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Submission to the Australian Government's 2016-17 Federal Budget

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

12 February 2016

Chamber of Commerce & Industry Queensland

CCIQ Powering
business
potential

Role of the Federal Government

The Federal Government has a vital role in building and sustaining the economy. Queensland businesses predominantly see the responsibility of Federal Government as creating an environment which is conducive to economic growth. Every country is in competition with each other to attract and retain investment. As a result, Australia needs to have a business operating environment that is the absolute standout as a region to do business in. Key policy areas available to the Federal Government to create a better business operating environment include:

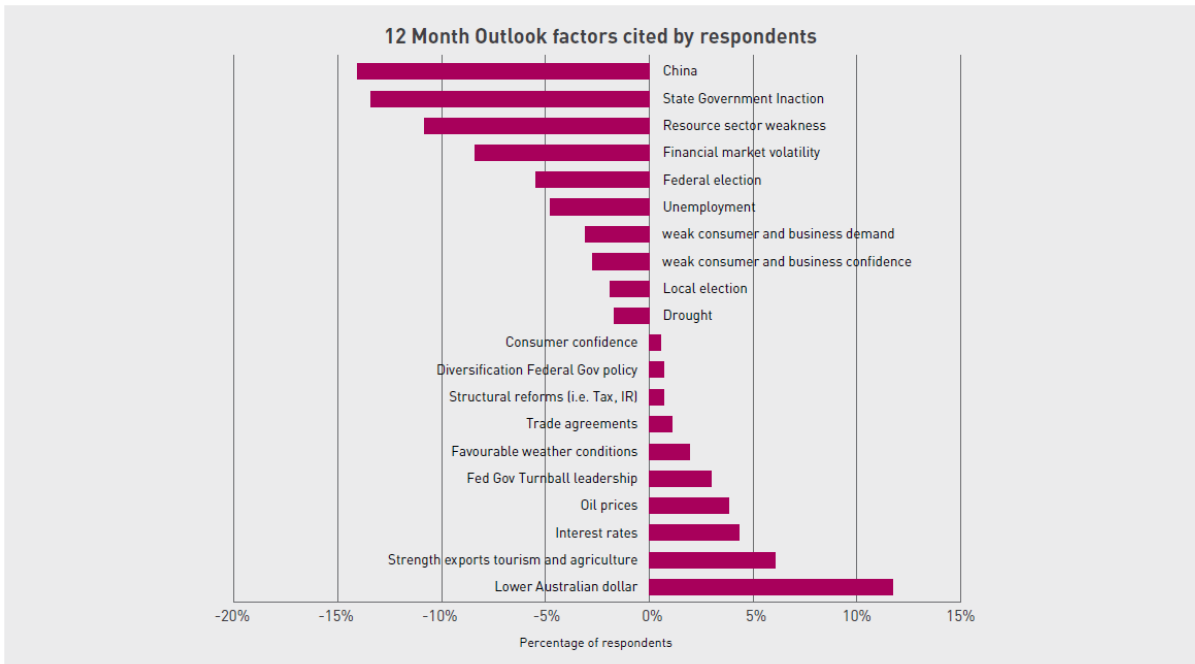
Role of the Federal Government	Federal Government Role to Play	CCIQ Support
Sustainable government finances – enhance business and consumer confidence because taxation and expenditure policy settings are relatively predictable and provide government with the capacity to respond to emerging priorities.	✓	✓
Expenditure on capital works and economic infrastructure – supports jobs in the short term, while improving the productivity of labour and the efficiency of businesses in the longer term. This boosts economic activity and employment demand.	✓	✓
A modern taxation system – more efficient and competitive taxes can act as an incentive for business to increase employment.	✓	✓
Regional development – supporting economic growth through both infrastructure delivery and support for new industry development in regional areas creates more local employment opportunities.	✓	✓
Removing unnecessary regulation and providing business support – reducing costs for business and non-government organisations enables them to grow and create more employment opportunities.	✓	✓
Investing in science and research, innovation and entrepreneurship – fostering the development of knowledge and skills in high value, high growth areas will support new sunshine industry development in Queensland.	✓	✓
Efficient public service – a public service capable of efficiently delivering services to the community.	✓	✓
Beneficial budget impact on monetary policy – lower interest rates reduce the cost of borrowing and increase the level of capital investment, thereby increasing the capacity of business to employ labour. Lower borrowing costs also boost the disposable income of households, encouraging higher levels of consumption, which stimulates economic activity and the demand for labour.	✓	✓
A contemporary industrial relations system – appropriate industrial relations settings can provide incentives for businesses to employ workers and encourage greater workforce participation by individuals.	✓	✓
Migration policy that meets skill needs – attracting new entrants to the labour market to address skills and labour shortages that cannot be met from the existing workforce. Migration is also an important source of population growth, which boosts the demand for goods and services.	✓	✓

1.0 Introduction and Overview

- 1.1 As the Sunshine State's peak business organisation, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide input into the 2016-17 Federal Budget. CCIQ regards the Federal Budget as a crucial instrument of economic management for Australia and is a pivotal mechanism for building Queensland's vitally needed transport infrastructure.
- 1.2 Queensland's domestic economy is contracting with State Final Demand over the year to the September quarter falling by 2.5 per cent compared to a national growth rate of 0.8 per cent. Concurrent to this Queensland business investment is in free fall. It is inevitable that unless economic activity lifts the State's remarkably resilient labour market will also start to deteriorate in 2016. The Federal Government in 2016 must focus on progressing as a matter of priority key infrastructure projects across Queensland to grow the economy.
- 1.3 CCIQ believes it is possible to provide well-targeted infrastructure investment while concurrently improving the Australia's financial position with prudent management of government spending. In short, this Federal Budget must be one that invests in Queensland infrastructure.
- 1.4 CCIQ's key recommendation for the Federal Government in 2016 is to capitalise on the 'Turnbull Effect' and use part of this political capital to strengthen the Coalition's workplace relations and taxation reform policies to take to the next federal election to get a mandate from the people of Australia. More specifically CCIQ recommends:
 - Embracing holistic tax reform that includes raising and broadening the GST that will not only deliver revenue adequacy to the address Australia's increasing age dependency ratio but boost the simplicity and international competitiveness of our tax system.
 - Delivering a National workplace relations vision that better meets the needs of contemporary workplaces and a modern economy that addresses business difficulty with penalty rates, unfair dismissals and more flexible working arrangements.
 - Deliver critical investment that will fund the new tier of infrastructure to drive Queensland's economic future.
- 1.5 Much of Australia's prosperity is the legacy of past reforms and the opportunities that have been provided by the record growth in demand for commodities. However without a further comprehensive economic reform agenda, Australia's national income growth is likely to slow substantially, leading to lower profits, smaller pay rises and weaker government revenue.

2.0 Background Economic Environment - Queensland

2.1 The Queensland business community is currently experiencing a difficult trading environment. Concerns have been cited in relation to China, lack of State Government infrastructure investment, downturn in the resources sector, financial market volatility and the forthcoming Federal Election. Businesses have however responded positively to a lower Australian dollar, lower interest rates, lower oil prices, progress made on the Free Trade Agreements and Federal Government leadership.



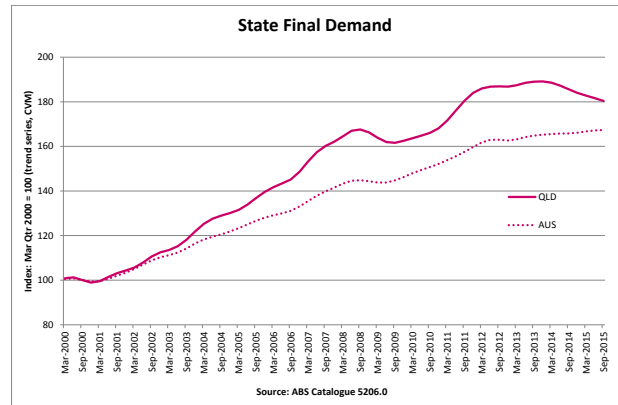
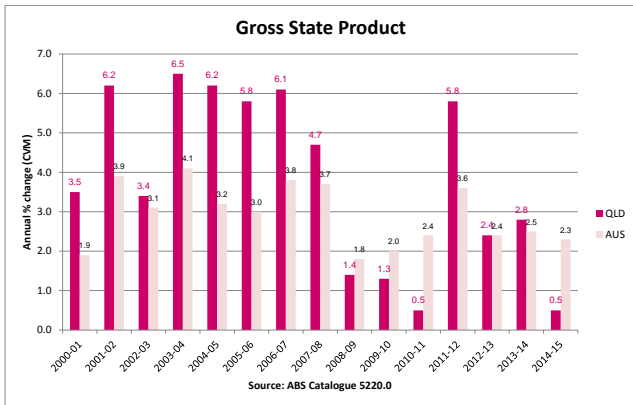
Source: Westpac CCIQ Pulse Survey of Business Conditions

2.2 The recent Queensland Government's MYFER on the surface confirms an improving outlook for the Queensland economy with Gross State Product (GSP) growth increasing from 0.5 per cent in 2014-15 to 4.0 per cent in 2015-16 and 4.50 per cent in 2016-17.

	2014-15	2015-16	2016-17	2017-18	2018-19
Queensland					
GSP	0.50	4.00	4.50	3.75	3.25
Employment	0.30	1.25	1.50	2.00	2.25
Unemployment Rate	6.50	6.50	6.50	6.25	6.00
Inflation	1.90	2.00	2.50	2.50	2.50
Wage Price Index	2.40	2.25	2.75	3.00	3.25
Population	1.40	1.50	1.50	1.75	1.75
Australia					
GDP	2.20	2.50	2.75	3.00	3.00
Employment	1.50	2.00	1.75	1.50	1.50
Unemployment Rate	6.00	6.00	6.00	5.75	5.50
Inflation	1.50	2.00	2.25	2.50	2.50
Wage Price Index	2.30	2.50	2.75	2.75	3.00
Annual Percentage Change					

Source: MYFER, MYEFO

2.3 However CCIQ highlights that the relatively robust economic growth rates for 2015-16 and 2016-17 are influenced by LNG exports that are having limited economic flow on to the broader domestic economy. When analysing State Final Demand (which excludes imports and exports), Queensland's domestic economy contracted by 2.5 per cent compared to a national growth rate of 0.8 per cent in the year to the September quarter 2015.



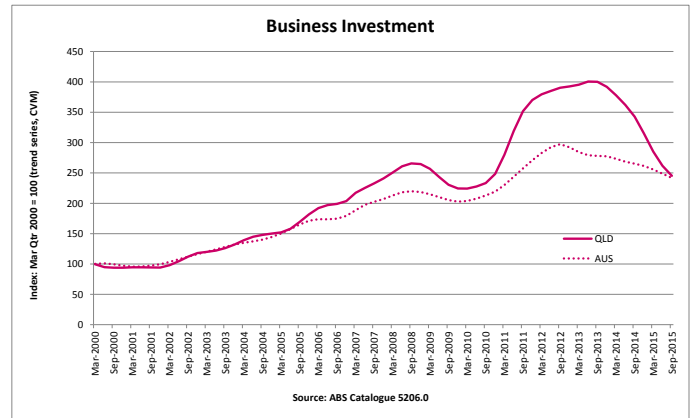
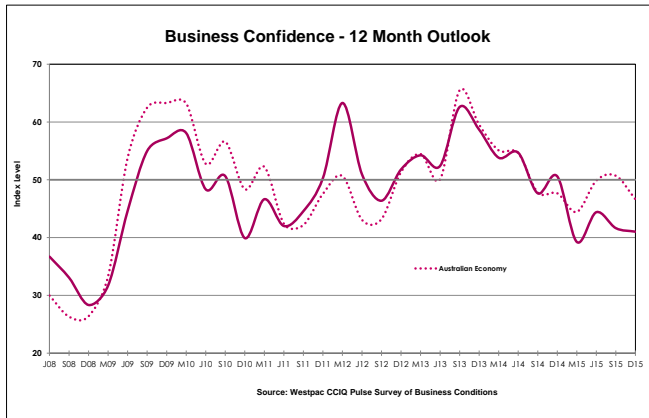
- 2.4 Furthermore Queensland only narrowly avoided recession with the State Accounts data confirming marginal growth for the Queensland economy in 2014-15 growing by just 0.5 per cent. This is broadly consistent with messaging from Queensland small businesses that it was an extremely difficult trading environment in 2014-15. The economic growth recorded in 2014-15 narrowly avoided claims that the Queensland economy experienced a technical recession, but only just.
- 2.5 Whilst growing in 2014-15, Queensland’s economic growth rate was well below recent years and the decade average of 3.1 per cent. The Queensland growth rate is also significantly below the national growth for the same period of 2.3 per cent and was lowest of all States. Economic growth in 2014-15 came predominantly from household consumption, public expenditure and exports. The data confirms that the Queensland economy remains weak.

Gross state product: Chain volume measures % Change

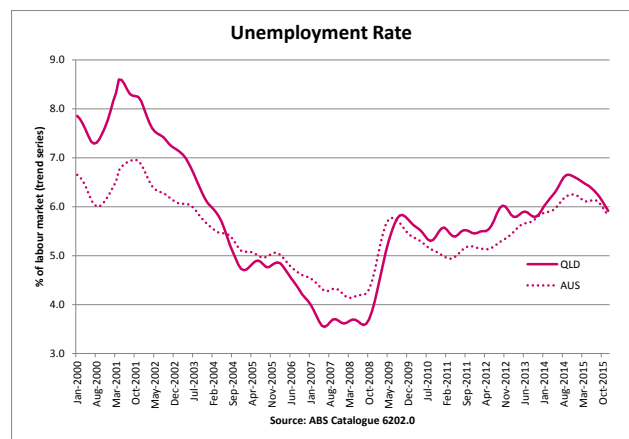
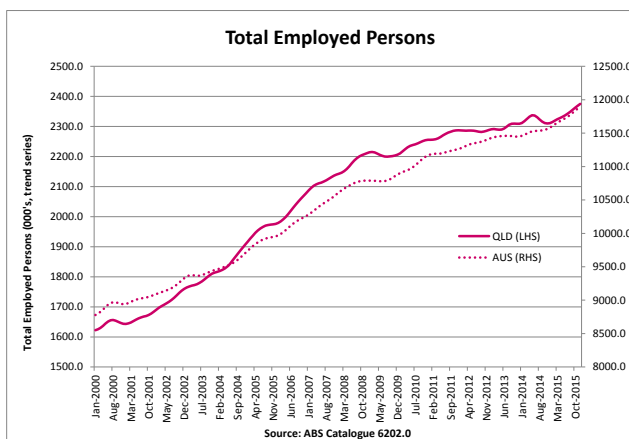
	NSW	VIC	QLD	SA	WA	Tas	NT	ACT	AUS
Jun-05	1.6	4	6.2	1.8	3.2	2	1.6	2.2	3.2
Jun-06	1.8	1.8	5.8	0.8	5.9	2.4	2.8	2.6	3
Jun-07	1.8	3.5	6.1	2.1	7	2	4.3	5	3.8
Jun-08	2.6	3.4	4.7	5.4	5.2	3.1	2.5	1.5	3.7
Jun-09	1	1.5	1.4	2.7	3.4	2.4	9.2	3.3	1.8
Jun-10	1.9	1.8	1.3	1.6	4.3	0	-2.5	3	2
Jun-11	2.8	2.6	0.5	2.4	3.8	0.3	1.9	3.4	2.4
Jun-12	1.9	1.9	5.8	0.6	9.1	0.1	3.2	1.5	3.6
Jun-13	2	1	2.4	1.7	5.5	-1.2	6.6	2.9	2.4
Jun-14	2.3	1	2.8	0.8	5.6	1.3	3	0.7	2.5
Jun-15	2.4	2.5	0.5	1.6	3.5	1.6	10.5	1.4	2.3
10 Year Ave	2.1	2.1	3.1	2.0	5.3	1.2	4.2	2.5	2.8

Source: ABS Catalogue 5220.0

- 2.6 Queensland small business confidence remains fragile with relatively flat sales revenue, rising operational costs and poor profitability. With soft business confidence it is unsurprising that there has been a large drop-off in private sector investment falling by 25 per cent over the year to the September quarter 2015. Even allowing for the flow through of the building and construction of the LNG projects broader business investment has collapsed.



- 2.7 The labour market has strengthened over 2015 with 60,500 jobs created in trend terms and the State's unemployment rate falling from 6.6 per cent to 5.9 per cent. Growth in employment came from healthcare and social services, education and training, and accommodation and food service sectors. The depreciation of the Australian dollar has provided a material boon to the State's tourism sector spilling over into other sectors such as restaurants and food services. At the same time, expansionary monetary policy settings have boosted discretionary income serving to support retail sales in Queensland.
- 2.8 CCIQ notes on the downside that there are still 147,000 Queenslanders unemployed. Other headwinds facing Queensland include persistent drought conditions, a weak resource sector and global financial market uncertainty. With employment growth and the unemployment rate both lag indicators, it is clear that without a dramatic pick up in domestic economic activity the remarkable resilience of the Queensland's labour market across 2015 cannot be sustained.



- 2.9 Adjusting to the structural changes currently underway in Queensland's economy, most notably shifts from resource investment led growth to new sources of growth, will require strong leadership from the Turnbull Government.
- 2.10 CCIQ calls on the Turnbull Government to prioritise the need for economic growth in all of its policies. Small businesses are calling on the government to show strong leadership in implementing a comprehensive economic plan that is dramatically strengthened. CCIQ encourages the Federal Government to work constructively with the business community to progress key infrastructure projects and reduce the regulatory shackles and costs on small business to allow them to grow and employ.

Recommendation:
 The 2016-17 Federal Budget should provide pro-growth economic policy for businesses to invest and employ in an internationally stand out business operating environment.
 Work constructively with the business community to progress key infrastructure projects, reduce the regulatory shackles and costs on small business to allow them to grow and employ.

3.0 CCIQ Position on Government Finances

3.1 Federal Budget fundamentals are a key determinant of business confidence and Queensland businesses are looking to the Federal Government to continue to strengthen Australia's financial position through responsible fiscal management. CCIQ continues to remain supportive of the Federal Government's commitment to improving the finances of the Commonwealth by implementing policies to deliver a measured and responsible paying down of debt and management of revenue and expenditure.

3.2 Reception of the 2015-16 Federal Budget

The 2015-16 Federal Budget was framed with a much more positive tone that boosted consumer confidence rather than detracting from it as occurred a year earlier. The language used was significantly better geared to promoting confidence. The Budget recognised the imperative to tackle the embedded structure deficit that exists in the Federal Budget and commence paying down debt.

CCIQ was delighted that the Federal Budget recognized small business as the backbone of the economy. The 2015-16 Federal Budget firmly placed small business as the centerpiece of its economic statement through the \$5.5 billion Jobs and Small Business Package.

The Federal Budget materially benefited the State's 405,000 small businesses through easing the Commonwealth tax burden that stifles incentives to work and to start small businesses. Key measures for small business supported by CCIQ included:

- Small businesses with turnover of less than \$2 million will have their corporate tax rate cut from 30 per cent to 28.5 per cent;
- Unincorporated small businesses will receive relief through an asset write-off mechanism to assets up to \$10,000. This was particularly important for the 70 per cent of small businesses that are unincorporated and would therefore miss out on any benefit from the small business company tax cut;
- Employers to receive \$10,000 subsidy for hiring workers older than 50;
- From July 2016 new start-ups can deduct professional costs associated with starting a business rather than writing them off over 5 years;
- Small business owners can change legal structure without incurring capital gains tax; and
- Small businesses will be able to access the capital they need to grow and thrive by removing obstacles to crowd-sourced equity funding.

The one miss of this Budget for Queensland was the horizon infrastructure needed for Queensland's future. The Bruce Highway upgrade and a second range crossing for Toowoomba South Queensland are pleasingly works in progress. CCIQ was disappointed that essential future infrastructure such as the second rail crossing for Brisbane, connectivity between Light and Heavy rail for the Gold Coast (since rectified) and the extension of the Sunshine Coast rail line were overlooked. CCIQ understands the Federal Government's policy position in relation to 15 per cent 'Asset Recycling initiative' but highlights inevitably our State's infrastructure needs cannot be overlooked by the Commonwealth.

3.3 2015 - 2016 MYEFO

The Australian Government forecast the budget deficit would effectively halve over the forward estimates period. According to MYEFO, the underlying cash deficit will decline from \$33.7 billion (2.0 per cent of GDP) in 2016-17 to \$14.2 billion (0.7 per cent of GDP) in 2018-19. Much of the anticipated fiscal recovery will be attributable, according to the Commonwealth Treasury, to an increase in receipt collections, with the taxation-to-GDP ratio in particular increasing from 22.5 per cent of GDP in 2016-17 to 23.1 per cent in 2018-19.

MYEFO noted government payments as a share of GDP are forecast to decline from 25.9 per cent in 2015-16 to 25.3 per cent in 2018-19. This trend is attributed to a moderation in the spending growth of the Australian Government in recent years. The business community welcomes a budget repair strategy which states that all new spending be offset by savings measures. CCIQ believes that balancing the nation's books should hinge on reducing government spending rather than additional revenue grabs.

General government sector receipts, payments, underlying cash balance, net debt, net interest payments

	Receipts		Payments			Underlying cash balance		Net debt		Net interest payments	
	\$m	% of GDP	\$m	real growth %	% of GDP	\$m	% of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1970-71	8,290	20.6	7,389	na	18.3	901	2.2	344	0.9	-189	-0.5
1971-72	9,135	20.6	8,249	4.1	18.6	886	2	-496	-1.1	-245	-0.6
1972-73	9,735	19.6	9,388	7.7	18.9	348	0.7	-790	-1.6	-252	-0.5
1973-74	12,228	20.3	11,078	4.2	18.4	1,150	1.9	-1,851	-3.1	-286	-0.5
1974-75	15,643	22	15,463	19.9	21.8	181	0.3	-1,901	-2.7	-242	-0.3
1975-76	18,727	22.5	20,225	15.7	24.3	-1,499	-1.8	-341	-0.4	-330	-0.4
1976-77	21,890	22.8	23,157	0.6	24.1	-1,266	-1.3	898	0.9	-62	-0.1
1977-78	24,019	22.9	26,057	2.7	24.9	-2,037	-1.9	2,896	2.8	4	0
1978-79	26,129	22.1	28,272	0.3	23.9	-2,142	-1.8	4,983	4.2	254	0.2
1979-80	30,321	22.6	31,642	1.5	23.6	-1,322	-1	6,244	4.6	440	0.3
1980-81	35,993	23.7	36,176	4.6	23.8	-184	-0.1	6,356	4.2	620	0.4
1981-82	41,499	23.6	41,151	2.9	23.4	348	0.2	5,919	3.4	680	0.4
1982-83	45,463	24.1	48,810	6.3	25.8	-3,348	-1.8	9,151	4.8	896	0.5
1983-84	49,981	23.4	56,990	9.4	26.7	-7,008	-3.3	16,015	7.5	1,621	0.8
1984-85	58,817	25	64,853	9.1	27.6	-6,037	-2.6	21,896	9.3	2,813	1.2
1985-86	66,206	25.4	71,328	1.5	27.4	-5,122	-2	26,889	10.3	3,952	1.5
1986-87	74,724	26.2	77,158	-1.1	27	-2,434	-0.9	29,136	10.2	4,762	1.7
1987-88	83,491	25.8	82,039	-0.9	25.3	1,452	0.4	27,344	8.4	4,503	1.4
1988-89	90,748	24.7	85,326	-3.1	23.2	5,421	1.5	21,981	6	4,475	1.2
1989-90	98,625	24.4	92,684	0.6	22.9	5,942	1.5	16,123	4	4,549	1.1
1990-91	100,227	24.2	100,665	3.1	24.3	-438	-0.1	16,915	4.1	3,636	0.9
1991-92	95,840	22.7	108,472	5.7	25.6	-12,631	-3	31,041	7.3	3,810	0.9
1992-93	97,633	22	115,751	5.6	26.1	-18,118	-4.1	55,218	12.4	3,986	0.9
1993-94	103,824	22.3	122,009	3.5	26.1	-18,185	-3.9	70,223	15	5,628	1.2
1994-95	113,458	22.9	127,619	1.4	25.8	-14,160	-2.9	83,492	16.8	7,292	1.5
1995-96	124,429	23.5	135,538	1.9	25.6	-11,109	-2.1	95,831	18.1	8,861	1.7
1996-97	133,592	24	139,689	1.7	25.1	-6,099	-1.1	96,281	17.3	9,489	1.7
1997-98	140,736	23.9	140,587	0.6	23.9	149	0	82,935	14.1	8,279	1.4
1998-99	152,063	24.5	148,175	4.1	23.9	3,889	0.6	72,065	11.6	8,649	1.4
1999-00	166,199	25.2	153,192	1	23.2	13,007	2	53,869	8.2	7,514	1.1
2000-01	182,996	25.9	177,123	9.1	25.1	5,872	0.8	42,719	6.1	6,195	0.9
2001-02	187,588	24.9	188,655	3.5	25	-1,067	-0.1	38,180	5.1	5,352	0.7
2002-03	204,613	25.6	197,243	1.4	24.6	7,370	0.9	29,047	3.6	3,758	0.5
2003-04	217,775	25.3	209,785	3.9	24.4	7,990	0.9	22,639	2.6	3,040	0.4
2004-05	235,984	25.6	222,407	3.5	24.1	13,577	1.5	10,741	1.2	2,502	0.3
2005-06	255,943	25.7	240,136	4.6	24.1	15,757	1.6	-4,531	-0.5	2,303	0.2
2006-07	272,637	25.1	253,321	2.5	23.3	17,190	1.6	-29,150	-2.7	228	0
2007-08	294,917	25	271,843	3.8	23.1	19,754	1.7	-44,820	-3.8	-1,015	-0.1
2008-09	292,600	23.3	316,046	12.7	25.1	-27,013	-2.1	-16,148	-1.3	-1,196	-0.1
2009-10	284,662	22	336,900	4.2	26	-54,494	-4.2	42,283	3.3	2,386	0.2
2010-11	302,024	21.4	346,102	-0.4	24.5	-47,463	-3.4	84,551	6	4,608	0.3
2011-12	329,874	22.1	371,032	4.8	24.9	-43,360	-2.9	147,334	9.9	6,609	0.4
2012-13	351,052	23	367,204	-3.2	24.1	-18,834	-1.2	152,982	10	8,285	0.5
2013-14	360,322	22.7	406,430	7.8	25.6	-48,456	-3.1	202,463	12.8	10,843	0.7
2014-15	378,301	23.5	412,079	-0.3	25.6	-37,867	-2.4	238,721	14.8	10,868	0.7
2015-16	394,891	23.9	428,335	2	25.9	-37,399	-2.3	278,761	16.9	11,166	0.7
2016-17	415,327	24.1	445,277	1.5	25.8	-33,667	-2	316,520	18.3	11,916	0.7
2017-18	440,883	24.3	459,897	1	25.3	-23,021	-1.3	336,404	18.5	12,734	0.7
2018-19	473,531	24.8	483,295	2.5	25.3	-14,229	-0.7	346,557	18.2	13,546	0.7

At the same time CCIQ believes the MYEFO paints a picture that requires the continuing progress of vital economic reforms going into an election year. The Turnbull Government must place taxation, federation and workplace relations reform at the centre of its economic and fiscal priorities to ensure Queensland small businesses have the confidence to grow, invest, and create jobs. These initiatives will unquestionably grow the economy that will in turn stimulate taxation receipts to sure up the Federal Budget.

3.4 Credible path to fiscal surplus

Public sector financial data presented in recent years clearly illustrates, on a cash basis, that the Federal Budget is not suffering from a 'revenue deficiency'. Rather, the Budget reveals excessive spending which has translated into multiple-year budget deficits contributing, in turn, to exuberant growth in public debt.

It is on this basis that CCIQ believes there is an urgent need to reduce the structural budget deficit by pursuing additional expenditure savings, in addition to those already nominated by Government in 2016-17 and the out-years.

Business stands shoulder to shoulder with the Federal Government in efforts to control government expenditure and deliver a fiscal surplus. The Federal Government must pursue an aggressive approach to reigning in government expenditure in the context of returning to an affordable level of government service provision. The approach of the Federal Government to moderate expenditure resonates with business community actions following the GFC who have sought to reduce their own business costs.

To this end the Federal Government must continue to monitor and seek out efficiencies in government department program delivery. Due to the significance of the public sector in the economy, the efficiency and effectiveness of government is essential if productivity is to improve across the economy. Anything short of optimum efficiency in the delivery of public services means that taxpayers are paying more in taxes and charges than they would otherwise need to.

3.5 Reduce government debt

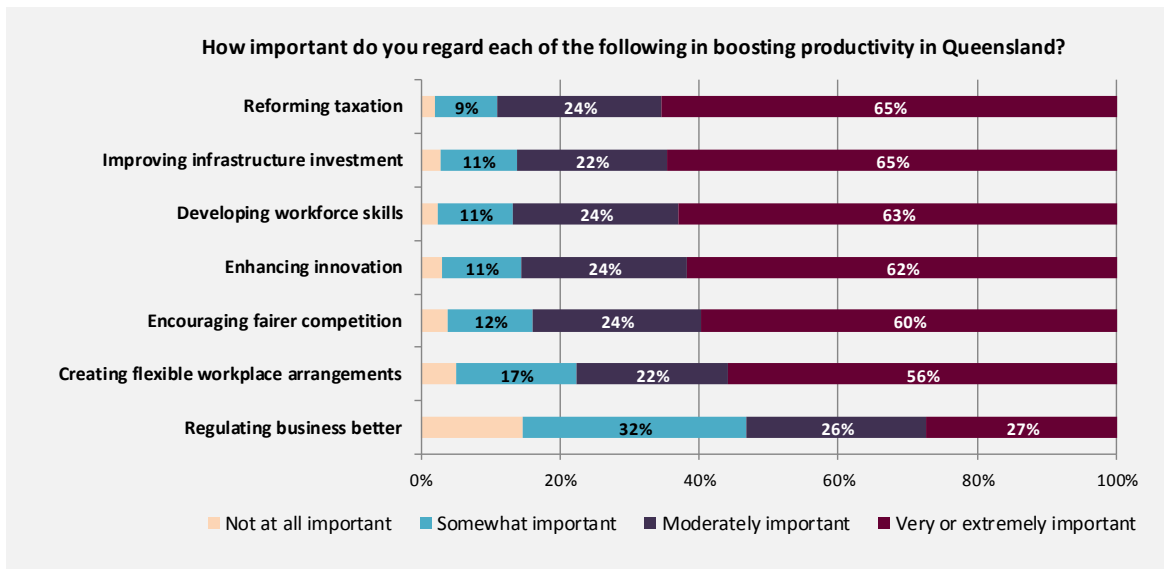
Higher government debt levels mean higher interest expenses; fewer funds for health care and leaves no room for the government to fund a reduction in inefficient taxes. Quite simply billions of dollars in interest is money that yields no value to the Australian community. CCIQ supports the Federal Government's resolve to pay down debt.

3.6 Senate

Queensland businesses remain concerned that the Senate continues to block over \$5 billion worth of savings in social expenditure. The Senate and Opposition needs to avoid holding the budget to ransom with a populist negative campaign. The Senate has struck fear into the business community and the general lack of collaboration between the Federal Government and independent senators has unquestionably undermined business confidence and in turn investment. The business community is encouraged by the more collaborative approach between the Turnbull Government and the Senate and will look to see that this translates into an improvement in the Federal Budget for 2016-17.

4.0 National Tax Reform

- 4.1 CCIQ highlights the mutual dependency between taxation and economic growth. By creating a low taxation business operating environment with minimal compliance costs, Australia is laying the foundation for increased business investment, which leads to employment and wages growth and ultimately, higher living standards and taxation receipts to Government.
- 4.2 Australia's tax system faces a number of challenges, including technological change, an ageing population and increased mobility of investment, all of which make the revenue from traditional tax bases more volatile. While the economic environment has changed substantially, Australia's tax mix has remained fairly unchanged since the 1950's. The tax system is now considered by Queensland businesses to be outdated and a brake on economic growth.
- 4.3 CCIQ believes that a generational update to our tax system is needed to respond to these economic challenges and underpin our nation's productivity growth and future living standards. All levels of government must commit to comprehensive tax reform in a collaborative and decisive manner, recognising the transformational effect tax reform can have on our economy, especially if combined with federation reform.



CCIQ State Election Survey, January 2015

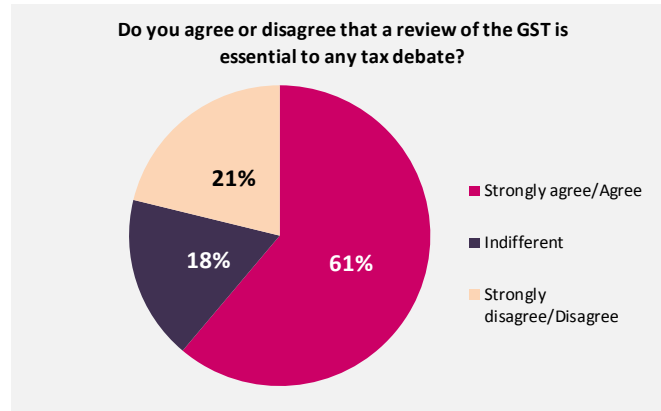
- 4.4 The priority for the Queensland business community is for the reform process to consider the taxation system holistically, with a focus on addressing the complexity of the system and reducing the reliance on income taxes in favour of consumption taxes like the Goods and Services Tax (GST), which will enable the removal of inefficient State taxes.
- 4.5 Tax reform is inevitable yet leadership on this issue in our view is not yet there. CCIQ urges both the Commonwealth and State Governments to play a leadership role in forging unanimous agreement for changes to the GST as part of comprehensive taxation reform. It appears the Queensland Government has been ruling taxes out rather than constructively building the groundwork for a modern tax system that allows businesses to innovate, grow and employ more Queenslanders.
- 4.6 CCIQ has encouraged the Queensland Government to instead work proactively with other jurisdictions to ensure that all options, including the GST and inefficient state taxes, are considered. For example, if all States including Queensland could agree to the implementation of the GST in 1999, then consideration of broadening the GST base or increasing the rate payable should not be placed in the too hard basket.

Recommendation:

The Federal and Queensland Governments take a leadership role for holistic taxation reform with a view to reducing the large number of taxes by shifting to a greater reliance on broad-based consumption taxes to raise revenue more efficiently.

Good and Services Tax

4.7 CCIQ believes improving the use of GST offers the most sensible solution to achieving an efficient and sustainable taxation mix. It is imperative that GST is given priority consideration in the tax reform agenda. The majority of Queensland businesses believe review of the GST is essential to any tax debate. CCIQ believes tax reform must consider increasing the rate or broadening the GST base by removing exemptions. These approaches would need to be complemented by assistance measures for low-income households to maintain equity of the tax system.



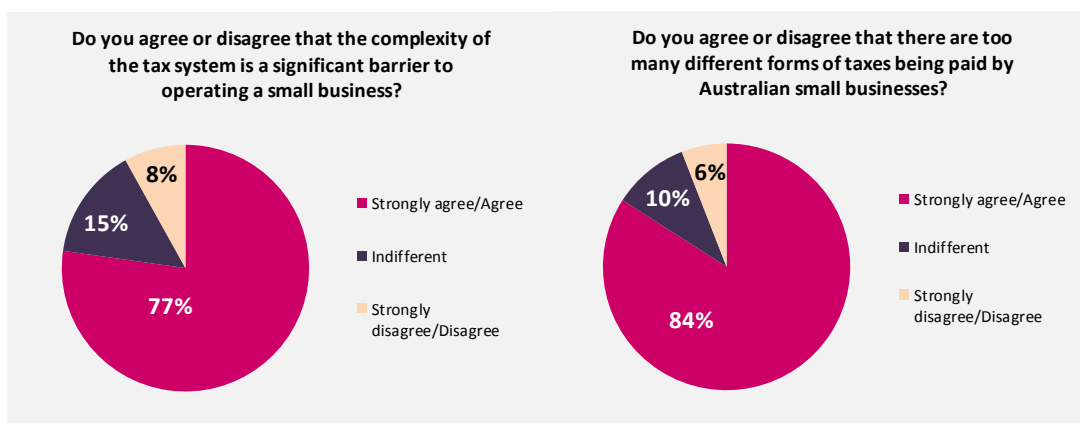
CCIQ ReachTEL Survey on Taxation, May 2015

4.8 Currently, the GST is underutilised as a source of taxation revenue. The GST has a narrow consumption base, with high growth sectors such as food, education and health services excluded. GST exemptions are estimated to cost around \$20 billion in foregone GST revenue. The Commonwealth Treasury notes that GDP activity covered by the GST currently captures only 47 per cent of overall economic activity. A few years ago it was 56 per cent.

Small business interests

4.9 The current tax system does not adequately cater for small business interests. The complexity of existing business tax arrangements places a particularly high burden on small businesses. The tax reform process should consider small business arrangements that could address this complexity.

4.10 Tax simplification must be a key priority for the tax reform process to help reduce business tax compliance costs and allow businesses to focus on growth and job creation. Valuable time and resources are currently being spent on tax compliance and these costs are proportionally greater for small businesses. Compliance with the Australian tax system is estimated to cost taxpayers approximately \$40 billion each year.



CCIQ ReachTEL Survey on Taxation, May 2015

Recommendation:

Ensure the tax system adequately caters for small business needs

Payroll Tax Harmonisation

- 4.11 CCIQ has provided strong opposition to proposals to standardise the payroll tax rate across all Australian States. The Commonwealth Treasury modelled the impacts of standardising payroll tax rates across all Australian States at 6 per cent and also standardising the exemption threshold.
- 4.12 CCIQ is vehemently opposed to this proposal as it would conservatively slug Queensland businesses \$2.6 billion, costing at least 45,000 jobs. Under the proposal, depending where the exemption threshold is set, thousands of additional Queensland small businesses would also be slugged with this tax.
- 4.13 Queensland has the lowest payroll tax rate in Australia set at 4.75% with the highest payroll tax exemption threshold at \$1.1 million. CCIQ is a strong proponent of competitive federalism in respect to state tax arrangements. There is no question that Queensland has attracted and retained business investment as a result of having a more competitive tax regime than other states. The tax reform process should seek to encourage this competitive federalism, recognising that if all jurisdictions adopted this approach then Australia would dramatically improve its international competitiveness.

Revitalising the Commonwealth-State Fiscal Relationship

- 4.14 CCIQ highlights all states and territories must commit to collaborating with the Federal Government on the federation white paper to set out a progressive agenda for achieving sustainable fiscal relations across levels of government.
- 4.15 A sustainable, long-term fiscal strategy will depend on correcting the current vertical fiscal imbalance, whereby the Commonwealth raises the majority of the revenue and the States spend the majority of the money. This vertical fiscal imbalance means there is a disconnect between spending responsibilities and revenue raising capacity.
- 4.16 The full scope of Commonwealth-State fiscal relations needs to be investigated, including:
- reviewing the methodology for GST distribution to the States;
 - reviewing the effectiveness of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations;
 - improving institutional arrangements of the federation; and
 - improving the future tax mix that would enable streamlining of inefficient State taxes.

5.0 Workplace Relations

- 5.1 Australia's economy is currently experiencing an extraordinary time of transition. To meet the challenges of the future Australia must act now to design a workplace relations framework that confronts the weaknesses in our current system, and shapes a framework for a modern economy. Queensland is well placed to tackle the challenges of the future head on, but requires more balanced workplace policy settings to ensure we come out on top of the productivity and competitiveness challenges of the 21st century.
- 5.2 CCIQ believes an attitudinal re-think towards workplace relations reform must be framed in a mutual respect and appreciation for the success of enterprise. A more flexible, adaptive and productive workforce will be key to taking advantage of the opportunities of the 21st century.
- 5.3 CCIQ considers the Productivity Commission's Final Report into Australia's workplace relations framework presents the perfect opportunity for the Federal Government to carry out the necessary reform to Australia's workplace laws to help small businesses grow, invest and employ. In response to the Inquiry, CCIQ surveyed over 1,000 Queensland businesses to assess the impact of Fair Work Laws. Queensland businesses identified unfair dismissal, penalty rates, and lack of flexibility as the key issues hampering businesses with respect to the workplace relations framework.
- 5.4 Unfair dismissal is the number one workplace relations issue for Queensland businesses. Businesses told CCIQ current unfair dismissal legislation made it difficult to make employment decisions for fear of allegations, was too onerous in its requirement for proof of employee underperformance, and prompted reluctance amongst employers to take on permanent employees. CCIQ calls on the Federal Government to legislate for a true unfair dismissal exemption for small businesses, as well as introduce a simpler unfair dismissal process that encourages investigation of claims based on merit, and dismissal of claims where the Fair Work Commission determines that termination of employment was based on valid grounds. CCIQ believes such measures will go a long way towards restoring the balance between employers and employees, and prevent employers from having to face the time and expense of defending themselves against baseless or vexatious unfair dismissal claims.
- 5.5 Penalty rates are also one of the major issues affecting Queensland businesses when it comes to industrial relations. In a modern 24/7 economy, Australia's workplace laws need to reflect the dynamic nature of the new working week and allow businesses to tailor their staffing arrangements to respond to peak demand periods. The current penalty rates regime inhibits economic growth by providing a disincentive to employers from having longer trading hours or offering staff additional hours. Queensland small businesses accept penalty rates as a legitimate labour cost; however want to see alternative approaches for specific industries. CCIQ urges the Federal Government to adopt the Productivity Commission's recommendation to merge Sunday rates with Saturday rates in order to increase the scope in the current system to allow for greater flexibility with respect to the operation of penalty rates, particularly for those businesses that operate seven days per week or outside standard trading hours.
- 5.6 Lastly, flexibility is critical for small and medium enterprises. A modern workplace relations system must allow employers and employees to negotiate individual arrangements that meet both parties' needs. The ability of employers to put in place flexible working arrangements has been one of the greatest casualties of the Fair Work Act. CCIQ encourages the Federal Government to amend the Fair Work Act to better provide for the negotiation and implementation of individual flexibility arrangements that give genuine flexibility to employers and employees.

Recommendation:

CCIQ urges the government to make sensible and modern policy adjustments to the Fair Work regime in line with the government's chief priorities of creating an agile and innovative economic environment. CCIQ wants to see key recommendations of the Productivity Commission report become election policies of the Federal Government as Australia heads to the polls this year.

6.0 Infrastructure

- 6.1 Reliable, affordable and capable infrastructure plays a crucial role in determining the strength of economic growth. An investment in infrastructure represents an investment in the future prosperity of our proud state. Infrastructure Australia has estimated that infrastructure provides a \$33.9 billion dollar economic contribution to Queensland with this forecast to grow to \$71.2 billion over the next 20 years.
- 6.2 It is important that Queensland's infrastructure networks are the enablers of future economic growth by driving ongoing private business investment and expansion into regional areas; enhancing the competitiveness of business in both domestic and global marketplaces. This will allow for the future prosperity for all Queensland communities.
- 6.3 Queensland faces unique challenges of investing and maintaining a geographically expansive transport, energy, water and telecommunications infrastructure network. Currently, inadequate and costly infrastructure is adversely impacting the efficiency of business operations. Infrastructure Australia estimates that if the inadequate transport networks in Queensland are not addressed the macroeconomic cost will total \$9 billion by 2031.
- 6.4 For business, the practical impact of this \$9 billion dollars represents higher costs of doing business; decreased efficiency and productivity; reduced access to existing markets and expansion into new and emerging markets; vulnerability to seasonal weather events; delayed business expansion activities; and the reduction in the liveability of a region and in turn workforce.
- 6.5 CCIQ wishes to commend the following projects provided by the Queensland Government to Infrastructure Australia for consideration and funding:

Queensland Infrastructure Priority List

Existing projects to be updated on the Infrastructure Priority List

- Cross River Rail
- Bruce Highway Upgrades
- Beerburrum to Nambour Rail Upgrade
- Mount Isa – Townsville Rail Corridor Upgrade
- Ipswich Motorway – Rocklea to Darra – Stage 1

State Government wish list for Infrastructure Priority List

- Cunningham Highway – Yamanto to Ebenezer/Amberley upgrade
- Pacific Motorway Mudgeeraba to Varsity Lakes capacity upgrade
- Gold Coast Light Rail – Stage 2
- Inland Rail/Southern Rail Corridor
- Pacific Motorway – Gateway / Pacific Motorway merge
- Smart Road Infrastructure for South East Queensland

Source: Infrastructure Australia, Queensland Government Submission

Chamber of Commerce & Industry Queensland
www.cciq.com.au

- 6.5 In addition over 1100 businesses responded to CCIQ's latest Pulse Survey of Business Conditions (December 2015 Quarter) revealing a number of additional infrastructure priorities across the State. Below is a summary of critical infrastructure priorities as identified by Queensland businesses requiring Federal Government support and commitment.

AIRPORTS

- Townsville Airport expansion for additional aircraft facilities and terminal facilities to accommodate passenger increase. Investigate opportunities for expanding international services to support inbound tourists.
- Cairns Airport expansion to accommodate export freight facilities.

PORTS

- Abbot Point Port expansion for Galilee Basin coal development.
- Cairns Shipping Development Project to provide an upgrade of the Port of Cairns to improve access for larger shipping including cruise vessel facilities.
- Cruise ship terminal upgrade and development at Brisbane and Gold Coast.

RAIL

- Heavy rail extension to the Gold Coast Airport to facilitate the tourism market and improve connectivity within South East Queensland and wider Queensland.

ROADS

- Improvements to the Bruce Highway for increased safety, flooding immunity and capacity.

ENERGY

- Address high electricity costs and inefficient supply in North Queensland through shared network extension to efficiently connect new northern Galilee loads, review cost of electricity connections to the network for new resource developments, strategically placed electricity generation to lower locational costs and review location incentive for loads and generation in the region.

WATER

- Address Cairns urban water storage and supply issues including surface water storage or other water supply infrastructure assets (e.g. recycling facilities) as well as water efficiency management measures which may be needed sooner if Aquis development eventuates.

TELECOMMUNICATIONS

- Progressive rollout of NBN, both to catch up on existing deficiency and to accommodate growth. Incentivise, require or subsidise provisions of higher quality communications to remote regions through universal service obligation or other arrangements such as infrastructure programs.

7.0 Red Tape

7.1 It is crucial that Australia addresses the significant regulatory burden facing small businesses that unquestionably stifles their capacity to grow and employ. CCIQ has been conducting its biannual Red Tape Baseline Survey since 2009 to understand the impact that red tape has on small business and track changes to the burden of regulatory compliance.

7.2 Findings from the latest survey reveal that Queensland businesses experience a moderate to major impact from complying with government regulation and that one in four businesses state that red tape compliance has prevented them from making changes to grow their business. Key facts include:

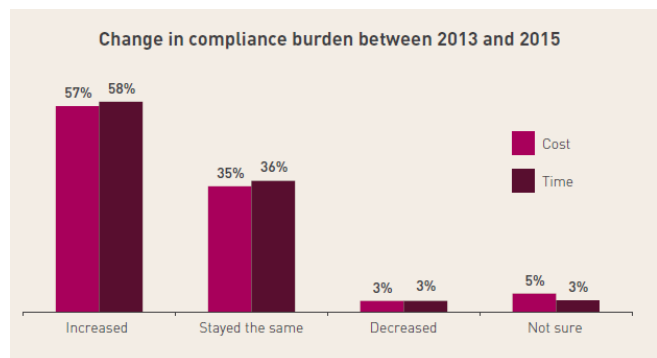
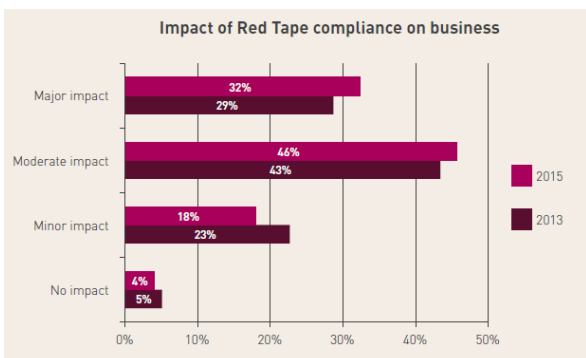
- 78 per cent of businesses experience a moderate to major impact from complying with government regulation.
- 44 per cent reported that they now spend six or more hours per week complying with government regulatory requirements.
- 58 per cent indicated that their time dealing with red tape had increased.
- 57 per cent indicated that costs had increased.
- 25 per cent indicated that red tape had prevented them making changes to grow their business.
- One in three highlight that understanding regulatory obligations and finding information is the most costly aspect of regulatory compliance.
- Only 8 per cent indicated the Queensland Government’s consultation was good or very good.

7.3 Achieving meaningful outcomes in this area requires a systematic and top-down approach and CCIQ’s long-standing methodology to tackle red tape burden includes:

- **Deregulate where possible** through imposing constraints on regulators with transparent targets, high level political leadership and a baseline measure of ‘red tape’ to achieve Ministerial and government accountability;
- **Stem the flow** through restricting the future growth of regulation;
- **Streamline compliance** through improving the way we communicate with small business, develop tools to aid with compliance, schedule compliance at times most suitable to circumstances and adjust frequency of compliance for low risk activities and those with good compliance histories.

7.4 Quite simply, governments must improve the efficiency of regulation, both by removing unnecessary and duplicative areas of compliance and make it easier for business to comply. The red tape burden as it stands today has accrued from all tiers of government and under many governments. However the government of the day in the eye of business has a clear and unmistakable responsibility to address this burden.

7.5 The Queensland small business community has a rightful and clear expectation that the Federal Government meaningfully drive down the cumulative regulatory burden. Despite the Government’s progress on reducing red tape, continued regulatory reform is vital and the Federal Government’s \$1 billion regulatory reform target must be met.



8.0 Innovation

- 8.1 Queensland small businesses will benefit from the Federal Government's billion-dollar innovation package announced in late 2015. The policies contained in the Prime Minister's innovation statement will enable small business – and not just start-ups - to enter an "ideas boom" founded on collaboration, entrepreneurialism and risk taking.
- 8.2 CCIQ commends the Federal Government on commencing the long journey of removing barriers to innovative activity, facilitating a culture of innovation at the broadest level and providing the foundation conditions that enable businesses to use innovation as a source of competitive advantage.
- 8.3 CCIQ congratulates the government in delivering 24 measures designed to incentivise innovation and entrepreneurship, seeking to eradicate the 'fear of failure' engrained deep in the Australian mindset and instead reward risk taking. These measures allow Australia to shift away from an approach that is dominated by government programs towards a systematic and incentives-driven approach to innovation. This is especially important in the context of growing competition from globalised markets, the innovation economy thriving in other countries and other economic pressures that could influence Australia's competitiveness.
- 8.4 The announcement of these policies places Queensland businesses in the best position to turn their great ideas into reality. It is critical that industry and government focuses on collaboration as the policies start to take effect from July 2016.
- 8.5 Moving forward, the Australian Government must continue to progress the following areas and focus on achieving innovation outcomes from Queensland's business community and entrepreneurs through:

Recommendations:

Innovation as a key driver of growth and competitiveness: Innovation is intensifying as the driver for growth and competitiveness around the world. Improving the quality of the business environment and moving up the value chain remain important factors of overall economic growth, but the creation and wide adoption rate of new technology will provide the greatest competitive edge for Australian businesses.

Improving frameworks for innovation: Australia is set to benefit from the policies announced under the Federal Government's \$1.1 billion innovation package to be rolled out over the next four years. Tax incentives, insolvency reform, an entrepreneur visa and a \$200 million CSIRO innovation fund will substantially shape the approach to innovation and entrepreneurship. Australia must remove the barriers and regulatory frameworks around crowd-sourced equity funding and the finance ecosystem in order to provide businesses greater opportunity to innovate and renew.

Boost public R&D capacity: More can be done to accelerate the transfer and commercialisation of R&D outputs which includes providing easier access to publicly funded research data. The traditional closed systems do not allow the type of innovation or realisation of its benefits that are required in today's global marketplace. However, encouraging open innovation must coincide with improvements in the management of intellectual property and other legal risks.

Improving skills and productivity of human resource: It is largely recognised that developing innovation requires a workforce with skills and expertise in science, technology, engineering and mathematics (STEM). Policies supporting the uptake of STEM subjects in secondary and higher education, with particular focus on attracting more women within these fields should be pursued.

Providing greater business support: Funding remains the single greatest barrier to innovation for small businesses seeking to become more innovative. Improving conditions around access to capital is central to assisting small businesses and start-ups.