and monitor competitors
- investing in technology such as business intelligence software, customer relationship management software and artificial intelligence
- innovating through the introduction of new products, services or processes
- expanding into new markets
- seeking professional advice.

Such a campaign should also inform and educate aspiring young business owners on how to best respond to the following key concerns when establishing a business:

- irregular income / cash flow
- uncertainty whether your business will succeed
- finding and keeping customers.

Tackling skills and worker shortages

Improving Australia's skilled migration program

Recommendation 10

Continue to preference skilled migrants in the Migration Program, using merit-based pathways.

Recommendation 11

Feature accounting, audit and finance professionals prominently in Australia's skilled migrant intake.

Recommendation 12

Replace annual caps on migrants in the Skills stream with an approach based on migrant quality.

Recommendation 13
Implement reforms to improve the quality and coverage of work readiness programs for international graduates, such as the Professional Year (PY) programs.

Recommendation 14

Fund improvements to the systems used by the Department of Home Affairs for migration processing.

Skills and worker shortages continue to hinder Australian businesses and the community. For business, it is restricting their ability to grow and respond to challenges.

While much has been done to address this issue, shortages remain. We recommend that this budget includes further measures to encourage skilled migration, improve employment outcomes for skilled migrants and address the workforce skills gap. It should be noted that there is strong global competition for labour, talent and international students.

A proposal worthy of consideration is to make all skilled migration pathways merit-based, including sponsored pathways.

Merit-based pathways award points depending on how prospective migrants are assessed against criteria designed to provide insights into their human capital. The higher the migration points scored, the more likely the applicant will be invited to migrate. Sponsored pathways are contingent on only threshold requirements for entry being met.

We are concerned that too many international graduates struggle to find employment that makes best use of their skills.

The Professional Year (PY) programs for international graduates in accounting, engineering and IT are a successful model that can be replicated and expanded to improve employment and migration outcomes for international graduates. Our data shows that a larger share of PY program graduates are employed than international graduates who do not go through the PY in the three fields. And higher proportions of them are making effective use of their skills and education.

The PY programs do however need improvement. Part of the improvement includes reforms driven by the government.

Recent reports from recruiters involved in the accounting profession confirm that employers of all types are struggling to fill vacancies. Recruitment company Robert Half's recent survey found that nine out of ten chief financial officers expect to recruit in the second half of 2023, including more than a third who plan to expand their team. people2people found that 46 per cent of accounting teams were short on accountants, with six per cent being significantly short-staffed.

Encourage students to undertake degrees in areas of shortage

Recommendation 15

Reduce student contributions and increase Commonwealth contributions to the cost of degrees in areas of shortage, including accounting.

In addition to migration, Australia needs to increase the domestic supply of skilled workers through education and training.

We recommend that this budget include further measures to encourage more people to undertake education and training in fields of identified shortages and areas of expected high growth, such as in renewable energy.

As part of the government's review of higher education funding arrangements, it should consider increasing its contribution towards the cost of such courses. This should reduce the cost of undertaking such courses for students. Such a price signal should encourage greater enrolment and completion of qualifications with identified shortages, such as accounting.

This would be similar to the fee-free TAFE and vocational education places the Federal Government is offering in partnership with state and territory governments.

In the absence of change, shortages in accounting and audit will grow. This is because demand for such professionals is forecast to grow as supply shrinks.

Supporting older Australians to remain in or re-enter the workforce

Recommendation 16

Fund the provision of free or highly subsidised training for older workers or those looking to re-enter the workforce.

To complement the recent increase in the amount age pensioners can earn before their pension is reduced, we recommend this budget include offer older Australians looking to return to the workforce and/or volunteer, free or highly subsidised training in areas of need.

Engagement with members indicates that one important reason why employers are reluctant to employ older Australians is concerns over the currency of their knowledge and their digital literacy. Offering training in such areas may help to overcome that reluctance.

It should however be noted that the number of older Australians willing to return to the workforce may not be large.

According to OECD data, Australia’s labour force participation rate for those 65 and over was 15.0 per cent in 2022. This compares to 69.0 per cent for those aged 55 to 64. The OECD average for those 65 and over is 15.9 per cent.

While the participation rate for this age group is low, Australia’s unemployment rate for those 65 and over in November 2023 was 1.8 per cent, compared to 3.9 per cent for those aged 15 to 64. Hence, while there is a potentially large pool of older Australians who could work, the number actively seeking employment is low.

Climate change action

Aligning the transition

Recommendation 17

The government announce in this budget, a roadmap that aligns Australia's overarching 43 per cent greenhouse gas emissions reduction target with clear expectations for the contribution being sought from the business community and by industry.

We welcome the Treasury's Sustainable Finance Strategy that aims to pull together various market participants and align it with the government's own Nationally Defined Contribution (NDC) of a 43 per cent reduction in Australia's greenhouse gas emissions.

We are however concerned about the raft of work being conducted at present encompassing Treasury, the Australian Accounting Standards Board (AASB), the Australian Auditing and Assurance Standards Board and the business community. Although we appreciate the need to move at speed to address previous inaction on climate change, we are concerned about the risk of fragmentation.

We are also concerned that Australia's NDC has not yet been cascaded down to clear expectations for the business community, outside of those reporting entities already caught by NGER requirements.

We therefore recommend the NDC be cascaded down to a headline reduction requirement for the business sector more broadly, and for engagement with various industries to determine their own contribution. Ultimately this would allow individual market participants to in turn verify their own transition plans.

Moreover, we believe that this would provide a tangible alignment between Australia's overarching NDC with industry contributions and provide a benchmark for the measurement of respective net zero transition plans.

Supporting smaller entities with climate-related disclosures

Recommendation 18

The government fund the AASB to develop a clear baseline of expectations on minimum climate-related reporting disclosures for smaller entities.

We commend the government on empowering the AASB to issue Australian climate-related disclosure requirements, leveraging from the work of the International Sustainability Standards Board (ISSB). We continue to believe that this will safeguard Australia's global competitive position, by requiring comparable, robust, and verifiable climate-related disclosures. Moreover, this will also serve the government's aim of positioning Australia as a leader in sustainability.

We however note that there is a global shortage of professionals that can contribute to both the reporting and assurance that the mandatory disclosure requirements would require. This is particularly so for smaller entities that would be caught by implication in the reporting requirements of larger organisations within their value chains.

Addressing the climate-related disclosures and assurance skills gap

Recommendation 19

The government contribute towards the upskilling of professionals who will deliver the reporting and assurance requirements that will be demanded from mandatory climate-related disclosures.

The ambition that has built the government's envisaged mandatory climate-related requirements will pose both challenges and opportunities for reporting entities and their advisers. The expectation for the uplift in the level of assurance being provided on disclosures, although being deployed in a staggered fashion will place significant pressure on assurance providers.

For implementation of mandatory climate-related disclosures and assurance to be successful, the government has a role in assisting professionals to upskill in this area. It can also help fill this skills gap by encouraging the migration of those with the necessary skills.

It should be noted that skills shortages in climate-related disclosures and assurance is a global issue. It is therefore incumbent on the government to attract the best climate reporting and assurance talent to Australia, whilst balancing against the needs of developing economies.

Considering the societal impacts of transitioning to a lower carbon state

Recommendation 20

Fund the re-skilling and placement of workers from industries most likely to be negatively affected by the transition to renewables.

Recommendation 21

Establish a long-term fund that invests in communities that are most likely to be negatively affected by the transition to renewables.

Recommendation 22

Provide access to grants, professional advice and planning support to small businesses from industries and communities most likely to be negatively affected by the transition to renewables.

We continue to be concerned about the societal impact of Australia's transition to a lower carbon state. We note that the Net Zero Authority has tasked itself to: "promote orderly and positive economic transformation associated with decarbonisation and energy system change in regional areas, including support for impacted workers."

We are however concerned about the lack of a coordinated roadmap that aligns the government's intent to decouple Australian energy production from coal, with a clear plan for upskilling and preparation of affected workers, communities and businesses for the transition to renewables.

Economic transformation and improving public finances

Tax reform

Recommendation 23

Fund a review of Australia's tax system, including a comparative analysis of Australia against other advanced economies.

Recommendation 24

Initiate and lead discussions on GST, stamp duty and payroll tax reform with state and territory governments.

Each year, significant effort is put into separately assessing different elements of Australia's tax system, with many government-initiated reviews, audits and investigations being undertaken. Recommendations usually identify several specific areas for improvement. There is also substantial research published by academics, other policy experts and non-government organisations that provides further insights and potential solutions. This is a piecemeal approach to tax reform.

Australia does not have a clear plan to address the structural challenges and the more costly, contentious and/or politically difficult aspects of our tax system.

It is incumbent on the federal and state governments to address the ever-growing structural problems in Australia's tax system in the interest of future generations.

Chief among those structural challenges is Australia's dependence on personal and corporate taxes. This stands in contrast to most 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 must be a central consideration in any review of the tax system (as well as compensation for those most impacted by such reform). Such changes should improve the efficiency of federal taxes and allow the states to progress necessary reforms.

The government should therefore prioritise deep reform of Australia's tax system. Tax reform is fundamental to raising productivity, increasing Australia's international competitiveness and achieving strong economic growth that lifts future living standards.

We recommend the government sets out its tax reform priorities in this budget and begin consultation.

Other key issues that should be considered as part of deep tax reform include:

- an evaluation of the effectiveness of key tax policy settings
- an assessment of the relevance of recommendations from earlier reviews
- the competitiveness of personal and company tax rates
- a review of fringe benefits tax
- the impact of the thin capitalisation regime on investment
- improving payroll tax reporting nationally.

Establishing a tax reform program with bipartisan support and buy-in from state and territory governments will provide Australians, businesses and investors with greater certainty and help progress necessary reforms.

Targeted tax changes

Improving how the ATO exercises its general powers of administration

Recommendation 25

Legislate a framework of guiding principles for the exercise of the Tax Commissioner's general powers of administration (GPA).

We support the findings and recommendations made by the Inspector-General of Taxation and Taxation Ombudsman in The Exercise of the Commissioner's General Powers of Administration – Final Report (GPA Report).

In particular, we support recommendations 4 to 6 of the GPA report. Enacting these three recommendations will promote understanding, provide certainty, and increase public confidence and trust in the ATO exercising their GPA.

It will also enhance the efficiency and delivery of the GPA as the guiding principles will set parameters and boundaries the ATO must operate within.

Improving the design of the working from home deduction

Recommendation 26

Legislate a fixed rate method for work from home (WFH) deductions.

The ATO's fixed rate for WFH expenses is an administrative method that cannot be used as a valid approach at objection where the Commissioner must apply the general principles (section 8-1). To improve certainty and clarity for the ATO and taxpayers, a legislated fixed rate method for WFH expenses should be introduced. This should be similar to the cents per kilometre method for motor vehicle expenses (Division 28 of the *Income Tax Assessment Act 1997*).

This measure should also address the current uncertainty about the ability to deduct WFH expenses without a dedicated space, absent the fixed rate.

Addressing the punitive nature of super guarantee charge penalties

Recommendation 27

Address the unfairly punitive nature of superannuation guarantee charge (SGC) penalties contained in Part 7 of the Superannuation Guarantee (Administration) Act 1992.

The Commissioner of Taxation should be provided with the discretion to remit SGC penalties where there is no mischief, and the employee is not out of pocket. Mismatches created by clearing house and other timing issues outside the control of the employer should be addressed.

Abolish the luxury car tax

Recommendation 28

Abolish the luxury car tax.

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

Implement a road user charge for electric vehicles

Recommendation 29

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

As the adoption of EVs grows, fuel excise collections will decrease unless a charge is placed on EV users. A federal road user charge is considered the best approach to raising revenue from EVs.

Targeted changes to encourage savings and investment

Recommendation 30

Pay superannuation guarantee contributions on paid parental leave.

Recommendation 31

Legislate to make financial advice fees tax deductible.

Recommendation 32

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

Recommendation 33

Consideration of a range of policy measures aimed at encouraging savings outside of the superannuation system.

We note that several issues affecting savings and investment were highlighted by recent Intergenerational Reports, including:

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

We also note the increasing compliance costs for regulated superannuation funds.

There are opportunities in this budget for targeted improvements to Australia's retirement savings system to support the community and the economy in the coming years.

The gender gap in retirement savings means that women on average retire with smaller superannuation balances than men. This in turn means less financial security. One reason for this is the time mothers take off from paid employment to care for children.

The Retirement Income Review investigated paying superannuation on parental leave and found it would help reduce the gap. The Productivity Commission also recommended paying super on parental leave.

Seeking advice is expensive and the ability to fully deduct the cost of advice will help Australians plan for their future. A specific provision for the deductibility of financial advice fees, like the deduction for tax-related expenses (section 25-5 of the *Income Tax Assessment Act 1997*), should be introduced.

The 2021 Intergenerational Report also highlighted that Australia's real GDP is likely to grow at a reduced average rate of 1.5 per cent per annum over the next 40 years.

Areas where Australia's performance could improve were identified as skills, infrastructure and digital transformation. We believe that targeting these areas for investor incentives will stimulate improvements in Australia's productivity.

We recognise that some of these investments require longer periods to generate a return than is acceptable to many investors. Since superannuation funds are better equipped to match payoff cycles on long-term investments, we recommend that some investment incentives target superannuation funds.

CPA Australia has long supported the role that tax and social security concessions play in motivating Australians towards responsible saving for retirement. However, we note there are very few incentives for saving over the short-and mid-term. The government should consider investment vehicles designed for shorter terms.

Improving the Companies Register

Recommendation 34

Fund the building of the Companies Register on the same platform hosting the director ID, or one that can easily integrate with that platform.

Recommendation 35

Companies Register search fees be abolished.

Recommendation 36

Invest in improvements to the Companies Register to allow for the de-identification of directors' and officers' personal information on the Companies Register.

Despite the government not proceeding with the Modernising Business Registers (MBR) program, it remains essential for the Companies Register to be improved. In its current state, it is not fit-for-purpose.

In our view, funding to stabilise existing business registers announced in the Mid-Year Economic and Fiscal Outlook 2023-24 does not go far enough. We expect such stabilisation will be done on the Register's existing outdated stand-alone platform – a platform that do not easily interact with other government platforms or current technologies. This was recognised in the Review of the MBR Program, which found ASIC legacy systems, such as the Companies Register does not easily integrate with new technologies.

Relying on stand-alone platforms that do not easily integrate with others, appears to disregard the key benefit of the director ID - each director ID being linked to associated companies.

This Budget should include funding to build the Companies Register on the same platform hosting the director ID to enable seamless linkage. The alternative is building it on a platform that can easily integrate with the platform hosting director ID.

We consider such an investment necessary to create a Companies Register that meets the needs of users. This is an asset critical to enabling individuals and businesses to better engage in the economy and for the effective operation of the legal system.

Reducing regulatory pressure

Improving policy development

Recommendation 37

Fund the introduction of dedicated stakeholder engagement teams/functions within government agencies.

Effective stakeholder engagement by government is essential to good policy development and implementation, as well as driving Australia's economic transformation.

Unfortunately, there have been several recent examples where law changes were rushed, with inadequate or no consultation. For example, the amendments made to the *Treasury Laws Amendment (2023 Measures No. 1) Bill 2023* relating to the *Tax Agent Services Act 2009.*

The quality and consistency of government consultation processes varies, including the time given to respond. Additionally, running multiple consultations at the same or similar times affects the ability of interested parties to provide considered and useful feedback.

Poor policy development processes often lead to poor outcomes, unintended consequences and implementation issues. This is due to the policy impacts not being fully considered or understood. This in turn is highly likely to lead to significant implementation challenges for all parties and the increased probability of having to amend the policy. It may also undermine the willingness of stakeholders to engage with policymakers through established processes.

Effective engagement includes governments engaging with a broad cross-section of stakeholders and giving the community sufficient time to consider proposed policy, law and administrative changes. Running too many consultations at similar times should be avoided.

To improve stakeholder engagement and coordination, CPA Australia recommends that this budget provides funding for the establishment of dedicated stakeholder engagement teams/functions within every government agency (where they currently don't exist). Such teams should:

- oversee the effectiveness and inclusiveness of consultations
- coordinate the timing of consultations to avoid conflicts and reduce workload pressures (including with related agencies)
- provide advice on process improvement and assess effectiveness
- ensure transparency around the progress of policy initiatives
- engage with a broad cross-section of stakeholders
- be staffed by senior and experienced employees who have a broad understanding of policy issues the agency is responsible for.

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

Regulatory reforms for the NFP and charities sectors

Recommendation 38

Continue fundraising regulatory reform through the Council on Federal Financial Relations (CFFR).

The Australian NFP sector plays a vital role in delivering critical health, education and other support services to the Australian community. We commend the government for its efforts to improve NFP regulation.

We recommend this budget include measures that further simplify and streamline the regulation of the NFP sector, especially in fundraising and reporting obligations.

Simplified and consistent financial reporting and fundraising frameworks applied to all NFPs across Australia will make it easier for smaller NFPs to meet their accountability and transparency obligations. Much has been achieved in aligning financial reporting requirements across Australian jurisdictions, but several differences remain leading to unnecessary duplication.

We note the ongoing project of the AASB to develop a simplified financial reporting framework for smaller NFPs.

Independent audit of ASICs industry funding model

Recommendation 39

The ANAO be given specific funding to assess the effectiveness and efficiency of ASIC's administration of its industry funding model.

The ASIC Industry Funding Model continues to be a burden for the entities ASIC regulates, especially smaller entities. We therefore recommend the ANAO be tasked to review ASICs administration of its funding model.

Such a review should consider:

- has ASIC established effective processes to allocate direct and indirect costs between sectors and sub-sectors
- has ASIC established effective oversight arrangements to ensure its regulatory activities are efficient and cost-effective
- is ASIC held to account to ensure its regulatory activities are efficient and cost-effective
- has ASIC established effective processes to allocate enforcement and litigation costs between sectors and sub-sectors
- has ASIC established effective processes to assess the appropriateness of pursuing individual enforcement activities and litigation cases, in relation to the cost to regulated entities
- is ASIC held to account for the appropriateness of its decisions to pursue enforcement activities and litigation cases, in relation to the cost to regulated entities.