Creating a More Dynamic and Resilient Economy

– Interim Report Response

FED

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MASTER ELECTRICIANS AUSTRALIA

Master Electricians Australia (MEA) is a peak industry association representing electrical contractors and is recognised by industry, government and the community as a leading business partner, knowledge source and advocate. You can visit our website at www.masterelectricians.com.au

MEA commends the Federal Treasury for its focus on improving productivity. Small construction businesses are vital to the economy but face persistent challenges, including limited capital, high overheads, volatile conditions, and increasingly complex regulation.

We support the proposed Corporate Income Tax (CIT) rate deduction to 20% for Small and Medium Enterprises (SMEs). However, we submit tax relief must also be afforded to non-corporate small business structures such as sole traders. In addition, we do not support the introduction of the proposed 5% Net Cash Flow (NCF) tax. For labour-intensive, asset-light businesses such as electrical contractors, the NCF model may not deliver the intended benefits and may disincentivise meaningful investment for these companies.

MEA recommends the government implement a permanent Instant Asset Write-Off (IAWO) framework, capped at $50,000, with interest deductibility retained for SMEs. This model is already familiar, effective, and aligned with the operational needs of small businesses.

We also recommend right-sized regulation for small business to ensure compliance burdens more suitable for large corporations are not imposed on mum-and-dad operators.

Finally, while the electrical industry is rightly subject to high safety standards, it is also vulnerable to overregulation, which adds unnecessary cost, delay, and administrative burden. A balanced regulatory approach is essential, one that maintains strong safety outcomes while also supporting workforce development, business viability, and sustainable growth in the small business sector.

Tax

Productivity Commission's Proposed Tax Reforms

20% Corporate Income Tax Rate

MEA supports a reduced Corporate Income Tax (CIT) rate of 20% for small businesses, which are currently taxed at 25%. An even lower rate would be suitable to stimulate small business success. We therefore welcome the Productivity Commission's support for a lower rate.

Despite broader industry concerns around the implications of the proposed CIT changes, our position remains clear: the 20% rate should be available to small and medium-sized enterprises (SMEs), where it will have the greatest impact on employment, investment, and economic resilience.

Economic modelling from the Council of Small Business Organisations Australia (COSBOA) shows that reducing small business CIT rate to 20% could inject up to $11.4 billion into the economy and create approximately 3,370 permanent jobs.[1] Notably, GDP could increase by up to "$10 for every $1 in foregone tax revenue"[2], driven by increased reinvestment into operations, staff, and innovation.

Small businesses, often operating with limited resources, continue to face compounding challenges, including the impacts of environmental disasters, the ongoing cost-of-living crisis, insurance costs and rising regulatory burdens. A lower tax rate would offer vital financial relief, freeing up cash flow for small businesses to reinvest and support broader economic growth.

We also advocate for reduced taxation for non-corporate small business entities such as sole traders.

[1] "Small business tax cut a $11.4b boon for economy" *Council of Small Business Organizations Australia* [22 April 2025] < Small business tax cut a $11.4b boon for economy>
[2] *Ibid*.

5% Net Cash Flow Tax Rate

MEA does not support the proposed 5% Net Cash Flow (NCF) tax framework.
The NCF tax disproportionately impacts labour-intensive industries (such as electrical contractors) where there is minimal reoccurring capital investment (CAPEX). Applying a flat 5% rate across all businesses, regardless of turnover or capital profile, risks inequities in tax burden and economic outcomes.

The proposed system is untested and its design introduces unnecessary risk when simpler and proven model, such as the existing Instant Asset Tax Write-Off (IAWO), is available.

Full Expensing

MEA instead proposes implementing the IAWO framework on a permanent basis, capped at $50,000 with the retention of interest deductibility for SMEs.

This approach maintains simplicity and provides meaningful benefits to labour-intensive businesses that do not typically engage in large-scale CAPEX, without risking overburdening such industries with additional tax. It promotes and supports CAPEX investment as and when needed by entities.

Note: If the NCF tax is to proceed regardless of business structure and/or industry, we recommend applying a turnover-based threshold (e.g. $5 million annual revenue) or an eligibility test to ensure it only captures businesses with materially capital-intensive operations, allowing small labour-intensive entities to remain operating under an IAWO framework.

Interest Deductibility

MEA does not view interest deductibility on CAPEX funding as "double dipping." In the context of small, labour-intensive businesses such as electrical contractors, it instead functions as a targeted and effective policy lever to support investment and cash flow.

Small businesses lack the scale and equity financing options available to large corporations. They rely on a combination of debt and retained earnings to invest, expand, and manage uneven cash flows. Retaining interest deductibility provides a vital liquidity buffer. More importantly, this deduction frees up cash flow to be reinvested into critical operational areas, such as:

- Hiring and training apprentices which in turn addresses skills shortage issues;
- Maintaining compliance and safety standards;
- Investing in growth strategies.

The cost of interest deductibility is offset via long-term productivity. Small businesses are major contributors to national employment and skills pipelines.

Implementation Timeframe

IAWO is an existing framework that is well understood by small businesses and their advisers. Making the IAWO permanent, with a $50,000 cap, and applying the reduced 20% Corporate Income Tax (CIT) rate for SMEs can be delivered immediately with minimal administrative burden. We recommend implementing MEA's proposed tax policies at the commencement of FY27.

These measures are targeted, practical, and require no significant structural change to the existing tax framework.

In contrast, other proposed reforms, such as the introduction of the NCF tax, require extensive consultation, detailed modelling, and testing. As such, no implementation timeline should be set until these processes are completed.

Other Tax Matters Impacting Small Businesses

ATO Threshold

The Australian Taxation Office (ATO) may disclose a business's tax debt to credit reporting bureaus (CRBs) if the debt exceeds $100,000 and is overdue by more than 90 days, provided the business is not effectively engaging with the ATO to manage the debt. Additionally, the ATO can issue a Director Penalty Notice (DPN), making company directors personally liable for certain unpaid tax obligations, such as Pay as

You Go (PAYG) withholding, Goods and Services Tax (GST), and Superannuation Guarantee Charge (SGC).

These measures can significantly impact SMEs, particularly in the construction industry, which is experiencing high insolvency rates. SMEs often operate with tight cash flows and depend on timely payments from customers and large contractors. Delayed payments and bad debts, often beyond their control, can lead to tax debts that trigger ATO enforcement actions.

Once a tax debt is disclosed to CRBs, the business's credit profile may suffer, affecting its ability to secure financing, win tenders, or maintain supplier terms. The involvement of CRBs can lead to inflexible debt recovery processes, further exacerbating financial pressures on the business.

MEA advocates for a more nuanced approach to the ATO's tax debt collection practices, particularly concerning the construction industry, which currently exhibits the highest rate of liquidations among all sectors. We propose that the ATO move away from its uniform 90-day disclosure policy for tax debts exceeding $100,000. Instead, we recommend implementing an industry-specific framework that considers the financial climate profiles inherent to different sectors. SMEs would need to evidence they are owed material monies in proportion to the outstanding tax debt. Such a tailored approach would allow for varying grace periods before debt disclosure, reflecting the unique challenges faced by businesses within each industry.

Coupled with enhanced support mechanisms to facilitate SMEs' engagement with the ATO in establishing and adhering to payment plans, this approach aims to improve debt recovery outcomes. By preventing premature liquidations prompted by rigid collection policies, the ATO stands to recover more substantial portions of outstanding debts, thereby benefiting both the businesses involved and the broader economy.

We also advocate for interest-free payments of ATO debts for small business. Provided a payment plan is entered into, a small business should not be charged high interest rates on ATO debts.

Regulations

In which sectors or regulatory systems is immediate regulatory review most warranted, and why?

The electrical industry and broader construction industry is a priority candidate for immediate regulatory review due to the critical role it plays in energy transition, housing, infrastructure delivery, workforce development, and public safety.

Key policy matters warranting immediate review for the industry include:

Occupation Licensing Frameworks

MEA calls on all Australian governments to support the introduction of a national electrical occupational licensing eligibility law. This could be similar to the Australian Consumer Law. A nationally consistent licensing regime would enhance labour mobility, reduce administrative duplication, and improve regulatory certainty across jurisdictions.

Read more about our position on this issue here.

Pre-Fabricated Homes – Safety and Quality

Prefabricated and modular homes are becoming increasingly common, particularly in response to housing shortages. However, there is disparity of regulation across Australia. For example, in Victoria lower regulatory standards apply to electrical work completed offsite. In some cases, licensed electrical workers are not required, despite the fact that the same work would legally require licensing if completed onsite.

Additionally, there are growing reports of prefabricated homes manufactured offshore failing to meet AS/NZS standards, creating significant safety and compliance risks for consumers, licensed contractors, and the broader electrical industry.

Allowing homes to be installed that have not been wired by qualified and competent tradespeople is a huge safety risk. The cost of non-compliance could be a fire, personal injury or even death.

Read more about our position on this matter here.

Security of Payment

There is a lack of effective measures to ensure subcontractors are paid for work in a timely manner including where a builder goes insolvent. MEA and other key industry stakeholders seek harmonised national laws that include provision for retention money to be held by a central authority (akin to residential rental bond schemes).

Read more about our position on this issue here.

Government Construction Project Procurement Policies

While not regulatory, Government procurement policies on construction contracts are creating red tape barriers for subcontractors and improvements could be made with relative ease. In particular:

The ***Australian Skills Guarantee Procurement Connected Policy (PCP) – Overarching Apprentices*** - The electrical industry faces a severe skills shortage, with small businesses training the bulk of apprentices.[3] Under the ***PCP,*** a minimum target of 10% labour hours should be undertaken by an apprentice (including trainees). However, there is no requirement for these to be new entrants (i.e., first-year apprentices), or apprentices over trainees. As a result, we are informed it is not uncommon for large contractors to meet their obligations by recruiting more advanced apprentices (i.e. third and fourth year apprentices) from smaller firms, undermining workforce development and small business viability, or relying on trainees.

This is particularly problematic in rural and remote areas, where large government contractors can recruit more advanced electrical apprentices from local employers to

[3] Data Dashboard - Powering Skills Organisation

fulfil procurement requirements, leaving communities with fewer skilled workers for local projects.

Apprentices are at their least productive, and require the most supervision, during the first two years of apprenticeship, resulting in less productive hours by the supervising tradesperson as well. For small businesses to go through the early years of intensive training and supervision to then have the apprentice leave when more senior is disheartening and can result in businesses deciding not to take on apprentices in future years.

If government projects required a certain proportion of apprentices to be first year apprentices, this would increase the pool of skilled workers over time.

MEA contends that amending the PCP to target 1st year apprentices would provide a net community benefit in light of future productivity and increase the prospective pool of talent as opposed to competing for existing apprentices.

Australian Skills Guarantee Procurement Connected Policy –Targets for Women: MEA supports measures that grow the pool of diverse workers including mature-age apprentices, women, and first nations people. However, MEA's support does not extend to quotas as there is a concern these will not grow the pool but result in competition for existing workers with perverse outcomes (including taking people off projects to be included in a tender for a quote project, and poaching of workers).

The PCP sets female targets for eligible construction projects, which are set to increase incrementally for the next decade. It is important to note that large contractors often rely on subcontractors to meet these requirements. Subcontractor businesses often lack the ability to comply, given the current demographic composition of the construction workforce. This risks creating an anti-competitive policy that excludes capable subcontractors from successfully tendering for projects. It is imperative that targets for a more diverse workforce be 'owned' by the entire project team – client, head contractor, consultants and subcontractors – and not be pushed down the contracting chain for the subcontractor to bear the bulk of the obligation.

MEA supports targets provided these are backed by measures to grow the pool of targeted workers. We encourage the Australian Government to implement measures which increase the total pool of women in construction.

Compliance with Targets

It is essential that both government and head contractors understand that responsibility for meeting procurement targets should be a ***whole-of-project*** commitment. This responsibility should be shared and managed collaboratively by the entire project team including the client, head contractor, and key subcontractors rather than being pushed down the supply chain.

Regular project team check-ins should be conducted to review progress, address emerging issues, and remove any roadblocks to achieving the agreed targets.

To support effective enforcement and monitoring, MEA recommends the introduction of project scorecards that assess whether the outcomes sought at tender (or business case) have been achieved. This would create greater transparency and accountability.

Additionally, government should work closely with contractors during the tendering process to ensure proposed strategies are realistic, practical, and capable of meeting the set targets.

Pre-Qualification System

MEA submits measures should be adopted to streamline prequalification requirements, including those for subcontractors. A streamlined prequalification format for use by head contractors for their subcontractors should also be supported by the Government

For subcontractor businesses, differing prequalification processes adds unnecessary cost and complexity to tender participation, reducing competition and limiting access to government projects. Some subcontractors require additional personnel to complete the administrative tasks associated with providing the same information in different formats for different head contractors. A standardised format provided by the Government for its projects, for use by head contractors when prequalifying subcontractors, would improve productivity.

MEA seeks to see this measure extended to the private construction market over time, which is foreseeable if Government leads the way.

Not only will this enhance productivity on government projects, but it will also lift productivity in the private construction market, generating an overall increase Australia's construction sector performance. It will also directly support the Government's regional productivity by making it easier for local SMEs to compete on government tenders without facing disproportionate administrative barriers.

Metering Installations

Since the introduction of 'power of choice' (being federal regulation removing the ability of DNSPs like EQL to provide metering services) there has been a lack of coordination or control of metering.

The impact of 'power of choice' is that customers face increased wait times for connections and alterations to existing connections (e.g. metering upgrade) and particularly adversely affects sites with multiple customers (e.g. apartments). As an example, if a 6-unit property is required to have their aged switchboard upgraded for modern safety requirements, this would necessitate metering alterations and relocation to the new switchboard. Customers could be with six different retailers with potentially six different metering providers. This will require a metering coordinator to find a date that will suit all six metering providers. While the coordinator's role is to minimise disruption when arranging this, in practice this often fails, and their contact details are not made available to the electrical contractor responsible for the wiring work.

It is MEA's understanding that delays of six months or more can occur. This problem is magnified when the number of customers increases, for example a site with 20 properties becomes infinitely harder to coordinate. A majority of the time, even once a scheduled date has been agreed to by all parties, electrical contractors are forced to call their local DNSP back to site to install a meter bypass as one or more of the metering providers has failed to attend before the end of the day and multiple customers have been left without power.

MEA suggests electrical contractors become eligible to become a registered ASPs for metering work. This should be as streamlined and inexpensive as possible, for example a two-day course on metering installation, online registration with meter providers, and ability to obtain meters from the provider once registration is active and installed. Verification of installation can be carried out by the meter provider post-installation to ensure correct installation and system security, without delaying the provision of power to site.

We note that NSW has already allowed licenced electrical workers to become ASPs. However, we recommend avoiding a direct replication of the NSW model, as it requires electrical contractors to register individually with every meter provider they wish to work with (not just the DNSP). Maintaining these registrations can cost contractors thousands of dollars annually and impose administrative burden.

How should regulators and policymakers balance risk with growth objectives? What guidance should governments give? What are the constraints which impede regulators and policymakers from better balancing risk and growth objectives? What guidance can governments give to help?

Regulators must adopt a proportionate, risk-based approach. Regulations must consider not only for the likelihood and consequence of harm, but also the opportunity cost of regulatory overreach.

In the electrical industry, effective oversight must be balanced against several key considerations, including:

- Urgency of workforce development to address ongoing critical skills shortages;
- The financial vulnerability of small businesses, including the high cost of operations and their exposure to risks within supply chains;
- The importance of maintaining high safety standards for critical electrical work (e.g. installations);
- The need to reduce unnecessary administrative burdens that delay training, licensing, and business activity, such as restrictive apprentice supervision ratios and inconsistent licensing requirements across jurisdictions; and
- The need to allocate appropriate resources to ensure unlicensed contractors are removed from the sector.

In general, small businesses are expected to comply in the same manner with a myriad of constantly-changing rules and requirements as large businesses. This is profoundly unfair on small business. Matters such as worker protections are reasonable, but compliance thresholds are too high for small business owners. A compliance framework for small businesses with more reasonable thresholds is appropriate and should be implemented as a matter of priority.

Effectiveness of Small Business Fair Dismissal Code

Of particular note is the current framework's Small Business Fair Dismissal Code ('the code'). This is purported to assist businesses with fewer than 15 employees to manage terminations initiated by the employer.

It is submitted that the code is an ineffective tool and rarely achieves its intent of reducing the potential burden of an unfair dismissal claim on a small business.

That is, an employer that has followed the code is still subject to the following:

- A small business employer is not protected from an unfair dismissal claim;
- Small business employers are still vastly more likely to agree to pay to have the matter settled for a sum of less than $8000 in order to avoid lengthy and costly arbitration;
  - Settlement amounts can have a significant impact on the viability of a small business particularly in the building, construction and electrical industries where cash flows are dependent on prompt progress payments.
- A small business employer is required to prove how they have followed the code if the matter proceeds to arbitration;
  - The code is inadequate in this regard, it asks questions after the fact of the dismissal having taken place,

- The code should be a prompt to employers to ensure they meet the obligations of the Act in terms of redundancy and the criteria for assessing the dismissal as provided for by s. 387.

  For example, the code states:

  > "It is in the interests of the employer to complete this checklist **at the time of dismissal** and to keep it in case of a future unfair dismissal claim."

  It is not helpful for a small business employer who has just made an employee's position redundant in order to stay viable to then be prompted that it should have carried out a number of complex requirements before making the decision to terminate the employment.

  The case law of the FWC makes it clear that an employer cannot simply meet with an employee to outline the reasons that they need to be made redundant. Consultation in their view is at least a meeting prior to the decision to dismiss the person. Small business owners acting in good faith can easily find themselves not meeting complex industrial obligations.

- Small business employers are still obliged to engage costly advice to prosecute complicated jurisdictional objections or to assist them with the handling of the defence of the matter effectively; and

- Employers are forced to sideline their business efforts for extended periods (commonly 6 to 12 months) while the unfair dismissal matter goes through the minutia of the FWC's processes.

When you consider that an unfair dismissal claim proceeds directly to conciliation with a Fair Work Commission conciliator, who has no capacity to consider the merits of the case, including the employer's attempts at complying with the code; there is no advantage to the parties, or the FWC, gained by the employer following the code.

Furthermore, as it is the conciliator's primary goal to settle the matter regardless of the merits of the case the prevalence of 'go away' money in the unfair dismissal claims process is a blight on the concept of a 'fair go all round' that was the intention of the Act.

'Go away money' has become such a blight on the industrial disputation process between employees and employers that the Fair Work bullying jurisdiction needed provisions within the legislation to protect against these remedies being sought.

Reliance on the code does not, in itself, reduce the likelihood of a claim or shorten the process by which claims are progressed.

Recommendations

MEA submits that the FWC could better support small business by:

- Improving the code to afford a small business employer an opportunity to demonstrate how it has complied with the requirements of the code through documentation and other material.

- Involving itself earlier in the dismissal claim process by giving genuine consideration of the material supplied with the code as part of the employer's response and making a determination 'on the papers' whether there is a case to be accepted –

    - This would include considering issues regarding the number of employees, the timing of the claim and the seriousness of the conduct/performance against the 'fairness of process' afforded to the employee

- If accepted the claim then proceeds through the usual FWC process of conciliation, then arbitration if unable to be settled,
- If the matter is accepted this would afford the parties a meaningful basis with which to agree to settle the matter or contest the matter,

This arrangement would reduce the prevalence of frivolous claims to seek out some ‘go away money’ where there is vexatious basis for a claim. It would also reduce the likelihood of employers persisting with the defence of a claim on a misconception that there is ‘no case to answer’ in their view.

The Productivity Commission could also consider whether it would better serve the Fair Work Act to include a genuine exemption to unfair dismissal claims for small businesses. This exemption would not reduce the ability for employees to make claims in relation to unlawful terminations.

Conclusion

In advancing productivity reforms, it is essential the Government delivers policy settings that recognise the operating realities of small businesses, particularly those in labour-intensive, service-based industries like electrical contracting.

MEA supports the implementation of a reduced Corporate Income Tax (CIT) rate for small and medium enterprises (SMEs), alongside a permanent Instant Asset Write-Off (IAWO) capped at $50,000 and retention of interest deductibility. These measures are proven, well-understood, and can be implemented immediately without structural overhaul. However, reduction of the corporate tax rate does not address the difficulties faced by a substantial portion of small businesses which are sole traders or not incorporated. Reduced taxation for these entities must also be implemented. We do not support the blanket introduction of a 5% Net Cash Flow (NCF) tax, which risks imposing a higher tax burden on asset-light businesses without meaningfully encouraging investment.

MEA also calls on Government to implement right-sized regulation for small businesses to ensure they are not over-burdened with requirements more suitable for large corporations.

In addition, MEA urges Government to prioritise proportionate, risk-based reform. While safety regulations are critical, the electrical industry is increasingly constrained by regulatory inconsistency, excessive red tape, and rules that fail to reflect modern workforce and business realities. This includes fragmented licensing regimes, rigid apprenticeship supervision ratios, and concerns in emerging areas such as off-site construction and new consumer energy technologies.

Tax and regulatory systems should support, not obstruct, business growth, workforce development, and compliance confidence. MEA encourages the Government to adopt an approach that delivers proportionate, transparent, and predictable regulatory settings, while implementing tax reforms that are targeted, practical, and aligned with the realities of small business. A balanced, future-focused framework will better enable SMEs to invest, expand, and contribute to Australia's long-term productivity.

MEA looks forward to the Product Commission's final recommendations, and are available for further discussion.