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Pre-Budget Submissions
The Treasury
Langton Cres
PARKES ACT 2600

By email: prebudgetsubs@treasury.gov.au

Dear Sir or Madam

CPA Australia's submission on the Federal Government's 2020-21 Budget

CPA Australia represents the diverse interests of over 165,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest. Our organisation's recommendations for the 2020-21 Federal Budget are enclosed in the accompanying **Attachment.**

Official and private sector data points to 2020 being another challenging year for Australia. Preliminary results from our Asia-Pacific Small Business Survey supports this view, with 40 per cent of Australian small business respondents expecting the economy to contract in 2020.

Australia is also facing challenges of ever-increasing international competition, and an ageing population, as well as the recent bushfires, the ongoing drought, and uncertainty over the impact the new coronavirus may have on the economy.

Against this background, we propose a number of recommendations that, if implemented, will help to stimulate the economy.

We believe that these recommendations will assist Australian business weather the current economic challenges and maintain the long-term sustainability of Australia's public finances.

Our organisation's recommendations for the 2020 -21 Federal Budget also include recommendations for initiatives aimed at improving competitiveness, as well as addressing the challenges of climate change.

If you have any queries, please do not hesitate to contact Gavan Ord, Manager Business and Investment Policy at CPA Australia on gavan.ord@cpaaustralia.com.au or +03 9606 9695.

Yours sincerely

Andrew Hunter
Chief Executive Officer

Encl.

Attachment

CPA Australia – Federal Budget recommendations

Short-term measures to stimulate the economy

Increase public spending on repairs, maintenance and preservation works of public infrastructure

The Australian economy continues to record low levels of economic, wages and business investment growth. To assist in reversing these trends we recommend the Government implement a suite of measures – both short and long-term in nature – to stimulate the economy.

Infrastructure spending often plays an important part in economic fiscal stimulus. However, given both the often-long lead times for many large-scale infrastructure projects, and the current infrastructure capacity constraints being felt in some areas, the stimulatory benefits are typically not immediately felt.

Many of the governments' post-bushfire rebuilding initiatives – both federal and state – promise to have positive stimulatory impacts on the economy. But at the same time the damage caused to businesses and communities will have a negative impact on government tax revenues – not only in the immediate future but potentially for some years thereafter.

In addition to the Federal Government's current response to the bushfires, and to have a more immediate impact on the economy in the forthcoming appropriations period, we recommend that the Government include in the budget a substantial increase in funding for repairs, maintenance and preservation works on public assets, especially in areas impacted by fires and drought, with preference given to awarding contracts to local trades business.

With the Government's fiscal position looking healthy and the impact of monetary policy changes lessening, now is the right time for the fiscal policy lever to play a greater role in providing short-term support to the economy. Smaller scale infrastructure projects, especially repairs and maintenance, is one of the ways governments can provide an immediate boost to the economy. Such projects are also less prone to the capacity constraints of larger projects and can be deployed quickly in areas impacted by recent bushfires and drought.

Analysis by Ernst and Young (EY) suggests that infrastructure maintenance creates almost double the number of direct jobs per dollar spent than road and bridge construction. Further, EY estimates that $1 billion of spending on repairs and maintenance should have a combined value-added of $800 million to Australia's economy.

Further, such a focus of infrastructure spending could result in the better utilisation of existing infrastructure and extending the life of such infrastructure, which can reduce public spending in the long-term.

Recommendation:

- *the Government allocate a significant increase in funding for repairs, maintenance and preservation of public assets, especially in areas impacted by recent fires and drought.*

Specific proposal for bushfire-affected businesses

It has been estimated that the recent bushfires have so far had a direct negative impact on over 200,000 small businesses.

We have been in dialogue with the Government for some weeks about additional initiatives it could implement to help as many of these businesses as quickly and expeditiously as possible. Amongst other things, we have advised that most businesses will need professional advice as part of that recovery, but many will not be able to afford it.

Failure to receive professional advice during the bushfire recovery period may negatively impact the recovery of these businesses and the communities in which they operate, their employees and their families, as well as future government tax revenues and the broader Australian economy.

Accordingly, to assist businesses to recover from the bushfires, CPA Australia proposes the Government fund a business advice voucher system of $1000 per business that can be redeemed for business advice with their professional business adviser.

The cost of such a measure is not high when compared to the fact it will be repaid multiple times from future tax revenues paid by these same businesses and their employees.

Recommendation

- *the Government fund a business advice voucher system of $1000 per business that can be redeemed for business advice with their professional business adviser.*

Introduction of an investment allowance

In the absence of a general cut to the corporate tax rate, CPA Australia strongly supports the introduction of a broad-based investment allowance applicable to all investment depreciable under current tax law.

An investment allowance should lead to an increase in business investment, which should in turn assist in improving productivity over the longer-term. An appropriately designed and implemented investment allowance should encourage the bringing forward of planned investment and should see some investments, that would otherwise not have been undertaken in the current economic climate, proceed.

For simplicity, such an investment allowance should be broad and leverage existing concepts in tax law. That is, Division 40 of the Income Tax Assessment Act 1997 could be used to set the scope of the allowance.

The allowance could take the form of an additional tax deduction or an accelerated tax deduction, which brings forward the timing of depreciation deductions. We note that an additional tax deduction over and above the cost of the asset would be more beneficial to taxpayers than bringing forward the timing of depreciation deductions and may produce greater economic benefits.

CPA Australia supports the introduction of some form of broad-based investment allowance and recommends the Government model the costs and benefits of both potential forms of benefit to determine which one will have the greatest benefit.

Recommendation:

- *the Government introduce a broad-based investment allowance for all businesses.*

Reducing government fees

To increase the money left in the pockets of small business, the Government should use the 2020-21 budget to announce the reduction or removal of the various fees it imposes on business, especially small business.

For example, the Government should reduce or preferably completely remove:

- fees imposed under ASIC's industry funding model, including fees imposed on Australian Financial Services License holders and self-managed superannuation fund auditors;
- fees imposed by the Tax Practitioners Board on tax practitioners; and
- the fee imposed for ASIC registry searches.

In putting this recommendation forward, CPA Australia is not suggesting that the funding to these regulators be reduced. The Government should replace the lost revenue from fee income with direct public funding.

Recommendation:

- *the Government reduce or remove fees it imposes on small business.*

Increase the low-and-middle income tax offset

Given low wages and economic growth, the Government should consider modelling the economic impact of increasing the low-and-middle income tax offset (LMITO) for the 2020-21 income year.

Increasing the LMITO and government support payments should lead to some increase in consumer spending to support the economy. However, those benefits need to be weighed against the cost of reduced revenue and the relatively benign response to the increase in the LMITO in 2019-20.

Recommendation:

- *the Government undertake a cost-benefit analysis of raising the low-and-middle income tax offset for the 2020-21 income year.*

Reforms to improve competitiveness

Reduce the regulatory burden faced by accountants

Regulatory complexity is placing a significant burden on accountants in public practice, which has flow-on effects for the community. The complex, multi-layered nature of Australia's current regulatory environment, especially the regulation of financial planning advice, is alienating many consumers and small business – the very people it is seeking to serve – while also placing substantial strain on accountants in practice who operate under these regimes.

For example, in relation to financial advice, advisers must comply with the Corporations Act, the Tax Agent Services Act, the National Consumer Credit Protection Act, plus there are obligations imposed under the ASIC Act and the Financial Adviser Standards and Ethics Authority (FASEA), amongst others. Often there is no harmonisation between these regulatory frameworks, or even within a single regulatory framework.

Depending on how the licensing and registration system is set up, an accountant in practice may need to hold multiple licences and/or registrations to be able to provide one piece of advice.

CPA Australia's research has found that almost 90 per cent of accountants in practice believe the compliance burden of differing legislative frameworks is an issue, and less than a quarter say they have a clear understanding of their obligations. Further, this regulatory complexity is increasing the costs many millions of Australians pay each year to access the services of accountants, with almost 50 per cent of practitioners stating that they increased their fees in the past year to cover increasing compliance costs.

This is also happening at a time where the financial services sector is experiencing a major structural adjustment, with service providers exiting the sector in significant numbers. The impact of this structural adjustment is a growing advice gap in the market, which is to the detriment of those who need financial advice in an increasingly complex world with an ageing population.

The Government should therefore fund a holistic review of its financial regulatory frameworks.

CPA Australia and other professional bodies have a shared goal to build a broader and robust solution that will enable both businesses and Australians to not only access the advice they need but to fully understand that advice.

Recommendation:

- *the Government fund a holistic review of the regulatory frameworks for financial planning advice, with the objective of such a review to ensure regulation is fit for purpose and to reduce overlaps and costs.*

Encouraging saving and investment

Australia's income tax system continues to penalise taxpayers in relation to the tax treatment of income derived from savings outside the superannuation system, thus discouraging non-superannuation savings and investment.

Superannuation's tax-preferred status has enabled it to become the primary savings vehicle for most Australians. This has been beneficial for retirement savings, but it fails to recognise the necessity for individuals to save income outside of superannuation to afford major capital purchases during a person's working life, amongst other things.

If income derived from savings was taxed at a rate that was lower than an individual's marginal personal tax rate, this would encourage greater savings and investment outside of the superannuation regime. It may also encourage investment in assets other than only the family home or residential property more broadly.

Australia's Future Tax System report proposed a 40 per cent savings income discount available to individuals for non-business-related net interest income, net residential rental income (including related interest expenses), capital gains (and losses), and interest expenses related to listed shares held by individuals. Such a recommendation may make investments outside of residential property (not the family home) and superannuation more attractive.

***Recommendation**:*

- *the Government introduce a 40 per cent savings income discount for individuals for non-business-related net interest income and net residential rental income.*

Improving support for small business

CPA Australia's annual Asia-Pacific Small Business Survey continues to show that Australian small businesses are typically well behind their counterparts in Asia in their digital capability, management capability and understanding of overseas markets – which the survey results show are all drivers of growth.

These capabilities can be improved in several ways, as was highlighted in the Government's Small Business Digital Taskforce report. For example, the proposal to establish a 'national digital skills framework' could guide the development of appropriate training and resources to enhance the digital capability of small business owners and the workforce more generally.

We therefore believe there are opportunities for the Government to develop tools that can enhance the capability of small business in the areas highlighted above. However, with ATO research showing that small businesses are significantly more likely to seek information and advice from their accountant than government, it is important that the Government work with trusted advisers such as professional accountants to deliver such tools to achieve the best possible outcome.

Small businesses could also be supported by making the instant asset write-off a permanent feature of the tax system. The annual extension of the instant asset write-off creates uncertainty for small business, particularly where the amendment to the law is passed after its commencement date. Making it a permanent feature of the system would remove that uncertainty.

Recommendations:

- *the Government fund the development of educational material and other programs to assist small business build their digital capability, management skills and understanding of overseas markets. The Government should work with professional advisers to deliver such material to small business.*
- *the Government fund programs that encourage those new to business to seek professional advice. Options include the Government giving new businesses a voucher that can be redeemed for professional advice from, for example, a registered tax agent.*
- *the Government make the current instant asset write-off a permanent feature of the tax system.*

Climate change initiatives

We note the impending release of the Climate Change Authority's (CCA) updated report on meeting Australia's Paris Agreement commitments. All indications are that the CCA's report will reflect what is already widely acknowledged – that Australia's Nationally Determined Contribution (NDC) under the Paris Agreement for a 26-28 per cent reduction in emissions by 2030, relative to 2005 levels, is at the lower end of the ambition range internationally. Further, Australia is likely to fall well short of its 2030 target if present climate policies remain unchanged, save for the intended and increasingly controversial intention to utilise carryover credits from the Kyoto Protocol.

The CCA report will be delivered in the context of an unprecedented bushfire season having far reaching economic, social and environmental consequences. There is an urgent need for alignment of Australia's emissions and energy policies, along with a shift away from underfinanced and sub-optimally co-ordinated environment and development policies which have contributed to a poor and now dramatically worsening biodiversity status in Australia.

The budget presents the opportunity for both shorter term realignment of existing key Federal Government climate change policies and consideration of their wider impacts for incentivising behaviour, particularly for business.

There is strong expectation that NDCs will ratchet up over time. The ‘ambition cycle’ of the Paris Agreement sets a five-yearly cycle for review and revision of NDCs. At these regular points in the cycle, Australia is likely to face growing international pressure to increase its emission reduction targets. Furthermore, the ambition cycle will increasingly be a factor having knock-on effects to the budget’s forward estimates to which CPA Australia urges the Government to become increasingly mindful.

The NDC and Government’s articulation of expected emissions reduction trajectories provides an important signal to business as to the speed and shape of climate-driven economic transitioning. Conversely, an absence of an articulated expectation of emissions reduction risks generates inertia and lays open the potential for market-wide and deep negative repricing of assets, or the impact of disruptive policy intervention in a narrowing timeframe for reaching a net-zero emissions position by 2050. All of these matters ultimately have fiscal consequences.

The way in which commitment to international climate change instruments translates to domestic policy has clear economic consequences to which CPA Australia suggests will be an important factor in the budget’s forecasts and economic analysis.

CPA Australia notes a recent report by the Bank of International Settlements that states that the gap between current temperature trends and emission reduction targets is widening, leading to somewhere between 3°C and 4°C of warming, which is consistent with a ‘Hothouse Earth’ pathway. Such assessments point to the limitation of offset and abatement strategies that underly NDCs, which has consequential implications for fiscal policy.

Strong indications are that limiting global warming will involve technological interventions falling under the terminology ‘geoengineering’ which includes methodologies such as carbon dioxide removal (CDR) and carbon capture and storage (CCS). The timeframes for identification, proving and upscaling these innovations will shorten, raising questions about the role and capacity of public financing, and highlighting the upside commercial benefit of first and early mover advantage. CPA Australia suggests these circumstances should increasingly influence the Government’s deliberations in a broad range of policy areas, including education, energy and science.

Recommendations

- *the Government address recommendations and analysis from the forthcoming Climate Change Authority report on Australia’s Paris Agreement commitments in its fiscal and economic outlook, as well as in this and future budgets.*
- *the Government model the economic impacts of current and possible emission reduction trajectories and temperature changes.*
- *the Government develop policies that further encourage the development and deployment of technologies that will play a role in combatting global warming. Such a measure should cover several policy areas, including education, energy and science*.