

Productivity Commission
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Dear Productivity Commission

Creating a more dynamic and resilient economy Interim Report

Introduction

The Council of Small Business Organisations Australia (**COSBOA**) welcomes the opportunity to respond to the Interim Report on Creating a More Dynamic and Resilient Economy (**Report**). Australia's small businesses are the backbone of our communities and the nation's largest source of employment. Yet, regulatory complexity and compliance costs are significant barriers to their ability to innovate, grow, and drive a dynamic economy.

The recommended corporate tax reforms and regulatory streamlining measures directly address two of the most pressing challenges faced by small businesses. This is the kind of reform that boosts confidence, investment and growth across the small business sector. The Report's findings a genuine opportunity for better policies to support small businesses.

COSBOA's commentary on key recommendations made in the Report are outlined below.

Lowering the company tax rate

Small businesses are the engine room of our economy – they must be front and centre in the tax reform debate. COSBOA strongly supports the proposed company tax rate reductions with COSBOA modelling showing that reducing the tax rate from 25 per cent to 20 per cent for small businesses would inject up to \$11.4 billion into GDP over five years.

It is imperative that the tax system is made simpler and more sustainable. The flow on effect of this will also incentivise business investment. However, COSBOA strongly opposes the introduction of a new cash flow tax. Adding a new layer of complexity onto existing tax regimes is the opposite of reform as it:

- creates unnecessary duplication by adding another tax system;
- duplicates and confuses existing tax definitions and systems – for example, the non-deductibility of interest in a cashflow tax regime confuses income tax concepts and understanding. This is already evident through misrepresentation in the media in recent weeks;
- ties small business in even more red tape, more regulation, more complexity in running their business at the very time they need to be encouraged to focus on growth; and

- is hard to implement and hard to regulate, as discussed by the Tax Commissioner.

Our view is that the desired outcomes are much better achieved through existing mechanisms including:

- a permanent Instant Asset Write off of at least \$150,000 for those businesses with a turnover of less than \$50 million;
- improved Research & Development provisions; and
- consideration of Investment Allowance.

While previous calls have related specifically to a cut in the company tax rate, an essential part of the conversation should also be framed around cutting the income tax rate for self-employed and sole traders as well as well as incorporated small businesses. There are 1.7 million sole traders who make up a majority of the small business sector and should not be overlooked.

COSBOA also seeks targeted tax incentives for businesses investing in local jobs and innovation, through the following initiatives:

- first 2 years tax-free for start-up businesses;
- Federal and State/Territory product and service innovation research and development grants made simple to apply for;
- removal of payroll tax and its inequitable and administrative burden. Businesses should not be paying more for employing more staff; and
- double tax deduction for accredited training practices.

Regulatory reform

COSBOA supports a clear, simplified and proportionate agenda for regulatory reform that sets up the current and future generations for success and will enhance business dynamism.

Small businesses continue to face enormous regulatory complexity on a scale not experienced by large corporations. They have much smaller budgets and resources and are forced to navigate multiple jurisdictions, overlapping agencies, constant change, and an assumption from Government that one size fits all. Regulations and compliance burdens designed with big businesses in mind are pushed inappropriately on to small businesses at an unsustainable rate. Small businesses constantly refer to being strangled by or drowning in red tape and compliance.

COSBOA supports the recommendation that the Government should scrutinise regulation to ensure its impact on growth and dynamism is more fully considered. We note and wholeheartedly support the call for a systemic 25% reduction in regulation.

An overhaul of the approach to Regulatory Impact Statements is imperative and should mandate consultation and assessment of the real cost of implementation of new legislative and regulatory initiatives. Small business impact and implementation assessment should be a habitual part of the Regulatory Impact Statement process when developing and reforming policy, and this must be supported by regulatory power to reject inadequate impact assessment with regular reporting to Parliament on regulatory burden trends.

In addition, the appointment of a dedicated Minister in cabinet tasked with a regulatory impact agenda is critical to ensure that small businesses fail to meet their productivity potential.

Conclusion

Creating a more dynamic and resilient economy is not only about tax reform and an improved regulatory landscape, but it also includes enhanced support and initiatives for skills and training, digitisation and ensuring small businesses have the appropriate resources at hand. COSBOA will be making submissions on the other pillars considered by the Productivity Commission separately.

COSBOA urges the Productivity Commission not to miss this once in a generation opportunity to champion and uplift small business. Policy reforms must recognise that regulatory overreach hampers the energy and entrepreneurship at the heart of the Australian economy. Future frameworks must be designed to unlock, not constrain, the potential of small business through clarity, simplicity, and genuine proportionality.

We look forward to our continued partnership and advocating for practical solutions to uplift Australia's small businesses.

Yours sincerely,



Matthew Addison
Chair, COSBOA