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15 August 2011

Committee Secretary  
Select Committee on the Scrutiny of New Taxes  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Sir/Madam,



I write to you in relation to the Inquiry into New Taxes.

Business SA is South Australia's leading business membership organisation, representing thousands of businesses through direct membership and affiliated industry associations. We represent businesses across all industry sectors, ranging in size from micro-business to multi-national companies.

Taxation is a major issue for the business community. Prior to the March 2010 State Election in South Australia, Business SA conducted a survey on the key issues impacting business. The majority of respondents (56%) indicated that taxation was their most important economic issue. In addition, before the 2010 Federal Election, the Australian Chamber of Commerce and Industry (ACCI), of which Business SA is a member, conducted a similar survey. This highlighted that the level of taxation was the second most important issue, only behind the level of Government spending.

Increasing the taxation impost on business is thus not supported, particularly when no comprehensive, transparent and independent review of Government expenditure has been done to identify savings. All tiers of Government should not be considering increasing taxes in the first instance, but rather should be focused on providing the services that are most needed. A review of Government spending should identify areas that the Government should not be involved in, such as the provision of services that do not have a public good element, as well as identify programs that are not operating effectively and either need to be improved or discontinued.

In addition, while the Henry Taxation Review and the upcoming Tax Forum in October are positive developments, excluding the GST from these processes means that it is unlikely that any comprehensive tax reform will be achieved.

National taxation reform needs, first and foremost, to abolish inefficient taxes, particularly those at the State level, such as royalties, insurance taxes, stamp duties and payroll tax and replace them with more efficient taxes.

A Centre for International Economics report, *State Business Tax Reform*, describes many State business taxes as providing unreliable and unpredictable revenue streams, imposing high compliance costs on business, being distortionary, harming competitiveness and lacking transparency.

Such reform will raise the same amount of revenue (or less revenue if savings are identified) at lower cost to the economy and may reduce the need to impose new taxes.

Increasing the rate and or expanding the base of the GST is one method that could be used to abolish inefficient State taxes. Such a change would need to be accompanied by reductions in personal income tax and increases in welfare payments to offset the living cost increases that would arise through raising the GST. This would also provide additional benefits to small businesses that were not incorporated.

Unfortunately, such a reform does not appear to be under consideration.

Alternatively, the Henry Taxation Review recommended (number 55) that "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."

As discussed in Business SA's *Federal Election 2010 Top Forty*, such a cash flow tax would involve taxing the difference between the cash inflows and cash outflows of businesses, excluding wages. If the tax base is broad and applied at a single rate, the efficiency, compliance and administrative costs associated with such a cash flow tax would be significantly lower than with the current array of State consumption taxes and payroll tax.

Business SA supports in principle the introduction of such a cash flow tax in parallel with the abolishment of other State taxes and charges. However, substantial consultation would be required to ensure its development and implementation were successful.

#### Carbon Pricing

Business SA does not support the imposition of a carbon price without commensurate policies being implemented by major trade partners, competitors and emitters. This was also expressed in a submission to the Department of Climate Change and Energy Efficiency. The details of that submission are repeated for your convenience.

The lack of support for a price on carbon reflects the view of ACCI, as well as the view of the bulk of our own members.

Business SA conducts a *Survey of Business Expectations* every quarter and in the March 2011 survey, businesses were asked a number of questions on carbon pricing and related issues. Some of the key results were:

- 69% of businesses do not support the introduction of a carbon price
- Only 16% support the introduction of a carbon price
- 85% of businesses believe that a carbon price will have a negative impact on their business.

In addition, when asked whether they would prefer a carbon tax or an emissions trading scheme, 45% of businesses responded neither, 20% preferred an ETS, 11% preferred a carbon tax and one in eight businesses expressed that they did not know the difference.

The final question in the survey asked businesses what they would most like Governments to do in combating climate change. Encouraging energy efficiency and increasing research and development on new technologies were the most preferred options (40% of businesses each), followed by planting trees (9%). Only 6% believed that introducing a carbon price was the best approach.

Business SA strongly supports implementing policies and programs that will encourage energy efficiency and that support research and development on new technologies.

While Business SA does not support a carbon price, the reality is that one is very likely to be introduced. Thus, we believe:

- a carbon price should be kept at a low level that is commensurate with either actual or shadow carbon prices existing among major trading partners and major carbon emitters
- sufficient compensation should be provided to emissions intensive trade exposed businesses (including small and medium sized enterprises) that will suffer a reduction in competitiveness as a result of the carbon price – this could be done directly for large and some medium-sized businesses and through a tax rebate for SMEs
- sufficient compensation should be provided to households that will suffer higher living costs as a result of the carbon price
- transport fuels should be included in the system and not offset by a reduction in fuel excise – any compensation for higher transport fuel costs should be via the mechanisms above

- structural adjustment funding should be available for those regions that are severely impacted by reductions in economic activity that result from a carbon price – this should include training and relocation costs where appropriate
- there should be a mechanism that ensures energy security while the transition to low-emissions technology energy sources takes place – this may take the form of direct compensation to power plants or agreements to stagger closure of the most polluting power plants
- a legislative and regulatory framework needs to be established that will allow the building of nuclear energy plants when they become economic with a carbon price
- some of the revenue should be used to encourage research into and the development of low emissions energy sources, particularly those with baseload potential, such as geothermal
- there will need to be a substantial education (not political) campaign to inform all stakeholders – businesses and households alike – of the carbon price and its impacts.

#### Minerals Resource Rent Tax

Regarding the taxing of non-renewable resources, it is important first to note the analysis by KPMG Econtech, highlighted in the recent Tax Forum Discussion Paper, which identifies royalties as one of the two most inefficient taxes. The analysis also identified the petroleum resource rent tax as the most efficient tax. Taxing above-normal profits is better than taxing mining output. Business SA is therefore supportive of using resource rents as the basis to tax what are publicly owned resources and particularly to use the revenue generated to improve infrastructure, especially in regional areas.

However, the design of the Minerals Resource Rent Tax (MRRT) is flawed. There will soon be two mining tax regimes in place. Indeed, while companies subject to the MRRT receive a refund from the Commonwealth Government on the State mining royalties that they also pay, the administrative and compliance costs of two different resource tax regimes are far higher than they should be.

A better alternative would have been an intergovernmental agreement that encouraged State Governments to dismantle their mining royalty regimes and replace them with either their own resource rent tax or with a Commonwealth Government resource rent tax package that ensured an appropriate distribution of the revenues.

In addition, improving incentives for exploration also needs to be considered, such as a rebate or a "flow through shares scheme", as promised during the 2007 Federal election campaign.

### Superannuation Guarantee Levy

Business SA does not support the one third increase in the Superannuation Guarantee Levy (SGL) from 9% to 12%. While the increase is being applied in increments between 2013-14 and 2019-20, the rising costs for businesses will be substantial, particularly for small businesses. There is also likely to be a negative impact on employment levels.

The rise in the SGL is particularly disappointing as it was not recommended by the Henry Taxation Review and is in direct breach of the Commonwealth Government's pre-election commitment in 2007. A number of recommendations within the Henry Taxation Review and subsequently the Cooper Review into Superannuation would result in a more efficient, transparent and sustainable system of superannuation for retirees at less cost for employers if they were implemented, rather than imposing an increase in the SGL. Certainly there is scope for superannuation fees to be reduced and operations within the superannuation industry to improve, that would result in the superannuation industry being no worse off, lift retirement incomes and reduce costs for employers.

The development of an appropriate retirement incomes policy should occur in consultation with employers. Such a policy should minimise the increase in costs to employers and acknowledge that the beneficiaries of retirement income policies should make some contribution to their own retirement incomes. In particular, there needs to be greater incentives for individuals to contribute to their own retirement incomes.

Finally, Business SA urges the Select Committee to consider the negative impacts that inefficient and increasing taxes have on Australia's productivity, competitiveness, ability to attract investment, grow jobs and generate higher levels of income and an improving standard of living for all Australians.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or [rickc@business-sa.com](mailto:rickc@business-sa.com).

Yours sincerely

  
Peter Vaughan

**Chief Executive Officer**