national electrical and communications association

Tax Reform

Discussion Paper

Submission of the

National Electrical and Communications Association

Prepared by: Suresh Manickam

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NATIONAL OFFICE
Level 4,
30 Atchison Street,
St Leonards NSW 2065
Locked Bag 1818,
St Leonards NSW 1590

T +61 2 9439 8523
F +61 2 9439 8525
E necanat@neca.asn.au
W www.neca.asn.au
ABN 78 319 016 742

Mr John Fraser
Secretary to the Treasury
Tax White Paper Task Force
Langton Crescent
PARKES ACT 2600

Re: Tax Reform White Paper Discussion

Dear Mr Fraser

Thank you for the opportunity to comment on the Federal Government's Tax Discussion paper which formally commences the Taxation White Paper process.

The National Electrical and Communications Association (NECA) welcomes the chance to submit the views of our industry and we are pleased that the discussion process is deliberately broad focussed to encourage stakeholders such as ourselves to highlight those issues that are strategically important to the electrical contracting sector.

We are the peak industry body for Australia's electrical and communications contracting industry that employs more than 145,000 workers and delivers an annual turnover in excess of $23 Billion. We represent approximately 4,000 electrical contracting businesses across Australia.

NECA represents the electrical and communications contracting industry across all states and territories. We aim to help our members and the wider industry to operate and manage their business more effectively and efficiently whilst representing their interests to Federal and State Governments, regulators and principle industry bodies such as the Australian Chamber of Commerce and Industry (ACCI) and Standards Australia.

NECA's involvement and capabilities within the education and training sector extends to the employment and skilling of over 4,000 apprenticeships across Australia. We estimate that most of these apprentices carry out their work experience through NECA's members via our group schemes. We also deliver training options for a further 3,000 qualified electricians to the industry through technical advice, business skills training and business development and marketing training for management.

The profile of the electrical contracting sector effectively mirrors the Australian economy. 92% of businesses with the electrical contracting sector employ 25 staff or less, with the average business employing 13 staff. This compares with the 96% of businesses defined as a small, throughout Australia.

Given the breadth and scale of our industry, taxation matters are crucial to the success or failure of businesses within this sector and our submission focuses upon the views and themes of NECA's state based members.

As small business is the driver of the Australian economy, employing more than 4.5 million Australians and delivering $330 Billion in economic output, we believe that the Government needs to fully recognise, respect and encourage small business to thrive.

Our present tax system is too complex and the Federal Government is heavily reliant upon personal or corporate income tax to fund its expenditure. This reliance has remained largely intact since the 1950's, despite major economic changes over the last sixty five years.

NECA has recently published its *Policy Statement 2015* that identifies a range of policy areas that are critical to the future growth and progression of the electrical and communications contracting sector. This document is the first of its type for our organisation as it outlines eight key policy themes and makes thirty specific recommendations that we believe, if actioned by Government, will lead to a more prosperous and effective sector through the creation of new employment opportunities, increased safety and compliance standards whilst boosting the national economy.

Two of the more important recommendations arising from our *Policy Statement 2015* encourages the setting of guidance and a future strategy to implement the key recommendation of the former Federal Government's – *Australia's Future Tax System* – known as the Henry Review - argued for a reduction in the company tax rate to 25% and the need to reduce taxation red tape for small businesses through the alignment of business reporting timeframes.

NECA has have previously put forward our comments and suggestions as part of the Henry Review and there is a strong expectation from industry that real outcomes and reforms must follow from the Tax Reform White Paper process. Given the lack of action taken following the Henry Review, industry will feel let down and ignored if the Government is not prepared to act upon recommendations from the White Paper process, this time around.

Whilst NECA notes the difficult economic environment, ongoing commentary from the Reserve Bank of Australia and the fiscal challenges highlighted in the last seven Federal Budgets, we strongly support the need for taxation reform that assists small business to thrive and employ more Australians, rather than being drowned in the reporting of taxation to Government.

Our submission covers the following topics:

- Red Tape Reduction and Alignment of Business Reporting Timeframes
- Payroll Tax Harmony and plans for its abolition
- Company Tax Reduction and the Henry Review Target
- Fringe Benefits Tax Abolition
- Tax Incentives for employers to hire apprentices
- Phase Out of Stamp Duty
- Superannuation Administration and the cost of contribution
- Tax concessions for the Not for Profit Sector

Red Tape Reduction and Alignment of Business Reporting Timeframes

Regulatory burdens and the need for red tape reduction are two of the largest concerns that NECA hears from its members and reform is necessary to ensure that small businesses within the electrical contracting sector can focus upon their operations at hand and not on Government paperwork.

Whilst a range of these concerns sit outside the broader framework of this discussion paper, it is clear that compliance for small business has significantly increased in last five years and adds pressure to business operations. It's important that as a part of this discussion process, that the Federal Government understands these concerns of electrical contractors across our industry.

In addition to taxation reporting timelines such as BAS and PAYG administration, small businesses within our industry face a nightmare of compliance items such as Fringe Benefits Tax, Payroll taxes that are not harmonised from state to state, small businesses are also expected to report on Workplace Gender Equality compliance, parental leave schemes, inflexible workplace agreements through collective bargaining and restrictions of the Fair Work Act, increased employer superannuation contributions and construction industry payment reporting are some examples.

The following timelines are provided to highlight the range of reporting complexities, particularly for small business community.

	Annual Reporting Period	Must Report by
Fringe Benefits Tax	April 1- March 31	May 21
GST Annual Return	July 1 – June 30	February 28 if no return required or by due date provided on form, if required
PAYG Withholding payment summary or employee wages	July 1 – June 30	August 14

Annual Investment Income	July 1 – June 30	October 31
Taxable Payments Annual	July 1 – June 30	August 28
Workplace Gender Equality	April 1 – March 31	May 31
BAS	July 1 – June 30	Quarterly or 21st day of each month
Payroll Tax (NSW)	July 1 – June 30	$6000 or less – July 21 $6000 plus – Seventh day of the following month

NECA's *Policy Statement 2015* raised the alignment of business reporting timeframes and red tape reduction as a key recommendation that would be welcomed by electrical contractors.

Taking steps to simplify and align key reporting timeframes across the financial year is an essential ingredient to reduce red tape that in our view, is long overdue. We urge the Government to ensure that taxation reporting periods and timelines are aligned with other regulatory frameworks to ensure an easier existence for electrical contractors, in particular the current arrangements for Fringe Benefits Tax and WGEA reporting.

Payroll Tax Harmony and a plan for its abolition

NECA believes that tax reduction is a critical step to assisting the growth and competitiveness of small businesses within our industry, particularly if the Government is serious about achieving its stated target of creating one million new jobs over the next five years.

In 2010, the final report of Henry Review made a number of recommendations relating to Payroll tax.

Recommendation 55 stated:

"Over time, a broad-based cash flow tax — applied on a destination basis — could be used to finance the abolition of other taxes, including payroll tax and inefficient State consumption taxes, such as insurance taxes. Such a tax would also provide a sustainable revenue base to finance future spending needs."

Recommendation 57 further stated:

"State payroll taxes should eventually be replaced with revenue from more efficient broad-based taxes that capture the value-add of labour."

Payroll Tax, whilst an important revenue generator for state and territory governments, is an inhibitor on the economy. It's essentially a tax upon the employment of Australians, a handbrake on the national economy and a disincentive to develop and grow small and medium enterprises.

Each State and Territory Government maintains a separate payroll tax and threshold limit regime which serves to create even more confusion and complexity, in particular for small and medium enterprises that operate across Australia and its various jurisdictions.

The following table highlights the complexity and inconsistencies of State and Territory payroll tax regimes.

The table below shows the annual rates and thresholds that are applicable to each state (current as at 01 February 2014):

State	Rate	Annual Wage Threshold
New South Wales	5.50	658,000
Victoria	4.90	550,000
Queensland	4.75	1,000,000
South Australia	4.95	600,000
Western Australia	5.50	750,000
Tasmania	6.10	1,010,000
ACT	6.85	1,500,000
Northern Territory	5.90	1,250,000

- Source:
http://www.batescosgrave.com.au/resources/factsheets/business/australian_employment_tax#sthash.ORSfngUz.dpuf

State Governments in New South Wales and Victoria have since reduced their payroll rates and/or amended their annual wage thresholds since February 2014. We encourage other State and Territory Governments to follow these leads, particularly for small and medium enterprises.

As far back as 2007, State and Territory Treasurers agreed to the overhaul of payroll tax arrangements to achieve greater legislative and administrative harmonisation.

Payroll Tax harmonisation was later endorsed and considered as one of 27 projects designed to achieve a national seamless economy with States and Territories responsible for working together to produce a nationally co-ordinated approach to payroll tax reform by July 1 2012.

Whilst a joint harmonisation protocol was signed on 28 July 2010 and legislation has been enacted across all jurisdictions to establish harmonisation, no agreement was ever reached to harmonise payroll rates and thresholds across state and territory borders and these levels continue to be misaligned today.

The Henry Review suggests the adoption of a more broad-based taxation method to finance the abolition of Payroll Tax and other state based taxes as a more sustainable long term approach to funding the future expenditure requirements of Government.

NECA's *2015 Policy Statement* called for a national discussion to set in place a timetable to harmonise payroll tax regimes, levels and thresholds, in addition to a long term plan for its eventual replacement.

Whilst we recognise the difficulties of obtaining agreement across State and Territory jurisdictions on this matter, particularly given the prevailing economic circumstances, we call on the Federal Government to have another attempt at encouraging State and Territory Governments to consider equalising payroll tax rates and thresholds.

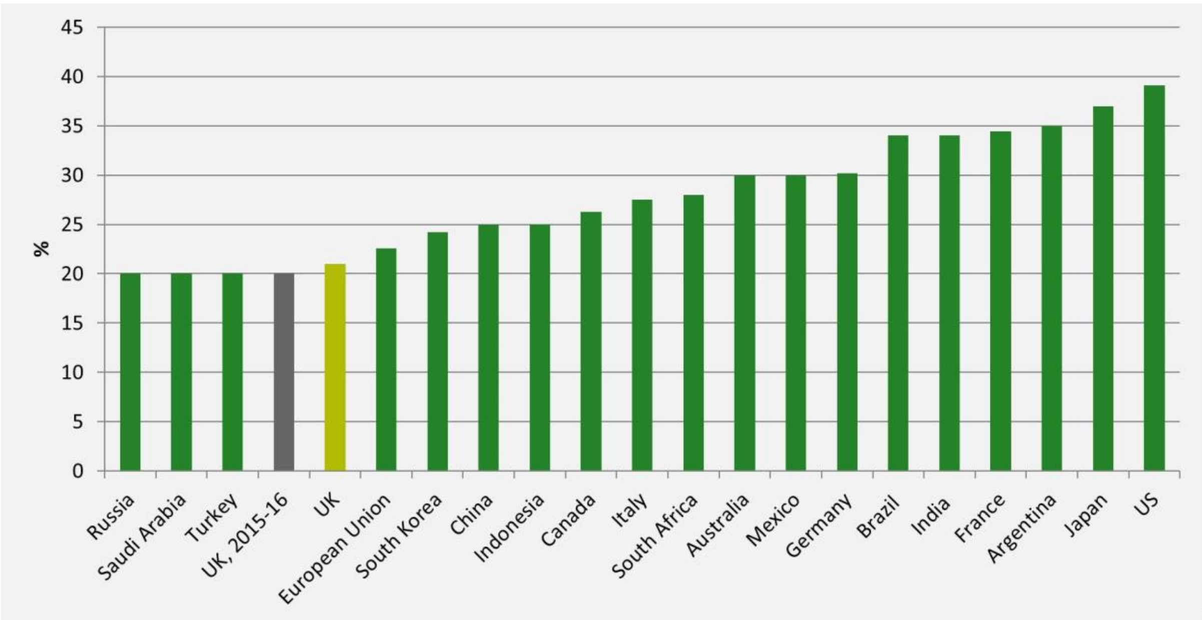
A more harmonised payroll tax outcome across the States and Territories will assist and encourage business within our industry to employ and train new staff and lead to more competition within the industry across state borders.

Company Tax reduction and the Henry Review Target

The reduction in company tax is important for the business community and for growth in the national economy.

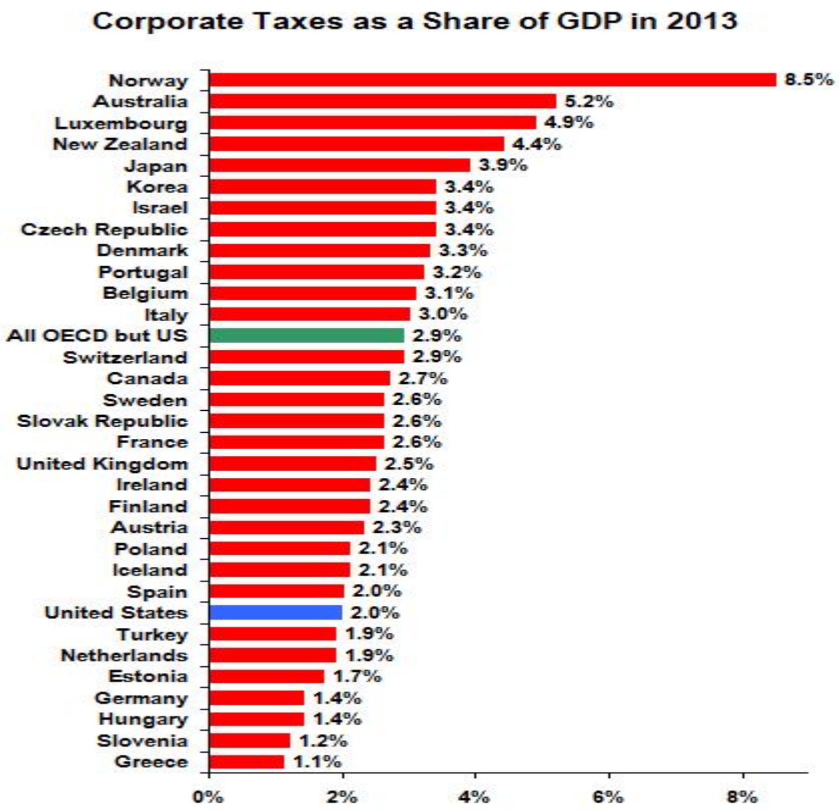
Reducing tax on business profits will lead to a more competitive industry and assist to create additional employment opportunities.

Australia's company tax rate of 30% remains one of the highest in the Group of 20 major world economies (G20), sitting well above the United Kingdom, the European Union and China.



Source: G20.org

When our corporate tax is compared as a percentage share of national Gross Domestic Product, it becomes the second highest rate across the thirty four member nations of the Organisation of Economic Co-Operation and Development (OECD).



Notes:
Annual totals for non-U.S. OECD are weighted by GDP.
2013 is the most recent data available.
2012 data is used for Poland, Australia and the Netherlands above due to lack of more recent data.
Source: OECD data, http://stats.oecd.org/; U.S. Data from Treasury and U.S. Census. 2015.

In 2014, The Federal Budget reduced the company tax rate by 1.5% from 30% to 28.5% for small and medium enterprises. Whilst this outcome was unable to be delivered given Senate resistance, a similar measure was introduced in this year's Budget for incorporated small businesses with annual turnover of less than $2 Million, whilst unincorporated businesses will receive a 5% tax cut from the 1st of July 2015.

Whilst NECA welcomes any measure that relieves the tax burden for electrical contractors, we also note that the 28.5% small business rate and the 30% standard company tax rate remain well above the heavily publicised target set by Henry Review in its final report in 2010.

The Review's Recommendation 27 stated:

"The company income tax rate should be reduced to 25 per cent over the short to medium term with the timing subject to economic and fiscal circumstances."

Recommendation 26 also stated:

"The structure of the company income tax system should be retained in its present form, at least in the short to medium term."

NECA's 2015 Policy Statement, as part of its recommendations for Small Business, identifies tax reduction as an important area of reform. We encourage the setting of guidance and a future strategy to implement the key recommendation of the Henry Review to reduce the company tax rate to 25%.

NECA notes the basis of both recommendations from the Henry Review, calling for the retention of present company tax arrangements with a reduction towards the targeted goal of 25% rate, subject to economic and fiscal circumstances.

However, we remain concerned that the stated goal has appeared to have been forgotten or put in the too hard basket, given the difficult economic environment and the stated priority of the Government to reduce debt.

We assert that it's imperative for the Government to set a timeline for the reduction of company tax so that the stated goal of the Henry Review to reduce the rate to 25% can be achieved.

Fringe Benefits Tax

Fringe Benefits Tax (FBT) is applied to most non-cash benefits provided in respect of employment. It was first applied to the Australian economy when it was legislated under the Fringe Benefits Tax Assessment Act 1986.

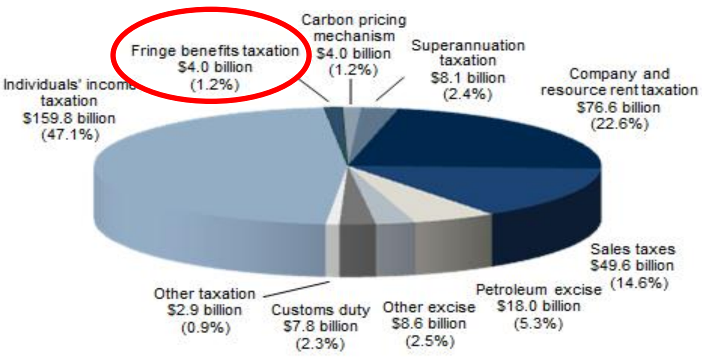
It is a charge on employers for providing benefits to an employee and is separate to income tax, however its interpretation is considered complex and its annual reporting period (1 April-31 March) is not aligned to the financial year or other reporting periods.

Whilst NECA welcomes the Federal Budget decision to allow an FBT exemption for small businesses with an aggregated annual turnover of less than $2 million to provide employees with more than one qualifying work-related portable electronic device, we believe that further reform is necessary.

In the 2012-13 financial year, revenue for the Federal Government from Fringe Benefits Tax equated to $4 Billion, or just 1.2% of total collection mix. As FBT's total collection of the tax mix is small and its complex reporting requirements significantly burden the back office of a small business, NECA calls for the abolition of Fringe Benefits Tax and a redirection of tax collection efforts to more important areas.

A decision to remove FBT will be welcomed by electrical contractors as it removes another level of red tape and administrative paperwork.

Australian Government Tax Mix – 2012-13

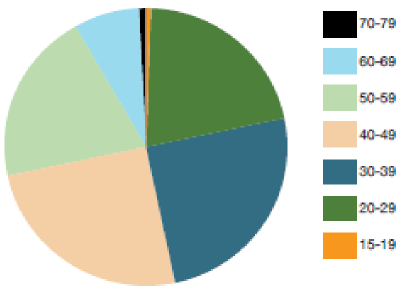


Source: Treasury.gov.au

Tax Incentives to hire apprentices and complete training

A key challenge for our industry as we move towards the second half of the decade is a shortage of supply of skilled electrical workers. This is evidenced through a reduction in the completion of electrical apprenticeships across Australia and the retirement of long term and highly skilled workers, resulting in the loss of suitably qualified electricians at both ends of the sector.

The age distribution of the sector in 2013 further highlights the challenges to maintain a highly skilled workforce, given falling apprenticeship numbers and the requirement to upskill more mature workers to cope with an expected rise in employment demand



Source: E-Oz Energy Skills Australia Environmental Scan 2014 - Electricity Supply Industry Workforce Age Range 2013.

The cost to hire a mature age apprentice is a challenge for small business. The cost differential over the three year apprenticeship from a school leaver to a mature age worker is roughly $30,000 and this difference is further extended once a Year 11 hire, major city employment and the actual award rate is factored in.

Given the cost differential, NECA argues that Governments should consider introducing tax incentives for employers to take on apprentices, particularly for small contractors who form the basis of the industry.

In addition, we believe that employees who undertake and complete additional training at higher levels (post-trade) should also receive adequate tax benefits as an incentive to complete their qualifications.

Phase out of Stamp Duty

State and Territory Governments impose taxes on a range of items, including the transfer or stamp duty of a range of items such as motor vehicle registration and transfer, insurance policies, leases and mortgages, hire purchases and real estate.

These rates of taxation vary from state to state and whilst it provides a strong form of revenue for Government, particularly when the level of property transaction increases, it is ultimately inequitable, inefficient and distorts the costs of purchases such as property and vehicles.

Stamp Duty upon insurance is perhaps the most inefficient given that it not only leads to the increased cost of insurance, but also under insurance where in many cases, deters businesses or home owners from taking out insurance at all.

The Australian Capital Territory Government has commenced a phase out of stamp duty over a twenty year period whilst moving towards a broad-based land tax replacement.

The South Australian Government is also in the process of reviewing its taxation system with stamp duty being one of the key components.

Presently, State and Territory Governments collectively raise $5.7 Billion each year from stamp duty, around 8% of total state tax revenue.

NECA calls upon the Federal Government to work with State and Territory Governments, as an outcome of the White Paper review, setting a timetable in place for the phasing out of Stamp Duty in a similar matter to the work undertaken by the Government of the Australian Capital Territory.

Superannuation Administration and the future costs of contribution

Another impost for electrical contractors is the responsibility for superannuation administration, with the added costs ultimately falling upon small business.

NECA's 2015 Policy Statement, as a part of its Small Business recommendations argues that the administrative costs of any Government legislated program should be borne by the Government and not small business.

In addition, we remain concerned about future incremental plans to raise the superannuation contribution to 12%. NECA believes that this figure is unsustainable and calls for contributions to be capped at 10% from 2023.

The increase in compulsory superannuation contributions in future years remains a challenge, particularly for small business. Whilst we support the recent decision of the Federal Government to freeze the compulsory contribution at 9.5% until 2021, we believe that a rate of 12% is unsustainable.

Tax Concessions for the Not for Profit Sector

Not for Profit sector organisations make a major contribution to the national economy.

Education and Research activity is the main driver of this sector and their value of output equates to more than 30%.

Whilst are range of tax incentives are in place to assist Not for Profit organisations, a range of definitions exist upon the types of not for profits and the range of concessions available for each, whether they be considered a charity, public organisation or an industry body such as ours.

NECA asserts that a more concise and clear summary of concessions be considered or that all Not for Profits have the same ability and concessions applied in a more consistent and equitable manner.

In summary, NECA is grateful for the opportunity to have further input into the review of Australia's taxation structures.

Whilst there is clearly a need for reform that ensures that the small business sector is allowed to thrive and adequately focus on their core strengths and not government paper work and red tape, we remain sceptical of whether the concerns that we have raised in this document will be considered seriously.

NECA strongly contributed to the discussion upon the Henry Tax Review and the related reforms that were developed and highlighted within its final report of 2010 have largely been ignored.

The latest Tax White Paper consultation will only be beneficial if the voice of industry is listened to and that recommendations arising from the White Paper consultation process are acted upon.

We ask that the Government recognise, encourage and respect outcomes that support growth and employment opportunities for the electrical contracting sector.

Yours faithfully

Suresh Manickam
Chief Executive Officer