Productivity Commission Submission

[Creating a more dynamic and resilient economy]

- Support business investment through corporate tax reform
- Reduce the impact of regulation on business dynamism

Australia's taxation system impacts productivity

This submission is made by me as a retired Chartered Accountant with extensive experience is financial management, business consulting, taxation and public accounting for several large and small private and government enterprises during 10 years in the UK and 40 years since arriving in Australia.

Australia federal and state governments rely too much on income tax and other taxes, which impact productivity growth.

1. Federal and State Taxes need to be comprehensively reviewed with a view to updating all taxation legislation.

In February 2024 Ken Henry former Treasury boss, said "We tax labour income, capital income, consumption, land and natural resources, economic rents, and environmental externalities. Well, over time, we've got to place less reliance on personal income tax, and company tax, and payroll tax. For interest, rent, and capital gains we've got to do a much better job of getting similar tax treatment across those various forms of capital income. Consumption tax, we need to fix up the mess. We've got to get rid of all transaction taxes, like stamp duties on insurance. We've got to abolish fuel excise and figure out a comprehensive road-user charging scheme. Stamp duties on land abolished and replaced with a decent property tax". I still think that we need to cut the company tax rate, we also have to find a way at the same time of getting more revenue out of the country's exhaustible natural resources, particularly fossil fuels."* * No exemptions for GST.

2. Corporate Tax in Australia is much higher than in other similar competitive countries.
3. State Taxes impact employment, housing and development e.g. Payroll Tax, Stamp Duty and Royalties.
4. Federal and State tax is inefficiently used for Subsidies that distort market and engender inflation.
5. Exports of Mining and Other Resources are not always subject to Royalties.
6. High taxes lead to complex tax systems which incentivise tax avoidance.
7. The Federal government revenues rely too much on high personal income tax.
8. High Federal and State tax and duties lower business incentives to invest.
9. Low personal income tax increases revenue from taxpayer acceptance, and are perceived as Fair. However high taxes are perceived as Unfair and lead to confusion and evasion by taxpayers. Income Tax also needs to be indexed to eliminate bracket creep into high income tax brackets.

Australia's Business Dynamism

The businesses in Australia in global terms are largely made up of small to medium sized organisations which I found when I migrated to Australia. These organisations have proved to be nimble and resilient over 40 years in their dealings with the "The Recession we had to have" and "The cessation of Commonwealth preference after Brexit."

When I arrived in Australia, there were several major issues I encountered that were different from equivalent in similar other countries. Some of these issues were addressed by previous Australian government, however somed continue today and need to be addressed in the pursuit of dynamism.

The issues were: -

a) competing restrictive regulations and employment laws and regulations between Australian States.
b) business enterprises, which had to diversify the into the Asian markets of China, Hongkong and Japan.
c) entrepreneurs who embraced “a give it a go mentality” to the risks of commerce innovation.
d) risk averse banks who were restricted in their lending for housing and business ventures.
e) Federal and State taxation systems that had not been brought up to date since WW2

Despite the above I found an optimism and willingness to tackle the above I observed: -

f) enterprises that dealt with Asian Markets were rapidly learning that business ethics and practices were different from those in Australia, and agreements and contractual obligations were governed often subject by local ethnic culture e.g.
(1) Asian businesses are family-controlled, and the dynamics of any contractual authority within the family.
(2) The culture also determines that contractual conditions for delivery can be overridden by competing bids.

g) Australia enterprises needed to establish resilience to the adverse culture, and I observed this was by establishing local manufacturing of products to allow for delays in delivery and to provide Asian suppliers with competition.

The above observations illustrate what I believe is needed to create sustainability in Australia’s business economy: -

h) Federal and States need to review and align their legislation, rules and regulations.
i) There is often “coercion” from overseas suppliers, and business enterprises should endeavour to set up counter measures such as small manufacturing and other infrastructure to ensure business disruption continuity of operations and technology.
j) Diversity of suppliers should be pursued using government trade expertise.
k) The federal government should support building of suitable Australian merchant ships to protect essential

imports, and to provide supply ships for the naval support.
l) All governments should support the of essential industries e.g. Defence Ordinance and Agriculture Industries.
Agricultural productivity needs to be enhanced as part of governments' commitments to Climate Change targets.
m) Increase funding of GDP by comparison with other comparable Western Countries for Research and Development of New Technologies such as Robotics, Artificial Intelligence, Information Technology, Medical and Pharmaceuticals.
Fund universities with grants to concentrate on education of engineers and information technology graduates.

(1) Australian businesses spend a lower percentage of their GDP on R&D compared to countries like Japan, the United States, and France, especially in experimental development.

(2) Australia's non-business R&D spending, particularly in government, non-profit, and higher education sectors, contributes to higher levels of total applied research, bringing it closer to levels seen in other countries.

(3) Australia's gross expenditure on R&D as a share of GDP (GERD) is below the OECD average.

Corporate Failures

It is important to appreciate this, as recently there has been a large increase in bankruptcies of such small and medium businesses which is a barometer of the failing health of the private market sector.

A. In my experience 90% of bankrupt corporations are caused by cashflow deficits, rather than profitability. The lack of adequate business capital and poor control of debt collection are contributory causes of bankruptcies.

B. It appears to me that the above causes for failure need to be signalled in advance by using the GST data collection system to also include detailed quarterly cashflow statements for all small to medium sized organisations.

C. By collecting cashflow data the ATO could signal the Federal government of possible areas of market sector concern. Considered assistance then might be given to stave off the loss of productivity of such small to medium- sized organisations if they were to cease business.

Australia's Non-Private Enterprise Sector

The follwing issues of the non-market sector impact on the private sector investment and productivity.

No.1. Federal and State public servant's numbers and pay rises have increased .

No.2. Federal and State Quangos have increased in the last twenty years e.g. NDIS

No.3. The cost to taxpayers of Federal and State's public service has increased significantly.

No.4. The public service contributes marginally to Australia's productivity or GDP.

No.5. Unemployment is at its lowest for years, so perhaps now is the time for all Federal and States to have efficiency restructure, which would result in significant reductions in the public sector.

No.6. The significant cost savings from a reduction in the public sector, plus the likelihood of improved productivity to the public purse, could produce cost of living reductions in taxation and business red tape costs.

No.7. There would be productivity benefits arising from public servants becoming employed in private enterprise and using their knowledge of government processes and other expertise.

In Conclusion

If Australia's economy is to become more productive, then it need look no further than India's economic growth. Private investments in training and skill development of the workforce have improved India's its economy by exporting to global markets.

India fast growing economy, growing at a rate of 8.2 percent in FY23/24. Growth was spurred by public investment in infrastructure and rising household investments in real estate. A buoyant manufacturing sector grew by 9.9 percent, while services remained resilient, compensating for the underperformance in agriculture.

Government initiatives have sought to boost the private manufacturing sector by improving the business environment, enhancing logistics infrastructure, improving tax efficiency and rationalizing tax rates. It excels in IT, business services and pharma, and it is diversifying its export which are more labour-intensive sectors such as electronics and green technology products.

The key factors are education of a skilled workforce and investment in research and development of new lower cost technologies that can be used in particularly energy generation, agriculture, use of rare minerals, information technology and services.

The above key factors are also relevant to Australia's productivity in the future. Australia will need to generate increased levels of energy to power requirements for artificial intelligence and robotics needed in manufacturing and other developments to meet its forecast socially and economically sound transition toward its 2050 zero emissions targets. India has nuclear powered electricity generation which is miniscule at present, with coal fired powered stations still dominating, however as stated above new low cost technologies are include their nuclear in their future needs.

The latest Climate Change Reports from global meetings state the following which Australia's politicians would do well to move away from the moratorium on use of nuclear power and include it in future considerations of energy mix with renewables. More than 30 countries have nuclear power generation in their energy mix, and all of them cannot be wrong the science of nuclear technology is rapidly advancing in the same manner as other technologies whose costs are reducing.

Nuclear energy's increasing momentum could be seen at COP28, where the first Global Stocktake under the Paris Agreement called for the acceleration of nuclear and other low-emission technologies to help achieve deep decarbonization. Another key moment at the climate conference in Dubai was when more than 20 countries launched a declaration to triple nuclear energy capacity by 2050. Last year at COP29 in Baku, Azerbaijan, a further six countries joined the call.

With its capacity to deliver low carbon electricity consistently 24/7, nuclear power has prevented around 70 gigatonnes (Gt) of CO2 emissions over the past five decades and continues to avoid more than 1 Gt CO2 annually, according to IAEA's "Climate Change and Nuclear Power 2022" report.

As a British migrant I acknowledge the declaration of a large part of Eastern Australia naming it New South Wales by Lieutenant James Cook of HMB Endeavour in the name of the Crown of Great Britain in 1772