Secretariat: PO Box 463
Canberra ACT 2600

Our advocacy team is based in Canberra

www.cosboa.org.au

Productivity Commission
4 National Circuit
Barton ACT 2600
By email: 5pillars@pc.gov.au

Dear Productivity Commission

Re: 5 Pillars

Introduction

The Council of Small Business Organisations Australia (COSBOA) is the largest peak body representing the interests of Australia's 2.5 million small businesses. Small businesses make up 97 per cent of all businesses, collectively employ almost half of Australia's private-sector workforce and contribute over 30% of the nation's GDP.

COSBOA identifies the importance of recognising small businesses as core contributors across all five areas. Detailed responses to the questions asked under each of the pillars is outlined below.

Pillar 1: Creating a more resilient economy

Small businesses drive innovation, competition and employment. Supporting their sustainability through fairer tax policy and less regulatory burden will result in a more resilient national economy.

Support business investment through corporate tax reform

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

For small businesses, the last 10 years have been tumultuous with drought, bushfires, flooding and the COVID pandemic commencing 5 years ago with the effects of these events still reverberating. The business environment has both encouraged and retrained investment in the following ways.

Encouraged:

- **Digital Transformation and Automation**
  - The rapid adoption of digital tools and automation has enabled small businesses to consider ways to streamline operations, reduce costs, and improve customer experience. Early adopters of technologies such as AI-driven chatbots, automated accounting, and advanced payment systems have gained a competitive edge in their respective markets.
- **Instant Asset Write-Offs and Tax Incentives**
  - Initiatives like the Instant Asset Write-Off have encouraged investment in productivity-enhancing equipment and technology. COSBOA continues to advocate for a permanent and expanded write-off threshold to further stimulate small business investment

Restrained:

- **High and Complex Tax Burden**
  - The current tax system, with a 25% company tax rate for small businesses, is often viewed as a barrier to investment. COSBOA calls for a reduction in the small business tax rate to 20% to provide immediate relief and incentivise further investment. The complexity of the tax regime also adds to small business compliance costs and uncertainty in business conditions. State payroll taxes also have a significant detrimental effect on small businesses, in terms not only of paying them but also in the compliance costs of calculating the liability – especially in areas where payroll tax is not harmonised across jurisdictions (e.g. contractor provisions in NSW)
- **Regulatory Complexity and Instability**
  - Small businesses continue to endure a heavy regulatory burden, with frequent changes to legislation and inconsistencies across federal, state, and local jurisdictions. Increased policy and regulatory instability have increased uncertainty, making it difficult for businesses to plan and invest with confidence
- **Rising Operating Costs and Inflation**
  - Escalating costs — particularly wages, energy, insurance and compliance — have squeezed margins and limited small businesses capacity for reinvestment. The 5.2% increase in the national minimum wage, combined with new employee rights, has created additional pressure on small business resources

- **Inadequate Government Support**
    - Many small businesses feel overlooked in federal budgets, with insufficient targeted support to address their unique challenges. COSBOA has repeatedly called for more substantial measures to support small business recovery and investment, warning that failure to act risks cementing further economic decline.

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

Small businesses inject more than $500 billion into the Australian economy annually, employ over 5 million Australians and make up more than 97% of all businesses in the country. However, the current corporate tax system is not fit for the small business landscape. Small businesses are bearing the brunt of the cost-of-living crisis, red tape is increasing, and staff are getting harder to find.

The current company tax rate is costly on a small business and is impacting small businesses abilities to invest and grow.

Economic modelling undertaken by COSBOA has found reducing the small business company tax rate would boost the economy by up to $11.4 billion dollars and provide up to 3370 permanent jobs. Across all scenarios, the modelling shows the tax rate reduction would boost small business cashflow, increase post-tax retained earnings, loosen credit constraints, reignite investment and spur productivity, wages, jobs and economic growth. In aggregate, national income would rise, with the boost to GDP significant relative to the low cost of replacing the foregone revenue.

Impermanent Instant Asset Write-Off

Whilst the IAWO allows small businesses to immediately deduct the cost of eligible assets, improving cash flow and making it easier to invest in productivity-enhancing equipment and technology, the impermanence of the measure causes uncertainty and s not helpful in assisting small business to plan in the longer term.

Complexity of compliance

The current tax system is overly complex, with multiple overlapping rules between different business areas and different states, frequent changes, and significant compliance costs in navigating the system. This complexity disproportionately burdens small business owners, who lack the resources of larger firms to manage compliance and navigate shifting regulations.

It is important that the Government and the Productivity Commission consider simplifying tax compliance and removing unnecessary complexity.

Reduce the impact of regulation on business dynamism

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

Simplified and proportionate regulation would enhance business dynamism, including enhanced competition policy focussed on addressing creeping acquisitions and ensuring small businesses can thrive and new businesses can enter the market. This also includes regulatory harmonisation between states. Coordinated regulatory approaches ensure that small businesses are not disproportionately burdened by fragmented rules. Increased mutual recognition of skills across states would make skilled workers more mobile and accessible to small businesses across the country as would a simpler system for recognising the skills and qualifications of migrants already in Australia.

Low-cost business dispute resolution mechanisms. Expanded access to legal advice and support for dispute navigation further strengthens resilience, especially for businesses with limited resources, particularly for disputes relating to unfair contract terms.

Regulations and government programs supporting digital adoption and protecting small businesses. Investment in programs such as COSBOA's CyberWardens program help businesses mitigate cyber incidents, which is increasingly critical for operational continuity.

These areas would lower barriers to entry, build upon small business flexibility and adaptability, encourage innovation, and support long-term business continuity.

How has your regulatory burden changed over time?

Small business regulatory burden has increased over the last 5 years. Small businesses do not have large teams responsible for governance and oversight or human resource personnel. The volume of regulations has grown over the last few years and so has its complexity. Too often, small business owners are wearing the hats of HR, Governance, Finance whilst running their day-to-day operations. This means the total compliance cost is higher than that of a larger corporation. Small businesses are typically spending more time and resourcing per employee on compliance than larger businesses given the need for constant external advice from lawyers, tax accountants and other professionals.

According to the ABS, 97 per cent of small businesses in Australia have 0 to 19 employees. However, measures by employment size 62.5 per cent of businesses are self-employed, with the next class of businesses with 1-4 employees making up 26 per cent. Given these figures, it is extremely unlikely that these small businesses would have senior management or board members dedicated to regulatory compliance.

Additionally, in many instances, Departments and other Government entities are not carrying out appropriate impact assessments to determine the regulatory burden of new regulations on small business. Small business impact must be considered when developing and reforming policy.

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

Depending on the industry, regulations can be complex and time-consuming to navigate.

More generally, COSBOA is of the view current regulation and legislation around **Payroll Tax** as impacting business dynamism and resilience. Payroll tax is state based with different rates and thresholds varying state by state, for the small businesses that do fall above the threshold, there is a significant cost burden not only in the tax to be paid but also the compliance costs. These difficulties disincentivise employers from hiring and expanding operations due to increases or potential increases in liability. COSBOA has consistently described payroll tax as a tax on jobs.

GST reporting being moved to a monthly status result in small businesses lodging more frequently and impacting cash flow management.

Recent regulatory changes to **Industrial Relations laws** have resulted in additional complexity for small businesses and costs related to compliance.

Pillar 2: Building a skilled and adaptable workforce

COSBOA's current Small Business Skills and Training Needs Survey identified small businesses need flexible, fit-for-purpose training pathways. Persistent skill shortages and outdated occupational entry barriers are limiting productivity gains across industries.

Support the workforce through a flexible post-secondary education and training sector

In your experience, how well does the credit transfer and recognition of prior learning system operate in Australia? Does it adequately support students to move between courses or have their work experience recognised as part of a qualification? Are there ways it could be improved?

Any approach to simplify recognition of prior learning while maintaining integrity is a step in the right direction. The recognition of formal training through credit transfer should also be more widely adopted across tertiary education institutions rather than it being a hurdle/ barrier to such recognition. A pathways approach is an option worth exploring. Offering recognised/ accredited micro credentials would also provide good outcomes for businesses seeking students with specific industry skills.

Recognition of structured non-formal and formal enterprise-based training should be encouraged and recognised through RTO mapping across accredited courses/ qualifications.

What are the main reasons individuals and/or businesses do or do not not participate in work-related training?

Small businesses wish to participate in work-related training; however, barriers exist in relation to cost and completion times. The current model in terms of both training and employment arrangements fails to meet the needs of small businesses who often need adjustments and additional supports to fully invest in carrying out the apprenticeship requirements. The varying industry sectors within small business requires the need to enable non-trade businesses to have a flexible and work-based Traineeship enabling credentialing and courses to meet their needs.

Small businesses are facing increased costs of doing business. A recent study from MYOB found one-third of small business owners cannot pay themselves due to cash flow challenges, and a quarter have resorted to using their personal savings to keep their businesses running. In addition to these, rising costs due to industrial relations changes and energy prices, to name a few examples, small businesses face cost barriers to participate in work-related training.

Where small businesses want to participate in programs, there is risk of apprentices leaving half-way through the program and moving to another employer. For an apprentice in an un-licensed program, they are likely to move across to a job with a higher pay, however, for the small business that has navigated a complex administrative system and invested in time away from running their business, they are left with no benefit of the training they have just provided.

Staff shortages also limit employers from participating in work-related training.

What role, if any, should businesses be playing to address any barriers and better support the offer of work-related training to employees?

The Government needs to assist small businesses so they can offer work-related training to employees. See answer to next questions.

What, if anything, could government do to address barriers and better support the offer of work-related training to employees?

Government needs to continue providing incentives to small businesses for carrying out apprenticeships and other work-related training to employees. Members undertaking COSBOAs Small Business Skills and Training Needs Survey identified that training subsidies were the largest financial assistance/incentive that would help support their business undertaking training.

What are the effects of occupational entry regulations? Please describe your experience and name the specific occupations you are referring to.

Some occupational entry regulations may not be proportionate to the level of risk associated with certain professions. Excessive regulations can create unnecessary barriers to entry. On the other hand, insufficient licensing standards can increase the risk of harm to consumers and workers. There may also be alternative approaches that can achieve policy goals without creating barriers to entry.

Pillar 3: Harnessing data and digital technology

COSBOA supports smart digital reform but warns that removal of the small business exemption in the Privacy Act would impose significant costs on already stretched operators. Any reform must balance innovation with practical implementation for small business.

Enable AI's productivity potential

How are you currently using AI? Please provide details of the context and uses.

Over the past year, COSBOA has integrated AI across the entire business - policy development, communications, research, administrative tasks, and strategic planning. We've documented specific productivity gains. The highlights are: 34.7% organisation-wide productivity increase, with our highest adopters seeing up to 70% improvements. We're using AI tools for document analysis, policy submissions, research, content creation, and process automation - essentially augmenting our team's capabilities rather than replacing roles.

Do you think there are opportunities to make greater use of AI in your work or home environment? What do you see as the biggest upsides?

Based on our experience, AI can definitely be transformational for smaller organisations. We have generated approximately a 7,225% return on investment. The biggest upside for a small business is that AI can help to level the playing field for SMBs by providing enterprise-level capabilities at accessible costs.

What challenges do you face in accessing or using AI? How can these challenges be overcome?

The main barrier COSBOA faces as a business is knowing what tools are and are not good or useful. There is an abundance of AI products in the marketplace, with many not functional or of providing value. As a result, it can be daunting to know where to start. Additionally, once you begin using the tools there is a limiting amount of information on what different tools are good for and not good for. This leads to a lot of trial and error if you do not have someone in-house that is familiar with AI/LLMs.

Other barriers that exist are skills development and effective implementation rather than access to technology. We found staff with technical backgrounds adopted faster, but all departments achieved significant gains when given time to learn. Integration with existing workflows requires thoughtful planning, not just technology deployment.

Small businesses need simple training packages related to the implementation and use of AI in the workplace.

Do you have any concerns about using AI? What are the reasons for your answer? What can be done to lower your level of your concerns?

Most AI risks are not fundamentally new – they are the same one's users have always faced (data security, decision-making bias, etc.). However, AI use significantly increases the exposure to those risks. COSBOA's approach has been applying existing governance frameworks rather than creating 'AI-specific' processes.

It is essential to enable practical adoption while maintaining appropriate oversight through outcomes-based regulation rather than prescriptive AI-specific rules. This is doubly true because of how fast the technology is evolving. Any specific regulations tailored to today's tools could be outdated by C.O.B the same day. Australia's regulatory approach should support organisations like ours that are demonstrating real productivity gains through practical AI adoption.

Pillar 4: Delivering quality care more efficiently

With one in seven small businesses operating in the health sector – including GPs, pharmacists, allied health and natural therapy providers – COSBOA seeks to highlight the vital economic and community contributions small health businesses make, which must be recognised in health system reform.

COSBOA also supports our member Massage and Myotherapy Australia's submission to the Productivity Commission on Pillar 4.

Reform of quality and safety regulation to support a more cohesive care economy

To what extent do differences in quality and safety regulation make it costly or complex to provide or access care services?

- Not at all
- Very little
- Somewhat
- **To a great extent**

What are the reasons for your answer?

Small businesses providing or accessing care services—such as health, aged care, community, disability, or early education services—face significant challenges due to differences in quality and safety regulation.

Care services are regulated by different agencies and frameworks depending on the, and sometimes by both state and federal governments. This leads to overlapping, inconsistent, or conflicting requirements.

Small businesses must navigate and comply with a patchwork of regulations, which is resource-intensive resulting in higher compliance costs given the fact that the administrative capacity is significantly smaller than a larger organisation resulting in restrictions from participating in programs. These compliance costs also includes costs such as licensing fees, training, equipment etc and where they are fixed costs, they become a larger financial burden on a small business to meet regulatory standards.

Additionally, there are some well-established structures within associations accrediting practitioners and ensuring consumer safety. These structures have worked well within the healthcare sector across registered healthcare, allied health and complementary therapies. However, newer programs such as the NDIS have set up alternative accreditation programs which ignore existing structures. As a result, these processes become more difficult for small businesses to navigate and compete. The introduction of alterative structures has also left the system open and vulnerable to significant fraud.

To what extent should quality and safety regulations be more aligned across the different care service sectors and jurisdictions?

- Not at all
- Very little
- Somewhat
- **To a great extent**

What are the reasons for your answer?

Existing accreditation processes confirm education levels, ensure maintenance of appropriate insurance and ongoing continuing professional education and first aid. Associations and boards for registered health professionals also provide a complaints mechanism.

Further alignment would assist in reducing the regulatory burden for small businesses resulting in lower administrative costs and more time spent improving quality and safety within the industry. Accrediting practitioners rather than businesses ensures individuals can easily move within the industry.

A national framework to support government investment in prevention

What are the main barriers to governments investing in evidence-based prevention programs across the care economy?

Evidence based prevention programs tend to be complex and require investment in long term programs to determine benefit. Unlike a randomised controlled trial it is difficult to run programs that compare one intervention against a placebo as prevention programs usually combine diet and exercise.

A recent long-term study looked at both diet and exercise and the impact in reducing cancer recurrence. The CHALLENGE trial study was conducted over 4 years (2019-2023) in Canada and Australia. It found that 6 months of structured exercise interventions with fortnightly coaching was associated with a 28% reduction in recurrence risk and the intervention. Combining the intervention with dietary changes saw better overall improvement. Less proinflammatory diets and higher physical activity levels lead to the best overall survival outcomes, with a 63% lower risk for death compared with peers who consumed more pro-inflammatory diets and exercised less.

What are some examples of successful prevention programs (this could include discontinued programs)?

The Life Program implemented by Diabetes Victoria showed a 5% reduction in weight over 6 months and improvement in other metabolic parameters. The program was funded by the Victoria Department of Health in 2022-2023.

Pillar 5: Investing in energy and the net zero transformation

Whilst COSBOA does not have specific answers for the questions posed by the Productivity Commission. COSBOA's Small Steps Bright Future research shows small businesses want to embrace the energy transition but are held back by costs and a lack of tailored support. Financial incentives, practical advice, and accessible education are key to making net zero a reality.

Conclusion

COSBOA supports a productivity agenda that considers small business at its core. Small businesses are not just participants in our economic system, but essential drivers of innovation, job creation, community vitality, and long-term productivity growth.

We urge the Productivity Commission and all levels of government to embed a "small business lens" across each of the five pillars and ensure small business voices are consistently heard and meaningfully integrated into the policymaking process. Supporting small business is not merely an economic imperative—it is a commitment to a more dynamic, inclusive, and resilient Australian economy.

We welcome any further consultation with the Productivity Commission on any of our comments above.

Yours sincerely,

Luke Achterstraat
Chief Executive Officer

COSBOA