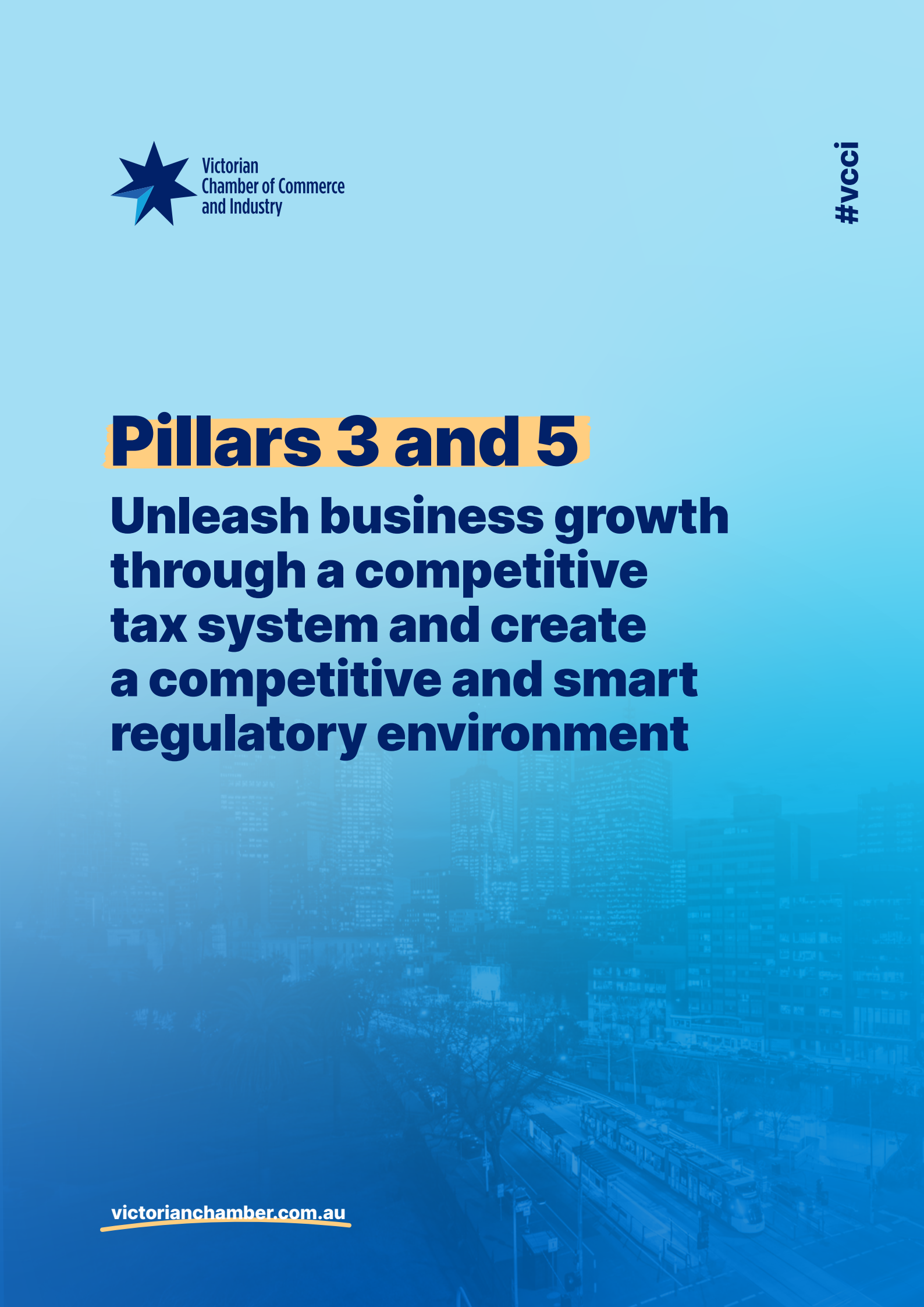
Victorian Chamber of Commerce and Industry

#vcci

Pillars 3 and 5

Unleash business growth through a competitive tax system and create a competitive and smart regulatory environment



victorianchamber.com.au

Contents

Pillar 3: Unleash business growth through a competitive tax system 1

Pillar 5: A competitive and smart regulatory environment 5

Acknowledgement of Country

The Victorian Chamber of Commerce and Industry acknowledges the Aboriginal and Torres Strait Islander peoples of this nation. We acknowledge the Traditional Custodians, the Wurundjeri people of the Kulin Nation, of the lands on which the Victorian Chamber head office is located and extend this respect to all lands across the country.

We pay our respects to ancestors and elders, past and present, and support the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples. We endeavour to develop stronger and enduring partnerships with First Peoples and work together to achieve economic, social and cultural equity and prosperity across Victoria.

We are committed to honouring Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

Victorian Chamber of Commerce and Industry

Pillar 3: Unleash business growth through a competitive tax system

We must be ambitious and change course to set the country and business on a path to prosperity.



Pillar 3: Unleash business growth through a competitive tax system

The Victorian Chamber commends the Federal Government for the $40 billion improvement to the Budget bottom line over the next four years, announced as part of the MYEFO. However, this improvement is substantively a result of commodity prices and built on the back of a tax revenue surge of more than $65 billion since the May Budget and a $7.4 billion delay in infrastructure spending.

Reliance on taxation revenue, due to significant personal income tax, company tax and a strong labour market, is not a sustainable strategy going forward. Our taxation system is uncompetitive and a drag on our attractiveness as a place for business investment and capital. State taxes are inefficient and dampen business growth and investment.

The recent IMD World Competitiveness Ranking 2023 report underscores the point. It found Australia languishing in 56th place for high levels of company tax; 57th place for levels of personal income tax and 58th place for economic complexity.[1]

Relatedly, the 2023 Intergenerational Report highlighted a declining tax base. There is an urgent need to address the declining tax base (i.e. fewer workers will be able to service the debt levels associated with the increasing government expenditure). Inaction will have disastrous consequences.

In the meantime, Australia is suffering from a 20-year slumber on taxation reform. The most recent decision by the Federal Government on Stage 3 tax cuts sets the agenda back further.

In its place is a piecemeal tinkering approach that is a drag on our productivity and living standards.

Recently, the Treasurer warned that

"Australians will be 40 per cent poorer by 2063 if the Federal Government is unable to turnaround lacklustre rates of productivity growth.... if Australia's productivity trajectory remains on its current course, working weeks will be 5 per cent longer and incomes will be 40 per cent lower in 2063 than would have been the case if productivity increased at its long-run average." [2]

A comprehensive review of the taxation system is needed to address the challenges Australia faces now and into the future.

Our taxation system is no longer fit for purpose and sits within an economy that is marked by stagnation, productivity decline, and flagging per capita GDP gains. The Productivity Commission and the Intergenerational Reports noted that the taxation system is locking in generational unfairness, undermining economic growth and stifling investment and innovation.

As highlighted recently by former Treasury boss Dr Ken Henry, the federal-state tax system "fails every test including for economic growth and fairness to younger people. Rather than continuing to heavily tax workers, particularly younger people through stealth income tax bracket creep, federal and state governments needed to follow the big bang tax reform successes of the Hawke-Keating and Howard governments."[3]

There is demonstrable need for a fiscal strategy that incorporates comprehensive reform of the tax system.

1 IMD World Competitiveness Yearbook 2023, Australia Results Website: wcy2023_australia-country-profile.pdf (windows.net)

2 "Chalmers' warning: We'll be 40pc poorer if we don't lift productivity", AFR , 15 March 2023, website: Productivity warning: Jim Chalmers says we will be 40pc poorer if we don't lift productivity (afr.com)

3 "Tax system 'fails every test' says Ken Henry, Australian Financial Review, 16 March 2023, website: Ken Henry says the tax system fails every test and the good derived from switching to GST switch has been "completely undone" (afr.com)

Pillar 3: Unleash business growth through a competitive tax system

While the taxation issue is a major factor for business, we also recognise that an overarching fiscal strategy is critical to prevent future shocks to the Australian economy.

Discretionary changes in government policy at the national level are estimated to cost the Federal Government some $61 billion in increased spending, while changes to taxation will lift revenue by an estimated $27 billion.[4]

The NDIS is the fastest-growing Federal payment – forecast to grow 10.1 per cent on average per year for the next decade.[5] Large service systems such as health, aged care and NDIS are driving significant government expenditure and will hamper the Government's ability to return the Budget to a sustainable position.

A large focus of the fiscal strategy will need to be on how these service systems can be delivered in a more effective way. This could include consideration of a cap on tax as a share of GDP, thereby limiting spending growth while focusing on functional efficiency reviews and reform in these large service systems. Consideration should also be given to a review of whether responsibility for some of these large service systems should sit solely with the Federal Government. The Productivity Commission could be tasked with such a review.

In the 2024 State Budget Submission, the Victorian Chamber advocated for no new or increased taxes and levies to be applied to Victorian businesses in order to prevent business conditions deteriorating further.

Taxation reform in Australia is now urgent and must include the state governments.

Dr Ken Henry has proposed a series of potential changes to the tax system including:

- Less reliance on personal income tax and flatter tax scales;
- Cutting the company tax rate;
- Reforming taxation on superannuation, fringe benefits and scholarships; and
- Replacing a string of business taxes such as insurance, payroll and land tax.

Tax reform must also address the pressures on state budgets associated with their service systems and debt positions and include harmonisation and reform of state taxation to better drive economic growth and business investment. These issues are particularly pronounced in Victoria, where business is taxed at the highest levels in the nation.

The Victorian Chamber remains deeply concerned at the impact the budgetary position of the Victorian Government and the related impacts these shortfalls are having on business – with a variety of business levies being applied by the Victorian Government.

Consideration must be given to these matters in the forthcoming Federal Budget.

The Victorian Chamber advocates

that performance-based bonus funding should be directed to Victoria on the proviso that the Victorian Government removes recent taxes and reformed regulations applied to business such as the mental health levy and COVID levy.

4 Australian Financial Review, Albanese tells voters: budget surplus trumps relief, 14 November 2023, website: Anthony Albanese tells voters: budget surplus trumps cost-of-living relief (afr.com)

5 Mid-Year economic and Fiscal Outlook, Part 3 Fiscal strategy and Outlook, page 60, Department of Treasury, December 2023.

Pillar 3: Unleash business growth through a competitive tax system

The precedent for this approach comes from the current Federal Government who announced the New Homes Bonus scheme,[6] a $3 billion performance-based bonus for states and territories that accelerated land release and overhauled planning approvals to fast track the construction of housing.

Also, the Business Council of Australia recommended that the Federal Government should give performance payments to states that overhaul their regulatory and tax policies.

When surveyed in 2023, 92 per cent of Victorian businesses support a comprehensive review of state taxes to identify ways of making Victoria a more competitive place to operate a business.

This is an increase of nine per cent from the previous year. Further, 83 per cent of Victorian businesses think a nation-wide tax review is required to ensure Australian tax is fair and stimulates growth and investment.[7]

We need to spur business investment and capital reinvestment in business, which are at historic lows. Revisiting the parameters of instant asset write-offs and associated depreciation schedules should be included in the Federal Budget. The newly introduced instant asset write-off aimed at small business should be extended to a higher threshold value for eligible depreciable assets from $20,000 to $30,000. Larger investments should also be eligible for the instant asset write-off for the first $30,000 with normal depreciation schedules applying for the remainder, over subsequent years.

The Victorian Chamber also supports the introduction of a broad-based investment allowance for larger scale capital investments (i.e., plant, equipment, machinery) of more than $100,000.

6 Prime Minister of Australia (2023). *Helping more Australians buy a home.* https://www.pm.gov.au/media/helping-more-australians-buy-home

7 Victorian Chamber. (2022). *Business Voice survey – November 2022.*

Pillar 5: A competitive and smart regulatory environment

Business-friendly regulation is key to the attraction and retention of companies. Our nation competes with the rest of the world as global capital moves freely today, based on the cost and ease of doing business.



Pillar 5: A competitive and smart regulatory environment

A smart and competitive regulatory environment characterised by minimal red tape and compliance regulations are key levers that drive improved productivity and encourage investment. The recent IMD World Competitiveness Ranking 2023 report underscores the point. It found Australia languishing in 19th place for competitiveness of countries around the globe. We have fallen from fourth place in 2004.

A landmark report by the Victorian Chamber, *Cost and ease of doing business in Victoria*, found that 55 per cent of businesses reported it is more difficult to do business in Victoria compared to other states due to higher compliance costs of doing business.[1]

The Business Council of Australia estimated that there were 120,000 clauses regulating behaviour and changing incentives in federal legislative instruments in 2022.[2] This a significant issue for business and is further complicated by duplication and inconsistency across Australia.

As noted by the Business Council of Australia, *"frequent changes to laws and regulations, and a poor understanding from policymakers and regulators of the complexity, time and cost of implementing these changes, is adding to the pressure."* [3]

For example, changes to the Privacy Act 1988, the Fair Work Legislation Amendment (Closing Loopholes) Act 2023, positive duty reforms through Respect@Work legislation, changes to gender pay gap reporting, and phasing in of climate-related reporting requirements that will indirectly impact small business should be accompanied by funding to business bodies, such as Chambers of Commerce, to run education programs and develop resources to assist business to meet the new requirements.

The Victorian Chamber notes the recent announcement of new draft Federal Supplier Code of Conduct (Code). The intent of the Code is supported. However, it is equally important that the Code does not create yet another barrier to small business winning government contracts. These are currently heavily weighted against small business. The Victorian Chamber welcomes the inquiry into this matter by the Australian Small Business and Family Enterprise Ombudsman.

It is imperative that business, and particularly small business, is not further burdened by increasing compliance measures associated with changes to legislation. The Victorian Chamber supports calls for a review of the regulatory burden on business through National Cabinet.



1 Victorian Chamber (2022). *Cost and ease of doing business in Victoria*, 2022. https://www.victorianchamber.com.au/policy-and-advocacy/taskforces/cost-and-ease-of-doing-business-in-victoria-taskforce, Page 3

2 Regulation Rumble 2023 – A Guide to National Best Practice, Business Council of Australia, Media Release. October 2023. Website: Regulation Rumble 2023 - A guide to national best practice - Business Council of Australia (bca.com.au)

3 Regulation Rumble 2023 – A Guide to National Best Practice, Business Council of Australia, Media Release. October 2023. Website: Regulation Rumble 2023 - A guide to national best practice - Business Council of Australia (bca.com.au)

Pillar 5: A competitive and smart regulatory environment

When similar competition reform was undertaken through the work on National Competition Policy, it was done on a cross-jurisdictional basis. The wide-ranging reform agenda achieved substantial changes across state and local government and changes to regulations in a variety of industries and sectors. The decade-long reform process covered 1,800 pieces of legislation and created a productivity uplift of $60 billion in today's dollars.

Small business has a critical role to play as a partner to Government to achieve major policy commitments, including increasing the workforce participation of women, people with disabilities, and creating Indigenous employment and business opportunities, all of which are embedded in government procurement contracts.







Victorian Chamber of Commerce and Industry

The Victorian Chamber of Commerce and Industry (VCCI) is the largest and most influential not-for-profit business organisation in Victoria, informing and servicing more than 85,000 members and clients across the State.

Through our policy and advocacy work, professional development courses, workplace relations and consulting services, we help thousands of businesses every year to improve workplace performance and achieve business growth and success.

Victorian Chamber of Commerce and Industry
150 Collins Street,
Melbourne VIC 3000
Phone 03 8662 5333

Victorian Chamber of Commerce and Industry

#vcci

© The Victorian Chamber of Commerce and Industry 2024.

This paper was prepared by the Victorian Chamber of Commerce and Industry. While the Victorian Chamber has endeavoured to provide accurate and reliable research and analysis, it will not be held liable for any claim by any party utilising this information.

The Victorian Chamber of Commerce and Industry,
150 Collins Street, Melbourne, Victoria 3000
Phone: (03) 8662 5333 victorianchamber.com.au March 2024

victorianchamber.com.au