

Ai GROUP

Submission to the 2022-23 Federal Budget

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About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for *thriving industries and a prosperous community*. We offer our membership high quality services, strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

Australian Industry Group contact for this submission

Peter Burn,
Chief Policy Advisor
Email: peter.burn@aigroup.com.au

Executive Summary

The 2022-23 Budget should:

- Strike the right macroeconomic positioning in what is likely to remain a very uncertain environment.
- Articulate the roadmap for the restoration of rising living standards and real incomes growth in Australia and set out the new steps to be funded in the 2022-23 Budget.
- Articulate the Government's approach to fortifying Australia's taxation and intergovernmental relations over coming years.

Summary of Recommendations

Macroeconomic Positioning

The federal government should be ready to offer targeted support to severely affected households and businesses as new disruptions arise in the evolving global pandemic.

We also recommend that a greater recourse to loans could be considered for future support measures in place of near-exclusive reliance on non-repayable support payments.

Ai Group recommends there should be no increases to taxation or charges and no new taxes should be introduced in the 2022-23 year.

The Government should maintain the stimulus measures applying for the 2022-23 that have already been announced.

This includes the commitments to invest in infrastructure; the immediate expensing of capital investment and the loss carry back measure available for the 2022-23 year; and the commitments to pay the low and middle-income tax offset at the start of the 2022-23 financial year as individuals file their 2021-22 tax returns.

Ai Group recommends that the Government work closely with the states, territories and the construction industry to fast-track the skilled migration required to deliver the scheduled programs of public sector infrastructure while not crowding out private sector construction.

Ai Group urges the Government to expedite the resumption of the immigration program for permanent, skilled, student and visitor arrivals and to encourage the take up of the opportunities it presents.

Reviving Real Income Growth

The election-year Budget presents an opportunity to make inroads in key areas fundamental to reviving real income growth at the centre of which is higher productivity growth. Budget measures should be set in the context of a longer-term road map and include:

- Committing to the continuation of support for apprenticeships and traineeships and extending the apprentice model to work integrated learning for higher level qualifications.
- Support for skills development in individual workplaces – particularly in relation to digital skills and including literacy and numeracy.
- Advancing the use of micro credentials geared to workforce-relevant skills.

- Maintaining and extending the Entrepreneurs Programme including in relation to digital skills.
- Supporting the development of export skills and opportunities among a wider range of businesses.
- Maintaining a stable approach to incentives for private sector research and development.
- Continuing to develop and refine approaches to early-stage innovation and commercialisation.
- Supporting business transitions to net zero emissions by supporting the development of innovative technologies and their adoption.

Taxation and Intergovernmental Financial Relations

Australia faces a formidable fiscal challenge. Underlying pressures from the ageing population and challenges of addressing climate change while retaining the competitiveness of our industries and jobs have been added to as a result of the necessary expenditure that has been undertaken in addressing the challenges of COVID-19.

While material inroads cannot be expected in the current environment, in its 2022-23 Budget the Government should commit to building understanding and working with the states and territories to establish the path to building support for the substantial remodeling that is required of our taxation arrangements and our approach to intergovernmental finances.

Macroeconomic Management

Ai Group applauds the efforts of Australia's governments in dealing with the pandemic to date. While not without missteps, both our health outcomes and our economic outcomes have been better than those of most countries. Our high levels of vaccination are now permitting the adoption of a living with COVID approach in which blanket activity restrictions, including border closures can be put aside with much lower risks.

While the Omicron wave has clear distinctions, considerable encouragement can be taken from the demonstrated capacity of the economy to bounce back strongly from the setbacks experienced over the COVID-19 pandemic to date. A key part of this has been the support of the federal and state governments for adversely affected households and businesses and the liberal approach to monetary policy on the part of the Reserve Bank.

The Omicron experience has also demonstrated that even in the absence of lockdowns and despite widespread vaccination, severe interruptions to commercial activity, including from labour availability and supply chain disruptions, can be associated with COVID outbreaks. While we would like to believe that, as the current wave passes, Australia can return to normal, Ai Group remains wary of further disruptions. These include the possibilities of a winter surge in infections and any additional disruptions associated with the emergence of new COVID variants.

This wariness, together with the feedback from businesses about their vulnerability to continuing or new disruptions leads us to recommend that the federal government should be ready to offer targeted support to severely affected households and businesses as new disruptions materialise.

We recognise that this could add to levels of public sector debt that are already high in comparison to Australia's earlier experience. However, we also refer to the role of earlier support in the strength of rebounds to date and the benefits this has for a faster recovery of tax revenues.

We also recommend that a greater recourse to loans could be considered for future support measures in place of near-exclusive reliance on non-repayable support payments.

We are mindful of the stifling impacts of current levels of uncertainty on business confidence and the risk appetite of businesses including in relation to investment. While, as discussed below, we regard the task of fiscal consolidation to be an essential element of economic management over coming years, we recommend that in the 2022-23 Budget there should be no increases to taxation or charges and no new taxes should be introduced. An early announcement to this effect would be an important relief for businesses and households and would assist in securing a faster pace of recovery over the 2022-23 year.

We also recommend that stimulus measures already in train for 2022-23 be maintained. This includes the commitments to invest in infrastructure, the immediate expensing of capital investment and the loss carry back measure available for the 2022-23 year and the commitments to pay the low and middle-income tax offset at the start of the 2022-23 financial year as individuals file their 2021-22 tax returns.

Where necessary, the Government should commit to supporting measures required to secure the delivery of the existing measures. A major area in this connection is the need to ensure there is sufficient labour to deliver on the infrastructure pipeline. Ai Group recommends that the Government work closely with the states, territories and the construction industry to fast-track the skilled migration required to deliver the scheduled programs of public sector infrastructure while not crowding out private sector construction.

More broadly, Ai Group urges the Government to expedite the resumption of the immigration program for permanent, skilled, student and visitor arrivals and to encourage the take up of the opportunities it presents.

Achieving Sustainable Real Incomes Growth

While we are building from a position of considerable advantages, Australia faces major challenges over the coming years to equip the country to build further prosperity while dealing with an ageing population, low real-income growth, faltering productivity and business investment, the imperative to transition to net zero emissions and a tax system that is ill-equipped for the task of fiscal consolidation.

The business sector has a central role to play in meeting these challenges. So does the public sector in lifting productivity in the services it provides and in facilitating a productive and dynamic private sector.

While many of the challenges are long-term ones, the election-year Budget presents an opportunity to make inroads in key areas and to set out the framework for the longer-term.

The major elements of the framework need to include:

- The reform of our skills and education system to get the most from investments in the development of workforce skills.
- Investing in developing business capabilities such as digitisation and trade - particularly for small and medium-sized businesses.
- Reviving business investment.
- Boosting innovation.
- Refreshing enterprise bargaining.
- Ensuring our workplace relations arrangements can accommodate the changing needs of the workforce and employers.
- Improving the efficiency of regulation.

Immediate priorities that should be pursued in the 2022-23 Budget should include:

- Committing to the continuation of support for apprenticeships and traineeships and extending the apprentice model to work integrated learning for higher level qualifications.
- Support for skills development in individual workplaces – particularly in relation to digital skills and including literacy and numeracy.
- Advancing the use of micro credentials geared to workforce-relevant skills.
- Maintaining and extending the Entrepreneurs Programme including in relation to digital skills.
- Supporting the development of export skills among a wider range of businesses.
- Maintaining a stable approach to incentives for private sector research and development.
- Continuing to develop and refine approaches to early-stage innovation and commercialisation.
- Supporting business transitions to net zero emissions by supporting the development of innovative technologies and their adoption.

Taxation and Intergovernmental Relations

Australia's approach to taxation and intergovernmental relations needs to be remodelled to ensure we are equipped to consolidate public finances while supporting the gains in public and private sector productivity that are fundamental to sustainable increases in real incomes.

Meeting the challenges of COVID-19 has required extensive public expenditure and the economy and the country is in a much better position because of the measures that have been taken. Achieving this position has been expensive and it comes at a time when there are already substantial emerging fiscal pressures. As is well-documented in the Government's Intergenerational Reports, we face the fiscal challenges of an ageing population. Fiscal pressures also stem from the need to adapt to climate change and to play our part in limiting its severity by reducing emissions to net zero.

These challenges are formidable, and our present tax and intergovernmental relations are not equipped to meet the task. There is a long list of deficiencies including these:

- Our approach to taxation is too highly dependent on the taxation of income in general and, in particular, on the returns required to attract investment.
- Our indirect tax bases are eroding.
- State and territory governments are inhibited from making sensible changes to their own taxes by the operation of our intergovernmental financial arrangements.

Addressing these and other shortcomings is not easy and at present lacks widespread understanding and support.

The 2022-23 Budget should commit to building understanding and working with the states and territories to establish the path to building support for the substantial remodeling that is required.



AUSTRALIAN INDUSTRY GROUP METROPOLITAN OFFICES

SYDNEY 51 Walker Street, North Sydney NSW 2060, PO Box 289, North Sydney NSW 2059 Tel 02 9466 5566

WESTERN SYDNEY Level 2, 100 George Street, Parramatta, NSW 2150

CANBERRA AMA Building Ground Floor, 42 Macquarie Street, Barton ACT, 2600, Tel 02 6233 0700

MELBOURNE Level 2, 441 St Kilda Road, Melbourne VIC 3004, PO Box 7622, Melbourne VIC 8004 Tel 03 9867 0111

BRISBANE 202 Boundary Street, Spring Hill QLD 4004, PO Box 128, Spring Hill QLD 4004 Tel 07 3244 1777

ADELAIDE Level 1, 45 Greenhill Road, Wayville SA 5034 Tel 08 08 8394 0000

PERTH Suite 6, Level 3, South Shore Centre, 85 South Perth Esplanade, WA 6151

REGIONAL OFFICES

ALBURY/WODONGA 560 David Street Albury NSW 2640 Tel 02 6041 0600

BENDIGO 87 Wills Street, Bendigo VIC 3550 Tel 03 5440 3900

NEWCASTLE Suite 1 "Nautilus", 265 Wharf Road, Newcastle 2300, PO Box 811, Newcastle NSW 2300 Tel: 02 4925 8300

www.aigroup.com.au