

# ARA RESPONSE TO INQUIRY INTO IMPEDIMENTS TO BUSINESS INVESTMENT

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## **ARA Response to Inquiry into Impediments to Business Investment**

### **May 2018**

#### **About the ARA:**

The Australian Retailers Association (ARA) is the retail industry's peak representative body representing Australia's \$310 billion sector, which employs more than 1.2 million people. The ARA works to ensure retail success by informing, protecting, advocating, educating and saving money for its 7,500 independent and national retail members, which represent in excess of 50,000 shopfronts throughout Australia. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

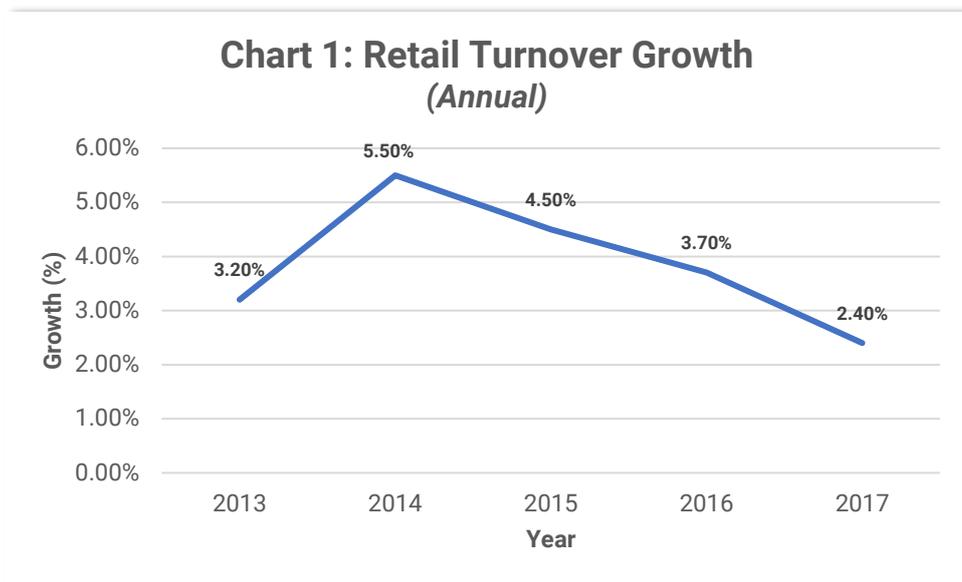
Members of the ARA include Australia's most trusted retailers, from the country's largest department stores and supermarkets, to specialty retail, electronics, food and convenience chains, to mum-and-dad operators.

#### **Executive Summary:**

The retail economy has fundamentally transformed since the 1980s and is now deeply integrated in regional and global trade. Our economy is comprised of over 130,000 retail enterprises, 96 per cent of which are SMEs. Some of our leading retail businesses are amongst the largest and most successful corporations in the world.

The Australian retail sector has faced significant challenges over the last five years, faced with increasing competition from international and online retailers, globalisation, a fluctuating economy and significant structural changes across the

industry. During this time, sector-wide sales growth has slowed to sit only slightly above inflation across the 2017 calendar year.



The ARA calls for recognition by all levels of government that long-term business planning requires investment certainty, the minimisation of risk, stability, low taxation, a flexible wages system and reliable, inexpensive sources of energy supply and capital.

A strong, globally competitive economy which provides businesses large and small with the commercial freedom to take calculated risks, invest and secure productive rewards that benefit business owners and managers, their families, employees and consumers is desirable.

World Bank *Doing Business* assesses 190 countries across the world for their ease of doing business. The 2017 edition places Australia 14<sup>th</sup>, ranked behind New Zealand, Singapore, Denmark, South Korea, Hong Kong SAR, the United States, the United Kingdom, Norway, Georgia, Sweden, Macedonia and Finland. Table 1 outlines a selection of key indicators.

<sup>1</sup> Parliamentary Library 2018, 'State Statistical Bulletin 2017'.

Country	Overall Rank	Starting a Business	Electricity Access	Registering Property	Credit Access	Paying Taxes	Access to Trade
NZ	1	1	37	1	1	9	56
Singapore	2	6	12	19	29	7	42
Sth Korea	4	9	2	39	55	24	31
HK	5	3	4	55	29	3	36
USA	6	49	49	37	2	36	35
UK	7	14	9	47	29	23	28
<b>Australia</b>	<b>14</b>	<b>7</b>	<b>47</b>	<b>51</b>	<b>6</b>	<b>26</b>	<b>95</b>

Out of 190 countries, Australia ranks poorly (well below our overall ranking) on key indicators including cross-border trade (95<sup>th</sup>), registering property (51<sup>st</sup>) and electricity access (47<sup>th</sup>)<sup>2</sup>. These correlate with some of the more significant challenges facing Australian businesses in 2018.

**The priorities for retail in this respect are for the Government to:**

- Work with states to give tax and duty relief through taxation reform.
- Implement retail tenancy lease reform recommended by the Productivity Commission through COAG and competition policy to create transparency.
- Complete planning reform through competition policy and COAG.
- Harmonise state-based laws and regulations through competition policy.
- Continued pursuit of more flexible workplace laws and award changes;
- Support skills and employment pathways through VET in the retail and service sector.
- Reform the Australian GST Tourist Refund Scheme (TRS) to allow private operators and grow tourist retail sector.

**The rising cost of doing business:**

- Skills shortages in the retail sector.
- Uncompetitive wages and issues surrounding Enterprise Bargaining Agreements.
- Taxation structure.
- Trade restrictions through regulation.

<sup>2</sup> World Bank 2018, 'Doing Business: Economy Rankings'.

## 1: Regulation:

Significant efforts have not been made to reduce regulatory overlap, modernise Australia's regulations, and remove red tape, which is impeding on economic growth. Governments need to ensure that well-designed regulation underpins the effective functioning of the federation as well as supporting the seamless operation of a national economy and business efficiency.

Every new regulation, tax, law and public servant increases the compliance burden for business. The ARA supports the fundamental principle of small government, which removes the laws and regulations which create unnecessary time and cost burdens for business. According to the World Economic Forum's *Global Competitiveness Index*<sup>3</sup>, Australia ranks 80<sup>th</sup> out of 137 countries for 'Burden of Government Regulation.' Alarming, this places Australia behind a number of third-world nations, which is unacceptable for a G20 economy.

The ARA supports work already underway in some states and sees the mechanism of competition policy as a means of driving critical reforms. Federal Government should build on efforts already touted for regulatory reform and re-commit to the National Partnership on Regulatory Reform announced in the 2017/8 Budget to drive regulation reduction through COAG<sup>4</sup>. In addition, the ARA suggests the Federal Government appoint a National Red Tape Reduction Coordinator, following on from the Tasmanian example, to drive the process.

Retailers are clearly identifying the size and scale of bureaucracy within local government as creating significant delays and compliance burdens for business. At present, there are numerous examples where retailers and other businesses must engage with multiple regulators, with differing timeframes and requirements, sometimes on a single issue. Some particular areas for retailers across the country include:

- Entirely inconsistent trading hours regulations across and within various jurisdictions.
- Transportation restrictions differing between States and Territories creating holdups to supply chains and the service economy.
- Continued inconsistencies in VET between jurisdictions and a lack of accountability preventing job creation and business investment.

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<sup>3</sup> World Economic Forum 2017, *The Global Competitiveness Report 2017-2018*.

<sup>4</sup> Australian Government 2017, 'Federal Budget 2017/18'

- Requirements to obtain numerous permits and licenses to operate businesses, which differ widely in every local government area.

### ***Efficient, cost effective & fair policy objectives***

- A net benefit approach to new and existing regulation or laws.
- Advancement of the National Partnership on Regulatory Reform announced in the 2017/8 Budget.
- Appointment of a National Red Tape Reduction Coordinator to drive outcomes from the Partnership, and a benchmarked red tape reduction target.
- Use of competition policy and COAG to force removal of overlap and duplication resulting from differing Commonwealth and State regulations.
- An emphasis on the shift from a detailed and prescriptive 'input-based' approach to a broader 'output-oriented' approach.
- Appropriate accountability to ensure that essential objectives of regulation are achieved without unduly restricting or impacting on business.
- Regulatory structure which involves adequate consultation, assessment of the alternatives to regulation, accurate cost/benefit analysis and the monitoring of the performance of regulatory agencies.
- New regulatory culture with an understanding of business processes and the burden created by regulatory compliance, and a commitment to advancing a 'business-friendly' operating environment.

### **1.1: Planning:**

The Council of Australian Governments (COAG) should be the recommended body used to facilitate a national approach driven by the Federal Government. This will create a greater availability of retail space in identified retail activity areas. Excessive regulation at local government level, including planning and zoning are curtailing opportunity and imposing costs on the overall economy.

Onerous development and planning requirements deter business establishment and expansion and constrains prosperity in our regions. While tenancy costs are driving retailers out of the marketplace, the mire of planning and zoning regulations act as a further barrier to viable alternatives.

The ARA supports any move to create a greater competitive environment which allows retail development to be a positive outcome. The ARA also notes that recent State Government Budgets have implemented real change; at least one State Government has ably dealt with planning and regulation, with others hopefully following suit.

Moves to improve planning and zoning should take into consideration the social and economic impacts of 'dead centres' when local government undertakes assessment of new 'out-of-centre' proposals. The ARA would support this if part of that assessment would still allow rejuvenation projects in existing retail areas. It is also important to consider 'out-of-centre' developments which are beneficial to the community, such as in outlying areas.

With improving technology, local government could undertake large parts of the approval processes electronically using methods such as process application interfaces. As an application is processed, applicants could instantly view progress and address issues immediately. This would limit the appeals process, improve the ability of council staff to understand the commercial implications of any delays and gain an understanding the significance of delays for developers and retail tenants.

This could also assist with unbinding the significant imposition created by the outdated 'office hours' handbrake, which pose limitations on businesses engaged in an increasingly 24/7 economy. Utilising technological solutions to manage permits, licensing and planning applications will increase choice and remove delays, contributing to efficiencies across the board.

### ***Policy objectives***

- Commit to an expansion of the National Partnership on Regulatory Reform to address issues with local government regulations such as planning and zoning.
- Merging or bundling of regulatory requirements, such as licensing and permits at local government level, to reduce complexity and costs.
- Planning and zoning overhaul to improve access to premises and assist with beneficial development.
- Drive the implementation and uptake of technology including process application interfaces to improve efficiency, accountability and oversight in planning approvals.

- Awarding costs against vexatious planning appeals would, in all reason, reduce compliance costs, time and funding costs for retail developments. As with a number of these matters, the Commonwealth would need to look at ways of facilitating this move through mechanisms such as COAG.

## 1.2: Retail tenancy reform:

The dependency on securing tenancies within shopping centres poses a significant structural challenge for the ongoing viability of the retail sector. The oligopolistic nature of shopping centre ownership and a retail tenancy regime which is skewed in favour of large-scale landlords present an inherent disadvantage to Australian bricks and mortar retailers in terms of equitable competition.

The ARA has agreed with the overall intent of Productivity Commission (PC) reports which indicate national Tenancy Working Group projects overseen by COAG must achieve a more equitable framework for retailers when negotiating leases. However, the Federal Government should be the driver of change. The ARA recognises that some State Governments have identified issues with information transparency and level playing fields and commends those governments for acting to rectify competition issues.

A retailer conducting business in a rental premise has little long-term certainty, significant costs associated with set-up, and relocation is heavily leveraged at the point of re-negotiation. Due to the standard terms of a lease, which is usually five or seven years, a retailer has no security and can be told to leave the premises for the simple reason of “not fitting” with the centre’s image, notwithstanding the investment into the retail space. Retailers are subject to the perceived threat that an alternative tenant is prepared to pay more for the same tenancy.

- For example, in addition to the base rental cost, a significant additional rental expenditure is categorised as ‘turnover rent,’ whereby, built into the rental agreement, the landlord is entitled to a percentage of takings in addition to the minimum rent payable.

Federal Government leadership can assist retailers in providing certainty and transparency in addressing these issues. The Government is well-placed to drive reforms through Federal mechanisms such as COAG. A reduction in rental costs for retailers will see a lift in productivity and entail net-benefits for the broader economy.

The ARA seeks to require that a sitting tenant must be offered both first- and last-right of refusal to release retail premises prior to a landlord executing a lease for

another tenant. We believe that such a mechanism will impel landlords to meet the real market value for the demised premises, while preventing coercion and veiled threats or misrepresentation of the true facts regarding alternative tenants. We also believe this mechanism will create an environment conducive to bargaining in good faith, with fair disclosure and transparent undertakings.

- This mechanism also provides a solution to the problem experienced by a retailer where a sitting tenant effectively gives over a large percentage of goodwill to the landlord (via increased rent) as a defence to the threat that a third party will take over the lease at a higher rent without having to purchase the goodwill of the existing business.

### ***Policy objectives***

- The 'turnover rent' provisions by landlords determining rent increases which are geared within what a retailer 'can afford to pay' rather than a common and transparent market rate mechanism thanks to accrued data provided under 'turnover rent clauses' needs removing.
- The structure of such a term is usually based around financial requirements within the lease to pay a percentage of turnover rent as an additional rent component. Almost without fail, this financial requirement to pay turnover rent is set at such an unrealistic level of turnover which would most likely never be achievable by the tenant.
- The ARA believes the retailer's monthly turnover figures should be reported by the tenant to a third-party aggregator. These figures can then be advised from the third-party to the landlord on an aggregated category basis, which would allow landlords access to the statistics they require to run a centre, and retailers a level playing field (an exception could apply if the rent paid by the retailer was based solely as a percentage of tenants' turnover figures).
- In the period after the current lease term is expired, but prior to a new lease being agreed to, the tenant is regarded as being the occupant month-to-month under a 'lease hold over provision' period. If, and when, a new lease is signed at a different rate, the retailer is obliged to pay back the difference and this is obviously an unbudgeted and unexpected financial burden to the individual retailers.

For these reasons, the ARA would require these changes to protect tenants' turnover and any other commercial in-confidence information which could impact on negotiations with landlords.

### **1.3: Transport and supply chain regulations:**

The ARA welcomes enhanced investment in logistics and infrastructure by the Federal Government and various State and Territory Governments. These investments lift productivity and efficiency, in response to demographic changes and population growth in both urban and regional Australia. The ARA calls on governments at all levels to continue to identify further opportunities for targeted investment.

Infrastructure is crucial to the operation of efficient supply chains, access to goods and services for consumers and businesses alike and improving the movability of our towns and cities. The costs to the economy from lost productivity and delays in the provision of goods and services are unnecessary and troublesome.

In addition to renewed infrastructure investment, attention should be paid to reducing conflicting and outdated regulations and red tape regarding logistics through COAG. State-based regulations on size limits to vehicles, curfews and time-of-day restrictions create delays and inefficiencies which cost the economy.

These inconsistencies are not reflective of the shift to a 24/7 economy. Moreover, the geographic remoteness of the Australian continent and the absence of competitive rail infrastructure make these restrictions even more unnecessary. Retail is an industry which relies heavily on logistics for its operations and will benefit from improved access to infrastructure. Further investment in air and sea freight infrastructure is also a high priority.

#### ***Policy objectives***

- Implement a renewed National Logistics Framework to drive port, rail, airport and road investment creates greater efficiencies for supply chain logistics.
- Encourage innovation and technological change in all areas related to infrastructure.
- Ensure that all infrastructure projects are subject to a proper cost-benefit analysis.
- Lead review and reduction of outdated and inconsistent logistics regulation through COAG.

- Ensure the private sector plays a major role in financing, designing, building, operating and maintaining infrastructure.
- Make certain that equitable and sustainable risk allocation models are developed for each project undertaken by the private sector.
- Support transport development which enhances customer and business transport links to key retail hubs.

#### 1.4: Parallel importation of books:

The Federal Government has previously agreed to repeal existing parallel importation restrictions (PIRs) on books after accepting the Competition Policy Review's recommendations to drop PIRs. The Government published a [full response to the report](#), saying it would commence removing the restrictions once the PC Intellectual Property Inquiry was complete.

The PC has now published its final report on Intellectual Property and the ARA agrees with the following recommendations:

- Replace Australia's existing fair dealings exceptions in the Copyright Act with a broad and open-ended fair use exception.
- Repeal parallel importation restrictions for books.
- Strengthen the *Copyright Act* to make clear circumventing geoblocking technology is not a copyright infringement.
- Develop best practice guidance for developing IP provisions in international treaties.
- Work with like-minded countries through multilateral forums to achieve more balanced IP settings and to reduce transaction costs.

The ARA represents Australia's largest book retailers and call on the urgent implementation of these measures to level the playing field with international competition and reduce prices for consumers in Australian based businesses.

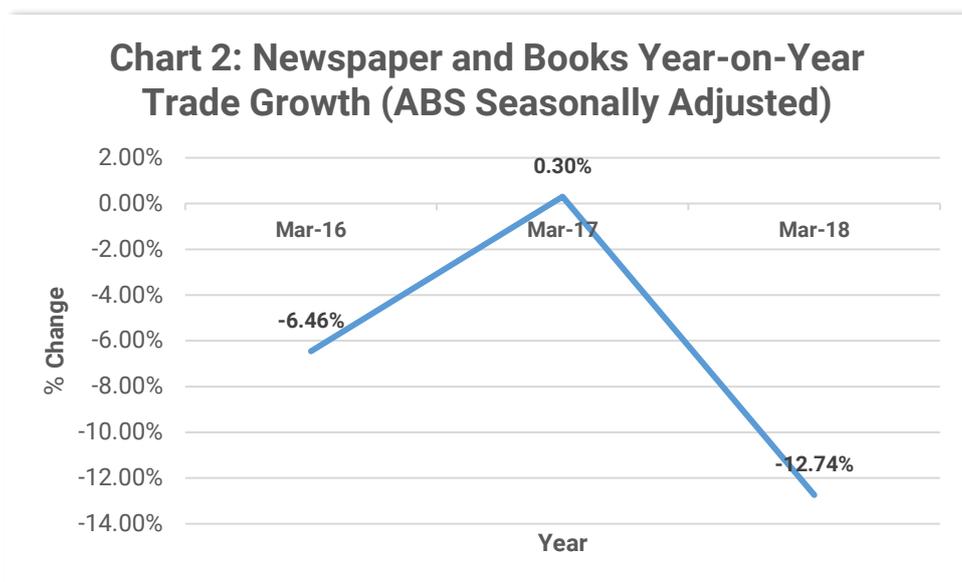
PIRs do not impact evenly upon Australian retailers. Australian online retailers currently have the advantage of effectively circumventing PIRs. They can source from overseas suppliers enabling them to supply books often more quickly and cheaply than they can through a local publisher. Physical book retail stores are

constrained by outdated agreements with only one method of supply - the Australian based publisher.

The removal of PIRs will give local suppliers stronger incentives to provide greater efficiencies in their operations, sharpen their supply chain practices and make their prices and delivery times more competitive. These benefits would be passed on to consumers through lower prices and wider product ranges.

The Government has said the removal of PIRs will *'make local booksellers more competitive with international suppliers, promote lower prices for consumers and ensure the timely availability of titles.'*

The ARA believes that it is past-time for the Government to act on Parallel Importation of Books. As Chart 2 illustrates, trade in the newspaper and books retailing category has experienced a steep decline over the past three years.



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Representations from publisher-aligned groups only protect the profits of those organisations and misrepresents the impacts on Australian book retailers, while overplaying international publisher support of Australian authors.

Removing these restrictions would create an open market for books, enabling Australian booksellers the freedom to choose from local and overseas suppliers.

<sup>5</sup> ABS, Cat. No. 8501.12 – Retail Trade, March 2018.

This would lead to globally competitive prices and quicker availability on book titles, which will provide a net benefit to consumers. It would also encourage greater efficiency from both retailers and publishers/suppliers in the Australian market and ultimately support a vibrant and flourishing publishing and book retail industry. This will benefit all Australian readers as well as the broader Australian economy.

## 2: Australia's Industrial Relations System:

In 2015, the PC undertook an inquiry into Australia's workplace relations framework. In its review, the PC highlighted the need for a workplace relations system geared towards the future, rather than its current backward-looking nature. Demographic changes, technology and increasing competition are challenging our current industrial relations system, for example<sup>6</sup>:

- The shift towards a 24/7 economy.
- Preference of consumers for services on weekends.
- Immediacy of technology changing perceptions of the value of time.
- Increase of average working age and in mature-age workers.

The ARA submits that the workplace relations system has not adequately caught up with these changes in recent times, and risks holding back advancements in employment across all industry if it continues to lag. The capacity of our institutions to lead, being Governments, the Fair Work Commission, Trade Unions and Industry Bodies, among others, should more accurately reflect present-day circumstances, looking towards the future rather than being mired in the past.

The PC also undertook an inquiry into the costs of doing business in retail. The report noted that labour costs as a share of revenue are higher in Australia than in the comparable nations of the United Kingdom and the United States. The PC noted in its review that government could assist retailers by ensuring that the retail sector is open and competitive, with one of the most important policy levers available to government to assist retail being Federal policies on industrial relations<sup>5</sup>.

In this report, the PC noted that *"addressing deficiencies in the regulatory environment... has the potential to lower retailers' costs over time, create a more*

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<sup>6</sup> Productivity Commission 2015, 'Developments in Australia's Labour Market' in *Workplace Relations Framework*.

<sup>5</sup> Productivity Commission 2014, *Costs of Doing Business: Retail Trade Industry*.

*competitive and sustainable sector, and ultimately benefit consumers through greater choice and affordability.”<sup>7</sup>*

The ARA believes that from an industrial relations perspective, the most pressing issues for retailers centres on the ability under the current framework to engage their workforce in ways that drive productivity and align with consumer demand.

## **2.1: Enterprise bargaining:**

Enterprise Bargaining has been a crucial means for businesses to vary safety net entitlements to develop terms and conditions tailored to their operations. This is undertaken with a focus on productivity gains, while ensuring employees overall are sufficiently compensated for any reductions in safety net entitlements. The retail industry has operated within this framework in the same way that other industries have. Large and smaller retail businesses have bargained at workplace level with their employees, in most cases exchanging lower weekend penalty rates for higher base rates of pay.

The increasingly 24/7 nature of retail has seen employers of all sizes identify the need to control labour in order to provide adequate customer service. Prohibitive weekend penalty rates are commonly ‘bought out’ through higher base rates of pay. This ensures retail employers of all sizes could operate with sufficient staffing levels on Saturdays and Sundays to drive sales, and therefore productivity gains. Concurrently, employees are compensated with higher wages during ordinary hours, and flexible working arrangements, which is beneficial for a range of employment categories, including younger workers, parents and students, to name a few.

OECD research supports a flexible and well-organised bargaining system as integral to a well-functioning industrial relations system<sup>8</sup>:

*“When collective bargaining is well-organised and representative, it can help manage and reduce the extent of any trade-offs between different policy objectives.”<sup>9</sup>*

However, Enterprise Bargaining Agreements in Australia have been stifled due to their relationship with the inflexible Better-off Overall Test (BOOT). From the

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<sup>7</sup> Productivity Commission 2014, *Costs of Doing Business: Retail Trade Industry*, pp.24.

<sup>8</sup> OECD 2017, *Employment Outlook 2017*.

<sup>9</sup> OECD 2017, *Employment Outlook 2017*, pp.164.

perspective of the retail industry, the operation and application of the BOOT has resulted in a near collapse of bargaining, leading to the conclusion that the BOOT is acting contrary to its intent.

Most recently available data on Enterprise Bargaining shows that in the September Quarter 2017, there were 205 current agreements in the retail industry. This is the lowest figure since 2003, and down from 343 in the comparable period three years earlier (September 2014):

- In December 2011, there were 2013 current agreements in the retail industry, which represents peak numbers.
- Thus, enterprise bargaining in the retail industry has fallen by 90 per cent over the last 6 years, whilst retail trade has grown by 24 per cent (seasonally adjusted) in that time.<sup>10</sup>

ARA members have highlighted the difficulties with EBA approvals processes as one of the most challenging issues for their business. The inflexibility which characterises bargaining has reduced the opportunity for retailers to hire additional staff and achieve efficiencies to remain competitive, which in the long run, may worsen job prospects for employees. The ARA calls on Government to address issues with EBAs, by reducing the complexity of the BOOT, and, more generally, simplifying the bargaining process.

**Recommendations:**

- Improve the flexibility of the industrial relations system in retail, and for industry more broadly, to lower costs and increase employment opportunities.
- Reform the Enterprise Bargaining system, in particular, simplifying the Better-off Overall Test to improve flexibility and promote efficiencies.

**3: Innovation:**

An increasingly globalised environment has dramatically altered the retail trading landscape. Whilst this has benefited consumers, it has also challenged the local

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<sup>10</sup> Department of Jobs and Small Business 2018, *Trends in Federal Enterprise Bargaining: September Quarter 2017*.

retail industry and restricted growth. Developments in technology have broadened the geographic footprint of many retailers, including international competitors, creating an unprecedented challenge for the local industry. Overseas competition online has placed pressure on local retail, which hinders their ability to re-invest in innovation.

Overall, Australian retailers have been slow to innovate: a recent survey found that 56 per cent of retailers see technological change as a major disruption to their business<sup>11</sup>. International examples in this vein are telling; the 2015 Global Retail E-Commerce Index found that ‘many Belgian retailers were late to e-commerce, and as a result, many Belgians are shopping on foreign websites.’<sup>12</sup> Belgium now ranks just above Australia in this index – the parallels are a stark reminder of the importance of nurturing Australian retail.

This speaks to the necessary advancements required in Australia’s technology infrastructure. Business requires access to reliable, easy to set up and high-quality communications technology at low cost. Younger demographics increasingly prefer online shopping and have high expectations for convenience and interconnectivity. SME retailers face a lack of visibility in the online space, yet face challenges adopting innovative retail methods, strategies and technologies, which are costly to develop and implement. Indeed, cost pressures are one of the greatest hurdles to any business attempting to modernise their technology to compete in the digital age.

The ARA calls on governments to provide leadership in assisting small businesses to create e-commerce platforms and help to develop IT and marketing expertise to facilitate competition in a globalised environment. Governments at all levels can assist with business innovation by improving access to information regarding regulation, taxation and government services, especially electronically. The Australian Small Business and Family Enterprise Ombudsman, and State-based Small Business Commissioners are beneficial in this space, however, more can be done across all areas of government.

For retail, this was a key feature of the recent recommendations from the *Inquiry into Impacts on local businesses from global internet-based competition*, conducted by the Standing Committee on Industry, Innovation, Science and Resources. The ARA

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<sup>11</sup> Pronto ‘2017 Australian Retailer Technology Review’ 2017.

<sup>12</sup> AT Kearney 2015 Global Retail E-Commerce Index, ‘Global Retail E-Commerce Keeps on Clicking’ report 2015.

calls on all levels of government to work together to adopt the Committee's recommendations.

#### **4: Taxation:**

Recent global trends towards tax reform, including lower corporate tax rates, broader tax bases, and abolition of inefficient, complex tax systems have placed Australia on the back foot. The cumbersome nature of Australia's taxation structure also weighs heavily on businesses and individuals, discouraging compliance and harming productivity. Australia's competitiveness should be assisted, not harmed, by the tax system. Australia needs a tax system which supports a balance of economic and social principles.

Tax revenue should be adequate to meet all elected Governments' reasonable expenditure needs, consistent with the exercise of fiscal responsibility. The tax system should be such that all taxpayers feel confident and satisfied in complying with it. Complexity does not encourage compliance, nor does it stimulate confidence, growth or job creation.

The ARA would like to see a commitment for a root-and-branch review of the tax system to include the GST. This should be undertaken with a view to abolishing inefficient taxes along with reducing the overall tax burden to business and the productive economy. At present, there exists an over-reliance on income taxation revenue and the GST is under-utilised. This is an inefficient mechanism for revenue-raising and places an unfair burden on individuals, reducing consumer confidence and spending.

A review should also focus on the non-alignment of taxation structures and rates within and between Australian States and Territories. This is essential to reduce the burden of taxation compliance and overlap of inefficient and unnecessary taxation at State and local government level. The ARA would like to see the Federal Government commit to funding a national tax plan, to be drawn from a review of Australia's taxation system, which would coordinate taxation reform through COAG.

A sustainable tax structure will only be achieved through an integrated package of reforms across all significant Commonwealth and State tax bases in the form of a balanced package covering consumption, income, assets and offshoring. Innovation and investment in both new, and pre-existing businesses occurs in economies which have well-structured taxation systems and encourages strong competition.

Governments should commit to the cessation of unindexed tax increases or introducing additional indexation which in sapping consumer spending power, or in the case of some products such as alcohol and tobacco, is driving them out of the legitimate retail market into the black market.

### ***Policy principles***

- A lighter tax burden on business and individuals to drive stronger economic growth, more jobs and stronger government revenues.
- Tax changes should include reducing base rates to address the effects on overseas investment and trade related issues.
- Commit to an extensive review of all areas of the taxation system, reducing the reliance on personal income taxes and a better utilisation of the GST.
- A change to the tax base to abolish inefficient State and Federal taxes.
- Abolition of payroll tax through State and Federal tax changes.
- A halt to ever increasing excise taxation grabs which is sapping money from consumer pockets and creating black markets.
- A renewed commitment to a reduction in corporate tax rates to meet a globally competitive market.
- Expansion of the LVT GST collection model to increase compliance rates and close excise loopholes.

### ***Policy objectives***

- Economic efficiency: taxation should impact neutrally on the economy and commercial decisions must not be skewed by tax considerations. The tax system should improve the competitiveness of Australia by encouraging productive investment, risk taking, economic growth and attracting capital along with skilled labour
- Adequacy: tax systems should raise sufficient revenue for public expenditure needs, be sustainable in the long run and be consistent with fiscal responsibility
- Simplicity: taxpayers being able to clearly understand and meet their obligations
- Transparency: taxpayers should understand how and when they are paying tax and how much tax they are paying. Hidden taxes should be minimised

- Limit costs: compliance and collection costs should be minimised
- Limit evasion: there should be minimum incentive and potential for evasion or avoidance of taxation, if the system needs to compete with global tax rates it should to keep both business and human capital in Australia
- Consistency: tax policy should be internally reliable and consistent with broader Government policies
- Flexibility: the tax system should be able to respond to developments in the economy and society, for example demographic changes, financial innovation, globalisation, supply chain and capital
- Public perception: there should be the widest possible public support for the tax system

#### **4.1: Corporate tax:**

The ARA, along with the Australian Chamber of Commerce and Industry, advocate the view that each dollar raised in tax revenue is one dollar less that a business or household must spend. At present, given the high corporate tax rate in Australia, investment levels are below-par despite low interest rates. Businesses need incentives and certainty to grow and employ more workers, which in turn, will support wages growth.

High rates of corporate tax discourage investment and stifle competition, especially with overseas businesses who enjoy better trading conditions. Recent moves by several of Australia's G20 counterparts to reduce corporate tax rates by 2020 will place Australia further behind the world's advanced economies<sup>13</sup>. As recently as December 2017, the United States moved to lower its corporate tax rate to well below that of Australia's. This risks deterring overseas investment in Australia.

Closer to home, it is impossible for retailers to compete fairly against companies which operate out of lower taxing jurisdictions, as the higher cost and regulatory burden hampers re-investment in innovation and job creation. The ARA calls for renewed vigour in lowering the corporate tax rate and reviewing and streamlining the tax system as a whole.

A more competitive corporate tax rate will increase investment in Australia from both foreigners and local investors, which boosts incomes for local workers, domestic businesses and households. Two-thirds of the benefits are expected to

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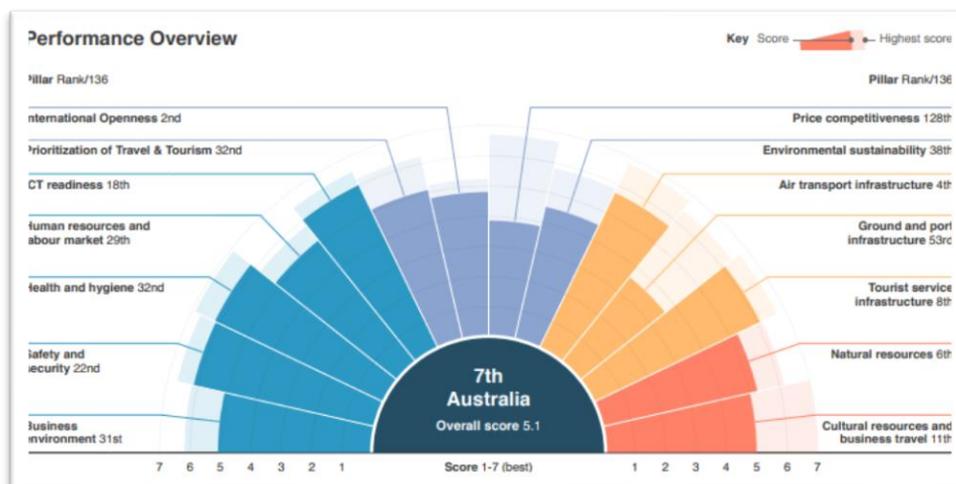
<sup>13</sup> Oxford University Centre for Business Taxation 2016, 'G20 Corporation Tax Ranking'.

flow to households, while only one-third flows to businesses. The ARA supports the Federal Government’s efforts so far to lower the corporate tax rate to 25 per cent over a decade. The tax cut must be extended to businesses of all sizes to extract maximum benefit – the largest businesses can grow and hire more people and attract significant additional investment under a competitive corporate tax regime.

#### 4.2: GST Tourist Refund Scheme initiative

Over the past ten years, Australian retail and tourism industry groups have indicated their support for enhancements to tourism shopping arrangements in Australia. Central to these calls is reform to the current Government-controlled Tourist Refund Scheme (TRS). Australia currently lags many other countries around the world, where private providers operate a more efficient TRS and actively promote the service as a key offering to international visitors.

The introduction of a private provider platform will enable innovations to enhance Australia as a tourism shopping destination, and help swell overall spend by international visitors to Australia. Furthermore, a private provider platform will enable a more streamlined experience for travellers at the border and enhance the experience for travellers at our vital international gateways.



Australia is world-renowned as an international tourist destination; this is reflected in the World Economic Forum's *Travel and Tourism Competitiveness Index*<sup>14</sup>, where Australia ranks seventh globally. However, on price competitiveness, Australia ranks as the 128<sup>th</sup> country out of 136 countries assessed. Given the strain placed by the current economic climate on the tourism and retail sectors, changes to Australia's TRS will only benefit the sector, as well as increasing Australia's attractiveness as a retail tourism destination.

We see this as an opportunity to leverage the full potential of tax-free shopping to make Australia an attractive shopping destination for overseas visitors. This initiative represents a tangible step towards increasing the yield by international visitors whilst in Australia.

This would also allow Australia to better compete with our Asia-Pacific neighbours, who currently enjoy the benefits of private providers marketing local shopping opportunities. Expert private providers have an incentive to market countries as an international shopping destination in a way that a government-run scheme cannot do.

Below are our key recommendations:

**Recommendation 1:**

- That policy makers adopt as policy, a competitive open-market model for GST refunds for departing travellers under which private providers (such as Global Blue) may provide tourist refunds under the TRS.

**Recommendation 2:**

- Government adopt as policy a digital TRS system, similar to the Singapore model, to improve customer service, enhance fraud prevention and create operational and head count savings for the Australian Border Force (ABF).

**Recommendation 3:**

- Policy makers also examine the potential cost savings to be derived from outsourcing the export verification compliance function of ABF to an independent service provider (as occurs in at least one overseas country).

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<sup>14</sup> World Economic Forum 2017, *Travel and Tourism Competitiveness Index*.

## Summary:

The ARA has a long tradition of representing the retail sector. We are calling on the Government to remember the importance of the services sector as an overall proportion of Australian economic activity and job creation. Australian retailers are facing unprecedented challenges to their businesses. Changes in technology have allowed competition from overseas retailers to threaten the viability of local retailers. The ability for the Australian retail industry to maintain its status as Australia's largest private industry employer, and to contribute to the economic growth and goods and services provision is under threat.

Retail business investment and trading conditions are hampered by an inefficient industrial relations system, over-regulation at all levels of Government, outdated retail tourism and import policies, and an overly complex, high-taxing economy.

To respond to these changes, the ARA is advocating for a strong response from all levels of Government to global internet-based competition by:

- Working together across and between governments to give tax and duty relief through taxation reform.
- Implement retail tenancy lease reform recommended by the Productivity Commission through COAG and competition policy to create transparency.
- Complete planning reform through competition policy and COAG.
- Harmonise state-based laws and regulations through competition policy.
- Continued pursuit of more flexible workplace laws and award changes;
- Support skills and employment pathways through VET in the retail and service sector.
- Reform the Australian GST Tourist Refund Scheme (TRS) to allow private operators and grow tourist retail sector.

The ARA is grateful for the opportunity to advocate on behalf of the retail sector at this important Inquiry. We would be pleased to discuss our submission further, at the Committee's convenience.

Kind regards,

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