

ELEANOR HALL: Heather Ridout is the chief executive of the Australian Industry Group. She's also a member of the Government's Henry Tax Review panel.

Sabra Lane spoke to Ms Ridout to gauge her reaction to the budget.

HEATHER RIDOUT: It's a cautious budget. It's a credible budget, one that plays to the Government's strengths in economic management and in health.

And I think the fact that it does return the budget to surplus earlier really does mean the fiscal policy will do its share of the heavy lifting in meeting the increased inflationary pressures and take the pressure off monetary policy going forward.

SABRA LANE: The Government says the economy will pick up because of the commodities boom. It's predicting growth rates of 3 and 3.75 per cent, 4 per cent. Did business get enough incentive in this budget to play its part in helping sustain this kind of growth?

HEATHER RIDOUT: Well I think business will really strongly welcome the skills issues - the three components of it; one around critical skills areas; one around language and literacy and numeracy areas and the other around reform to the VETs (Vocational Education and Training) system and all done in partnership with business. So they're very, very, very substantial improvements.

Over time more money will probably be needed but there is no bigger issue for Australia in the future than skills shortages.

I think areas like exports are underdone and the support for the EMDG scheme and Trade Start, it's pretty ordinary. I think the R and D area is another area that we continue to lobby the Government to put in place a genuinely useful proposal.

SABRA LANE: Now putting on your Henry Tax Review hat the Government has announced in this budget that it's adopted other measures - simpler tax returns, discounts on savings. How much of a difference can those measures make?

HEATHER RIDOUT: Well they're very important. The discount on savings - at the moment if you put your money into super or into your house or into shares you get a capital gains discount, you get a tax concession, you get a range of it. You put it in the bank and you pay tax on the whole lot, even the inflation gains. So it's very distorting.

So I'm very pleased. We advocated that hard in the Henry Review. The Government have taken a slightly different approach to it but the principle remains the same so that's very important.

I think the issue of interest withholding tax for foreign banks etc, I think that's going to be strongly welcomed by those companies.

So I think all round a pretty sensible set of measures. And we're building on those reforms. There's 138 in the book and I think we've probably acted on about six or seven of them by now.

SABRA LANE: The Government is also pushing ahead with another of the recommendations, a 40 per cent tax on so called super profits. Are you happy with that amount given the Government didn't adopt your other recommendation to drop company tax to 25 per cent?

HEATHER RIDOUT: We are strongly of the view the Government should move to reduce the company tax rate to 25 per cent. Twenty eight per cent is simply not enough and doesn't elevate us up the league table enough in terms of being competitive, especially the size of our economy and the head winds big sectors like manufacturing, tourism, education, will face in the years ahead. So we're strongly of the view the Government should move faster on that.

Resource profits tax - we are, we support the industry in going hard in their negotiations with the Government. Conceptually it's a good tax. Henry recommended it. It's the right way to go to replace the really pretty ordinary royalty system but they have to get the rules fair and right.

SABRA LANE: Given that they haven't adopted the 25 per cent corporate tax rate how much should the Government be prepared now to look at for that super profits tax? It's said 40 per cent. The industry said we can't sustain that. What do you think the figure should be?

HEATHER RIDOUT: Well you can model it. I think, I mean they can do the modelling and you can come up with an exact figure but it's probably 2.5 per cent or so less than what's been proposed.

But it's not just about the rate. The rate is one issue. It's much more about the rules, the transitioning existing projects into it. It's about the so-called uplift factor - how you measure normal profits before you can call them super profits - and getting that right is really fundamentally important otherwise it's not a super profits tax.

ELEANOR HALL: That's Heather Ridout the chief executive of the Australian Industry Group speaking there to Sabra Lane.