

28 January 2022



The Hon Michael Sukkar MP
Minister for Housing and Assistant Treasurer
House of Representatives
Parliament House
Canberra ACT 2600

Email: prebudgetsubs@treasury.gov.au

Dear Assistant Treasurer

Pre-budget submission 2022/23: an enduring recovery

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to respond to your invitation to make a submission on the 2022/23 Federal Budget. Our recommendations are summarised in this letter and explained in more detail in Appendix A attached.

Australia, along with the rest of the world, has been greatly impacted by COVID. The economic cost of the pandemic will have an intergenerational impact, while digital transformation may have permanently changed the way people live and work. It is critical that in the 2022/23 Federal Budget Australia invests in an enduring economic recovery that provides sustainable, intergenerational value.

With those objectives in mind, CA ANZ's pre-budget submission prioritises initiatives that:

- *encourage economic recovery*
- *improve equity*
- *ensure regulation is streamlined and reflects economic change.*

In addition, Australia needs to take critical steps now to keep up with the significant global momentum in the development of corporate reporting standards.

We also consider substantive long-term tax reform a high priority. While Australians still adjust to the impact of COVID, they may not be ready for fundamental changes to the tax system. However, this discussion will need to occur during the term of the next government.

Encouraging economic activity

Consumer confidence declined in the new year, indicating the economy still needs stimulus. Extending the Low and Middle Income Tax Offset beyond 30 June 2022 will provide many Australians, especially low-income earners, with more cash to spend.

Supply chain disruptions are affecting some taxpayers' ability to access the government's business investment stimulus measure that allows full expensing of depreciable equipment and the ability to carry back losses. Both measures should be extended a further year to support economic recovery.

As official lockdowns have ended, some businesses plan to restructure or sell all or part of their business. The government would greatly assist them by accepting and legislating all the Board of Taxation (BoT) recommendations for the transformation of the small business capital gains tax rollover provisions.

Australia's innovation system is key to meeting global challenges. Last years' reform of the Research & Development Tax Incentive (R&DTI) made it more attractive for businesses to conduct research and development in Australia. We recommend the government provide extra funding to AusIndustry to improve administration of this policy to ensure its success.

Improving equity in the tax system

Australia needs major reform to improve the intergenerational equity of the tax system. We outline below some of the initiatives we believe are required to achieve this. There are more immediate reforms, however, that would improve equity within the tax and superannuation systems, including:

- making pay-as-you-go (PAYG) withholding more accurate so that low-income earners with multiple jobs do not have tax withheld when it is not required.
- replacing the annual superannuation contributions cap with a lifetime contribution cap. This would be fairer, simpler, and cheaper for all to administer. The annual cap disadvantages those with broken work patterns – particularly women.
- increasing rental assistance for older Australians.
- introducing a domestic GST electronic platform rule such as the rule that applies to foreign electronic platforms. This will protect the tax base and provide a level playing field for GST for businesses structured differently.
- introducing measures to help prevent elder abuse, including encouraging state and territory governments to amend how general and enduring powers of attorney (PoA) operate.

Modernising laws for the digital and gig economy age

The uptake of technology accelerated and changed how the economy operates during COVID. CA ANZ supports the government's efforts to make laws technologically neutral. Appendix A lists some laws that still need to be amended.

Other laws need fundamental change to be relevant in the digital age. High priorities include:

- implementing the OECD's base erosion and profit-shifting agenda
- implementing the BoT's recommendations about the residency of companies and individuals (which the government has accepted)
- passing legislation on the sharing economy reporting regime.

How individuals are taxed also needs consideration given that more people work from home without a home office. Remote working also means people may be competing internationally for jobs. If you can work from home, who is to say that home must be in Australia? A review of the competitiveness of Australia's personal tax system is required once the stage 3 tax cuts have been implemented.

During COVID, many people set up a business. The tax collection system for businesses is much more complicated for sole traders than employees. The PAYG instalment system should be reviewed with a view to making it easier for micro and small businesses to comply on an opt-in basis.

Digitalisation has many benefits, but it also carries the danger of cyber-attacks. The Australian Taxation Office (ATO) contains substantial banks of sensitive data that is being targeted by cyber criminals. The government should increase funding to the ATO to ensure it has the best possible cyber security operations and both adequate data analytics and data infrastructure to make appropriate use of the information it collects.

Efficient and streamlined regulatory systems

Businesses impacted by COVID need to concentrate on running their operations, unhindered by administrative uncertainty and red tape. We recommend that the lengthy list of announced but unenacted measures, detailed in the body of this submission, be reduced through enactment or clarification of current standing.

Duplicate regulation is also an unnecessary burden. The regulatory framework for licensed financial advisers needs urgent reform. The complexity and costs of regulation make it difficult for many individuals and small businesses to access affordable, independent, quality advice from their choice of trusted professional adviser. This is not only detrimental to economic growth, but also lessens the opportunity to have Australians invest back into superannuation following the substantial amounts removed following the 'early access to super' reforms.

Uncertain and retrospective fees can adversely affect a business. Our members who deal with insolvency matters have been subject to a 60% increase in fees at a time when liquidation work was less than 50% of the previous seven years. Some actual fees were 500% more than initial estimates. Temporary relief should be provided to all of ASIC's regulated population and a review undertaken to determine if the current application of the Industry Funding Model by ASIC achieves its stated objectives.

The superannuation system is complex. Inadvertent, one-off mistakes — and mistakes beyond an employer's control — should not be treated in the same way as blatant or systemic non-compliance of the Superannuation Guarantee (SG) laws. The Australian National Audit Office should be asked to review the ATO's administration of the SG penalty regime. The government should also request the BoT to review the SG penalty legislative regime to determine if it is fit for purpose.

The following components of the superannuation system require urgent review to ensure that they are operating appropriately and efficiently:

- the Transfer Balance Account (TBA) and Total Superannuation Balance (TSB) systems
- super fund non-arm's length income provisions found in Sec 295-550 of the Income Tax Assessment Act 1997
- amend the law to permit super funds to allow joint spousal accounts, including for pensions. This would substantially reduce the number of superannuation accounts (thereby reducing costs) and make it easier for couples to understand how they are tracking towards their combined retirement income goals.
- review and amend the binding death benefit nomination provisions in the Superannuation Industry (Supervision) Act.

Streamlined government services and systems

During the last lockdown, businesses had to deal with multiple governments and rules to access assistance. The government should initiate discussions with the states and territories to design a central financial assistance response to businesses and individuals affected by natural disasters and pandemics.

All levels of government have substantial budget deficits and will need to reduce them over time. Before increasing tax and cutting essential services, the government should respond to the Productivity Commission's report on shifting the dial and reinvigorate its dialogue with state and territory governments about reducing duplication of resources, encouraging efficient use of resources and ensuring any relative efficiency advantages at one level of government are used for all levels of government.

Achieving a best-practice corporate reporting framework

Developing a global baseline for corporate reporting will now be led by the new International Sustainability Standards Board (ISSB), established by the International Financial Reporting Standards (IFRS) Foundation Trustees. Global capital markets will expect entities to provide disclosures in line with these standards. It is critical that Australia's corporate reporting framework ultimately meets this global baseline at a minimum.

Decisions about how ISSB standards will be incorporated into Australia's corporate reporting framework need to be made now to allow sufficient time for legislative changes. CA ANZ would support establishing a new Australian Sustainability Standards Board. Furthermore, relevant institutions such as FRC and ASIC will need to be appropriately resourced in the interim to ensure the Australian corporate reporting environment is well prepared for these future changes. Achieving a best-practice corporate reporting framework requires interdisciplinary consultation and collaboration.

The immediate focus should be whether climate-related disclosures aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations are to be mandated within the Australian corporate reporting system for certain entities, in line with numerous other jurisdictions.

A clear pathway to net-zero emissions

Australia has set a target for net zero greenhouse gas emissions by 2050. A clear, long-term emissions reduction strategy and a series of emissions-reducing budgets will be needed to achieve this.

Transparency and frequent consultation about the pathway to net zero is crucial to provide a level of certainty for business and encourage investment in low-emissions technology and innovation. Consultation will also be important to understand how the transition will impact all stakeholders, particularly as the costs of the transition will not fall evenly across communities and sectors.

Tax reform

CA ANZ supports the government's approach to prioritising economic recovery over measures that would curtail spending and raise taxes.

Eventually, however, tough decisions will have to be made to ensure Australia has a more efficient, sustainable tax system capable of underpinning the provision of public goods and services.

The size of the deficit and debt — and the long-term burden it places on younger Australians — make it difficult to envisage how the government can remain wedded to the current 23.9% cap on tax receipts as a proportion of GDP.

With a federal election looming, now may not be the time for rational debate on tax matters, given the complexity and broad scope of the issues involved. One approach, which both major parties might

consider, is to commit to another tax reform review without the restrictions that limited the scope of the Henry Review recommendations in 2010. This tax review could be preceded by the publication of a paper by Treasury and/or the Board of Taxation setting out the challenges and reform options.

Major reforms and initiatives that need to be considered include:

- increasing the rate and base of GST
- how the Commonwealth works with state governments, the roles for which these institutions are responsible and how they are funded
- the horizontal equity between individual taxpayers deriving ordinary salary and wage income and those who derive capital gains, especially in a low inflation environment
- bringing any remaining pre-CGT assets into the tax net with a market value cost base so that future gains contribute to general revenue and essential outlays such as aged care
- reviewing tax expenditures to ensure that they are still fit for purpose. Tax concessions provided years ago may no longer be appropriate as businesses modernise and momentum to combat climate change increases.

CA ANZ's contacts

If you would like to discuss any aspect of this submission, please contact the following authors:

Tax – Michael Croker, Tax Leader Australia on (02) 9290 5609 or
michael.croker@charteredaccountantsanz.com

Superannuation – Tony Negline, Superannuation Leader on (02) 8078 5404 or
tony.negline@charteredaccountantsanz.com

Financial advice – Bronny Speed, Financial Advice Leader on (02) 8078 5442 or
bronny.speed@charteredaccountantsanz.com

Insolvency, Business Policy, Sustainable Development and Climate Change – Karen McWilliams, Business Reform Leader on (02) 8078 5451 or
karen.McWilliams@charteredaccountantsanz.com

Yours sincerely

Simon Grant FCA

Group Executive, Advocacy, Professional Standing and
International Development
Chartered Accountants Australia and New Zealand

Appendix A

Contents

1. **Economic recovery measures and the COVID pandemic**
2. **Equity: sharing the burden**
3. **Digital transformation has consequences**
4. **Efficient and streamlined regulatory systems**
5. **Government services and systems: opportunities to reduce duplication**
6. **Taxation: a sustainable system**
7. **Accountability and transparency: achieving a best practice framework**
8. **Net zero emissions: a clear pathway for Australia**

1. Economic recovery measures and the COVID pandemic

Tax measures needed to support recovery include:

- **Low and middle-income tax offset**

The low and middle-income tax offset (LMITO) is set to expire on 30 June 2022. In an economy that still needs stimulus, extending the LMITO will provide many Australians with a little more cash in their pockets to spend.

Recommendation: *Extend the LIMTO.*

- **Full expensing / instant asset write-off**

Many sectors of the economy are currently experiencing supply chain issues. These issues may adversely affect businesses' ability to install depreciable equipment as a tax deduction during the COVID recovery period.

Constant tinkering with the capital allowances regime has also added substantial complexity to the income tax law and confused many business operators. Small businesses need long-lasting, clear and easy to follow capital allowance incentives.

Recommendation: *Further extend temporary full expensing and commit to an ongoing, simplified instant asset write-off regime for eligible small business taxpayers.*

- **Loss carry-back**

The government introduced temporary loss carry-back provisions to allow companies to claim a tax offset if they made losses during the 2019/20 and 2020/21, 2021/22 years and had income tax liabilities in 2018/19, 2019/20 or 2020/21 years.

The government indicated that businesses could purchase depreciable equipment under the full expensing provisions and benefit from using the tax loss carry-back provisions. Missing out on full expensing could mean businesses also miss the opportunity to use the tax loss carry-back provisions.

Extending the full expensing provisions without altering the existing criteria could assist businesses recovering from COVID.

Loss carry-back is not a new concept. It was originally proposed in 2012 to “support investment by reducing the tax bias against investing in riskier but worthwhile projects, particularly by small and medium-sized companies, and providing increased cash flows to businesses during an economic downturn”.¹ Given the need to encourage business investment, the government should consider making loss carry-back permanent.

Recommendation: *Make the loss carry-back permanent.*

- **Small business CGT tax concessions**

Many viable businesses have been doing it tough this calendar year.

As official lockdowns have ended, some businesses are looking to restructure their operations or sell part or all their business. If the government accepts and legislates all recommendations for the transformation of the small business capital gains tax rollover provisions from the Board of Taxation’s (BoT’s) review of small business tax concessions, this will assist small business operators restructure their operations.

CA ANZ supports the BoT’s recommendations that recommends the government should:

- standardise the tax definition of small business entity – BoT recommendation 1
- simplify the small business capital gains tax concessions in the manner suggested in BoT recommendations 4, 5 and 6.

Recommendation: *Announce government support for the implementation of small business CGT changes proposed in the BoT’s review of small business tax concessions.*

- **Research and Development Tax Incentive**

The success of Australia’s innovation system, including the Research and Development Tax Incentive (R&DTI), is key to our nation’s ability to meet global challenges over the coming decade. Effective and efficient administration of the R&DTI is critically important for Australia’s future economic, environmental, and social prosperity.

- As a result of last years’ reforms, the government has maintained and strengthened R&DTI to offer a much more attractive, certain and internationally competitive incentive to reward businesses for their R&D undertaken in Australia. To complement Australia’s R&DTI policy, we need the government to effectively administer it. To do this AusIndustry needs to be properly resourced, and officers trained with effective technical skills and cultural mindset.
- The government should better integrate the systems and processes, including the activities and expenditure roles, between the dual administration functions.
- AusIndustry must incorporate the latest judicial decisions on “core R&D activities” into its guidance and adopt a purposive approach to applying the law in its review process and findings.

¹ <https://treasury.gov.au/publication/business-tax-working-group-final-report-on-the-tax-treatment-of-losses/final-report-on-the-tax-treatment-of-losses/chapter-3-loss-carry-back>

Recommendation: Provide AusIndustry with extra funding to improve administration of R&DTI.

- **IGOT funding**

The Inspector-General of Taxation (IGOT) and Taxation Ombudsman play key roles in the Australian tax system. The IGOT provides a free independent service to taxpayers who have complaints against the ATO. It also reviews the operation of the tax administration laws and systems.

As more taxpayers participate in the sharing and gig economies, they are having to deal with more complicated parts of the tax act. The ATO's recommencement of audit and debt collection activities, temporarily suspended during COVID are also likely to result in increased disputes.

This means more involvement by the IGOT is likely. While the IGOT is a small and effective organisation, extra resourcing would mean this important institution would continue to provide much needed support to taxpayers.

Recommendation: Increase funding for the IGOT to ensure it is resourced to address an expected increase in disputes in a timely and effective manner.

Other measures:

- **Small business restructuring and simplified liquidation**

Pathways introduced in January 2021 to simplify the restructuring and liquidation of companies have meant many small businesses can retain jobs and continue operations even as they restructure or seek to close. This streamlined process maximises returns to creditors, including the ATO.

Yet many viable small businesses are ineligible for the restructuring pathway due to unpaid, historical, employee entitlements.

While we do not support small business survival over prompt payment of employee entitlements, we do consider, if employee entitlements are substantially up to date, a small business should be able to explore a restructure with its employees and creditors. The caveat is that the proposed plan must prioritise the payment of all outstanding employee entitlements in full.

This change would reduce the number of small businesses trying to continue inefficient operations, resulting in an assetless administration and liquidation. By paying all outstanding employee entitlements under the restructuring plan, it would also reduce the number of claims to the Fair Entitlements Guarantee.

Recommendation: To appoint a restructuring practitioner, a small business must have employee entitlements substantially up to date and the proposed restructuring plan must incorporate paying outstanding employee entitlements in full.

2. Equity: sharing the burden

Measures to improve equity include:

- **Pay-as-you-go withholding and single touch payroll**

Many employers are finding it difficult to find workers to fill lower paid, casual or part-time jobs. Often people who undertake these jobs juggle a variety of work (and other) commitments to generate sufficient income.

The current pay-as-you-go (PAYG) withholding system denies an employee access to the tax-free threshold and imposes a withholding tax rate of at least 20% on their income from secondary jobs. This can discourage low paid employees' participation as it results in tax being withheld at a higher rate than what is eventually required. While these employees can apply to the ATO to have their withholding tax rate varied, this is time-consuming and can result in penalties applying if they make a mistake. Now that single touch payroll (STP) provides the government with real-time information about employment income, the government should use this data to benefit workers by reducing the extent of PAYG over-withholding and improve their cash flow. More take-home pay would encourage participation in the Australian economy.

Recommendation: *Shift the focus of STP design to how real-time reporting of payroll data can provide more real-time take-home pay for employees.*

- **Replace annual contribution caps with lifetime caps**

From 1 July 2007, most superannuation contributions have been tested against various annual contribution caps, including, in some cases, a three-year bring-forward provision.

This annual assessment process is complicated, costly to administer and based on false assumptions. It incorrectly presupposes that every superannuation investor will make contributions at a constant rate throughout their working life². It has a particularly negative impact for people with broken work patterns, such as women who take a break from paid work to raise their family, although some recent policy adjustments³ ameliorate this problem to some extent.

We support the need for limits to be placed on how much can be contributed to superannuation.

The reality is that most people can only make significant super contributions later in their working lives. Consequently, the concessional contribution cap should be set at a level that acknowledges this typical experience.

The complexity of the annual contribution tests is exacerbated by different annual contribution caps applying in nearly all financial years since mid-2007. This includes different contribution caps based on various ages. To add to this complexity, before July 2011 the income tax laws imposed substantial tax penalties whenever a contribution cap was breached. The ATO had only limited administrative powers to lessen the impact of these substantial tax penalties.

² See Sec 291-5 and Sec 292-5 of the *Income Tax Assessment Act 1997*.

³ For example, the catch-up contribution mechanism

With effect from July 2011, over several iterations, the government introduced a range of complex administrative arrangements to provide more flexibility in the treatment of excess contributions. Today, the system is arguably at its fairest.

But even in this system, often anomalous, complex situations arise, and innocent mistakes are harshly and unfairly treated.

To cater for one such situation, the government announced a new policy in the 2018 Federal Budget. This policy is administratively very complex and applies to a very small number of high-income earners. It is in Secs 19AA to 19AC of the *Superannuation Guarantee (Administration) Act 1992* (SGAA). These rules were inserted into the SGAA in October 2019, with a retrospective start date of 1 July 2018.

A significantly less complex and more easily understandable system, that is also less costly for government, super funds, and individuals to administer, is readily available.

CA ANZ is firmly of the view that the annual contribution cap assessment process should be removed and replaced with **lifetime contribution caps**. This approach would simplify the current system and be much cheaper for all to administer. This new rule would need an appropriate transitional period.

We note that for those eligible for CGT small business concession, CGT cap amount contributions effectively have a lifetime contribution cap for such contributions.

Our suggested policy would merely extend this feature to everyone, not just eligible small business owners.

We acknowledge that when moving to lifetime contribution caps, the government would have to consider the continued application of the higher contributions tax applying to higher income earners⁴.

We note that under current rules, once a person's total superannuation balance has exceeded the general transfer balance cap (currently \$1.7 million), then a range of policies begin to operate. For example:

- no further non-concessional contributions are permitted
- government co-contributions cease to be made
- contributions made by a spouse are not eligible for the spouse tax offset.

The government could choose to retain these policies – assuming that the review of the transfer balance cap and total superannuation balance measures does not recommend that these concepts are not removed

The government will need to bring forward the concessional contribution provision when a person's total superannuation balance is less than \$500,000. It would seem to us that once lifetime contribution limits are fully operational, bringing forward the concessional contribution provision would no longer be necessary.

Recommendation: Move the superannuation contribution system away from annual caps and replace them with lifetime contribution caps.

⁴ As found in Division 293 of the Income Tax Assessment Act 1997

- **Inadequate rent assistance for older single Australians**

One of our major concerns is about retired single people who have minimal assets or income other than the aged pension and receive rental assistance. Many of these people – predominantly women – spend all the rental assistance and much of their pension on rent and live in very straightened circumstances. This needs to be urgently addressed.

Recommendation: *The level of rental assistance for older Australians should be reviewed.*

- **Appropriate policy settings to prevent elder abuse**

The Australian Law Reform Commission's report [Elder Abuse – A National Legal Response](#) made a number of recommendations about preventing elder abuse in the superannuation sector, including changes to the Binding Death Benefit Nomination (BDBN) rules.

In March 2019, the Attorney General launched the *National Plan to Respond to the Abuse of Older Australians* as well as an implementation plan.

Many of the issues raised in this plan and its implementation involve changing how powers of attorneys (PoAs) operate.

Part of the Attorney's-General Department's 2018 – 2022 Corporate Plan is to continue work on addressing elder abuse.

Enduring PoAs are used frequently in the management and operation of superannuation funds, so it is important that any changes to prevent elder abuse do not have any unintended consequences in the running of these funds.

Many of our members in public practice see the impact of elder abuse first-hand. CA ANZ believes that tackling elder abuse – in relation to superannuation matters – is complex and the government should thoroughly investigate this matter before making any adjustments to legislative and policy settings.

Recommendation: *Strengthen measures to prevent elder abuse, including encouraging state and territory governments to amend how general and enduring powers of attorney (PoA) operate.*

3. Digital transformation has consequences

Digitalisation and globalisation of the Australian and world economy has been evolving for decades. This has rapidly accelerated over the past two years as the federal government's Digital Economy Strategy published last year emphasised:

“Over 2020, the pandemic made it an imperative for many Australian SMEs to actively engage with digital technology to adapt to changed conditions. Nearly 9 in 10 Australian firms adopted new technologies to improve their business continuity during COVID-19.... Within one year, for example, Australian SMEs achieved more growth in web presence, use of digital payroll tools, and use of digital stock control processes than they had in the previous 10 years combined.”⁵

Digitalisation continues to have a significant impact on how Australians conduct their business and personal dealings with government. Tax and business laws should reflect these changes.

From a tax law perspective, the following need particular attention:

- **Base erosion and profit shifting**

The challenges that digitalisation and globalisation pose to the Australian and global taxation systems have been recognised for a decade. The Organisation for Economic Co-operation and Development (OECD) has steadily worked towards core design features of a two-pillar solution to address these challenges. In 2021, there was substantial international agreement on this framework and the announcement of ambitious implementation timeframes.

Pillar 1, which provides taxing rights to market jurisdictions on part of the residual profits earned by multinational enterprise groups with an annual global turnover exceeding €20 billion and 10% profitability, is expected to be in force and with effect from 2023. Pillar 1 will be implemented by a multilateral convention.

Pillar 2, which requires multinational enterprise groups with an annual global turnover exceeding €750 million to pay at least 15% in any jurisdiction in which they operate, is expected to start for the first tranche of the changes, in 2023. Additionally, specified intra-group payments made to related parties and taxed below 9% may be subject to new withholding taxes (which will be implemented by way of a multilateral instrument).

Jurisdictions adopting Pillar 2 are required to use model rules agreed by the Inclusive Framework. However, the government will need to make a number of consequential amendments to Australia's domestic law to integrate the model rule terminology and concepts with the Income Tax Assessment Act. Particular industry issues will also need consideration and consultation.

In-scope multinational groups will need timely guidance from Treasury and the ATO. They will need guidance from both a tax and accounting perspective, with issues relevant to Pillar 1 and Pillar 2 calculations.

⁵ Page 57 <https://digitaleconomy.pmc.gov.au/sites/default/files/2021-07/digital-economy-strategy.pdf>

Recommendations:

- *Publish an implementation strategy together with Treasury to analyse the estimated revenue and compliance impact of the Pillar 1 and Pillar 2 measures.*
- *Allocate extra funding to Treasury and the ATO to support the successful implementation of Pillar 1 and Pillar 2.*
- *Recognise the Inclusive Framework discussions are currently ongoing, publish the expected timeline for consultation and legislative design for these measures.*
- *Provide clarity on:*
 - *the interaction between the reforms and Australia's dividend imputation system*
 - *the interaction between the reforms and the Multinational Anti-avoidance Law and Diverted Profits Tax*
 - *the status of the patent box regime proposed in the 2021-22 Budget.*

- **Residency of companies and individuals**

The government has previously announced that it will implement the BoT's recommendations to modernise the residency rules for individuals and corporates. CA ANZ and the tax agent community have welcomed these recommendations because they simplify and streamline the tax rules in a manner consistent with current global business methods and practices.

The legislative changes to corporate residency are urgently needed as many companies are relying on the ATO's Practical Compliance Guideline 2018/9 paragraph 104AA. The transitional provisions in this guidance material expire on 31 December 2021 for December year-end balancers and 30 June 2022 for June year-end balancers. Residency changes create significant tax issues. Our members regard legislating the proposed corporate residency changes as a high priority.

Recommendation: *The Budget should remove the uncertainty surrounding when legislation will rectify this issue or if the ATO will extend the transitional provisions.*

- **Working holiday maker tax arrangements**

The recent High Court case⁶ that ruled that the 'backpacker tax' contravened a non-discrimination article in a double-tax treaty means further policy work is needed for this segment of taxpayers. Given the importance of backpackers in regional communities, our rural members are particularly interested in the progression of this issue.

Recommendation: *Release draft legislation to implement these residency measures and announce new arrangements for working holiday makers.*

⁶ Addy v FCT [2021] HCA 34,

- **Working from home**

During COVID, many Australians worked from home (WFH) – some for the first time. A considerable number of employees and employers are expected to embrace a hybrid WFH model on a permanent basis.

During the pandemic, the ATO introduced a temporary shortcut method to calculate WFH expenses for both employees and sole traders to recognise the impact of COVID. This shortcut does not require a dedicated home office and dramatically reduced the amount of documentation required to claim WFH expenses. The trade-off was that no other working from home deductions were allowed – which may have resulted in a lower deduction than if the taxpayer had retained more detailed documentation of their expenses.

As lockdowns continued in 2021, the ATO extended the temporary shortcut method, which is now due to expire on 30 June 2022. Given that the alternative fixed rate method envisages that a person has a dedicated workspace at home to claim a deduction and non-office-based work can now be completed virtually anywhere, the tax system should move with the times and remove the requirement for a dedicated workspace. The ATO is currently considering this issue.

Recommendation: *The ‘temporary’ shortcut method should become a permanent feature of Australia’s tax law and the dedicated office space requirement should be removed from the fixed rate method.*

- **Rise of the sharing and gig economies**

The rise of the sharing and gig economies is impacting Australia’s tax administration system. When the tax system was designed, most people were long-term employees. They potentially also earned interest and dividends. The tax collection system was designed around the collection and remittance of tax by employers, banks and companies.

This is no longer the case. The government currently has legislation before parliament covering the sharing economy reporting regime, which will improve the ATO’s oversight of the sharing and gig economies and allow pre-filing of income tax returns.

Recommendation: *Pass legislation on the sharing economy reporting regime at the next parliamentary sitting period.*

The other side of the coin is that the tax system should not discourage participation in the sharing and gig economy.

Calculating and providing for tax has become more difficult for many people involved in multiple work opportunities in the gig economy or participating in the sharing economy. Instead of having PAYG withholding tax automatically deducted from their pay and remitted to the ATO, they are now required to calculate their PAYG instalments themselves and remit tax to the ATO.

Making it easier to calculate, provide and remit tax has become a priority. The BoT review of small business tax concessions recognised the importance of examining this area. The review recommended that small business calculate their PAYG instalments based on real-time tax-adjusted accounts.

Recommendation: *The PAYG instalment system should be reviewed with a view to making it easier for micro and small businesses to comply on an opt-in basis. New Zealand’s [Accounting Income Method](#) provides an example of how this could be achieved. Other countries have categorised gig and sharing economy workers as ‘employees’ for tax and various other purposes (meaning that they fall within the PAYG withholding regime).*

- **Supporting maintenance of digital infrastructure and data analytics**

The ATO has been at the forefront of the government's digitalisation program. The ATO has steadily increased the use of data and data analytics to make it easier for taxpayers to comply and harder for others to be non-compliant. The Commissioner of Taxation is also responsible for the Australian Business Registry and the Modernisation of Business Registers program. This means that the ATO has rich, rapidly expanding databases. Cybercriminals are also interested in these databases. At a recent University of New South Wales (UNSW) tax conference, the Commissioner of Taxation noted that the ATO repels 2 million to 3.5 million cyber threats a month.

Ensuring that the ATO continues to have adequate resources to protect this valuable data trove is essential to ensuring taxpayers' confidence in integrity of the tax system. The ATO also needs resources to ensure that the information that it is collecting can be analysed appropriately

Recommendation: *Increase funding for the ATO to ensure that it has the best possible cyber security operations and maximises the benefits of data analytics and data infrastructure for the Australian community.*

4. Efficient and streamlined regulatory systems

Businesses recovering from COVID need to concentrate their efforts on their operations, unhindered by administrative uncertainty and red tape.

The government can increase certainty around the business environment that businesses operate in by actioning (or at least prioritizing) the substantial number of announced but unenacted measures.

Accountants, who are often the outsourced 'CFO' of small business, are currently dealing with a myriad of regulations that adversely affect the ability of Australians to obtain appropriate and affordable advice, especially financial advice. Simplification of the regulation of accountants is desperately needed to help businesses recover from COVID.

- **Announced but unenacted tax measures**

There are long lists of announced but unenacted, as well as substantive, matters that have been discussed but remain unresolved. These lists have gradually increased over the past five years. While COVID explains some of the delay, it makes it difficult for accountants to advise clients.

Other parts of this submission discuss each of these matters in greater detail:

- Measures that need exposure drafts:
 - new residency rules for individuals
 - new residency rules for companies
 - fringe benefits tax – reducing the compliance burden of record keeping.
- Matters that need to be introduced to parliament:
 - improving the technology neutrality of Treasury portfolio laws

- most superannuation policy announcements made in the 2021 Federal Budget.
- Measures currently before Parliament include:
 - extending temporary full expensing for one year to 30 June 2023
 - removal of \$450 per month threshold for super guarantee contributions
 - extension of loss carry-back for one year to cover the 2022-23 income year
 - making the authorisation of virtual company meetings and e-documents permanent
 - corporate insolvency reforms
 - sharing economy reporting regime
 - removal of the \$250 non-deductible threshold for work-related self-education expenses beginning 1 April 2023.
- Matters that need a government response include:
 - the status of foreshadowed but unspecified changes to Division 7A of the Income Tax Assessment Act 1936 (refer previous Budget announcements)
 - the BoT's report on small business tax concessions.

The government will have only recently received the following BoT reports but may be able to make announcements about its response in the Budget to the:

- review of the dual-agency administration model for the RDTI
- investigation into GST collection on low value imported goods
- review of CGT rollover provisions.

In addition, it is possible that by Budget night the government may be able to detail its response and legislative agenda for the OECD's two-pillar plan to reform international tax rules. It will need to allocate substantial resources to this project given the tight implementation timeline and the need for adequate consultation and parliamentary scrutiny of consequential amendments and associated guidance.

Recommendation: Deal with the list of announced but unenacted measures and unresolved substantive measures.

- **Regulation needs to be fit for purpose and streamlined**

Our members include highly specialised practitioners through to general practitioners. Many of our general practitioners are small businesses that service small-business clients. These members are facing significant regulatory issues, ranging from multiple reporting obligations, inflexible continuing professional education requirements to multiple fees.

Many accountants serving small business question whether they should continue to practice given the high regulatory burden. This is extremely unfortunate, as ATO research⁷ has found that:

- the primary source of information and advice when starting a business is an accountant

⁷ <https://www.ato.gov.au/misc/downloads/pdf/qc57274.pdf>

- almost all small businesses approach an accountant as the 'first port of call' for a tax-related issue
- mature (and often successful) small businesses go to their professional financial adviser for information or advice relating to financial management.

98% of businesses in Australia are small⁸. A thriving small business sector needs a thriving accounting sector to support it. The current regulatory regime for accountants servicing this sector is not supportive of this objective.

Recommendation: *As part of an overall red-tape reduction exercise, review the regulatory environment impacting accountants.*

- **The future of financial advice**

There is, and will continue to be, a need for trusted advisers to look after the financial advice needs of everyday Australians. This will be best served by retaining CAs in the financial advice industry.

Some of our members who are licensed financial advisers are finding the costs of compliance increasingly onerous. As a result, many are looking to exit the industry at a time when the government is trying to increase its level of qualification and professionalism.

CA ANZ urges the government to consider, in the interests of consumers and the public good, streamlining regulation of financial advisers and provide regulatory relief for accountants so that Australians can continue to access affordable advice.

Recommendation: *Urgently reform the regulatory frameworks for licensed financial advisers.*

- **Levies**

Many of our members are captured under the government's cost recovery framework and pay annual levies to the Australian Securities and Investment Commission (ASIC). ASIC advises its regulated population of the estimated levies to recover its costs under the Industry Funding Model (IFM) in a Cost Recovery Implement Statement (CRIS). The intent of this CRIS is to provide cost transparency and accountability to industry.

In recent years, the release of the CRIS has come after the financial year end to which it relates. There has been significant disparity between the estimate and actual levy and exponential increases in certain levies, some more than 500%. For example, levies for registered company auditors have increased fourfold in recent years. For registered liquidators, the levy increased by more than 60% for the period 2020-21 when work available remained at less than 50% of the average of the preceding seven years.

The government has provided temporary relief to financial advisers and the Financial Regulator Assessment Authority has commenced a review of ASIC's core competencies. Unfortunately, for most people, these initiatives will not mitigate the impact of increasing levies during a time of economic disruption. These increases have a disproportionate impact on regulated professionals operating as small businesses and sole traders and those supporting regional communities. As a result, many members are reducing the services they offer or leaving altogether.

⁸ <https://www.asbfeo.gov.au/resources-tools-centre/data-portal/small-business-counts>

Recommendation: Provide temporary relief to all of ASIC's regulated population and review whether the current application of the IFM achieves its stated objectives.

- **Super fund non-arm's length income provisions**

As Treasury and the government are aware, CA ANZ, together with a large number of professional and industry associations, has requested, via several submissions to government⁹, that the provisions found in Sec 295-550 of *the Income Tax Assessment Act 1997* be **urgently** reviewed to remove any unintended and far-reaching potential financial impacts for every individual with retirement savings.

Recommendation: The Budget papers include a response to these submissions.

- **Superannuation Guarantee (SG) penalty regime**

The SG penalty regime must encourage employers to comply with their obligations under the law. However, penalties must strike the right balance between encouragement and being unfairly punitive.

The complexity of the superannuation system makes it easy for employers to inadvertently fail to comply with their SG requirements. In some cases, employers are not directly responsible for SG compliance breaches. These mistakes are compounded when employers are not made aware of non-compliance until many weeks or even months after the deadline to self-report SG non-compliance to the ATO has passed.

Under the SG penalty regime, all mistakes are treated in the same way.

In our view, inadvertent one-off mistakes and mistakes beyond an employer's control should not be treated in the same way as blatant or systemic non-compliance of the SG laws.

Recommendation: Request the Australian National Audit Office to review the ATO's administration of the SG penalty regime. The BoT should also review the SG penalty legislative regime to determine if it is fit for purpose at the earliest available opportunity.

⁹ <https://www.charteredaccountantsanz.com/news-and-analysis/advocacy/policy-submissions/joint-submission-superannuation-non-arms-length-income-rules>

- **Review of transfer balance account (TBA) and total superannuation balance (TSB)**

On 1 July 2022, the TBA and TSB systems will have been in operation for five years and there has been sufficient time to determine if these systems are working as intended.

The TBA system is similar to the reasonable benefit limit (RBL) system which ceased to operate on 30 June 2007. The ATO observed in its 2004/5 Annual Report that “investment [necessary to build systems to effectively and efficiently operate the RBL system] and the overall effort required to administer reasonable benefit limits appear disproportionate to the number of individuals ultimately affected by the provisions”.

It should be evident after five years of operation if the TBA and TSB are achieving their objectives in a cost-effective manner for all participants, including government, the ATO and individuals, in the superannuation and taxation systems.

Recommendation: *Request the BoT to review every relevant aspect of the TBA and TSB systems as soon as possible.*

- **Joint spousal accounts**

There appears to be no reason why a super fund – being an express trust – cannot have joint membership as a benefit category. But despite this, the Superannuation Industry (Supervision) Act 1993 (SIS Act), main taxation legislation, and the Corporations Act 2001 do not permit joint memberships.

CA ANZ maintains that the government should amend the law to permit super funds to allow joint spousal accounts including for pensions.

The advantages of this approach have been put forward by a number of stakeholders and include:

- a substantial reduction in the number of superannuation accounts (thereby reducing costs)
- a much clearer indication for couples of how they are tracking towards their combined retirement income goals.

At the same time, the government should also consider joint total superannuation balances and transfer balance caps.

Recommendations:

- *Fund the ATO to produce annual reports showing superannuation savings for single people by gender and couple households.*
- *Explore the potential for joint spousal accounts for super funds, also joint total superannuation balances and transfer balance caps.*

- **Review binding death benefit nominations**

CA ANZ agrees with the critical comments made in *Retail Employees Superannuation Pty Ltd v Pain [2016] SASC 121* about binding death benefit nominations (BDBN) and recommends the government review the relevant provisions in the Superannuation Industry (Supervision) Act (SIS Act) and related regulations so that in the future, the law delivers better outcomes for consumers

and superannuation funds. This review should take place after the High Court has handed down its decision in *Hill v. Zuda Pty Ltd* as trustee for The Holly Superannuation Fund & Ors¹⁰.

The regular incidence of court cases involving superannuation death benefits, including those cases mentioned here, shows that the process needs reform.

Recommendation: *Encourage the government to review and amend the binding death benefit nomination provisions in the SIS Act.*

- **Retirement savings for women**

Women's retirement savings are often less than men. The accepted wisdom is that some action should be taken to address this imbalance. The reasons for these differences include a broken working pattern around having and raising at least one child and caring for elderly relatives.

It's important to consider this issue in its totality rather than the average account balances by gender. The reality is that:

- Most of us live as couples. The *2019 Household Income and Labour Dynamics in Australia Survey*¹¹ shows that 65% of individuals, aged at least 65, live in a household with their spouse, who is also aged at least 65. For younger age cohorts, the percentage of couple households is higher.
- Most couples share resources, including retirement savings and income. The government's age pension assessment recognises the reality of resource sharing by assessing single people and couples using different thresholds for both the income and asset tests.

When relationships fail, all assets of the relationship, including superannuation assets, are taken into account when a property split is finalised.

The ATO has good quality superannuation data collated by individual tax file numbers to easily match couples via individual tax returns. The ATO already produces a report of superannuation savings by individuals and this should continue to be published together with an additional report that details superannuation savings for couples.

Both reports should contain information dissected into age, state/territory, postcode, federal electorate, postcode, etc. and provide average and median values for this information. Once the ATO produces these two reports, the nation will have a much better picture of the retirement savings problem to work on appropriate solutions.

Recommendation: *The ATO should be tasked to publish more insightful data to better inform policies that enhance the retirement incomes of women.*

- **Ensuring business can be conducted electronically**

Federal government initiatives to make legislation 'technologically neutral'; allow electronic communication and virtual meetings; and facilitate the electronic execution of documents and remote document witnessing is widely welcomed. However, gaps remain.

As noted in CA ANZ's various submissions to Treasury, the Department of Prime Minister and Cabinet and to the Economic Legislation Committee, further expansion of the scope of electronic execution of documents is needed for a wider range of legislation. In particular, the government

¹⁰ https://www.hcourt.gov.au/cases/case_p48-2021

¹¹ https://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0011/3127664/HILDA-Statistical-Report-2019.pdf

should remove outdated requirements such as written notices, records and non-electronic forms which require physical (wet) signature approval. For example:

- ASIC currently requires ASIC registered agents and digital services providers to obtain an original 'wet' signature on Form 362 Notification by a company to nominate or cease a registered agent or contact address and retain the original signed form for no less than seven years.
- Section 18(3) of the SIS Act requires the Australian Prudential Regulation Authority to be informed of an election by written notice that is: (a) in an approved form and (b) signed by the trustee. It is not clear whether this notice can be carried out or signed electronically.
- Section 75-10 of the Insolvency Practice Rules (Corporations) 2016 requires that "the convener of a meeting must give notice in writing of the meeting to as many of the persons appearing on the company's books" and section". Section 75-95 "if necessary, an external administrator must ask a creditor to give evidence in writing in relation to a debt claimed by the creditor to establish the liability of the company for the debt"

Recommendation: *Identify and resolve these legislative gaps.*

- **Modernising business registers**

A significant and welcomed transition of more than 32 registers onto one platform is underway. The intent of the new register is to allow businesses to view and manage their data in one location using a 'tell-us-once' principle.

This intent can only be achieved if the platform can leverage technology and interact with other government agency platforms to provide a seamless connection of all data concerning corporations. For example, it could notify a corporation if it has registrations on the Personal Property Securities register or a director who is also a director of a not-for-profit regulated by the Australian Charities and Not-for-profits Commission (ACNC).

For the project team to understand the role of trusted advisers, it is critical that consultations occur frequently and there is genuine engagement with industry. This must be balanced with progressing development.

Recommendation: *Provide additional funds to the program to resource investment in consultation with, and engagement of, industry representatives.*

- **Consumer data right**

Substantial resources have been dedicated to creating the framework for Consumer Data Right (CDR). It is currently operating in the banking industry and is being steadily rolled out across other industries.

The government expects that CDR "will drive investment and uptake of emerging technologies, unlock the value of data, build skills for a modern economy, and enhance government service delivery¹²." CDR rules recognise professional accountants as trusted advisers to small businesses and consumers. As champions of CDR, members of the professional accounting bodies are well placed to raise awareness and promote the current and future benefits of CDR to

¹² <https://ministers.treasury.gov.au/ministers/jane-hume-2020/media-releases/modern-digital-economy-secure-australias-future>

the millions of small businesses and consumers they service.

Recommendation: *Support the professional accounting bodies to develop tools and resources to upskill their members to become champions of CDR.*

5. Government services and systems: opportunities to reduce duplication

All levels of government have substantial budget deficits and in time need to reduce them. Before increasing tax and cutting essential services, a review of government expenditure at all levels should be undertaken with a view to streamlining government services and systems.

The 2017 Productivity Commission report *Shifting the dial: 5-year productivity review* was publicly released on 24 October 2017. The next review will be due in 2022.

Many of the 2017 recommendations centered on the need for government to provide more efficient and coordinated health and aged care services. Government hasn't yet formally responded to the recommendations. Given the increasing cost, size and importance of these sectors in the Australian economy, government needs to improve service delivery using better protocols and digital technology.

Recommendation: *Reinvigorate dialogue with state/territory governments about reducing duplication of resources, encouraging efficient use of resources and ensuring any relative efficiency advantages at one level of government are used for all levels of government.*

Business would benefit from the streamlining and centralisation of natural disaster and pandemic assistance. Standard conditions and administration requirements for support, regardless of where a business is located in Australia, will ease businesses' compliance burden and assist in the fast delivery of assistance. The allocation of the cost of such support can be decided by governments in the background.

Recommendation: *Initiate discussions with the states/territories to design an agreed financial assistance response to businesses and individuals affected by natural disasters and pandemics.*

6. Taxation: a sustainable system

Eventually, tough conversations and decisions will have to be made to ensure that Australia has a sustainable tax system, underpinning the provision of public goods and services.

Measures that need to be considered include:

- increasing the rate and base of GST
- clarifying roles in the Federation, and how those roles are funded
- reconsidering the horizontal equity between taxpayers deriving ordinary salary and wage income and individuals deriving capital gains
- bringing pre-CGT assets into the tax net so future gains can contribute to general revenue and outlays reviewing tax expenditures to ensure they are still fit for purpose
- conducting a policy review of ATO tax gaps reports to determine the changes required, including analysis of the industries that contribute to the gap
- conducting a policy review of factors contributing to current high levels of aged, undisputed tax debt to determine policy changes required

- tasking the BoT to prepare reports on a range of difficult tax policy issues, such as the taxation of trusts¹³.

GST reform

Achieving GST reform through either broadening the GST base or rate is difficult. Simply lifting the GST rate is regressive and would require a permanent compensation package for lower income households.

Methods to increase GST revenue in the short term could include:

- Introducing a domestic electronic platform rule similar to foreign electronic platforms. This would protect the tax base and provide a level playing field between businesses that pay GST due to a consolidated structure and those businesses outside the GST net due to the fragmentation of their business structure.
- Lowering the GST threshold. The GST threshold was introduced in 2000 to reduce compliance costs. In the past 20 years, with the increasing uptake of digital accounting systems and automation of accounting processes, this threshold may no longer be appropriate. Already, taxi operators, for example, have no GST threshold.
- Abolishing the tourist refund scheme. An Australian National Audit Office (ANAO) report about the management of the tourist refund scheme noted that Australia was the only country that allowed its citizens and residents to participate in the tourist refund scheme. Total refunds in 2017/18 amounted to \$230 million of which about 41% were paid to Australians. While this is a relatively small amount, before COVID it was growing rapidly (43% increase in the number of claims over the past five years). ANAO found evidence of significant non-compliance by Australian citizens and residents and significant revenue leakage (\$244.3 million to \$556.6 million over the life of the scheme)¹⁴.
- Exploring how financial services can be fully taxed. Debate about including financial services in the GST base revolves around valuation and determination of value added. In 2015, the South Australian Government initiated a discussion about fully including financial services in the GST base.¹⁵ While that idea did not result in any changes to the GST treatment of financial services, it spurred greater consideration of those issues by GST specialists. Given that seven years have passed since that discussion, it may be worthwhile revisiting the topic and consulting relevant stakeholders.

Recommendation: *Explore ideas with the states about how to minimise leakage from the GST system.*

¹³ Treasury's 2011 paper 'Modernising the Taxation of Trust Income – Options for Reform' and 2012 paper 'Taxing trust income – options for reform' have not resulted in any reforms.

¹⁴ Fraud estimates of the claims vary from 36% to 82%.

¹⁵ Refer to this document which contributed to that discussion: <http://taxsifu.com.au/wp-content/uploads/2015/09/SADPC15-GSTfinancialservices-0914final.pdf>

7. Accountability and transparency: achieving a best-practice framework

- **Achieving a best practice corporate reporting framework**

Risk management and reporting lie at the heart of an organisation's governance and strategic activities. Regardless of the source, financial or non-financial risks have a direct effect and influence on an organisation's value creation. Consequently, investors are demanding more information to inform their investment decisions, which in turn requires companies to make relevant and robust disclosures on a range of risks.

CA ANZ's recent [Investor Confidence Survey](#) revealed a growing appetite for climate-related information, with more than half (53%) of respondents saying this information is highly important to their investment decisions. Almost three in five (59%) of more than 750 Chartered Accountants responding to the *2021 Chartered Accountants IFRS Survey* (report forthcoming) indicated that climate-related information was already important in the context of their role. This is largely because of the evolving impact of climate on business risk, opportunities and profits, and is accelerating moves toward greater corporate accountability on climate.

The Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) [have also acknowledged the shift in investor focus](#) towards emerging risks, including climate-related risks.

Part 2M of the *Corporations Act 2001* outlines the obligation to prepare an annual financial report, while ASIC's Regulatory Guidance 247 [RG 247](#) offers guidance for directors on providing useful and meaningful information to shareholders or unit holders when preparing an operating and financial review (OFR) in a directors' report. [RG 228](#) sets out guidance for effective disclosure for retail investors. With respect to these regulatory guides, ASIC has included [updates that make specific reference to climate-related financial disclosures](#). To this end, ASIC is encouraging the inclusion of climate related risk within the OFR and consideration of these risks in prospectuses. Similarly, principle 7.4 of the fourth edition of the Australian Stock Exchanges' (ASX) *Corporate Governance Principles and Recommendations* includes a requirement on listed entities to disclose any ["material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks."](#)

Taken together, these reporting requirements illustrate a recognition in Australia of the financial markets' growing demand for robust and reliable climate-related financial information and the role that regulators play in providing a framework for this information disclosure.

The new [International Sustainability Standards Board](#) (ISSB) is now leading the development of a global baseline for corporate reporting. The International Financial Reporting Standards (IFRS) Foundation Trustees established the ISSB during the UN Conference of Parties (COP 26) in Glasgow. While climate-related disclosures will be the first standard issued, the ISSB is expected to issue future standards on other sustainability issues. For example, nature, is quickly becoming another area subject to scrutiny by investors and is already strongly supported by the Australian Government.

As a result of these developments, global capital markets will expect entities to provide disclosures in line with these future ISSB standards. Therefore, it will be critical that Australia's corporate reporting framework meets this global baseline at a minimum. Future-proofing the domestic corporate reporting framework so that it is compatible with the baseline established by the ISSB will help to ensure Australia maintains its global influence in this space.

Decisions around how ISSB standards will be incorporated into Australia's corporate reporting framework should be taken early to allow sufficient time to implement the necessary legislative changes and if required, establish a new Australian Sustainability Standards Board. Further, the relevant institutions such as FRC and ASIC will need appropriate resourcing in the interim to ensure the Australian corporate reporting environment is well prepared for these future changes. Achieving a best practice corporate reporting framework will also require interdisciplinary consultation and collaboration.

Recommendation: *Initiate discussions regarding how ISSB standards will be best incorporated into Australia's corporate reporting framework, and if necessary, develop policy and legislation accordingly including the establishment of an Australian Sustainability Standards Board.*

In particular, the government should consider mandating climate-related disclosures, aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, within the Australian corporate reporting system for certain entities. For example, New Zealand, the United Kingdom, Hong Kong, Singapore and the European Union among others, have already taken steps to mandate TCFD-aligned disclosures for certain entities within their jurisdictions. This is in line with investor demand for this information.

In Australia, ASIC's RG 247 and 228 as well as the ASX Corporate Governance Principles and Recommendations fourth edition already strongly encourage the use of the TCFD recommendations for company disclosures. The Australian Council of Financial Regulators (CFR) a climate working group considering steps to facilitate high-quality and comparable climate-related disclosures and potential Australian approaches to sustainable finance taxonomies.

Recommendation: *Engage with industry and the CFR to determine whether climate-related disclosures should be mandated within Australia and if so, for which entities.*

- **Funding for reporting and auditing standard setting and oversight**

Investor confidence is vital for the health of our capital markets. Constantly improving the quality of audited financial reports is integral to maintaining investor confidence and demands robust, transparent oversight. CA ANZ recognises the commitment already demonstrated by the government and agencies concerned.

Recommendation: *Focus on resourcing and effectiveness in government agencies, including ASIC, responsible for setting and enforcing the standards that underpin high-quality audited financial reports.*

- **Anti-money laundering**

CA ANZ supports global initiatives to combat this activity and recognises the importance of Australia meeting its obligations as a member of the Financial Action Task Force¹⁶ by:

- ensuring the regime is as efficient as possible by leveraging any existing regulatory obligations or industry oversight requirements and minimising industry levies or administration fees on small business
- enacting fit-for-purpose regulation that factors in the compliance costs for small to medium sized practices and their clients
- proactively engaging and setting expectations with consumers and the public so they understand their obligations before it becomes law
- ensuring the existing regulator, the Australian Transaction Reports and Analysis Centre, oversees the new regulations and is appropriately resourced.

- **Wellbeing budget**

The aim of the Australian Budget should be to build a more resilient country, better prepared for the future. Its commitments and investments should improve the outcome of disadvantaged people and have broader measures to contribute to everyone's wellbeing.

Measures of Australia's progress should be based on broader indicators covering our society, the economy and the environment. Recent events in Australia, such as the bushfires, ongoing droughts and COVID-19, have shown that decisions that need to be made to protect our health, society and futures may outweigh the expected (negative) financial impacts.

Therefore, the traditional short-term GDP measures typically used to benchmark Australia's success as a nation should be broadened to focus on how we grow and build back stronger. This focus will require consideration of important societal values that cannot be measured by GDP including inequality, digital divide, social cohesion and environmental quality.

New Zealand's Wellbeing Budget has shifted its focus onto the wellbeing outcomes important for all New Zealanders. The foundation is the [NZ Treasury's Living Standards Framework](#), which takes a multi-capital approach to decision making. The economic perspectives, included in the Budget represent the means to fund the wellbeing initiatives through economic sustainability, creating the right enablers for business and society to prosper.

We suggest the government positions its messaging around the Budget to focus on the key wellbeing aspects, such as financial, social, natural and human.

This would also provide an opportunity to link policy measures to the United Nations Sustainable Development Goals (SDGs), for example where Australia performs well and the challenges that need to be addressed. This approach will also enable all Australians to understand how the Budget outcomes will contribute to Australia's broader wellbeing.

¹⁶ See CA ANZ submission to Senate - <https://www.charteredaccountantsanz.com/news-and-analysis/media-centre/press-releases/ca-anz-supports-stronger-anti-money-laundering-and-counter-terrorism-finance-regs>

Clearer measures and benchmarks, such as the Australian Bureau of Statistics' (ABS) previous *Measures of Australia's Progress* (MAP), with reportable timeframes, would provide transparency on Australia's progress to recovery and assist planning for the future. Members of the public could also monitor how the nation is progressing and link to initiatives such as a formal national tax reform working group.

Recommendation: *Position Budget messaging to focus on the key wellbeing aspects, such as financial, social, natural and human. Introduce clearer wellbeing measures and benchmarks.*

8. Net zero emissions: a clear pathway for Australia

Australia made [further commitments at COP 26 and has set a target for net zero greenhouse gas emissions by 2050](#). Emissions reduction must not occur in isolation from sectoral, economic and social factors. Ongoing consultation will be key to understanding the impacts on all stakeholders and ensure that a just transition to a net zero emissions economy takes place, particularly as the costs of the transition will not fall evenly across communities and sectors.

A long-term and clear emissions reduction strategy will provide some certainty for business and encourage investment in low-emissions technology and innovation. This is likely to include a series of reducing emissions budgets.

Further, as businesses seek to communicate their emissions reduction efforts, regulators should have mechanisms in place to protect against greenwashing. ASIC's corporate surveillance program is already focused on this. Further, the UK Government has indicated [it is developing standards relating to 'net-zero' disclosures](#) via an international working group, which Australia could join.

Recommendation: *Publish a clear emissions reduction roadmap and develop interim emissions budgets in consultation with key stakeholders.*