MEDIA RELEASE

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FEDERAL BUDGET 2016
Statement from Alex Malley, chief executive of CPA Australia

On a day when the Reserve Bank of Australia (RBA) has cut our interest rate to a record low, Treasurer Scott Morrison has delivered a solid budget with a coherent narrative.

The budget is the definition of “steady as she goes” and while there are those that might think this is good, it’s not good enough.

The government has done such a good job positioning the budget as a modest plan that the RBA did not have the confidence to wait and see if any of the measures announced would have a meaningful impact on our economic position.

The interest rate is the pulse of the economy and today we got the news that our economy is gravely ill. We need our leaders to acknowledge this and do something about it.

Some of the measures announced show a level of innovative thinking that we would desperately like to see applied more broadly.

We welcome the income tax relief that will flow to small to medium companies with a turnover of between $2 million and $10 million and the extension of the $20,000 instant asset write-off. The changes to the superannuation system recognise the flexible nature of the modern workforce and provide incentives for people to make provision for their own retirement and we are pleased to see some detail on new investment vehicles that will make Australia a more attract place to invest.

However, the combined impact of these initiatives is a long way from presenting us with anything like the leadership Australia needs to ensure we can enhance our competitiveness against increasing global headwinds.

Tax change is not tax reform.

This budget is about setting up an election campaign. It is yet another lost opportunity for real reform on top of a decade of lost opportunity.

The mining boom cushioned us from the worst impacts of the global financial crisis (GFC), the measures we see in tonight’s budget will not cushion us against the challenges ahead.

We were the envy of the rest world for the way we came through the GFC and now we’re starting to envy the rest of the world because they have actually made the hard decisions, changed their settings and are coming out of their malaise.

We understand that tax reform is difficult, but it’s the job of our political leaders to make the hard decisions, not just give themselves a leave pass when it becomes politically inconvenient.

The tax reform white paper process was abandoned by the Turnbull Government because politically it was too difficult. The only thing we seem to have salvaged from that $5 million process is a 10- year time line for corporate tax reduction. The ultimate target is still too high and the timeframe is much too long.

We need leaders who are prepared to put their jobs on the line to get things done, not continually defer the hard decisions.

We will learn more about the government's vision for the future in the coming weeks of the election campaign than we have tonight.

Stand by for the spending promises once the election is officially called in a few days.

Tax changes
While we congratulate the Treasurer for setting out a plan for corporate tax change, the 10-year timeframe is much too long.

The budget assumes getting the corporate tax rate down to 25 per cent by 2026-27 will make us competitive as that is the OECD average. Of course that is the average for OECD nations today, there is no reason to assume that other nations will not be pursuing tax reform at a much faster pace than Australia is intending – it is part of the competitive market of attracting business to invest in your country.

In 10 years we might get to 25 per cent and find ourselves to be just as uncompetitive as we are today.

We make the mistake of comparing our competitiveness to the OECD, when we are trying to position ourselves as competitive in the Asian Century.

We find ourselves in a region with some of the fastest growing economies in the world as our neighbours and our trading partners. This is must be how we measure ourselves – this is where we must be competitive.

Regarding small and medium businesses, the real winners tonight are those companies with a turnover of greater than $2 million and less than $10 million as they will receive a 2.5 per cent corporate income tax cut from 1 July 2016 as well as being able to access many of the other small business tax concessions such as the $20,000 instant asset write off.

For the 1.2 million unincorporated businesses in Australia – such as partnerships, trusts and sole traders – there is not a lot new in this budget for them.

The integrity measures aimed at ensuring multinational companies are subject to Australia's tax laws will be welcomed by the public. However, it is important to understand that in the global economy, competitiveness – including tax competitiveness–- is the name of the game that many jurisdictions are playing.

If we want to have multinational companies operate here then we too need to compete globally and ensure that we have attributes that attract, rather than dissuade, investment. A 10-year timeframe to get to a corporate tax rate of 25 per cent is not competitive.

We need to address the underlying problem, not the just the symptom.

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Rural and regional Australia will be very disappointed to learn that the extremely unpopular "backpacker tax", first announced in the 2015 budget and slated to commence from 1 July 2016, will proceed unchanged. This will be a significant blow to many in the agricultural sector and also has very real implications for Australia's tourism industry. Expect to hear more about this during the election campaign.

The bigger tax threshold questions remain unaddressed, in particular our over reliance on income taxes at the individual and company levels, our under reliance on taxes on consumption and the absence of reform of the most inefficient taxes that businesses and investors face.

Superannuation
Some of the changes announced to superannuation have the potential to restore confidence in the system.

In particular, the five year rolling concessional cap for pre-tax contributions is a positive initiative and will help those with interrupted or lumpy work patterns. It is recognition of the flexible nature of the modern workforce and is welcomed.

Also allowing a tax deduction for personal contributions for taxpayers recognises the importance of providing for one's own retirement and will encourage more people to do so.

These two measures combined will particularly help the self-employed and together with other measures announced tonight will contribute to a more sustainable superannuation system.

Conversely, reducing the annual cap on concessional contributions to $25,000 and the lifetime cap of $500,000 on non-concessional contributions both work against a person's ability to save for their own retirement and ultimately put more pressure on the public purse.

Infrastructure
Investment in infrastructure is always welcome. There is $594 million of additional equity funding going into the Melbourne to Brisbane Inland Rail project, $115 million to continue preparatory works for a Western Sydney airport and $29.5 billion for the National Broadband Network.

Infrastructure investment develops capital assets of enduring benefit to the economy as well as providing much needed jobs during the development phase.

Encouraging foreign investment
Australia has always been a net importer of capital. In this regard we welcome the announcement of changes to the tax rules to enable the creation of two new forms of investment vehicles that will make managed funds based in Australia a more attractive place for foreigners to invest.

The benefits of these new structures are twofold – it will encourage foreign investment as well as help facilitate the export of Australian financial services to the world.

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