Creating a more dynamic and resilient economy inquiry

Questionnaire response 9

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1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

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Tax Reform

Title: Exempt verified Entrepreneurs from PSI Tax

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There is a small enhancement which can be made to the current Personal Services Income (PSI) Tax rules which will deliver a very large uplift in productivity and international competitiveness.

The existing PSI Tax rules penalise investment in innovation, thwarting the success of early stage innovators, and sabotaging federal govenance's own investments in innovation and commercialisation, by taxing RnD amd EMDG Grant recipients before they are profitable.

The specific scenario in which this occurs, is when an early stage innovator funds their innovation by providing personal service labour and thereby generating part of their business income through the provision of Personal Services. Genuine entrepreneurs will then be investing their income directly into the innovstion product and service streams of their business.

Despite not operating profitably, the PSI tax rules unfairly require the entire PSI income to be taxed at the maximum personal income rates, even if the money was earned within a pty ltd company which directly invested the largesse of the funds into Research and Development and/or Export Market Development.

The net impact is that the corporate entity, despite having a strategy to expand business operations with the long term goal of increasing jobs, revenues and tax income to Australia, is not able to claim legitimate business expenses against related business income.

This has a major, cumulative, negative effect on the innovator's likelihood for success, and thus severely decrements Australia's overall international competitiveness and productivity.

It also fundamentally breaks one of the essential tax principles, that income should be taxed after expenses, not before them.

Given the RnD and EMDG grants require dollar-matched funding, many early stage entrepreneurs are forced to generate their contribution to seed funding by providing personal services.

As statistically, we repeatedly see here in Australia that females are less likely to attract early stage investment, this scenario biases against female founders, not only further decreasing their likelihood for success but also increasing the gender wealth divide, further reducing female's wealth to fund retirement.

The impact is significant enough to directly determine whether a business will succeed or not, particularly for large-scale opportunities with export potential, given there is unlikely to be another country in the world which taxes businesses on income before expenses.

Early stage innovators in Australia are paying crippling levels of tax before being profitable, but competing against foreign innovators whose countries don't tax them until they are actually generating profits.

The businesses which win new markets are those with the fastest path to market. Australian innovators can never succeed when they are cut off at the knees at the starting line.

This business taxation anomaly is so unsustainable, it necessitates that innovators relocate their tax domicile offshore to countries with fair tax rules, in order to have a chance at success, further decreasing long term tax revenues in Australia.

The cumulative effect is pronounced. The excessive tax paid in Year 1 decreases available funds to invest in Rnd and Export activities, thereby reducing the rebates paid.

The reduction in rebates reduces finances available to invest in year two, adding to the impact of excessive taxation limiting available funds to invest in RnD.

At the 5 year, 10 year, 15 year mark, these compounding constraints quickly add up to millions in lost capital for even a startup with a sole founder on a consultant PSI invone circa $200,000 pre-tax per year.

The lack of finance available directly translates to slower Rnd, with the inevitable end state being failure due to competitors in countries with fair tax rules, eventually over taking the market.

No other country in the world requires a company to pay tax on $200,000 income when they had expenses of $150,000 against that income. Every other tax system would only tax the net profit of $50,000. The PSI rules are eveb in breach of Australian taxation standards.

It directly causes the Australian Government to shoot itself in the foot: paying to fund RnD and Export activities, but taxing the same entities before they are profitable to prevent those investments from ever attaining their long term returns.

PSI tax rules should not apply to companies which are performing validated Rnd and export activities, which is already verified by Ausindustry through their audit of Rnd rebates and EMDG grants.

The change should apply immediately, and be available to be applied retrospectively, so that businesses which had demonstrated market penetration for verified RnD can have historic over-taxation refunded to allow them a chance to recover from Covid.

As these expenses will currently be sitting as carry-forward losses on company balance sheets, it will benefit taxation moving forward if the amounts are moved from carry-forward, to historic - and retrospectively claimable - expenses, thereby bringing forward dates at which future profits will generate payable tax revenue in future.

For entrepreneurs such as myself, it will also increase the likelihood we remain domiciled in Australia.

As it stands, there is no way I would start another export innovation businesses in a tax environment where companies are taxed on income before expenses. The PSI tax rules when applied to entrepreneurs are fundamentally illogical.

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

   In this question, we want to understand what aspects of the tax system you think are unnecessarily onerous, costly or complex. We also want to hear your views on how the compliance burden can be reduced.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

   The participant did not respond to this question.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

   The participant did not respond to this question.

2. How has your regulatory burden changed over time?

   The participant did not respond to this question.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

   The participant did not respond to this question.

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?