



SPEECH

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Council of Small Business of Australia National Small Business Summit Dinner

At the outset I want to pass on the Prime Minister's best wishes for the annual dinner and conference. Kevin wanted to be here, but as you know, he's in Japan representing Australia's interests with a very important partner in the region.

I also would like to congratulate COSBOA for organising the conference again – it just keeps getting bigger and better. Today's Small Business Forum, held under the auspices of COSBOA, was a great opportunity for small business representatives all around Australia to engage with me and present their issues first hand.

Holding the Forum fulfils another election commitment of the Rudd Government and we will be doing it again in November.

I am determined to ensure that small business has access to and a strong voice in the Rudd Government. Just the other day, Kevin and I had a discussion about small business in Australia and he again expressed his keenness to ensure that the enterprise economy thrives and prospers under his Government.

In supporting the enterprise economy, the Rudd Government believes in reward for effort, risk-taking and entrepreneurship. We believe in restoring incentive for small business owners to create jobs and prosperity for their staff and for their families.

In formulating our small business policies we ask this question: what is the role of government in an open, competitive economy?

Fundamentally, government must do everything it can to create the conditions for sustained, low-inflationary economic growth. For it is in a low-inflationary, strongly growing economy that small business prospers.

This involves getting the macro-economic settings right.

Next, government should remove impediments to small business development, restoring incentive in the tax system and pulling away the red tape that is choking the incentive of small businesses to take risks.

And finally, government should help improve the overall capacity of business to compete in an open economy.

I will explain how the Rudd Government is managing these three tasks.

Macro-economic policy

Having inherited an inflation rate at 16-year highs, the first task of the Rudd Government is to bring inflation under control.

These inflationary pressures didn't emerge overnight; they were building up for years.

They led directly to 10 interest rate rises between 2002 and the time of the change of government last year – giving Australia the second-highest interest rates in the developed world.

You don't need me to tell you that inflation, and the interest rate rises it has spawned, is small business enemy number one.

Four recent business surveys have pointed to rising interest rates as being the main culprit responsible for a drop in business confidence.

The Rudd Government's first Budget fights inflation by reining in government spending. It seeks to take the pressure off interest rates.

In the coming financial year, Commonwealth Budget spending is estimated to constitute less than 24 per cent of GDP, down sharply from an average of just under 25 per cent so far this decade.

The Budget cuts real spending growth from 5 per cent to just 1 per cent.

Spending by the Coalition Government was out of control. In 2002, government grants totalled about \$450 million; by 2007 they had reached a staggering \$4.5 billion!

In its most recent Economic Roundup, Treasury compares the Howard Government's spending with that of the last year of the Whitlam Government.

Unfortunately, the Coalition is showing no signs of mending its free-spending ways.

It has announced that it will conduct a \$22 billion raid on the Budget surplus in the Senate.

The Coalition has described inflation as a fairytale. It seems to be practising Fairytale Economics, where the more you spend the more you have to spend.

Remember the former Treasurer telling colleagues in 2007 that he offered the then Prime Minister the menu and he selected the entrée, the main course, dessert and the vegetarian option as well.

In this Wonderland, the Coalition had been holding a never-ending tea party.

In Fairytale Economics, it is not the Governor of the Reserve Bank who sets interest rates but the Gnomes of Zurich in a far-away country called Switzerland.

I won't tonight identify the characters in this tea party – the Mad Hatter, the White Rabbit, the March Hare, the Door Mouse and Alice.

Just let me predict that one of them will be addressing you tomorrow, telling you how terrible it is that the Government is cutting back on spending.

The Rudd Government lives in the real world of conventional economics, where government spending binges cause inflation.

Removing impediments to small business growth

The success of small businesses is built on the creativity, ingenuity, innovation and imagination of their owners and staff.

The Rudd Government is determined to restore incentive for small business through reforms to the tax system and by removing incentive-choking red tape.

Restoring incentive through the tax system involves allowing small business operators to keep more of their earnings.

The Budget made a down payment on both tax relief and tax reform.

Small business operators with taxable incomes up to \$180,000 will receive up to \$50 per week in tax cuts next financial year and up to \$91 a week the following year.

An important outcome of the recent 2020 Summit was an acknowledgement of the need to review the tax system.

A modern economy needs a modern tax system and the review to be led by Dr Ken Henry will be the most comprehensive review of Australia's tax system since World War II.

The Government supports the desire of small business for a simpler tax system that cuts compliance costs.

Small businesses incorporate for a variety of reasons and once incorporated, they are subject to all the complexities of tax law as they apply to large incorporated entities.

In an effort to reduce the compliance burden on small and medium sized companies, the Institute of Chartered Accountants and Deloitte have developed a proposal for an entity flow-through tax regime for small companies with five or fewer shareholders and for unit trusts.

The flow-through tax regime proposes that ownership arrangements be set to one side for income tax purposes. Instead, the entity would be treated like a partnership with owners taxed at their marginal rates.

It is proposed as an *option* for small companies and unit trusts wanting to reduce the compliance costs associated with understanding and accounting for different types of financial flows from the entity to its owners.

I know the Institute believes this regime will reduce the tax compliance burden associated with incorporation and unit trusts while maintaining the non-tax benefits of company and trust structures.

Tonight I can announce that the Government has decided to refer the flow-through proposal to the review of Australia's Future Tax System headed by Treasury Secretary Ken Henry.

The measure is designed to make it easier for small businesses to comply with their tax obligations without affecting their overall tax obligations.

Responsible tax reform proposals must maintain the integrity of the system and meet the principles of economic efficiency and equity.

It is against these benchmarks that the entity flow-through tax regime must now be thoroughly tested.

Income tax compliance costs are not the only tax compliance costs of concern to small business.

The GST remains the number one bugbear of small business.

In the MYOB Survey of the Red Tape Compliance Burden, more than two-thirds of respondents ranked BAS reporting among their top three red tape burdens.

On the day when small business owners start operating their business, before they start meeting the demands of their customers, they are required to be prepared for and comply with the GST.

While completing the BAS paperwork is a relatively straightforward task, complying with the bookkeeping requirements of the GST takes time – time that could be spent working in the business or with family.

Last year I announced Labor's BAS Easy option for reducing the GST paperwork burden on small business – an option that was welcomed by COSBOA as "*...a simple and practical answer to the current BAS red tape*".

Tonight I am also pleased to announce the design of BAS Easy will be considered by the Board of Taxation as part of its review of the legal framework for the administration of the GST.

The Board will consider streamlining and improving the operation of the GST with a view to reducing compliance costs and removing anomalies from the system.

In addition to complying with tax obligations, small businesses are required to comply with the myriad regulations imposed by the Commonwealth, State and local governments.

The Budget provided \$16 million over three years to establish a superannuation clearing house facility – delivering on another election commitment.

This free service to small businesses will cut the compliance costs associated with making superannuation guarantee payments under the super choice regime.

This service is due to start on 1 July 2009.

In the 21st century Australia can no longer operate as nine markets with overlapping and inconsistent regulation. The creation of a single, seamless national market, as called for by the Business Council of Australia and the 2020 Summit, is essential to re-starting productivity growth and paving the way to increased prosperity.

By reforming business regulation, the Rudd Government, in cooperation with the States and Territories, is dismantling productivity-stifling barriers to businesses operating seamlessly across State and Territory boundaries.

Through the Council of Australian Governments, we have prioritised 27 areas of regulatory reform designed to reinvigorate productivity growth.

This is a far-reaching and necessary program which will benefit large and small business alike.

Improving the capacity of small businesses to compete

Everyone in this room knows that a severe constraint on small business expansion is the shortage of skilled and even unskilled staff.

The Government has made an additional 20,000 training places available in April to start the work needed to ease the skills shortage.

We have provided \$1.9 billion to deliver an extra 630,000 skilled training places over five years, including up to 392,000 places for existing workers.

Over the next 10 years \$2.5 billion will be devoted to establishing Trade Training Centres in secondary schools.

We will also increase the intake of skilled migrants by 31,000 additional places this year alone.

Small business owners tell me that they value highly the provision of one-stop advisory services.

The Rudd Government is keeping its election promise by providing \$42 million to fund 36 Business Enterprise Centres in suburban, rural and regional Australia.

These centres provide established and start-up businesses with commercial advice, legal advice on retail and commercial tenancies, and advice on compliance obligations, GST bookkeeping, finance and cash-flow management as well as advice on promotion and marketing.

A further way of building small business capacity is through the provision of high-speed broadband.

The Rudd Government's election commitment to a National Broadband Network roll-out will do just that.

About 92 per cent of small businesses are now connected to the internet, with up to 59 per cent participating in eCommerce to some degree.

More than nine million Australians are searching the internet each day and more than 25 per cent of people within the OECD are ordering goods and services online.

Our broadband roll-out provides real opportunities for expansion of small businesses into new markets.

So too does our \$20 billion investment in the Building Australia Fund to finance critical national transport and communications infrastructure including roads, rail and ports.

Going to the heart of boosting the capacity of small businesses to compete, the Rudd Government is amending the Trade Practices Act to stop powerful businesses engaging in predatory pricing in their dealings with small business.

Our reforms clarify the test for predatory pricing and what it means for a business to 'take advantage' of its market power.

Victims of predatory pricing will not need to prove that the big business in question has the ability to recoup losses after sustained below cost pricing.

This removes a legal requirement which had reduced the ability of business or the ACCC to prosecute predatory pricing claims.

I know, too, that government procurement is something which is of interest to the small business community.

Commonwealth government procurement is now a \$29 billion a year business.

The Rudd Government believes small business should be encouraged to gain a greater share of this business.

I understand that public sector departments and agencies can sometimes be inflexible in their dealings with business and this can work against small businesses seeking a greater slice.

The solution is government departments and agencies creating simpler and easier tender processes while still protecting the Commonwealth's legitimate financial interests in achieving value for money.

Within Commonwealth contracts, contractor insurance requirements need to be commensurate to the value and risk of the contract.

Terms like unlimited liability, liquidated damages, consequential loss and best endeavours provisions need to be used only where there is a strong case that the Commonwealth bears risks that require the inclusion of these terms.

I have been working with the Minister for Finance and Deregulation, Lindsay Tanner, on updating Commonwealth procurement practice to encourage access to SMEs for Commonwealth public contracts and in reducing red tape for compliance with tenders.

We will be having more to say in this space shortly.

Technology is already improving access. For example, upgrades to AusTender allow SMEs to register and be notified of upcoming contracts relevant to their business type.

We are always on the look-out for ways to improve the access of SMEs to government markets. One option might be to expand panel arrangements so that, where practical, the supply of services is drawn from a full range of businesses – big, medium and small.

We have also been working on a whole-of-government Commonwealth approach to give business a right to charge interest on late payments. This would be on invoices not paid within 30 days.

We will be having something further to say here shortly while also continuing to encourage agencies to further expand the opportunities for small business in the procurement market.

Conclusion

The future of small business is best served through an open, competitive market economy that provides the incentive for risk-taking and entrepreneurship.

The Rudd Government is replacing short-term decision making with long-term investments in the future.

We have set about tearing away at the "creeping re-regulation" of the Australian economy and we have a reform program that encourages Australian businesses to innovate and grow.

Last year when Kevin Rudd addressed the National Summit he concluded by saying:

"Labor believes that Australia's small businesses deserve support from a government that will help them make it easier to do business, to grow their business and as a result grow our future economy."

That is our commitment to you and we invite you to continue in a partnership with the Rudd Government to lock in and increase the prosperity of the small business community of Australia.