

18 March 2009

TAX LAWS AMENDMENT (2009 MEASURES NO.1)

BILL 2009

Second Reading

Mr BRADBURY (Lindsay) (11:04 AM)—I rise to speak in support of the Tax Laws Amendment (2009 Measures No. 1) Bill 2009. In particular, I wish to make most of my comments in relation to schedule 1 of the bill, which relates to the amendments to the withholding amounts under the PAYG system for small business. I am very pleased to rise to my feet at a time when we have in the chamber with us the Minister for Small Business, Independent Contractors and the Service Economy, because I know that the minister has very much been leading the charge in delivering benefits to the small business community in what I think we all acknowledge is a very difficult business climate for business generally but in particular for small business.

The initiative outlined in this particular bill is one on which I have received much positive feedback in my local community from small business. The impact of these changes will ensure that, under the pay-as-you-go withholding system that most small businesses would be required to withhold their tax instalments under, there will be an adjustment to the amounts that are required to be withheld to take into account the decline in economic activity and the expected decline that that would lead to in their own profits at the small business level. It would affect quarterly instalment taxpayers. Under the current system, the pay-as-you-go instalments are based upon the GDP-adjusted notional tax for those taxpayers. That will continue to be the case, but there will be some amendments that go to correct the fact that the current GDP uplift factor can on occasions be unrepresentative of the expected increase in profits that a small business might be likely to derive.

To explain this point, in the 2008-09 income year, as it presently stands—prior to this measure—the GDP uplift factor is currently about eight per cent. Let us contrast against that eight per cent GDP uplift factor the fact that profit growth for small business is expected to be two per cent under MYEFO. So, when you compare those two figures, you can see that, had the government not sought to act in the way in which we are acting in this bill and as we were acting when the minister made the announcement back before Christmas, small businesses all around this country would be required to withhold tax at a higher rate—which, obviously, would have had cash flow implications for them.

In reality, at the end of the year, the tax liability of the particular taxpayer will be reconciled, and they will pay tax according to the income that has been derived throughout the income year. An anomaly would exist as a result of the operation of the GDP uplift factor, as it currently stands, if the government did not act. That anomaly would ensure that small businesses were being required to withhold a significant amount—indeed, an excessive amount—of money when we consider what we might reasonably expect them to be liable to pay, in terms of tax, at the end of the financial year.

The impact of this measure is of great significance in local communities right around the country in relieving the burden of having to withhold that additional amount. It does free up much needed cash flow for businesses that are already doing it tough in a very difficult business environment. I have to say that the feedback I get in my local community is that many small businesses are doing it tough. I also want to put on record the fact that I have had many reports of local small businesses that have been doing very well. No doubt, those businesses that have a very sound business model and are very well managed have been able, in some cases, to do reasonably well in recent times. But I think they are the exception, and there are many others that are doing it tough.

I have had many reports to me in my electorate office and as I move around throughout my local community about the impact of cash flow. More and more small businesses are reporting to me the fact that their debtors are not making payment within the 30-day period—in some cases not within 60 days or 90 days—and, indeed, it is blowing out. Many local small business owners and operators are reporting to me that even their good customers—the customers that have always stood by them and have always tried to pay on time, many of whom are often facing the same cash flow

difficulties themselves—have found it more difficult to make their payment timetables than might previously have been the case. This, obviously, has a very big impact on a small operation—a small business will be very much affected by cash flow difficulties. That is why I think this measure is so significant. It is one of the most significant proposals to address the specific issue of cash flow for small business out there in the public domain at the moment.

I understand that the measure will impact on approximately 1.3 million small businesses, so its impact right around the country will be significant. It applies to the instalment amount shown on the BAS for the quarter ending 31 December 2008. In addition to introducing this measure, the bill also contains a measure that allows—on an ongoing basis—for a regulation-making power so that this situation can be monitored and adjusted as the times require. Obviously, where there is a significant, sharp and—for many—unexpected turnaround in their own local small business activity then the operation of the usual calculations under the GDP uplift factor will create the anomaly that has led to this change. So it makes sense to allow for and to provide for regulation-making power to ensure that—where sharp changes in economic activity occur—decisions can be taken to liberate some cash flow for small business, particularly in those cases where it is apparent and evident that they will not be required at the end of the financial year to pay the amount of tax that they would otherwise be required to withhold.

This measure is an important measure, but it is a measure that should be considered in the context of the many other measures that the government has introduced to try to assist small business. I was talking earlier about some of the difficulties that small businesses have reported to me in my community. Apart from the cash flow issue, many have said to me—and cash flow is often connected to this issue—that they are finding it more difficult to secure and maintain their financing arrangements with their lenders. In this regard, I commend the minister for the good work that he has done in convening a roundtable with small businesses, banks and other lenders. The work that has been undertaken at that level has led to a communique. I think it was a brave decision on the minister's part to open himself up and to open up his office as a clearing house for these particular issues. Not only was it a brave decision; it was the decision of a minister who is so committed to his constituency that he is prepared to take on that very practical and very helpful responsibility of receiving those complaints and then following them up with the lenders. I think that is something that has been very much welcomed throughout the small business community in this country.

One of the issues that small businesses have been reporting back to me, in addition to the cash flow issue, is the financing issue. For many of them, there is a more specific issue that they raise, and that is that, often, their ability to access finance is largely secured by their own property—their own assets. In a context where, in some cases, property values have declined, it is increasingly difficult for small business to rely upon the assets that they have within their portfolio—in some cases, it may be as simple as the family home. Where those assets are being relied upon as the security upon which any borrowings are sought, it is obviously very significant to consider what impacts are occurring out there in the property market more generally.

A point which I think is not made often enough is that the first home owners grant has also had an impact for small business at that level. The first home owners grant, by providing added stimulus in the residential property market, has ensured that there has been something of a floor put in that market. Certainly the feedback that I have been receiving from local real estate agents in my community is that this has stimulated the property market, particularly the first home owners end of the market and, in doing so, has provided a floor in the market which has had a flow-on impact and benefit for those small businesses that are relying upon assets that they hold in the property market. Having this floor in the market has provided them with the security that they need to have more concrete discussions with the banks in order to secure the funds that they need. As I mentioned earlier, cash flow issues are putting more pressure on small business and, in many cases, that is leading businesses that otherwise would not have had to seek out those additional financing facilities now being required to do so.

This measure really needs to be considered along with the suite of other measures that have been put in place, including those that were contained within the Economic Security Strategy, which was handed down in October—and the payments which started to flow through the economy in December—and also, more particularly, the most recent round of stimulus payments. In respect of those payments, there has been considerable support within my local community for a campaign that I have been trying to run under the banner of 'Keep Penrith Working'. I have had much support from the local business organisations. In particular, I wish to acknowledge the very strong support that I have received from Jill Woods, the Chief Executive Officer of the Penrith Valley Chamber of Commerce, and Mr John Todd, General Manager of the Business Enterprise Centre. I note in passing the efforts of the minister in providing additional funding on a recurrent basis to the Business Enterprise Centre. I know that that contribution of funding has allowed the centre to provide a suite of services to local small business that they previously did not have the capacity to deliver. They have provided a great and outstanding service, helping small business in our community, and with that added assistance they have been able to provide even more help at a time when it is very much needed.

In addition, I have had support from Paul Brennan of the PVEDC; Gladys Reed, the General Manager of the Penrith City Centre Association; Peter Jackson-Calway, the Manager of the St Marys Town Centre Management Committee; and Mr Ian

Palmer, from the Schools Industry Partnership. I also wish to acknowledge the council, under the leadership of the Mayor, Councillor Jim Aitken, and Mr Alan Stoneham, the General Manager of the Penrith City Council, for the work that they have been doing in getting behind this initiative.

The first stage of the 'Keep Penrith Working' initiative commenced with a campaign in the local media, supported by local business groups. We ran very hard on the first tranche of stimulus payments coming through over the last week or so. We brought the local business groups together and called upon local residents to spend locally when they started receiving those cash payments—and many have already started to receive them. We asked them to think about what they can achieve for their local community—for themselves, their family, their neighbours and other people in their community. By spending their money thoughtfully and in the local economy, they can actually help to support the jobs of the people living in their community. It is an important initiative—one that I am very pleased to be associated with. I thank those groups for lending their support and getting behind this proposal.

Mr Ciobo —Have you delivered one job?

Mr BRADBURY —The shadow minister at the table is asking whether any of these measures have delivered any additional jobs. I was talking a moment ago about the first home owners grant. Specifically on that point, the Minister for Housing was pleased to report to the House the other day that recently at Ropes Crossing, Delfin Lend Lease, in response to the uptake in demand for the housing as a result of the first home owners grant, have now had to put on an extra 36 people in my local community—36 extra people. So, as to whether I am able to produce evidence of one job, I have produced evidence of 36. Clearly, there are many more jobs in my local community that are being delivered as a result of the stimulus efforts of the government, but that is just one example.

I also wish to comment briefly on some of the other measures that complement the 20 per cent reduction in PAYG instalments by directing my comments towards the small and general business tax deduction, which was originally announced at 10 per cent but then was increased to 30 per cent as a result of the most recent stimulus package announcements. I mentioned earlier the good work of the Penrith Business Enterprise Centre. John Todd reported to me recently that his office has received numerous phone calls requesting more information about this particular measure. He said, 'It's clearly a measure that's getting out there. I think it is being promoted by the accountants as something that will assist local small businesses and, as a result of that, there is real interest in this measure.' It is a significant measure because it will not only encourage businessowners not to defer making an investment in a capital item for a business but also enable people to bring forward some of those purchases. It is significant because of the flow-on effects from that investment having been made. I note that the opposition has been critical of this proposal. At the time of the announcement, the Leader of the Opposition made some comments in relation to the stimulus package, and I quote him from a doorstep, where he said:

You see what he has offered—

and I am assuming he is referring to the Prime Minister—

small business, the only thing he has offered small business in this package is a 30 per cent depreciation, a tax deduction in effect, for equipment purchased this year. But if you're a small business and you don't need any new equipment, maybe you've got all the equipment you need, or you're struggling with your own cash flow problem, that actually isn't much help at all.

I would not expect the Leader of the Opposition to acknowledge the benefits that flow from the PAYG initiative, the reduction in instalments required to be paid. It is not his job to promote the good aspects of government policy, but I certainly wish to ensure that the positive benefits of that measure are noted here today.

Let us look at what the Leader of the Opposition said. He said, 'This is of no real benefit to small business and certainly does not provide any immediate or direct stimulus to the economy.' I find it extraordinary that, just a few days earlier, the Leader of the Opposition made some comments in relation to his own proposals for depreciation allowances and various tax deductions and he made a completely contradictory point. On that occasion, a journalist asked him a question in relation to his proposals:

That won't have any short-term stimulus effects, will it, or even medium-term?

Mr Turnbull's response was:

... with great respect you are completely wrong, because if you provide accelerated depreciation and an incentive for people to invest in more efficient buildings, more efficient water systems, more efficient lighting systems, they've got to hire a contractor

to do the work. And so immediately people are put to work. So that's the type of policy that will get you an immediate pay-off in economic activity and in employment.

What I fail to understand here—and I think I fail to understand it because of the logical inconsistency in what the Leader of the Opposition has said—is how the Leader of the Opposition's depreciation allowance is going to create economic activity, short-term stimulus and jobs, yet our proposal is not going to deliver that. *(Time expired)*