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REMAINING COMPETITIVE IN A GLOBAL ENVIRONMENT: REDUCING TAX AND REGULATORY FRICTION

Good afternoon.

I am very pleased to be presenting at the IFSA annual conference again this year. The relationship I have with IFSA, and indeed the broader investment and financial services sector, I believe, is a very strong one.

Certainly, the funds management, superannuation and life insurance industries that IFSA represents are crucial to the future economic prosperity of our country. That's why, as a Government, we should be doing whatever possible to foster these industries.

In that light, I'm very pleased to speak about the Government's achievements in, and ongoing desire for, reducing tax and regulatory friction to ensure Australia remains competitive in the global environment.

It was Winston Churchill who said '*For a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.*' Indeed, the less our government interferes with the market, the more prosperous our country will be.

That's certainly been the driving force behind 11 years of reform by the Howard-Costello team. Reforms like replacing hidden taxes with the GST, simplifying superannuation and liberating our workplaces have all had this philosophy in mind.

Australia cannot take our economic success for granted. With the challenges of globalisation and an ageing population, standing still will result in Australia falling behind. The Coalition Government is focused on the task of locking in prosperity. This cannot be done without exploring further reforms to our tax and regulatory environment.

For a government to move forward and reduce tax and regulatory friction, it must be prepared to make difficult decisions. I note with interest, the comments of the Leader of the Opposition, Kevin Rudd, on one of the biggest reforms of our government – the new tax system and GST. Mr Rudd said in parliament at the time:

'When the history of this parliament, this nation and this century is written, 30 June 1999 will be recorded as a day of fundamental injustice—an injustice which is real, an injustice which is not simply conjured up by the fleeting rhetoric of politicians. It will be recorded as the day when the social compact that has governed this nation for the last 100 years was torn up.'

I think it's a great shame that the Leader of the Opposition considers tax and regulatory reform a fundamental injustice. I'll let Senator Stephen's discuss the Opposition policy further, but can I say the Coalition Government believes the only thing that threatens the social compact of our nation is not remaining competitive in the global environment by reducing tax and regulatory friction.

Underpinning the Government's efforts to reduce excessive and unnecessary regulatory burdens on business is the drive to improve productivity.

In the Productivity Commission's *Potential Benefits of the National Reform Agenda*, published in February this year, the Commission estimated that the costs of regulatory burdens could be more than 4 per cent of GDP per annum. Good economic management behoves efforts to reduce this red tape burden.

There is no single cause for the growth in business regulation over recent years — pressure to regulate has come from a variety of social, environmental and economic factors. In this context it is easy for the cumulative burden of regulation to become unwieldy. But the Government is playing its part to address this issue.

Excessive regulatory burden is not a uniquely Australian phenomenon. Most developed economies have experienced similar trends in recent years. Accordingly, extensive research is being undertaken by the OECD, APEC and individual countries to build policy support and skills which promote high quality regulation. The OECD in particular is undertaking projects: to measure red-tape burdens and indicators of regulatory quality; develop cost-benefit analysis; and identify viable alternatives to regulation. Australia is an active contributor to this effort and has been an early mover in trying to manage regulatory burdens.

Addressing regulatory burdens

In 1997, the Howard Government established the Regulation Impact Statement (RIS) process, in response to the *Small Business Deregulation Taskforce*, commissioned by the Government.

The Government currently is taking action on three fronts to enhance the effectiveness of the regulatory impact analysis process, as well as introducing new initiatives to wind back regulatory burden.

First, the Government is implementing its response to the report of the Taskforce on Reducing Regulatory Burdens on Business (the Banks Taskforce). The Government's response includes major enhancements to the regulation-making and review systems to improve the quality of new regulation: more rigorous mandatory cost-benefit analysis requirements; expanded role and resources for the Office of Best Practice Regulation to monitor and report publicly on compliance with the arrangements; strengthened gate-keeping arrangements to ensure that proposals put to Cabinet have sufficient regulatory impact analysis; improved consultation processes; and a commitment to systemic reviews of new regulation.

In addition, the Government's response to Banks includes 132 commitments to reform specific regulation across a range of policy areas (many of which have been implemented). These include a whole of government Standard Business Reporting initiative to streamline the interchange of information between businesses and government agencies.

Second, the Government is committed to winding back excessive and poor quality regulation through the development of annual Red Tape Reduction Agendas, drawing on the findings of the Productivity Commission's annual reviews of the stock of regulation. The Government has asked the Commission to identify regulation that is unnecessarily burdensome, complex or redundant, or duplicates regulations in other jurisdictions, and to develop a short list of priority areas with options to alleviate regulatory burden. All sectors of the economy will be examined over a five-year cycle. The Government will present its initial Red Tape Reduction Agenda, focusing on regulation in the primary sector, in early 2008.

Third, recognising that regulatory burdens are imposed at all levels of government, the Council of Australian Governments has agreed to a Regulatory Reform Plan. The Plan sets out jurisdictions' commitments to improve regulation-making and review processes, actions to address identified cross-jurisdictional regulatory 'hotspots' and to the Productivity Commission benchmarking regulatory burdens across jurisdictions, to identify optimal regulatory practice.

Tackling regulatory burdens in taxation

While the obligation to pay taxes generally is accepted by business, the burden imposed by taxation compliance should be as low as possible. To this end, the Government has a range of mechanisms in place to monitor and update continually the administration of our taxation laws.

Recently, there have been substantive changes to our taxation laws to reduce burdens that are not necessary to the policy intent of the legislation. These measures include the removal of over 4,000 inoperative pages of tax law in 2006.

In addition, the tax laws have been simplified in a range of specific ways, including, but not limited to, commitments made in response to the Banks Taskforce.

The Government is working through COAG to streamline processes for registering business names and Australian Business Numbers (ABNs) and to improve information available to business about these registration obligations.

The Government has increased the fringe benefits tax reporting threshold and the minor benefits threshold to simplify the FBT burden for employers who provide only a few minor fringe benefits.

Stages 3 and 4 of the TOFA reforms (Taxation of Financial Arrangements) will deliver a number of ongoing compliance cost savings for taxpayers making gains and

losses from financial arrangements. The existing Division 16E will be replaced with a much simpler accruals system that, together with other tax accounting measures, will permit closer alignment of the tax treatment of financial arrangements with their treatment under the accounting standards.

Individuals aged 60 or more who paid tax on their superannuation contributions and earnings now pay no tax on their superannuation benefits, whether they are withdrawn as a lump sum or as a pension. This could cover up to 90 per cent of Australians. These 'Better Super' changes swept away a raft of complex tax arrangements and restrictions that applied to superannuation. Removing the tax on end-benefits for most retirees reduced the tangle of rules and red tape that superannuation funds had to contend with when paying out a benefit. Superannuation funds will also enjoy ongoing savings from simplified reporting requirements.

Tax measures for small business

The 2007-08 Budget reduced taxes on small business by \$540 million over four years and made it easier for up to two million small businesses to meet their tax obligations, including \$40 million over four years to allow the ATO to provide tailored advice and assistance to new businesses.

From 1 July 2007, businesses with an annual turnover of less than \$75,000 do not need to register for GST and if they do register, they can choose to pay their GST annually. Also from 1 July 2007, GST input tax credits can be claimed for purchases of less than \$75 without a tax invoice, and businesses with an annual turnover of less than \$2 million that make mixed supplies or have mixed inputs will be able to approach the Commissioner of Taxation to use a simplified GST accounting method and potentially apply a single ratio to their total sales or total purchases.

The 2007-08 Budget measures build on the Government's decision to standardise the eligibility criteria for a range of small business concessions. From 1 July 2007, businesses with a turnover of less than \$2 million can access small business concessions for GST, capital gains tax, fringe benefits tax, PAYG instalments and simplified depreciation and trading stock rules (subject to meeting any additional existing conditions).

Tackling regulatory burdens in the financial sector

Recent regulatory reforms in the financial services sector have focused on reducing the burdens of Australia's corporate and financial services laws. The cornerstone of these reforms is the *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* (the Act), which was passed by the Parliament in June. The Act is the culmination of extensive consultation with the business and investment community. The majority of the Act's provisions are based on the proposals outlined in the *Corporate and Financial Services Regulation Review Proposals Paper*, which garnered over one hundred submissions from stakeholders. The extent of these consultations demonstrated that there are no quick or easy solutions when it comes to

striking the right balance between maintaining investor protections and enhancing business productivity.

The Act presents a package of measures to reduce the burden of regulation in seven key areas: financial services regulation; fundraising; company reporting obligations; auditor independence; corporate governance; takeovers; and general compliance. Some highlights include:

- Financial advisers will be able to provide clients with a shorter and simpler Record of Advice, rather than a full Statement of Advice, if the investment amount is under a prescribed threshold, which is expected to be set at \$15,000.
- Public companies will be allowed to publish their annual reports online as the default option. Research undertaken by Chartered Secretaries Australia in 2005 showed that for top 200 listed companies, the cost of producing an annual report was over \$9 per shareholder.
- The thresholds used to define a 'large proprietary company' will be increased, so that only economically significant proprietary companies are required to lodge audited financial reports. This measure will provide cost-savings for 33 per cent of proprietary companies currently required to report.

In addition, the Government introduced the *Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007* into Parliament during June 2007. The Bill aims to streamline prudential regulation by: streamlining breach reporting; providing greater flexibility through exemption powers, enforceable undertakings and discretion under prudential standards; simplifying processes for appointing actuaries and auditors and enhanced cooperation with professional bodies; and simplifying the *Life Insurance Act 1995* and the *Superannuation Industry (Supervision) Act 1993*.

Also, during June 2007, Parliament passed the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007* (CER Act). This Act, among other things, provides for the mutual recognition of offerings of securities and interests in managed investment schemes by Australian and New Zealand issuers. This will reduce the duplication of compliance burdens for issuers wishing to raise capital in both the Australian and New Zealand markets.

While regulation is a necessary part of a modern, well-functioning society, the Howard Government remains committed to countering the forces of over-regulation to limit the burden imposed on the financial sector and business more broadly.

Reducing the tax and regulatory burden on business is ultimately good for all Australians and will remain a priority for a re-elected Coalition Government.

I look forward to your feedback in our question and answer session after Senator Stephens' speech.