Creating a more dynamic and resilient economy inquiry

Questionnaire response 86

Name: XBase Pty Ltd

Submission date: 4/06/2025

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?

The participant did not respond to this question.

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

The participant did not respond to this question.

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?

4/6/2025

Submission to Productivity Commission:
Tax Reform

Title: "Increase Foreign Tax-Free Threshold Trade Deals"

Author: Rebecca Gabrielle Cannon Entrepreneur; Advocate for Economic, Environmental and Social Sustainability

CC License: Attribution, Commercial, Derivatives.

Estimated relative Effort: Medium
Estimated relative Value: XXX Large
WSJF Prioritization: 2 - High

- Entrepreneurs hit large hurdles when gaining their first international customers if Australia does not yet have a trade deal in place to exempt the seller from foreign tax registration when annual sales are below a minimum threshold.

- This forces Australian entreprenurs to make a difficult decision: (1) either block sales to that country; or (2) invest a large % of early stage capital to register as a corporate entity trading in that country, which requires the often far more expensive dependecy of adjusting the product/service offering to align with foreign laws, which in many cases may require a complete rebuild and alternate product/service.

- Australia's federal govenors have already established exemptions to this requirement in trade agreements with other countries, whereby an Australian company can sell to the foreign company up to an agreed value per year before registering in that country. Eg for many countries, an Australian business can generate up to $50,000 AUD per year in sales revenue sourced from customers in the foreign domicile, before needing to register as a business entity and perform tax reporting in that country.

- However where Australia does not have such an agreement, even a single sale in that region will require the Australian seller to be registered in that country for taxation purposes and therefore meet regulatory and compliance requirements. Notably, as at 2023 when I ceased trading my business https://art.base.co some European countries did not yet have this trading agreement with Australia (eg Portugal), nor did China, and by extension, Hong Kong.

- The cost burden for an early-stage, bootstrapped, startup to identify local regulatory requirements in a foreign country is a major threat to the success of early-stage innovation, particularly if it requires the development and operation of an entirely duplicated, but censored, version of an existing business; and even more so if foreign regulations are expected to be applied to the seller's global operations.

- Should the business chose to block sales to that country, they miss out on the opportunity to elicit early sales revenue and customer feedback - information which is vital for assessing the potential value and cost to enter that market, and therefore the prioritization of that investment against other opportunities.

- Australia's federal govenors should adopt - a strategic aim to establish the minimum threshold under which Australian registered businesses can operate in a foreign country before registering as a taxable entity in that country - with every nation as the target KPI.

- For countries which harbour concerns, a 'manage-by-exeption' approach could be implemented for businesses with less than $50,000 AUD revenue in that country. EG, with my former business Art.Base, having paying customers using my website from Hong Kong, could have been an opportunity to collaborate with Chinese govenors (with intermediary advisory services supplied by Australia's export market specialists at EMDG) over what impact their local regulations would have, longer term, on a platform which promoted world-wide artists, including the already-published content by Chinese artist Ai Wei Wei whose work is censored in China, but whose promotion was paid for on the platform by customers in other countries.

Instead, the need to pre-invest an immense % of early-stage capital into the establishment of foreign tax registrations, processes, and product/service adjustments before validating market appetite, was instead a blocker contributing to the failure of the business. Keeping in mind these costs are worn per foreign country. When Australia only represents 2% of global opportunity, the costs to support foreign tax compliance quickly compound and threaten investment in core product/service, particularly for online businesses which are natively global, and need to spend more money on product development to block other countries than would be spent by allowing other countries to access the business offering.

- While the EMDG grant exists to help offset these costs, it's requirement for dollar-matching voids it's value for bootstrapped startups who don't have sufficient capital to co-invest. This is further compounded by businesses affected by PSI Taxes. See my 2 additional Tax Reform submissions on these related matters for further detail about these specific constraints.

Rebecca Gabrielle Cannon

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?