

A FEDERAL BUDGET FOCUS TO DRIVE WORKPLACE PRODUCTIVITY AND SMALL BUSINESS

The 2010-11 Federal Budget occurs in a difficult context, notwithstanding the Australian economy having weathered the global financial crisis in better shape than most industrialised nations.

The budget is to be delivered only months out from a federal election, a time in the cycle when governments are particularly conscious of electoral impacts. The budget comes at a time when public debt has already been increased as the government moved to support the economy as the global financial crisis hit. The budget also occurs as the global economy shows fresh signs of instability, this time driven by falls in confidence in European markets

In addition, the Government's initial response on 2 May to the Henry Tax Review commits to a range of tax measures that both raise revenue and cost the budget.

ACCI has lodged a substantial submission with the Australian Government on the framing and priorities of the 2010-11 budget. Our Pre-Budget Submission sets out a positive agenda for national policy initiatives that can help Australia successfully emerge from the global economic crisis.

The March edition of the ACCI Review outlined how budget health can be restored through a budget strategy that focuses on economic growth rather than tax rises or other arbitrary economic costs.

This edition deals with productivity growth from investment in jobs and workplace issues, growth through supporting global trade, and support for small business.

The full ACCI 2010-11 Pre-Budget Submission can be found at www.acci.asn.au/submissions.

The difficulties small businesses have had in recent times in accessing affordable finance needs to be considered, together with specific measures to assist, including returning some value to small business through targeted tax reductions and assisting small business in building long term business assets.

The Government Response to the Henry Tax Review included a number of measures to increase national savings through supporting superannuation for employees and low income earners. The funding basis of these measures, through a 3% rise transitioned over 10 years to the (currently) 9% superannuation guarantee paid by employers plus a projected \$9 billion per year Resource Super Profits Tax are highly controversial and not supported by ACCI.

What is missing from the public debate so far is a recognition that for many of the nation's 2.4 million small business owners, their business assets constitute their superannuation savings. The tax concessions provided to employee superannuation over the past 20 years, together with the most recent Government Response to the Henry Tax Review, have meant that persons employed have been materially advantaged in their retirement savings, whilst small businesses relying on their business capital for retirement have, in relative terms, been left behind.

This is largely due to the fact that capital gains tax relief and concessions have not been provided to small business at anywhere near the rate of tax concessions on employee superannuation. The Government Response did not provide capital gains tax relief for small business; indeed the Henry Review makes a number of recommendations on capital gains tax that, if implemented, could move in the other direction and disadvantage small business on CGT issues. The Government has not, in its initial response, acted either way on those matters.

Small Business Response to Henry Tax Review

ACCI's Pre-Budget Submission made a range of proposals on how CGT relief for small business can be achieved. The federal budget needs to act on this shortcoming, and also rule out regressive changes to CGT proposed by the Henry Review that would damage small business interests.

TAX RELIEF FOR SMALL BUSINESS

The central role of entrepreneurship and small business to the nation's labour market and economic output warrants a budget framework which helps small business through strengthening the economy and paying down debt to take pressure off interest rates. It should also include a number of small business-specific specific measures.

Beyond capital gains tax, the Government Response to the Henry Review included a number of measures which will, if implemented, support small business and provide tax relief.

The key tax relief measure is a proposal to cut the company tax rate from 30 to 28% by 2014-15. The company tax rate will be lowered incrementally to 29% in 2013-14 and then to 28% in 2014-15. This will cost \$2.0 billion in 2013-14.

The economic modelling conducted for the Review found that company tax is one of the least efficient taxes due largely to the international mobility of capital. The reduction in the company tax rate proposed is estimated to lead to a +0.4 percentage point increase in GDP in the long run.

Small business will be provided with the benefit of the reduction in the company tax rate two years ahead of schedule. The company tax rate for small businesses will be cut to 28% in 2012-13 at a cost of \$300mn in that year and \$200mn in 2013-14.

ACCI supports these reductions in company tax, which will be of value to about 720,000 small businesses. However, two-thirds of small businesses are unincorporated and do not receive a benefit from reductions in company tax. Those two thirds pay tax at marginal personal rates, which were not reduced in the Government Response to the Henry Review, despite ACCI submissions that they should be. Similarly, business owners who take profits out of a company will receive limited benefit in terms of the income tax they pay.

The Henry Tax Review recommended reducing the company tax rate to 25 per cent in the “short to medium-term with the timing subject to economic and fiscal circumstances”.

Those two-thirds of unincorporated small businesses do however secure benefits in the Government Response in other tax areas. The Government has announced that small business will be permitted to immediately write-off assets valued at under \$5,000 and will also have access to simplified depreciation of all other assets, excluding buildings, in a single pool at a 30 per cent rate. These measures will be introduced on 1 July 2012 and cost \$1.03bn in 2013-14.

Set against these tax concessions for small business is, however, the fact that all small business employers – incorporated or unincorporated – will be required to pay the higher superannuation guarantee levy over the course of the next decade.

It can thus be said that for small business, the Government response to the Henry Tax Review is a very much a mixed bag with tax concessions given but a new 3% tax imposed on employer payrolls, and no relief provided on the equally critical issues of capital gains tax or personal income tax.

The funding base for the proposed reductions in company tax and the depreciation and asset write off tax changes is the proposed Resource Super Profits Tax. ACCI believes that these tax concessions for small business, particularly the

asset write off changes and the depreciation changes, are merited in their own right – and indeed overdue. They should not be dependant on a new tax being imposed in order to be given budget priority.

The immediate challenge for the Government, as well as the Opposition in its budget reply, is to provide a funding basis for these pro-small business measures outside of the plan to introduce a new tax on the resources sector.

SUPPORTING WORKPLACE PRODUCTIVITY

Very substantial improvements in national economic output are available if Australia is able to secure increases in productivity. The *ACCI Review* in September, October, November and December 2009 outlined how government policy, including workplace policy, can make a positive difference to productivity if it facilitates private sector employment and investment.

Many of the proposals suggested by ACCI have been given a boost by a recent House of Representatives Economics Committee report on increasing national productivity. In approximately 30 instances the parliamentary committee, comprising members from both Government and Opposition parties, cited with approval analysis conducted by ACCI. This included recognition of the importance that workplace productivity has to growth:

*“According to a report commissioned by the Australian Chamber of Commerce and Industry (ACCI), labour market reforms since 1993 have contributed 1.4 per cent growth in labour productivity.”*¹

And further:

*“The committee believes that public policy to boost the aggregate productivity growth rate should be primarily directed at maintaining competition in the economy and allowing firms flexibility in their workplace arrangements. Additionally, all levels of government should continue to pursue reductions in red-tape, regulatory burdens on business and to strengthen regulatory consistency.”*²

In January 2010 Deputy Prime Minister Hon. Julia Gillard released a Government commissioned Access Economics analysis which suggests the Australian economy will save more than \$4 billion over the next decade through the creation of a national system of workplace relations regulation.

The Deputy Prime Minister also sought to highlight the reduction in overlap, complexity and compliance costs from national regulation and the reduction in the number of awards.

Strong industry support for a national system, but the reduction in the number of national awards, has created some significant problems for employers, particularly unexpected

1. Report of the House of Representatives Economics Committee April 2010 at para 3.11, citing ACCI commissioned report ‘The Economic Effects of Industrial Relations Reforms Since 1993’ (Econtech, July 2007)

2. *ibid*, Report 7.121

higher labour costs from 1 July 2010 in service industries previously operating under State laws. The Access analysis must be seen in the context that most employers operating across state boundaries were already in the national system prior to the more recent Fair Work laws coming into operation. Hence, the economic benefits assessed by Access have been a consequence of moves to a national system since 1993, of which the latest cycle is another important step. Nor does the Access report take account of the costs for sectors or regions materially disadvantaged by the content of national awards, either in a transitional sense or ongoing.

Support Required for Transition to New System

ACCI's Pre-Budget Submission notes that the introduction of the Fair Work laws involves significant aspects of labour market re-regulation. This includes transitions and changes for Australian employers which, in many cases, extend to additional costs and complexity, and new compliance obligations, particularly during the next 12–36 months.

This reality will require ongoing support for industry from employer organisations. The Government is supporting this endeavour, and it needs to be reflected in budget allocations during the transitional period of the new workplace laws. Advice and information to businesses is vital as the focus now begins to shift to the operation of the new laws and their outcomes.

From 1st January 2010 the new National Employment Standards began to apply. Ten legislated employment conditions are now operating with broad application across the overwhelming majority of Australian employees, whether covered by an award or not.

Australian employers need, in turn, to understand what these new obligations entail, particularly the new 'right to request' entitlements which allow employees with caring responsibilities to seek changes to their existing working arrangements - maybe to work from home, or to change start/finish times, or to move from full time to part time work, or to make a host of other requests.

Under the new laws, employers need to give genuine consideration to these requests and only refuse if there are 'reasonable business grounds' for doing so.

Formal policies will need to be put in place in individual workplaces to provide guidance about how these requests are to be dealt with. Compliance will require processes to be followed that are clear, consistent and considered.

Quite apart from unresolved Government and Opposition proposals for paid parental leave, extended unpaid parental leave entitlements enabling both parents to be off work for up to twelve months, or for one parent to be away from the workplace for up to two years, are also part of the NES. For the first time redundancy entitlements, a scale of payments

based on length of service that kick in when redundancy occurs, extend across the entire workforce, instead of being confined to award or agreement-covered employees, as was often the case in the past.

State Government referrals of power also mean that from 2010 many small and medium businesses that previously sat outside federal regulation moved from coverage by State industrial relations systems to the federal framework - an important next step toward the development of a truly national framework of workplace relations regulation.

New Modern Awards Also Commence Application

The new modern awards commenced on 1 January, although a number of outstanding applications to further vary those awards remain unresolved and are being dealt with in the first half of this year.

Many employers are now in a process of transition to the new modern award conditions. In important areas like retail, the restaurant industry and the health sector, employers in some jurisdictions are required to accept increased wage rates and conditions even though the Government promised that the new awards "were not intended to increase labour costs". Further transitional arrangements and regulations are still being put in place, especially concerning the modern award framework.

For thousands of other businesses, the task will be to work with their employer and industry organisations to understand which modern award now replaces previous State or federal award coverage.

Increases in labour costs consequent on the regulatory restructure are quite unacceptable to business, and will inhibit jobs, growth and investment in labour-intensive service industries. Transitioning these costs over five years, as the Fair Work Australia tribunal has now done after ACCI representations, is helpful but does not make an unfair situation fair.

The process of creating these modern awards has been significant with much input from unions, the tribunal and employers. Thousands of awards have been reduced to 122. Businesses used to having to deal with two, three or perhaps in some cases even more awards, might now find instead that only one applies.

Without detracting from ACCI concerns about regulatory cost increases, putting the body of award regulation into a more coherent structure can be welcomed, although the limited scope of the award modernisation must also be acknowledged. The process has been about rationalising the structure and coverage of the award system, and bringing State and Federal instruments into a single Federal system, rather than a thorough re-examination of the content of awards.

Awards continue to contain content that was developed, often by arbitration, in very different times to those that confront Australian business today. The broader coverage of these awards under the new laws also mean that they will now regulate a broader range of Australian employers and employees than was previously the case.

New System Facing Early Tests as Wage Claims Build

Current indications are that the new industrial relations framework is going to be put to the test in other areas in 2010.

Wage claims at both the enterprise level and through the minimum wage review process are likely to become significant issues as much of the restraint that characterised 2009 appears to be giving way to more aggressive wage campaigns.

The prospect foreshadowed by the Deputy Prime Minister of an increase in union activity and strikes during 2010 is at odds with the goal of increasing national productivity.

The new low-paid wage sector mechanism is also likely to be used by unions as a vehicle to advance wage claims.

This will continue to test the tribunal's powers and the operation of the new bargaining and agreement making regime. Claims based around pay equity and equal remuneration have also been foreshadowed.

The operation of the unfair dismissal laws will also need to be closely monitored. Just under 3,000 unfair dismissal claims were lodged in the first three months of operation of the new laws pointing to an ongoing challenge to keep a sense of focus and balance to their operation and to prevent them becoming a 'free for all' mechanism for aggrieved employees to extract more money from their employer on their way out the door, as had often been the case in the past.

Small Business and the IR Changes

The impact of these changes will be felt particularly in the important SME sector where the incidence of bargaining and over-award payments is lowest, and the direct impact of the regulatory system most prevalent. Further, these are businesses that generally don't have specialist staff who can provide advice and assistance about industrial matters.

Implementation of the Fair Work changes accordingly needs to continue to be supported with information, assistance and appropriate advice targeted to SME businesses in particular.

This should be provided and delivered by an ongoing program that involves both Government and the business organisations that understand Australian businesses and are trusted and relied upon by those businesses.

It has long been recognised that the primary source of trusted advice for business about new regulation and compliance measures are the business organisations that exist to provide information and representation. Communicating with business through its own representatives delivers reach, penetration and an ongoing source of advice and information that can be tailored to the needs of particular industry sectors.

This can be contrasted with the provision of advice through Government agencies which generally have little knowledge of specific industry sectors and can only provide information and advice that is generic in nature. This position is further complicated and often effectively compromised when that agency also has responsibilities as the regulator and compliance enforcer.

Past experience has inevitably proven that it is difficult for a single organisation to be both a regulator and an organisation that can be trusted and relied on as a source of advice and assistance.

The Government has already provided funding in 2009-10 for the *Fair Work Education and Information Program*. More than 2,000 workshops and seminars have been delivered around the country through this program.

Additional resources have also been provided to the Fair Work Ombudsman with a large part of that program specifically targeted at SMEs moving into the federal system following the various referrals of power by State Governments.

The Deputy Prime Minister has also made further announcements about additional funding to provide access to training and information. The bulk of this funding (\$10 million) is to be provided to the Union Education Foundation to deliver and develop national workplace education programs for employee representatives. A further \$2.7 million is to be provided to support initiatives for small businesses.

However, further funding and support for business will need to be provided in 2010-11 as the transition to the Fair Work framework moves ahead.

While web-based delivery of advice and information can play an important role, our experience suggests that workshops and seminars that have an element of interactive involvement and contact points that can provide subsequent support and follow up, provide the most effective means to deliver advice and information, and also enable participants to have an opportunity to test their understanding based upon the requirements of their business operation.

Paid Parental Leave Scheme

The Government announced that it will introduce a comprehensive Paid Parental Leave scheme for new parents, who are the primary carers of a child born or adopted after 1 January 2011. Legislation is to be introduced into the parliament in May 2010.

The scheme is to be funded by Government, at a net cost of \$731 million over five years.

ACCI has been involved in discussions with departmental representatives putting the scheme in place. There is unresolved concern amongst employers about the administration of the scheme, particularly the proposed intention for the payments to employees to be channelled through their employer. The Government has made some concessions to ACCI concerns in developing its legislation, but not sufficient to avoid an increase in red tape.

The Federal Opposition in its budget reply needs to move away from its unacceptable proposal to introduce a new levy of 1.7% on the payroll of larger employers to fund its more generous paid parental leave scheme. Funding social policy through a new tax on a cohort of business is not good public policy and has not been recommended by multiple independent inquiries.

OCCUPATIONAL HEALTH AND SAFETY

A Harmonised National System

Subject to appropriate regulatory content, ACCI strongly supports a national system of OHS harmonisation and the Australian Government implementing such a system in conjunction with the States and Territories.

The Government's direct role in this process should be properly supported in the budget. In addition the budget should provide support for the Government's ongoing role in working with the States to put in place model legislation and model regulations.

Despite the progress that has been made to date through the agreements reached by the Workplace Relations Ministers' Council there is still much to be done to put in place model laws and regulation. The development of standard regulation will be a major task throughout 2010-11, including a proposed public comment period in the latter part of 2010.

Tripartite approaches have been an important part of the progress that has been made in regard to OHS reform. There needs to be ongoing funding of the Government and social partners to ensure that the benefits of this approach continue to be realised. The Government has maintained its support for current funding arrangements and this needs to be maintained in 2010-11 and beyond.

EMPLOYMENT, EDUCATION AND TRAINING

With the re-emergence of skill shortages as the economy returns to stronger growth, business will be looking for government policies that recognise and support workplace skills. Supporting skills development is a pathway to lifting national productivity.

Policies to boost apprenticeship take-up and completions, encourage the employment of Indigenous, disabled and mature aged workers, and also ensure that workers are job-

ready after completing vocational and tertiary training, will be welcomed by business.

Productivity Places Program

ACCI is concerned that the Productivity Places Program is too supply-driven and that Registered Training Organisations (RTOs) are driving the skills agenda without sufficient engagement with industry.

The number of apprenticeships (264) resulting from this program is disappointing and further efforts must be made considering the original target was to have approximately 16,250 apprentices commence each year over a four year period from 2008 – 2012.

In its Pre-Budget Submission, ACCI asked for an evaluation about the extent of national consistency achieved by the States and Territories now that the program has been devolved to them. The Enterprise Based Productivity Places Program (EBPPP) should be extended to small and medium sized firms as this program is the closest to an industry-driven model in this program.

Apprenticeships

In the 2009 Budget the number of employers supported to engage apprentices was predicted to be 97,861 for the 2010 budget cycle.

The KickStart program announced by the Government on 16 October 2009 provided additional incentives to employers to hire an apprentice between 1 December 2009 and 28 February 2010.

Business and industry value the contribution apprenticeships make towards building Australia's skills capacity.

Given the significant rate of exit from the trades independent of the economic cycle and given the general decline in hiring apprentices during the global financial crisis, it will be critical to continue the investment in apprenticeships. The number of apprenticeship enrolments needs to be maintained or increased to build our future skills capacity.

Efforts should be made to focus on strategies to ensure apprenticeship completions that focus on both the employer and the apprentice. The opportunity cost of an apprenticeship non-completion needs to be weighed against additional expenditure on targeted strategies to increase retention.

In the 2010 Budget cycle, the government should undertake a comprehensive review of the level of incentives paid to employers including an analysis of the impact of the KickStart program to determine the effectiveness of additional incentives in encouraging employers to hire apprentices.

NCVER research indicates that the current level of incentives do not impact on employers' hiring intentions. Dependent on the outcomes of this research, in the 2011 budget cycle consideration should be given to increasing the level of incentives provided to employers.

Industry Skills Councils

Industry Skills Councils (ISCs) are playing an increasingly important role in working with industry to provide strategic planning and support as well as meet everyday needs for identifying and endorsing standards in the workplace.

Since their inception, the industry groupings under the 11 ISCs have not been reviewed.

In the 2010 Budget, consideration should be given to undertaking a broad review of ISCs against contract performance criteria. As well, a strategic analysis of groupings and functions should overlay this review.

Mature Aged Workers

The Prime Minister has correctly highlighted the need for increased productivity to address Australia's ageing population pressures and has highlighted the contribution skills will make to the solutions being sought.

Pilot work should be undertaken in close conjunction with industry to identify holistic approaches that work for employers and workers.

Innovative approaches should be fostered that include all aspects of employment of mature aged workers such as health management, flexible working arrangements and identifying skills for transition.

School to Work Transitions and Careers

Businesses will need to collaborate more extensively with schools, colleges, universities and other education and training institutions to access a diminishing supply of young people.

The School Business Community Partnership Brokers (SBCPB) and Youth Connections (YC) programs will need to ensure they focus on the business and industry community if real outcomes are to be achieved that will enable productivity growth.

While the SBCPB program contains the word 'Business' in the title, it remains to be seen what the extent of engagement with the business community will be. While there are advantages in regional delivery of programs such as SBCPB, achieving a certain degree of national consistency will enable better mobility of the labour force and comparable quality outcomes.

ACCI is concerned that the cessation of the former Regional Industry Careers Advisers (RICA) and National Industry Careers Specialist (NICS) programs will reduce students' and parents' access to up-to-date, relevant information about current and future industry needs.

The outcomes of the SBCPB and YC programs need to be evaluated as early as feasible to identify the extent to which outcomes achieved under the RICA and NICS programs

are continuing to be met. If not, there should be strategic intervention to modify the SBCPB in order to best match student and industry needs together.

Employment

ACCI stresses the importance of involving employers in developing strategies that will ultimately lead to sustainable employment outcomes for those outside the workforce.

Job Service Australia (JSA) providers need to work more closely with employers to ensure that jobseekers have both the required skills and a work-ready attitude to ensure a smooth transition.

The strategic provision of careers information, advice support and products, needs to be integrated across the full range of employment services to ensure better targeting of education and training dollars.

- *Employing People with a Disability* - There needs to be a concerted effort to eliminate aspects of social and industrial policies that create disincentives for people with disabilities to take up employment. Both business and governments need to provide for enhanced employment opportunities for people with disabilities through the provision of training, recognition of skill, support in the workplace and community education. In particular there needs to be consistency and ease of transition between government programs that aim to assist people with disabilities in education, training, pre-employment, employment and return to work.
- *Indigenous Employment* - To provide security of employment, an economic base for Indigenous remote and rural dwellers needs to be established and developed in country. There is a space in building Indigenous economic bases that is not fully utilised by tapping into existing business and industry networks. Further work will be undertaken in 2010 to explore these options.

Work Integrated Learning

Increasingly, higher education institutions are seeking to incorporate a work integrated learning (WIL) component of their course offerings to undergraduates.

Quality, systemic arrangements need to be put in place so that this component of the student experience provides a meaningful component of their total university learning such as those that exist in the VET sector.

Assistance should be provided to universities and business communities to work together in order to develop a WIL framework to develop employability skills.

A pilot for an internship program should also be considered in conjunction with the WIL framework so that relevant workplace requirements are integrated into the program.

SUPPORTING GROWTH THROUGH TRADE

ACCI has four key priorities for trade policy in the 2010-2011 Budget, recommending that the Australian Government:

- perform a detailed analysis of the barriers to services exports and make a commitment to breaking down these impediments multilaterally, regionally and bilaterally;
- provide resources for endeavours to 're-start' the stalled World Trade Organisation's Doha Development Round of trade negotiations;
- provide resources for efforts to conclude comprehensive Free Trade Agreements; and
- proceed with the implementation of the recommendations of the Mortimer Review of Trade Policy.

Trade in Services

Services account for 78 per cent of our national output, around 84 percent of all jobs and approximately 23 percent of our total exports.

In recognition of this, ACCI proposes that there should be a greater emphasis on trade in services in our various trade liberalisation initiatives.

There is much scope for future multilateral, regional and bilateral trade liberalisation initiatives to achieve substantial progress in services. Sufficient resources should be dedicated to a detailed analysis of the impediments to our services exports. One of the greatest challenges in liberalising the trade in services is estimating the impact of the various non-tariff barriers. Trade barriers typically encountered include foreign equity limitations, lack of recognition of qualifications, restrictions on rights of practice, constraints on commercial presence, poor quality intellectual property rules and protections and tax rules.

ACCI proposes that there should be a sustained effort to break down the identified barriers on all fronts and provide sufficient resources to promote our two biggest services export income earners - tourism and education.

Multilateral Trade Liberalisation (the Doha Round)

ACCI supports the Government's endeavours to 're-start' the stalled World Trade Organisation Doha Development Round of trade negotiations in light of the current global financial crisis.

A conclusion to the Doha Round would offer enormous gains to Australian industry across the board and provide much needed confidence in global financial markets.

ACCI notes however that the outlook for the Doha Round remains far from optimistic. This pessimism is caused by various factors, particularly the current lack of political will on behalf of world leaders to support liberalisation, a crowded

international agenda and a deteriorating global economy.

Australian business needs strong international advocacy from the Australian Government on the benefits of trade liberalisation and a concerted effort made to ensure trade liberalisation is high on the global agenda.

Bilateral Trade Agreements

Given the pessimism surrounding a successful conclusion to the Doha round and the current economic climate, ACCI continues to support efforts to conclude regional and bilateral Free Trade Agreements (FTAs).

These FTAs should be comprehensive and support the multilateral agenda.

Importantly, the Australian Government should strongly resist efforts by other countries to negotiate FTAs that exclude 'sensitive' products as these agreements in the long-term have the potential to harm important sectors of the Australian economy.

ACCI places a high value on the completion of the ongoing negotiations with China, Japan and the Gulf Cooperation Council. We also support significant resources being dedicated to early negotiations with South Korea. Japan still remains Australia's major trading partner and an FTA which includes agricultural products would be a significant boost to Australian exports. South Korea is our third largest merchandise export market and a key services export market especially in the areas of education and personal travel.

Review of Export Policy

The Mortimer Review of Trade Policy has been one of the Government's key trade initiatives. ACCI looks forward to playing an active role in its implementation and was very happy with many of the recommendations, which included:

- according a higher priority to services market access issues in multilateral and bilateral trade negotiations (Recommendation 5.9);
- establishing a unit in the Department of Foreign Affairs and Trade tasked with assisting the professional and financial services industries negotiate registration and licensing recognition arrangements where these requirements currently restrict access to markets (Recommendation 5.11); and
- considering the merits of negotiating a bilateral FTA with the European Union, including an agreement that is focused only on services and related investment (Recommendation 6.7).

However, significant resources are required in implementing these recommendations.

As yet, the Government has not responded to the Mortimer Review and the Government's earliest response is keenly awaited by Australian industry.

CONCLUSION

The March *ACCI Review* noted how the focus of policy needs to now shift to restoring the budget position and implementing a program of tax and microeconomic reform that will enhance long-run productivity growth in the economy.

Fiscal discipline has to be a core priority for upcoming budgets, 2010-11 included.

Also important is the impact that IMF research shows larger deficits and higher debt levels have in terms of increasing interest rates and, in turn, crowding out private sector investment. Further, it is also imperative that the budget is in a strong starting position to deal with the long run fiscal pressures associated with the ageing of the population.

A temporary budget deficit during the downturn was an acceptable price to pay to meet these objectives but the resulting deficits must not become entrenched. Failure to outline a credible fiscal strategy may put upward pressure on government borrowing costs and lead to concerns about a potential increase in the overall tax burden that will militate against business willingness to invest and employ.

The government should consider conducting a 'root and branch' review of all current budget outlays with a view to identifying areas of waste and inefficiency.

Successful tax reform will be measured by how it provides incentive to invest, encourage workforce participation and reward risk taking and entrepreneurship. In the short term, it also needs to support a return of private investment during the global economic recovery. Business will rate the reform process by its commitment to reducing personal income tax rates, maintaining capital gains tax relief measures for small business and the extent of progress toward abolishing inefficient state-based transaction taxes and payroll tax.

The Government response to the Henry Tax Review saw very much a mixed bag for business, with tax concessions given but a new Resource Super Profits tax and a 3% tax imposed on employer payrolls, and no relief provided on the equally critical issues of capital gains tax or personal income tax.

The funding base for the proposed reductions in company tax and the depreciation and asset write-off tax changes is the proposed Resource Super Profits Tax. ACCI believes that these tax concessions for small business, particularly the asset write-off changes and the depreciation changes, are merited in their own right and indeed overdue. They should not be dependant on a new tax being imposed to be given budget priority.

The immediate challenge for the Government, as well as the Opposition in its budget reply, is to provide a funding basis for these pro-small business measures outside of the plan to introduce a new tax on the resources sector.

In short, policies to underpin productivity growth are now needed in order to translate the Government's growth and deficit reduction objectives into reality.

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ACT and Region Chamber of Commerce & Industry
 Australian Federation of Employers & Industries
 Business SA
 Chamber of Commerce & Industry Queensland
 Chamber of Commerce & Industry of Western Australia (Inc)
 Chamber of Commerce Northern Territory
 NSW Business Chamber
 Tasmanian Chamber of Commerce & Industry Ltd
 Victorian Employers' Chamber of Commerce & Industry

National Industry Associations

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 Agribusiness Employers' Federation
 Air Conditioning and Mechanical Contractors' Association
 Australian Beverages Council Ltd
 Australian Food and Grocery Council
 Australian International Airlines Operations Group
 Australian Made, Australian Grown Campaign
 Australian Mines and Metals Association
 Australian Paint Manufacturers' Federation Inc.
 Australian Retailers Association
 Bus Industry Confederation
 Consult Australia
 Live Performance Australia
 Master Builders Australia Ltd
 Master Plumbers' and Mechanical Services Association of Australia (The)
 National Baking Industry Association
 National Electrical and Communications Association
 National Fire Industry Association
 National Retail Association Ltd
 Oil Industry Industrial Association
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 Plastics and Chemicals Industries Association Inc.
 Printing Industries Association of Australia
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