PRE-BUDGET SUBMISSION

CPA Australia's submission to the Commonwealth Treasury

March 2015

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CPA AUSTRALIA

A note from Alex Malley FCPA, Chief Executive, CPA Australia

As we look ahead, we are clearly seeing a changing Australia. We have an end to the mining investment boom, and the increasing importance of China and Asia more broadly in driving global economic growth.

As a nation, we have the choice to continue with business as usual or chart a new course towards a knowledge–based economy: one which will drive economic growth and create high paying jobs over the next decade and beyond.

CPA Australia firmly believes that despite the tight fiscal conditions that the Government is facing, now is not the time for an austere budget.

In an increasingly competitive and interconnected global economy, we are looking for initiatives which will grow new revenue streams, stimulate the non-mining sectors of the economy and create an environment and system of support that enables businesses to grow.

Now is the time to invest in our future prosperity.

In recent times federal budgets have become political and short-term funding documents focused too much on chasing surpluses for their own sake. They have failed to reflect a long-term vision and strategy for Australia.

As accountants we know the value of a well-constructed budget and its ability to articulate the vision of an organisation - both for the year ahead and in setting the direction for the future. This is what is needed for Australia: a true and visionary budget that is more than a parcel of numbers.

With the challenges our nation is facing, a 'dull' and 'routine' budget would represent a missed opportunity.

Budget 2015 may well be the most important budget for many years. It represents an opportunity for Australia to take an important step forward, outlining what we want to achieve, and what it is going to take to underpin our international competitiveness.

CPA Australia has prepared this submission with a focus on what we believe are the critical drivers of Australia's future economic success. These include encouraging innovation, greater investment in building new infrastructure, the importance of education and training, comprehensive reform to our retirement savings and tax systems, helping small business to succeed, and supporting families.

While CPA Australia acknowledges the Government's commitment to a number of major inquiries - ranging from the Financial System Inquiry and Review of Competition Policy to developing White Papers on federation and Australia's tax system - these inquiries should not prevent the Government setting about implementing the immediate reforms our nation so urgently requires.

The upcoming federal budget is an opportunity for the Government to clearly articulate its vision for the nation through a robust program of measures designed to lift Australia's global competitiveness in order that we may tackle the challenges of tomorrow.

Alex Malley FCPA
Chief Executive, CPA Australia

About CPA Australia

CPA Australia is one of the world's largest accounting bodies with a global membership of more than 150,000 members working in 120 countries around the world, with more than 25,000 members working in senior leadership positions.

We have a history that stretches back to 1886, and have been actively involved in Asia since the early 1950's. We currently have nine offices in Asia and more than 36,000 members working in the region.

CPA Australia is committed to a creative engagement with governments and their agencies on behalf of members and in the broader public interest to encourage the adoption of economic and social policies that foster improvements in Australia's productivity and global competitiveness.

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Innovation – embedding a culture of innovative

Embedding an innovative culture throughout Australian businesses is critical if Australia is to raise productivity, improve international competitiveness and create the high paying jobs of the future.

Like most developed economies Australia is simultaneously grappling with various complex and often interdependent challenges including the rise of the digital economy, the reconfiguration of global supply chains, the demise of traditional manufacturing, the volatile impact of climate change and the rapid uptake of new technologies in virtually every sector of the economy.

If Australia is to successfully confront these changes and reap the substantial benefits that will inevitably arise from the new digital and knowledge-based economy, it is essential that the Government implement a holistic suite of tax and non-tax policies to encourage a culture of creativity and entrepreneurship.

We are a nation of innovators so we are not short of ideas. What we do lack, and what is now putting our global competitiveness at risk, is our poor offering in terms of a globally attractive, business-friendly environment.

Such policies need to be robust, comprehensible and stable so that the private sector has more certainty in investing in new technologies, new industries and new skill sets.

In realising this goal it is imperative that we do not simply regard innovation as an offshoot of industry policy, but rather as a mindset which informs all major facets of Government policy.

As part of that outlook it is important that this attitude is not only instilled in the private sector but that it also permeates the culture of the public sector so that government services can be delivered in the most cost effective and efficient manner.

In this regard we propose that Federal Government departments be required to demonstrably realise efficiency dividends and deregulatory savings from the adoption of innovative service delivery practices.

Recommendation

All Federal Government departments be required to realise efficiency dividends and deregulatory savings from the adoption of innovative service delivery practices.

Increasing the number of scientists, technology experts, engineers and mathematicians

A fundamental plank of a national innovation policy is that we must ensure that our secondary schools and higher educational providers produce significantly more world class engineers, chemists, scientists, mathematicians and information technology experts.

To achieve this goal it is paramount that we attract high quality teaching and academic staff at both high school and university level, which should assist in significantly increasing enrolments and the quality of graduates from these disciplines.

Recommendation

The Federal Government liaise with state and territory governments, secondary school and higher education providers to ensure that we have internationally competitive remuneration arrangements to attract and retain high quality academic staff in the sciences and engineering.

Encouraging innovation in the services sector

As the overwhelming bulk of workers in Australia are employed in the services sector, it is essential to identify and realise any opportunities to increase productivity in that sector especially from leveraging developments in information technology.

In particular, we need to consider how new technological efficiencies can be realised in those services sectors where we are internationally competitive such as banking and finance, tourism, professional services and higher education services.

Recommendation

The Government place particular emphasis on encouraging and measuring the adoption of more innovative practices by the services sector especially from the perspective of increasing exported services.

Funding of public research institutions

Public research institutions should be appropriately funded so that they continue to play an important role in enhancing national productivity through innovation. Significant investment in innovative public research is essential for the effective delivery of various Federal government services especially in relation to the provision of education, defence, social welfare and health services.

Moreover, such expertise can be leveraged to provide significant 'spill-over' benefits where basic research conducted by institutions can be used, mimicked or adapted by other entities especially those operating in the private sector.

However, it is crucial to build strong linkages between public research institutions and the private sector so that there is a more fluid and effective sharing of knowledge between them.

Recommendation

The Government appropriately fund public research institutions.

Recommendation

The Government further promote and reward collaboration between Australia's public research institutions and Australian business, not just in the industries identified in the Government's *Industry, Innovation and Competitiveness Agenda*.

Greater business access to data held by the government

A matter of significant importance to the future competitiveness and innovation of Australian business is improved public access to government data, otherwise known as 'open data'.

As mentioned in CPA Australa's submission to the Competition Policy Review, there are a number of recent papers that attempt to quantify the benefits of open data for business and government agencies. These include reports by McKinsey[1], and more recently a Lateral Economics report commissioned by

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[1] http://www.mckinsey.com/insights/business_technology/open_data_unlocking_innovation_and_performance_with_liquid_information

Omidyar Network[2]. The latter report was directed towards providing input into how the G20 and the Australian economy could achieve their two per cent growth target.

We note that the Queensland Department of Agriculture, Fisheries and Forestry has an open data strategy and according to its website, has released 95 datasets and nearly 350 resources since May 2013. It is likely that there will be researchers and entrepreneurs looking for opportunities to turn this data into commercial products and services that will not only benefit them, but also benefit the broader agricultural sector and the people of Queensland.

Recommendation

The Government significantly increase public access to much of the data it holds through its open data web site data.gov.au, and where it is not already the case, that data is made available in formats that enable simple analysis to be undertaken.

Encourage greater investment in venture capital funds

The difficulty many start-up businesses face in attracting finance is often cited as a major barrier to innovation. The Government should therefore explore policies that encourage an increase in the pool of money invested in Australian-based venture capital funds. Canada's recent Immigrant Investor Venture Capital Pilot Program is an example of a policy the Government could draw from. This pilot program is designed to increase the amount of money invested into Canadian-based venture capital funds by offering foreign investors and their families a pathway to Canadian permanent residency if they invest C$2 million for 15 years in an approved venture capital fund.

The Government could replicate the Canadian model by allowing applicants under the Significant Investor visa stream who invest at least A$5 million into approved venture capital funds a shorter time period before they can apply for Australian permanent residency than those who chose to invest in other complying investments under this visa stream (say two years against the current four years).

The most recent statistics from the Department of Immigration and Border Protection show that since the Significant Investor visa was introduced in November 2012, over A$5 billion has either been invested, or is proposed to be invested in complying investments. Accordingly the amount of money that could flow to venture capital funds and hence Australian start-ups from such a change could be significant.

Recommendation

The Government consider amending the Significant Investor visa stream to encourage greater investment into approved venture capital funds by applicants under this visa class.

Tax policies to encourage innovation

CPA Australia believes a fundamental tenet of a robust and enduring national innovation policy is the implementation and maintenance of an internationally competitive income tax regime, with specific policy settings designed to attract and retain both the human and financial capital necessary to increase national productivity and our international competitiveness on a sustained basis.

[2] http://www.omidyar.com/sites/default/files/file_archive/insights/ON%20Report_061114_FNL.pdf

Given the increasing mobility of human capital, finance and intellectual property it should be recognised that Australia must aggressively compete internationally with other more generous tax jurisdictions for R&D investments by large multinational groups undertaking leading and potentially patentable R&D in key industries such as the information technology and pharmaceutical sectors.

Such an approach is vital as it not only supports the creation of large scale local R&D expertise and infrastructure but it will also have substantial spillover benefits as inevitably R&D staff and contractors leverage the significant knowledge gained in performing high level R&D when they later work in other sectors of the economy.

Patent box

Tax policy should not only be directed at nurturing initial R&D activities, but should also provide a range of incentives to encourage third parties to invest in appropriate innovative projects and to reward entrepreneurs. This can be done in a number of ways, such as concessionally taxing any royalty income or capital gains arising from the licence or sale of related patented intellectual property. In the United Kingdom this type of concessional treatment is available via their patent box provisions.

The development of 'whole of business life' complementary tax policies would assist in the development, commercialisation and successful exploitation of new products, processes and services that will help transform Australia into a more knowledge based and innovative economy.

Recommendation

The Government should consider enacting a tax regime based on the recent 'patent box' tax incentive introduced in the United Kingdom to remain internationally competitive in attracting cutting edge large scale R&D. Under such a model, businesses which have significantly invested in the creation of patented intellectual property should only be taxed on any income streams or patented technology arising from the licence and sale of patents at half the prevailing corporate tax rate.

R&D tax incentive

We believe that the current design features of the R&D tax incentive be substantially retained as this concession is broadly based and well understood by the business community.

Accordingly, we believe that the Federal Government should minimise any material adverse changes to the tax incentive so that investors and other stakeholders have some degree of assurance regarding long term investment in R&D - especially by the corporate sector - which has traditionally been the source of much of our national spend on R&D.

As such, we do not support the Government's recent changes to the R&D tax incentive which capped the non-refundable R&D tax offset for eligible R&D expenditure to $100 million and below as it will decrease Australia's attractiveness as a destination in which to conduct R&D.

Recommendation

The recent changes to the R&D tax incentive which caps the non-refundable R&D tax offset for eligible R&D expenditure to $100 million and below be reversed as it will decrease Australia's attractiveness as a destination in which to conduct R&D.

Revising the tax rules associated with early stage venture capital limited partnerships

To remedy the limitation associated with the accessing the early stage venture capital limited partnership regime, we strongly believe that the government should revise the tax rules to expand the circumstances in which the income and capital gains tax exemptions available under such structures can be accessed by the venture capital market.

Recommendation

The eligibility criteria for accessing early stage venture capital limited partnerships be broadened so that the concessional tax treatment available under these structures is not restricted to early stage development but extends to any part of the life cycle of an eligible project from the point of initial development up to the commercialisation of a new or improved product, process or service.

Recommendation

The funding ceiling for early stage venture capital limited partnership be increased from $100 million to $200 million, and that an entity's maximum investment in a limited partnership be increased from the existing 30 per cent limit to 50 per cent.

Improvements to the taxation treatment of employee share schemes

We acknowledge that the proposed amendments to the taxation treatment of employee share schemes will to some degree encourage greater participation in employee share schemes.

However, many start-up companies will be cost-constrained and thus may need to partly remunerate highly skilled staff by providing, amongst other things, shares or options in the company so that such staff have a tangible incentive to try to ensure the successful development and deployment of their businesses.

In our view the current and proposed provisions concerning employee share and option schemes under Division 83A of the Income Tax Assessment Act (1997) (the ITAA (1997)) do not offer sufficient incentives to employees acquiring an equity interest in their employers as they have become overly complex and convoluted.

In practice employees have a taxing point under Division 83A that generally occurs prior to sale of the shares or options. This trigger point occurs on either the issue of the equity or at a later point in time such as when certain key performance indicators are met. Neither of these triggers points generally coincides with the sale of the shares.

By deferring the taxing point until a later point in time (i.e. when the shares are sold), employees would then have the cash to fund the payment of any income tax liability.

Furthermore, in our view any gain which is made should be treated as a capital gain rather than as ordinary or statutory income which is potentially eligible for the 50 per cent CGT Discount.

Should the Government not pursue this initiative we recommend that proposed employee share scheme legislation be amended so that rights issues receive the same tax treatment as share issues, and that the proposed requirement that employees hold the shares for at least three years before they can access the start-up concessions be replaced with something less restrictive.

Recommendation

The taxing point under the employee share scheme regime be deferred until a later point in time (i.e. when the shares are sold) and any gain which is made should be treated as a capital gain, which is potentially eligible for the 50 per cent CGT Discount rather than as ordinary or statutory income.

Incentives for small business

It is well understood that small business plays a critical role in the nation's economic prosperity. It is therefore highly important that government gets the policy settings right to encourage the creation and growth of small businesses.

CPA Australia makes the following recommendations to help encourage a more vibrant, creative and internationally competitive small business sector.

Our most recent Asia-Pacific Small Business Survey showed that the confidence of Australian small businesses declined in 2014, with 47 per cent expecting their business to grow, down from the previous year's reading of 56 per cent expecting to grow. Our consultation with the sector since the survey was taken indicates that confidence has not improved, and in fact it may have declined further.

Our survey results also showed that the performance of Australian businesses over the 12 months to September 2014 was significantly weaker than expected, with Australian small businesses being the least likely of the eight markets surveyed to report their business grew over that period. Adding to this disappointing result, small businesses from Australia were equally likely to report their business shrunk over that period as grew.

We note that other surveys of business confidence are also showing a worrying drop in confidence. With small business making up a significant share of Australia's economy, such a decline in confidence is bound to be having an impact on Australia's economy and jobs creation.

It is therefore important that the government take steps to help rebuild business confidence. The following includes a number of recommendations that we believe will help re-build small business confidence, encourage investment and improve the long-term competitiveness and capability of businesses in the sector.

Taxation

We appreciate that many tax issues will and should be subsumed into the Government's Tax Reform White Paper process. However, what business really needs is action which will assist in building business confidence and outcomes that will remove or reduce impediments to business growth and success.

Some specific tax reform priorities we believe need to actioned now to support small business are detailed below.

Easing tax compliance burden – private company loans and Division 7A

To cut unnecessary business costs it is critical that the design and administration of Australia's tax system be reviewed to reduce the unnecessary compliance burden imposed on taxpayers.

Accordingly, we support the Government's commitment to reduce red tape costs by $1billion annually, and stress that a key focus of such a program should be on reduced tax compliance.

In our view the costs of complying with our excessively complex tax regime are disproportionately borne by SMEs which are not typically equipped to ensure full compliance with the tax laws.

Perhaps the most profoundly complicated provisions impacting the SME sector is Division 7A of the Income Tax Assessment Act (1936), which broadly treats certain payments, loans and debt forgiveness by a private company to a shareholder (or an associate) as a deemed dividend.

We understand that the Board of Taxation has presented the Government with its Final Report concerning the post implementation review of Division 7A. From our perspective the second discussion paper issued by the Board as part of the post implementation review contained a raft of measures which would considerably simplify compliance with Division 7A without placing the revenue at material risk, and that this may be fertile ground to make real inroads in reducing SME red tape in the short term.

Recommendation

We recommend that the Government focus particular attention on considering and implementing the recommendations set out in the Board of Taxation's Final Report concerning its post implementation review of Division 7A.

Increase the small business instant asset write off relief from $1,000

CPA Australia supported the introduction of the $6,500 instant asset write-off threshold for small business and suggests that due to the economy growing at below trend and weak business confidence, that the threshold be increased once again. Such a relief is an important cash flow benefit to small business investing in capital assets to grow their business.

If fiscal considerations make such an increase difficult, the government could increase the threshold to some lower amount and/ or apply a sunset provision to the increase to encourage capital investment in a defined period of say two to three years.

Recommendation

The Government consider increasing the instant asset write-off threshold back to $6,500 to stimulate small business investment in capital assets and help improve business confidence.

Re-introduce the loss-carry back provisions

CPA Australia supported the introduction of the loss-carry back provisions. We propose that due to the economy growing at below trend and weak business confidence, the provisions be re-introduced. Such loss-carry back provisions can be an important source of cash flow for businesses going through difficult periods.

Recommendation

The Government consider re-introducing the loss-carry back provisions to provide cash flow for previously profitable businesses going through a difficult period and to help improve business confidence.

Small business CGT concessions

In our view the most disputed and litigated aspect of the small business CGT concessions is the ability of a taxpayer to satisfy the $6 million maximum net asset value test where the requirements of the $2 million aggregated turnover test are not otherwise met in satisfying the basic eligibility conditions in claiming the concessions.

This is partly due to the complex eligibility criteria to meet the maximum net asset value test as set out under sections 152-15 and 152-20 of the Income Tax Assessment Act 1997 (the ITAA 1997).

In practice, many small business taxpayers whose eligibility is contingent on meeting the $6 million maximum net asset value test fail to include the net value of CGT assets of connected entities or affiliates, or incorrectly exclude pre CGT acquired assets or post CGT acquired assets such as depreciating assets or trading stock which do not generate capital gains but must nonetheless be included in that calculation.

However, the most problematic aspect of the maximum net asset value test is the inherently subjective nature of determining the market value of the taxpayer's CGT assets which can lead to disputation between the ATO and taxpayers where they have different competing market valuations of assets.

Accordingly, we believe that it would assist small business if the current subjective maximum net asset value test is replaced with some alternate objective test for small business taxpayers which is easier to comprehend and apply with certainty. This may take the form of fully exempting a gain where the aggregated turnover is less than $2 million and tapering entitlement to the concession for those whose aggregated turnover is between $2 million to $6 million.

Recommendation

We recommend that the subjective $6 million maximum net asset value test be replaced with some alternate objective eligibility test. This could take the form of a revised aggregated turnover test, which could include the concession being gradually reduced above a certain threshold.

Increase the small business entity turnover threshold

CPA Australia's supports the Board of Taxation's recommendation that the small business entity turnover threshold be increased to $3 million from $2 million (see recommendation 5.1 of the Board of Taxation's report titled *Review of Tax Impediments Facing Small Business* from August 2014).

Further, we support the Tax Reform white paper process investigating the feasibility of increasing the threshold to $5 million.

Recommendation

The Government increase the small business entity turnover threshold to $3 million, in line with recommendation 5.1 of the Board of Taxation's *Review of the Tax Impediments facing Small Business.*

Increasing access to the 45 per cent refundable tax offset under the R&D tax incentive

In our view the only significant change required to the R&D tax incentive is to increase access to the 45 per cent refundable tax offset to help fund the R&D activities of a broader range of SME companies as we believe that the growth of new industries is most likely to emerge in this sector.

The availability of this refundable tax offset is critical so that SME companies have access to the vital cash flow necessary to fund risky and complex R&D during the initial phases of operations.

Recommendation

Access to the refundable 45 per cent tax offset should be extended by lifting the eligibility threshold for SME companies from the current threshold limit of $20 million aggregated annual turnover to a $50 million aggregated annual turnover threshold.

Training

Improving management capability

CPA Australia's *Asia-Pacific Small Business Survey* has shown that many small businesses would benefit from access to resources and training focused on improving management capability.

Policies and programs that encourage and assist Australian management to improve their skills, knowledge and capabilities, particularly their understanding of Asian markets and technological developments would lift the productivity and global competitiveness of Australian business.

Recommendation

The Government develop and fund programs to improve the business skills, knowledge and capabilities of Australian managers, with a particular focus on improving small business knowledge of Asian markets and technological developments.

Increasing the number of small businesses using social media and making online sales

Quickly increasing the number of small businesses that have access to the NBN not only opens up new opportunities for innovation, it also opens up increased opportunities to grow business through improved customer interaction and online sales.

Unfortunately, CPA Australia's most recent *Asia Pacific Small Business Survey* showed Australian small businesses are significantly less likely to make online sales or use social media than small businesses from Asia.

If small business are to realise the benefits of very fast broadband, more information and support on using social media and making online sales needs to be made available to small business.

Recommendation

To encourage greater small business involvement in the digital economy, the government should fund programs that assist small businesses increase on line sales and develop a social media presence.

Improving small business access to finance

Crowd-sourced equity funding

CPA Australia strongly supports legislative change to encourage greater access to crowd-sourced equity funding by a significantly wider range of Australian businesses. Such a regime must however strike an appropriate balance between the financing needs of business and investor protections.

Of the two reform models being considered, we favour the New Zealand model with some variations to align the model with the Australian financial services licensing regime and to reduce the risks of conflicts of interest. We believe the New Zealand model with such adjustments strikes the best balance between the funding needs of innovative businesses, investor protection for what will be highly speculative investments and better encouraging the development of a liquid secondary market.

Recommendation

The government adopts legislative changes to encourage greater access to crowd-sourced equity funding by a significantly wider range of Australian businesses. The changes should follow the New Zealand model.

Retirement savings

Australia's retirement savings system is at a crossroads. The issue is whether the current structure of Australia's retirement savings system – that is, the three pillars: the aged pension, compulsory superannuation and voluntary superannuation savings – is appropriate to meet government and community expectations regarding retirement savings goals.

Unfortunately there is no long-term vision for our retirement savings system. Successive governments have viewed Australia's superannuation savings as a 'honey pot' to dip in to when required. Constant rule changes, the floating of ideas like accessing superannuation for a house deposit and spasmodic revenue grabs have undermined public confidence in the system.

The age pension, the first pillar of our retirement savings system and considered a 'safety net' for those individuals who have not had the means to save sufficiently for themselves, is now supplementing the compulsory system (or vice versa) to the point where some 80 per cent of retirees are receiving at least part of the age pension.

The retirement, or 'decumulation', phase of our system is underdeveloped to the point where there are very few retirement income stream options available to retirees, if any, to adequately address longevity risk.

The idea of allowing individuals early access to their superannuation to assist them fund a deposit for their first home is not consistent with the purpose of superannuation. Accordingly such ideas should be considered with caution, and only considered as part of a broader public discussion about a long-term vision and goal for Australia's retirement savings system.

The challenge now is to ensure that the right mix is maintained that provides adequate retirement savings for individuals but also maintains a system that is simple, efficient and equitable. We believe Australia's retirement savings system could and should be improved, with particular focus on adequacy of savings, retirement incomes, reducing complexity and improving equity. In particular, focus is required in three key areas:

1. Articulating a long-term vision for Australia's superannuation and retirement savings system to provide a clear purpose and goals, e.g. poverty alleviation or maintenance of living standards, and how these goals can be achieved
2. Fine-tuning the accumulation phase to ensure the superannuation system provides adequate retirement savings
3. Creating a retirement incomes culture that encourages retirement income streams, particular for the later phases of retirement. Superannuation should be considered a lifelong retirement income vehicle not a savings vehicle.

Some of the steps necessary to achieve these objectives have already been identified by the Financial System Inquiry (FSI). However, a comprehensive, holistic approach is required to develop an overarching retirement savings policy. We believe this needs to be considered as part of the White Paper on the Reform of Australia's Tax System. As such, there should be no short-term or piecemeal superannuation changes introduced in the 2015-16 Budget to ensure the White Paper process is allowed to run its course.

Recommendation

There should be no short-term or piecemeal superannuation changes introduced in the 2015-16 Budget to ensure the White Paper process is allowed to run its course.

Taxation

Tax reform white paper

Comprehensive and systemic tax reform is now an urgent priority to increase Australia's international competitiveness, encourage greater entrepreneurship and innovation and make Australia a more attractive destination for businesses to invest and create jobs.

To achieve this outcome we must balance the needs of all levels of government to have access to stable and growing sources of revenue whilst encouraging businesses and individuals to generate further wealth to grow the Australian economy and generate jobs in an environment where capital and labour is increasingly mobile.

We recognise that it will be challenging to achieve these goals, however, it is self-evident that substantial reform is now imperative as our current taxation arrangements at both the Federal and State level are both unwieldy and unsustainable and constitute a serious impediment to Australia's international competitiveness.

We therefore believe that the time has now passed when governments can merely tinker with particular elements of the tax system. We must instead collectively confront conventional paradigms and implement a roadmap for tax reform which results in a more resilient, contemporary and productive economy.

CPA Australia will continue to be a leader in the tax reform debate and throughout the Government's White Paper process over the course of 2015 and beyond.

In the interim, some of the specific tax reform priorities we believe need to be appropriately considered by the Government in the 2015-16 Budget are detailed below and in the *Incentives for small business* section of this submission.

Reducing the company tax rate

We support the Government's proposal to cut the company tax rate to 28.5 per cent from 30 per cent effective from 1 July 2015 for all companies, regardless of size.

There is clear evidence that reducing the tax burden on businesses lifts productivity, and increases both their competitiveness and their capacity to expand and creates jobs. Despite it seeming counterintuitive, cutting the company tax rate and the resultant boost to business activity may result in more government revenue – not less.

Reducing the company tax rate is crucial in a global marketplace where many competitor jurisdictions have reduced their corporate tax rate in order to both retain business activity and attract new investment. Australia's current headline corporate tax rate of 30 per cent is uncompetitive.

CPA Australia therefore does not support the simultaneous introduction of a 1.5 per cent levy being placed on companies whose taxable income per year exceeds $5 million. Further, we do not support the introduction of progressive corporate tax rates.

The prospect of having a dual company tax rate will add considerable complexity and uncertainty to the Australian tax regime. Moreover, its puts us out of sync with the rest of the developed world where corporate tax rates have mainly fallen in recent years.

Australia needs an across-the-board company tax rate cut to increase productivity and to increase jobs.

We therefore strongly contend that the company tax rate should be further reduced, to 25 per cent, in the short to medium term and lower again in the longer term. This will facilitate further capital inflows into Australia and ramp up our international competitiveness.

Recommendation

The Government reduce the company tax rate to 28.5 per cent from 30 per cent from 1 July 2015 for all companies and not proceed with the proposed simultaneous introduction of a 1.5 per cent levy for companies whose taxable income exceeds $5 million annually.

Recommendation

Australia's corporate tax rate should be progressively reduced to a more internationally competitive rate of 25 per cent over the short to medium term, and a lower rate again over the long term.

Addressing base erosion

To ensure that Australia has a sustainable and trusted tax system, it is critical to act on the erosion of the tax base particularly following the growth of the digital economy. Australia should therefore play an active role in developing effective long term multilateral responses to base erosion and profit sharing in international forums such as the OECD and G20 to combat these practices.

We also note that Australia has in recent years taken unilateral action to combat avoidant tax behaviour through strengthened transfer pricing and general anti-avoidance provisions which both include the capacity for the Commissioner of Taxation to reconstruct transactions in certain circumstances.

In our view Australia should continue to be vigilant in identifying any other unilateral steps to contain base erosion.

Accordingly, there may be merit in monitoring the current consultation concerning the proposed introduction of a Diverted Profits Tax and measures to counteract asymmetrical tax outcomes arising from cross border related party transactions that is taking place in the United Kingdom to determine if they have any potential value for the Australian tax regime.

However, we stress that should the Government seek to introduce similar measures, that they only be introduced to target egregious profit shifting activities and evasion rather than be used as a platform to raise revenue in the guise of attacking tax avoidance.

Recommendation

The Government continue to participate in international fora such as the OECD and the G20 to work on the effective development and implementation of multilateral action plans to combat base erosion and profit shifting.

Recommendation

The Government should be vigilant in identifying and consulting on any further viable and measured unilateral steps it can implement to contain erosion of the profit base provided that such measures are specifically and carefully targeted at profit shifting and is not overly detrimental to the broader economy.

Dedicating resources to finalising improvements to the taxation regime for the financial services industry

Australia's tax laws relating to financial services are outdated and do little to support Australia's aspiration of being a financial services hub.

Over the past five years, significant work has been undertaken to improve the taxation regime for financial services. This work includes the Board of Taxation's review of the managed investment trusts (MIT) and collective investment vehicles (CIVs), as well as developments on the investment manager regime (IMR). While the recent announcement by the Government on the IMR is welcome, we believe that insufficient resources are being dedicated to completing this project.

In relation to CIVs, with our very large superannuation investment base, we believe we have a real opportunity to create a market-leading industry in the Asia-Pacific region.

With other jurisdictions improving the efficiency of their taxation treatment of CIVs, it is important that the Government complete with some urgency its review of the entire report by the Board of Taxation into the taxation treatment of CIVs from 2011 and release its response.

Recommendation

The government dedicate additional resources to completing the introduction of new taxation regimes for the Investment Manager regime (IMR) and Managed Investment Trust (MIT)s.

Recommendation:

The Government complete its review of the entire report into Collective Investment Vehicles produced by the Board of Taxation in 2011 and release its response with some urgency.

Education and training

Higher education reform

CPA Australia encourages the Government to continue with its higher education reforms and to take the time to get the preconditions for reform right. Stakeholder engagement and public support for reform initiatives is critical.

This is a once in a generation opportunity for transformative reform that should not be missed.

CPA Australia encourages development of a broader, more level playing field for higher education and fee deregulation subject to:

- student fees within a field of education being reinvested within that field to fund a quality education and that any cross-subsidisation is minimised
- encourages measures to support the participation of disadvantaged students who are often more price sensitive than others
- further thought being given to the rate of Commonwealth contribution per field of education.

Recommendation

The Government consult more widely on its higher education reforms to increase the probability of such reforms passing Parliament.

National economics and business curriculum for schools

CPA Australia is cautiously optimistic that the intent to include business and economics within a single humanities and social sciences subject in the primary years will retain an appropriate and balanced focus in this curriculum area.

It is essential that students acquire financial literacy skills throughout their schooling, and that pathways to further studies in business fields, including accounting, are facilitated.

We strongly advise that business and economics be:

- integrated across the full curriculum in the early years of school education
- compulsory to Year 10, and
- split into more subject specific electives in the senior secondary years, including an accounting elective.

Recommendation

Business and economics should be integrated into the full Australian curriculum in the early years of education and the business and economics curriculum be compulsory to Year 10.

Recommendation

The Australian Curriculum, Assessment and Reporting Authority's be mandated to develop more specific electives in the senior secondary years under the business and economics curriculum, including an accounting specific elective.

Skilled migration

The current "on" vs "off" a list approach to independent skilled migration creates uncertainty and red tape and thereby threatens to undermine the Government's objective of attracting the 'best and the brightest' to our shores.

CPA Australia supports the Government's strategic review of skilled migration and temporary activity visa programs. We have advocated for the introduction of a sliding migration points threshold that can be adjusted in light of labour market and other relevant considerations.

Recommendation

The Government introduce a sliding migration points threshold that can be adjusted in light of labour market conditions.

Indigenous funding

For many who made submissions under the Indigenous Advancement Strategy, it was a protracted process and a long wait to hear bad news. The passage of time, if not the outcomes, has placed at risk their future viability. CPA Australia urges more efficient decision-making for future rounds.

CPA Australia also counsels that the introduction of any future changes should endeavour to avoid repeating the disruptive impacts of the current transition.

In the submission of Indigenous Accountants Australia on the Forrest Review it urged that future funding arrangements should encourage and facilitate Indigenous Australians along ambitious educational and career pathways, and that there needs to be more of a focus on the important role that indirect initiatives can play to inform, inspire, support, coordinate and otherwise facilitate positive change.

Recommendation

Future funding arrangements should encourage and facilitate Indigenous Australians along ambitious educational and career pathways, and that there needs to be more of a focus on indirect initiatives.

New Colombo Plan

The potential of the New Colombo Plan (NCP) to make a difference in the lives of individuals and the economic and diplomatic fortunes of Australia risks being somewhat undermined by its limited reach into different fields of education. For instance, it is our understanding that no support has been provided through this initiative to students of accounting.

CPA Australia is seeking to address this issue through raising awareness of NCP with the heads of schools of accounting. We encourage the Government to also deepen its communication channels with universities to broaden the range disciplines that participants in the NCP.

Recommendation

The Government deepen its promotion of the New Colombo Plan in universities to encourage students from a broader range of disciplines to participate in the NCP.

Improving labour mobility

Australia needs to create incentives and remove existing disincentives for the relocation of labour and capital to growing areas of the economy. Such policies could include funding for training programs aimed at developing the skills required by growing industries, particularly knowledge industries.

Recommendation

The Government examine labour mobility in Australia and develop and pilot a program which consolidates existing State and Federal relocation and retraining programs, with the objective of establishing a nationally consistent and targeted approach to labour mobility in Australia.

Asia, and Chinese language studies in Australian schools

The ability to communicate with our key business partners in the Asian region is vital. As a result CPA Australia supports the promotion and availability of Asian language studies in all Australian primary and secondary schools.

CPA Australia also supports the identification of "Asia and Australia's engagement with Asia" as a cross-curriculum priority in the Australian curriculum. Developing an understanding of Asian societies, cultures, politics, religious beliefs and philosophies is essential to providing the future workforce with the Asian literacy necessary to engage effectively with the region.

Recommendation

The Government fund the development of a detailed plan, including pilot programs for the introduction of Asian language studies in all Australian primary and secondary schools.

Infrastructure

Australia's global competitiveness and productivity will be put at risk unless urgent action is taken to address the infrastructure deficit that undermines the efficiency of our road, rail, air, telecommunications and sea transport links. Without the ability to quickly, safely, efficiently and effectively transport goods, data and people within Australia, our businesses face a significant disadvantage.

Defining infrastructure priorities

CPA Australia welcomes the Government's commitment to infrastructure investment and we support the tasking of Infrastructure Australia (IA) to undertake a national audit of Australia's infrastructure assets and develop a 15 year rolling infrastructure plan. However, despite the commitment of the Government to improving infrastructure and the good work of IA to date, CPA Australia remains concerned that there has been little progress in reducing Australia's infrastructure deficit.

We therefore looked forward to the release by IA of its national infrastructure audit, the 15 year rolling infrastructure plan and its infrastructure priority list. However, CPA Australia is looking for decisive action on the building of such infrastructure – to improve Australia's international competitiveness and productivity and to stimulate a flagging economy.

Recommendation

The Government work with state and territory governments and the private sector to fund and build the infrastructure IA identifies in its infrastructure priority list as quickly as possible.

Infrastructure funding

Given the considerable pressures on government funding, attracting more private capital is essential to the development and delivery of major infrastructure in Australia. We therefore support the recommendations of the Infrastructure Finance Working Group of IA and the Infrastructure Finance and Funding Reform Report, including:

- governments having clear infrastructure priorities
- the government placing higher priority on infrastructure investment
- using user-pays principles to help fund projects
- state and territory governments selling suitable public assets and investing the proceeds into new infrastructure projects
- government co-funding.

The Government should also consider issuing retail infrastructure bonds to fund critical infrastructure projects and consider allowing state governments to access funds raised from the issuance of such bonds to fund priority infrastructure projects.

Recommendation

The Government consider providing a 40 or 50 per cent discount on income earned from investment in infrastructure projects to attract more private capital to these major projects.

Improving the speed at which Australians can connect to the internet

In the global economy, real-time access to information and the ability to deal directly with markets – both domestically and internationally at your place of work, including the home is essential to the competitiveness of businesses, large and small. Improvements in communications infrastructure that allows more Australians to have better access to digital technology and a reduction in mobile phone ‘black spots’ should open up significant business opportunities to businesses. We therefore support the government’s policy that Australians should have access to the National Broadband Network as soon as possible.

Recommendation:

The Government remain committed to completing the national broadband network as soon as possible.

Supporting families

Increasing workforce participation by improving the availability, affordability and quality of child care

As the Prime Minister stated in his address to the National Press Club on 2 February 2015 '*Women, after all, are our country's most under-utilised source of skills and entrepreneurship – if female participation in Australia were six per cent higher, at Canada's level, GDP would be higher by $25 billion a year*.'

He went on to state that if Australia is to achieve a higher female participation rates, '*the focus really does have to be on childcare … So a better childcare policy is good economic policy*'.

Given this, we broadly support the Productivity Commission's report titled *Childhood and Early Childhood Learning* and suggest that time permitting, the Government's response to this report be released with the Budget.

We however do not support reforms to this sector being funded by a 1.5 per cent levy being placed on companies whose taxable income per year exceeds $5 million nor the introduction of progressive corporate tax rates. The reasons for our objections are stated in the Tax Reform section of this submission.

Further, as the Productivity Commission's report notes, its suggested reforms to early childhood do not remove all the barriers and disincentives to people fully participating in the workforce. The Government should therefore task the White Paper on the Reform of Australia's Tax System with considering how Australia's tax and transfer system can be improved to further reduce disincentives to workforce participation.

Recommendation

Reforms to the subsidies for early childhood education and care services should not be funded by either a 1.5 per cent levy being placed on companies whose taxable income per year exceeds $5 million, or the introduction of progressive corporate tax rates.

Supporting the not-for-profit sector

Regulation of the not-for-profit sector

We believe that the current regulatory regime for the not-for-profit and charities sector underpinned by the establishment of the Australian Charities and Not-for-profits Commission (ACNC) should be given sufficient time and support to meet the predetermined statutory objectives, as this has the potential to significantly improve the integrity and public trust in this sector.

The ACNC's work to consolidate into one regulatory framework, the current spider-web of differing rules across multiple states and territories is making a significant contribution to reducing the regulatory burden faced by many charities.
In the interests of stability and certainty, the Government is urged to not continue with the abolition of the ACNC.

Recommendation

The Government not proceed with the abolition of the ACNC.