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AUSTRALIA + NEW ZEALAND

24 August 2020

Michael Sukkar
Minister for Housing and Assistant Treasurer
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

Lodged by website - https://consult.treasury.gov.au/budget-policy-division/2020-21-pre-budget- submissions/

Dear Assistant Treasurer

Pre-Budget Submission for August 2020

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to respond to the invitation from the Minister for Housing and Assistant Treasurer, the Hon Michael Sukkar MP, to make a submission on the August 2020 Budget.

Road to Recovery – Sustainable development

COVID-19 has changed the way in which we live as individuals, operate as businesses and function as economies and societies more broadly. What began as a medical pandemic (non-financial) has resulted in a global financial impact that will have an intergenerational cost. It is therefore critical for our recovery and rebuilding investment to create inter-generational value. For example, using funds for the recovery and stimulus to advance Australia's progress towards a zero emissions economy and focus on education to prepare the population for the future of work. We encourage the Government to link recovery initiatives to existing long-term commitments such as the Paris Climate Agreement and the UN Sustainable Development Goals (SDGs).

As a member of the Global Compact Network Australia, CA ANZ joined the call to action, along with a number of other organisations, to adopt policies in Australia for sustainable recovery from COVID-19. In the open letter to the Prime Minister, three recommendations have been made that focus on using the SDGs as a framework for policies:

1. **Use the SDGs to unite all sectors behind a plan to build a stronger and more resilient economy**. It is clear that many aspects of our lives will change permanently. Some industries may never be the same again. We must use this challenging situation as an opportunity to work together with our global and national partners alike, to build a stronger and more resilient economy with the SDGs at its heart.
2. **Use the SDGs to prioritise the most vulnerable in our society and level-up regional and societal inequalities**. COVID-19 has exposed the depth of inequalities and risks exposing a larger group of people to income deprivation and its consequences. We welcome the Government's commitment to provide income relief to many Australians and urge an ongoing focus to reduce widening social inequalities. The SDGs provide a framework which can help us prioritise health and wellbeing, alongside prosperity and GDP, as a measure of the nation's success. We need to ensure that our recovery from the pandemic leaves no one behind and puts the health and wellbeing of current and future generations first.

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3. **Use the SDGs to build coherent policies for a healthy planet and to aid the transition to net zero**. We must balance social and economic needs with the needs of our planet, protecting and managing nature, and reducing our greenhouse gas emissions. These goals do not have to be in conflict. The SDGs provide a way to create co-benefits on the path to net zero by 2050 and enable a framework for coordinated and holistic policy design.

Measuring Australia's recovery and building resilience

The Federal Budget is unfortunately often portrayed in terms of bottom-line economic outcomes and financial winners and losers. The typical 'what's in it for me' perspective often misses the broader aims of the Budget.

Data and forecasts traditionally contained in the Budget papers will include grim news, and it is important for the national psyche that the Treasurer's messaging is balanced by positive steps which the government is prepared to take for the long-term benefit of our community.

In the current environment in particular, the aim should be to improve the outcomes for Australian's doing it tougher than most and broader measures which contribute to everyone's wellbeing.

It is important that commitments and investments continue to build a more resilient Australia, a country better prepared for the future.

Measures of Australia's progress should be based on broader indicators covering our society, the economy and the environment. Recent events in Australia such as the bushfires, ongoing droughts and COVID-19 have shown us that decisions that need to be made to protect our health, society and futures may outweigh the expected (negative) financial impacts. Therefore, the traditional short-term GDP measures typically used to benchmark Australia's success as a nation should be broadened to focus on how we grow and build back better. This focus will require consideration of important societal values that cannot be measured by using GDP including inequality, digital divide, social cohesion and environmental quality.

New Zealand's Wellbeing Budget has shifted their focus onto the wellbeing outcomes that are important for all New Zealanders. The foundation is the NZ Treasury's Living Standards Framework, which takes a multi-capital approach to decision making. The economic perspectives, whilst included in the Budget, represent the means to fund the wellbeing initiatives through economic sustainability and create the right enablers for business and society to prosper.

We suggest the Government consider how it positions the messaging and focus around the Budget, for example by outlining the key wellbeing aspects, across key headings such as financial, social, natural and human. This would also provide an opportunity to link policy measures to the SDGs, for example where Australia performs well and the challenges that need to be addressed. By having the key budget priorities to be front and centre will help society understand how the outcomes will contribute to Australia's broader wellbeing.

Clearer measures and benchmarks, such as the former Australian Bureau of Statistics (ABS) Measures of Australia's Progress (MAP), with reportable timeframes are needed in order to provide transparency on Australia's progress to recovery and planning towards the future. This would also allow the public to monitor how the nation is progressing and could link to initiatives such as a formal national tax reform working group.

Provide clear direction for Australia's pathway to a net zero emissions economy

Australia has committed to emission reductions through the Paris Agreement, which has a goal to limit global warming to well below 2 degrees and an aspirational target of 1.5 degrees. There is growing evidence of the scale and severity of the impacts of climate change, particularly for Australia.

Australia needs a national approach, detached from short term political cycles, to give the public and business greater confidence. Climate change policy should provide certainty for the future to enable business and households make a rapid and orderly transition to a net zero carbon economy. The climate science makes clear that exponential, i.e. front-loaded, emissions cuts are required, with a halving of global emissions each decade between 2020 to 2050. This requires vision, strategy and a clear plan.

The recent report from the Climate Change Authority - *eEconomic recovery, resilience and prosperity after the coronavirus* –identifies several previously proposed measures which would contribute a “triple win” economic stimulus package in response to the economic impacts of COVID-19:

> *‘These stimulus measures could build Australia’s resilience to the economic impacts of a changing climate and position Australia to take advantage of our abundant clean energy resources and emerging low-emissions technologies.’*[1]

Further, it is important for the Government to ensure that it does not seek to reduce emissions in isolation from sectoral, wider economic and, social and environmental factors. This would be both costly and risk unintended negative consequences in other areas. Long-term emissions strategy, budgets and targets will provide some certainty for business and encourage investment in low-emissions technology and innovation. For example, as the Climate Change Authority has identified, there is significant opportunity to use innovation as a lever to help create new industries and technologies in Australia that are fit for purpose in a carbon constrained world.

Urgent funding for businesses impacted by COVID-19 to access professional advice

Australian businesses have appreciated the significant financial assistance already provided by the Commonwealth, State and Territory Governments to help them respond to the COVID-19 pandemic. However, as businesses move from the response phase to recovery and transformation, further Government support is required on a temporary basis, particularly to assist struggling but viable small businesses impacted by Stage 4 restrictions.

Urgent Government support is required to enable businesses impacted by COVID-19 to access professional advice in relation to their financial position, viability and recovery prospects. Funding is also required to enable viable small businesses that are yet to recover to obtain professional advice and assistance to access Government support, including JobKeeper 2.0. It is particularly important that funding is targeted at the right businesses – particularly small businesses in Victoria that may not yet have fully recovered but would have had the State not gone into lockdown again.

Providing financial support for businesses in distress to seek professional advice and assistance in accessing Government stimulus measures will also help reduce the risk of incorrect claims and assist businesses to transition and continue at the end of the Government funding period.

In addition, providing a funding grant for small businesses will help recognise and reimburse their professional advisers (such as accountants and tax agents), many of whom are small businesses themselves. Accountants play a critical role as partners with the ATO in effectively co-implementing and co-administering the Government’s COVID-19 stimulus measures and help ensure the integrity of the information provided to government, banks and insurers.

Following the bushfires in Australia, many small businesses’ payments to their advisors were already in arrears. The situation has now been compounded by the significant impact of COVID-19. Many small business clients still don’t have the financial means to pay for advice, potentially missing out on Government support and further endangering their viability. In many instances, professional advisers feel obliged to provide the advice to their clients at no cost, which will impact their own viability and is not sustainable.

The increase in numbers of unpaid billable hours and unpaid invoices for professional advisers who are helping clients understand and access Government support, including JobKeeper, has been extraordinary. The adverse mental health impacts on both professional advisers and their business clients is also reaching a crisis point.

Many businesses now face additional threats to their continued operations following the Stage 4 restrictions, which will likely result in further business closures and job losses. ATO research shows that accountants are amongst the most trusted professional advisers businesses will turn to.

[1] https://www.climatechangeauthority.gov.au/publications/economic-recovery-resilience-and-prosperity-after-coronavirus

There are many viable businesses that won't be eligible for JobKeeper 2.0 and may go under before they apply for funding or while they await funding. Therefore urgent Government funding to enable businesses impacted by COVID-19 to obtain professional advice should be approved as part of the 2020 Federal Budget, rather than after the JobKeeper extension end date in March 2021.

This proposal is in line with the COVID-19 Recovery Plan developed by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), which recommends a small business viability funding program to enable small businesses in significant financial distress to obtain funding of up to $5,000 to access advice. This includes up to $3,000 for advice from a professional (accountant) to assess current financial position and viability plus $2,000 for insolvency advice if the business needs to be wound up.

Our proposal follows consultation with the other major accounting bodies and discussions with COSBOA, ASBFEO, Treasury's COVID-19 Business Liaison Unit and the Department of Industry.

The Federal Government should consider to fund a grant to enable businesses impacted by COVID-19 to access professional advice in relation to their financial position, viability and recovery prospects. Funding is also required to enable viable small businesses that are yet to recover to obtain professional advice and assistance to access Government support, including JobKeeper 2.0.

Superannuation

COVID-19 has understandably seen the government delay a number of superannuation related policies, such as implementation of the Financial Services Royal Commission and responses to Productivity Commission super review recommendations. Once the economy begins a sustained recovery from COVID-19 we encourage the government to progress these areas as soon as possible.

We also note that the government has received the Retirement Income Review (RIR). We believe the government should release this document as soon as possible including all modelling used to produce the RIR findings. We encourage the government to announce what it intends to do about the RIR findings as quickly as possible.

In our RIR submission we argued that it has been our view for some time that the retirement and superannuation system is too complicated for the average consumer to understand without obtaining professional assistance. In addition, there is no source of official government provided information that consumers can access in order to judge one super fund from another. Ideally a compulsory system should not have such outcomes and we encourage the government to address these as a matter of urgency. Further we argued that the overall retirement system discouraged savings other than that mandated by government

Insolvency

Since late March 2020, there has been a notable decline in insolvencies compared to the same time last year. Whilst this indicates temporary government measures have been effective, the data and anecdotal feedback from our members also suggests that businesses which would be unviable in the normal course of events (regardless of COVID-19) are deferring external administration. In doing so, these businesses may currently be incurring additional debt owed to their suppliers (other businesses) that may not be recoverable if the business was to enter external administration.

Additionally, insolvency practitioners are currently experiencing a significant downturn in their operations. The insolvency profession, which consists of a relatively small number of specialists, is critical in handling the anticipated backlog of insolvencies when they eventually occur, and it is important for their businesses to remain viable and prepared during this hibernation period.

Further, we note registered liquidators will soon be informed of their 2019/2020 industry funding levy. This levy is determined by the number of external administrations and therefore given the recent decline, practitioners can expect to pay a higher fee per appointment. Given the effect of the COVID-19 pandemic on many insolvency practices, we recommend government re-consider the appropriateness of ASIC's Industry Funding Model at this time.

As businesses are weaned off government COVID-19 support, we expect an increase in insolvencies which continue for at least 12 to 24 months. The current situation increases the likelihood that the remaining assets of a business entering external administration will have little to no value. Therefore, there will be little funds to pay for the services of a registered liquidator needed to carry out this work and there is no obligation for registered liquidators to undertake this unpaid work.

We therefore encourage government to give due consideration *now* to developing a solution to fund the anticipated increase in assetless insolvencies. We also recommend the government convene a multi-stakeholder advisory group to design and develop a streamlined external administration process for micro businesses. We strongly caution against the extension of some of the current temporary measures, such as the moratorium for directors from liability over insolvency trading, given they are open to misuse and could impact the effectiveness of other policies such as the new anti-phoenixing measures.

Tax

Whilst Australia is in the middle of dealing with COVID-19 it will be difficult for government to focus on medium to longer term tax reform issues. There are also legitimate concerns about imposing any additional tax burdens at a time when consumer spending and business investment should be encouraged.

Eventually however, tough conversations and decisions will have to be made to ensure that Australia has a sustainable tax system capability of underpinning the provision of public goods and services. Reforms that need to be considered include:

- A digital service providers tax as part of a comprehensive, OECD led, global framework
- Increasing the rate and base of GST and sorting out who does what and how in our Federation
- Re-consideration of the horizontal equity between taxpayers deriving ordinary income and the generous 50% CGT discount afforded to individuals who derive capital gains, especially in a low inflation environment
- Streamlining existing taxes and reducing tax compliance costs
- Improved, more timely collection (or at the very least, more contemporaneous reporting) of taxes to address long-standing problems which have been further exposed by COVID-19
- Extending a PRRT like regime to mineral resources
- Imposing levies on negative externalities to combat climate change, e.g. a plastics tax and fossil fuels levy.

The Federal Budget provides a good opportunity to reveal what progress, if any, has been made by the Federal and State / Territory Treasurers on tax reform and deregulation issues having been tasked by the National Cabinet to undertake this work.

The Emergency Leaders for Climate Action (ELCA), a coalition of former senior emergency service leaders, has recently recommended that Australia establish a national climate disaster fund to pay climate change-related disaster costs and to build resilience such as through native habitat regeneration and Indigenous cultural burns and ranger services, natural sequence farming to restore water cycles, permaculture to build biodiversity, and ‘blue’ and ‘green’ carbon sequestration. This should primarily be funded by a simple major fossil fuel producers levy, akin to the major banks levy. We support ELCA’s tax recommendation and believe that the measure is both an appropriate and necessary policy response given fossil fuels have been established as the main driver of human-induced carbon emmissions.

Intergenerational and aged care issues

The Budget is not the only event delayed due to COVID-19.

The 2020 Intergenerational Report has also been delayed. The contents and projections in this important document will need to reflect the changed policy landscape caused by the virus. The Intergenerational Report also needs to be informed by the findings of the Retirement Income Review, which was originally due to report in June 2020. There is growing community awareness and concern about the long-term impact of COVID-19 on future generations of Australians and in particular, the burden of addressing the sizeable costs borne by government in responding to the pandemic.

COVID-19 has also laid bare problems with Australia's aged care system.

The Royal Commission into Aged Care Quality and Safety has released a consultation paper entitled *Financing Aged Care* warning that the costs of aged care will increase dramatically due to both the need to improve quality and the number of people needing aged care. Whilst CA ANZ does not support an aged care levy, our submission to the Royal Commission noted that the generations that need aged care and will need aged care in the next ten years are the people who are most likely to have pre-CGT assets. Unlike, the rest of the population, they have been able to accumulate tax-free gains since

1985. It is time to consider bringing pre-CGT assets into the tax net so that future gains can help contribute to general revenue and essential outlays such as aged care.

Business taxation

Successful businesses have been doing it tough this calendar year. As Australia looks to a road to recovery, those businesses need some support to get back on their feet. A limited loss carry-back for small business could help. A limited one-year loss carry-back for companies would be easy to implement - the legislation was created and repealed when the Minerals Resource Rent Tax was repealed, it just needs to be tweaked to limit it to small businesses.

The Board of Taxation's (BoT's) review of small business tax concessions contains several recommendations to make life simpler for small business. The government should consider adopting the following recommendations that need to be enacted as a package:

- Standardise the tax definition of small business entity – BoT recommendation 1
- Simplify the small business capital gains tax concessions in the manner suggested in BoT recommendations 4, 5 and 6

Consideration should also be given the BoT recommendation 10 which would allow small businesses to calculate their PAYG instalments based on real-time tax adjusted accounts.

It is also time to review tax expenditures to ensure that they are still fit for purpose. Tax concessions that were provided years ago may no longer be appropriate. Tax expenditures and subsidies that are driving climate change, air pollution, ocean/river pollution, and biodiversity loss should be re-directed to funding more sustainable outcomes such as funding clean transport infrastructure, tax incentives to undertake building retrofits for energy efficiency, R&D tax incentives to develop and commercialise zero-carbon industrial products and processes (e.g. green steel, green cement and green hydrogen), and to fund enhanced health care, aged care, childcare, and education services. Key tax expenditures and subsidies that should be reviewed include:

- Fuel Tax Credits (FTCs) - could be progressively capped to put a ceiling on the largest claims, under a timetable for phase-out developed in accordance with the international momentum for this reform, such as the group of non-G20 countries who have committed to fossil fuel subsidy reform (FFFSR), which includes New Zealand;
- Income Tax (Effective Life Depreciating Assets) Determination 2015 – effective lives could be examined and recalibrated to ensure that tax depreciation incentives available to carbon- intensive capital investments such as coal, gas and oil plant, equipment and assets (06000 – 10900) are reduced and progressively phased out, while those available for zero emissions plant, equipment and assets could be increased to accelerate tax depreciation benefits.

Government initiatives that are already in the pipeline that support the road to recovery include director identification numbers, the modernisation of business registers and reporting for the sharing economy regime. All of these initiatives help ensure that there is transparency and fairness in the business sector at a minimal regulatory cost. These economic infrastructure initiatives are essential requirements for law abiding businesses to succeed.

Funding for Reporting and Auditing Standard Setting and Oversight

Investor confidence is vital for the health of our capital markets. Constantly improving the quality of audited financial reports is integral to maintaining investor confidence and demands robust, transparent oversight. Recognizing the commitment already demonstrated by the government and agencies concerned, we recommend a continued focus on resourcing and effectiveness in the government agencies responsible for setting and enforcing the standards that underpin high quality audited financial reports.

Financial advice - a thorough makeover of the limited licensing regime needed

In order to retain existing members practicing in financial advice, we have developed a 'strategic advice' model which is decoupled from product advice. By removing the need for multiple licences, registrations, regulators and associated levies, the costs of providing strategic financial advice will lessen for both advisers and their clients.

This model was initially launched by a joint video from the three CEOs of the major accounting professional associations, being CA ANZ, CPA Australia and Institute of Public Accountants. Following feedback from the government to make our recommendations industry wide, the three accounting bodies joined forces with the SMSF Association and the Financial Planning Association of Australia. At Federal government level, this advocacy has been on hold due to COVID-19.

However, it is now being further developed to present to the Federal Treasurer, the NCCC (National COVID-19 Co-ordination Committee), as well as key members of the Opposition. Our submission to the NCCC suggests a pathway to untangle the regulatory complexity for advisers post COVID-19, so more Australians can benefit by having more affordable quality financial advice from a trusted professional adviser.

As a positive initiative during this COVID-19 epidemic, ASIC saw fit to allow accountants to provide advice without an AFSL and without the need for a complex Statement of Advice. This reform was a step in the right direction to broaden the scope of advice allowed with our professional qualifications but without an AFSL, so we will pursue further relief from ASIC.

Funding for Federal integrity, anti-corruption, and media reform

To ensure that our road to recovery is guided by robust and lawful public decision-making, ethics, honesty and the highest levels of integrity in the national interest, we believe that funding should be allocated to improving the operation of a number of critical national public governance and communications systems.

Many of the items on the following list are supported by the recent findings and recommendations of the ANAO[2]:

1. Political donation reform and enforcement – The Australian Electoral Commission (AEC) disclosure and prohibition rules need to be amended and enforced so they operate effectively and as intended for public officials who are subject to the highest standards of conduct. Just as our tax laws contain anti-avoidance provisions, the political donation rules should: (i) require aggregation of multiple / split donation amounts which in total exceed the reporting threshold, (ii) capture donations to "associated entities"; and (iii) look through the political party (an interposed entity) to individual recipients of donations when applying the Code of Conduct duties of public officials and members of parliament, including Ministers.

[2] https://www.anao.gov.au/work/performance-audit/management-the-australian-government-lobbying-code-conduct-follow-up-audit

2. Lobbying Code of Conduct (LCC)[3] – Attorney-General's department should be funded to properly enforce the LCC and should be re-structured to ensure that the enforcement arm is as independent as possible.
3. Broadcasters / Media Code of Conduct – ACMA should be funded to more closely monitor and regulate the conduct of Australia's trusted public broadcasters to ensure that minimum professional standards and duties are met in relation to fact-checking, honesty, competency, independence and accountability. Unregulated social media platforms need to become regulated and ACMA needs funding to enforce the laws to ensure that there is a level playing field across all players in the media and broadcasting sector.

If you would like to discuss any aspect of this submission, please do not hesitate to contact the following authors of this submission:

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- For insolvency, sustainable development and climate change Karen McWilliams, Business Reform Leader on (02) 8078 5451 or karen.McWilliams@charteredaccountantsanz.com

Yours sincerely

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[3] https://www.ag.gov.au/integrity/australian-government-register-lobbyists/lobbying-code-conduct

Appendix B

Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 128,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.