

# **More Aussie Jobs**

## **Using the budget to boost employment**

**Pre-Budget Submission to the Federal Government**



**National Retail  
Association**

**Prepared by the National Retail Association**

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## Overview

Having inherited a confronting fiscal position, and after having a number of its key reforms blocked in the Senate, the Australian Government must now look for new ways in which it can strengthen revenue and stimulate economic growth.

The decision in February by the Reserve Bank Board to cut the cash rate, while providing a welcome boost to household spending power, also sends a concerning signal about the RBA's views of the underlying strength of the Australian economy.

The retail sector – particularly discretionary product categories, is more exposed to a downturn in consumer sentiment than many other parts of the economy. This in turn will impact on the availability of employment in the retail sector. As the Federal Government is aware, the retail sector provides more than 10% of all jobs in Australia, with relatively higher numbers of lesser skilled workers, younger workers and female workers, and many whose circumstances require them to work on part-time or casual basis. For these reasons, the National Retail Association urges the Federal Government to use all available levers in the upcoming budget to boost the retail sector, and to preserve and create more jobs for Australians.

In our corresponding submission in 2014, the NRA argued strongly for the Federal Government to review the issue of GST on on-line sales below \$1000. Under existing arrangements, imports worth less than \$1000 are exempt from paying Goods and Services Tax, with this exemption triggering a further exemption from import duties and customs charges. Sadly this tax loophole – the Low Value Threshold (LVT) has not been addressed over the past 12 months. As a result, it continues to undermine the integrity of the GST system, the overall tax base and employment levels in Australia. We iterate the urgent need for this issue to be addressed.

We also call on the Federal Government to recognise the impediments to small and family-owned businesses generating higher employment levels and greater prosperity in Australia. We welcome the Prime Minister's recent assurances that the Government is working on a small business and jobs package. We note the promise of a small business company tax cut of at least 1.5 per cent from 1 July 2015. However, we urge the government to remember that many small businesses are not structured as companies. Partnerships, trusts and sole traders contribute their share of tax through alternate avenues, and are also strong contributors to employment and economic activity. The government must ensure that any attempt to bolster small business does not disadvantage some businesses simply because of their structure.

We also urge the government to end its proposed company tax levy on larger businesses now that it has signalled the end to its paid parental leave proposal. We must remember that this additional tax will also impact on the ability of those businesses to sustain and create jobs in a softer economic environment.

## About the submitter

The National Retail Association (NRA) is a not-for-profit industry organisation providing professional services and critical information and advice to the retail, fast food and broader service industry throughout Australia. NRA is Australia's largest and most representative retail industry organisation, representing more than 19,000 stores and outlets. This membership base includes the majority of national retail chains, as well as independent retailers, franchisees and other service sector employers. Members are drawn from all sub-categories of retail including fashion, groceries, department stores, home wares, hardware, fast food, cafes and personal services like hairdressing and beauty. The NRA has represented the interests of retailers and the broader service sector for almost 100 years. Its aim is to help Australian retail businesses grow.

## The current state of play for the Australian retail sector

Since the election of the Abbott Government, retail has enjoyed consistent, if modest growth. With the exception of a brief period of instability around last year's Budget – in our view associated with media reporting and public misconceptions, rather than the reality of the Budget – retail has benefited from generally higher growth under this government, compared to previous years. The most recent trade figures from the Australian bureau of statistics showed growth of 4.3 per cent in December 2014, compared with December 2013. This modest growth over 12 months follows an exceptionally difficult period since July 2009 – a period marked by depressed sales and often negative sales growth in discretionary product categories.

Between 2011 and 2013, non-food retail sales growth averaged 1% to 2% per annum. To put this into context, this rate was slower than the 1990-1991 recession when non-food retail growth was 2.8%. The average retail sales growth over the twenty-six year timeframe is closer to 6%.

What is very clear, having regard to measures of consumer confidence, the household savings rate and household wealth measures, is that instability in the global economy and in domestic politics have had significantly negative impacts on consumer preferences and therefore the retail sector. Furthermore, these factors continue today to underscore the fragility of retail performance.

Against this background, retailers have confronted rapidly escalating costs of operation in the areas of labour costs, rents, utilities and other increases across their supply chains. At the same time that retail experienced a major downturn in sales growth, the sector was also forced to bear record increases in annual labour costs, largely driven by the implementation of and transitioning to the Modern Award structures.

The fragility in sales growth, and ongoing challenges to protect business margins against higher costs, all pose a threat to the viability of employment growth in the Australian retail sector. And these challenges are compounded by the advantage granted to foreign online retailers by Australia's tax settings. Given that retail employs over 1.2 million Australians, we believe the industry's issues must be addressed boldly and urgently in order to avoid the deterioration in both the revenue and expenditure sides of the budget that would result from business closures and job losses.

## Levelling the playing field

The NRA continues to support the recommendations of the previous government's GST Distribution Review Final Report relating to protecting the intended GST revenue base and preventing the leakage of GST revenue from online imports. This should involve taking immediate steps to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of goods and services that would be subject to GST if purchased from a domestic supplier, and to reduce the low value import threshold to \$20.00.

The GST Distribution Review Panel's Final Report noted that comparable countries such as the United Kingdom and Canada have thresholds of approximately \$20.00. The Panel also noted that a much lower threshold is needed to minimise a number of practices currently used to avoid the GST, including the disassembly of products and the adjustment of invoices. In fact, the Panel stated that the current threshold is open to "flagrant abuse".

Lowering the LVT to \$20.00 will yield the following benefits:

1. Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared with foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.
2. More Aussie Jobs. An Ernst & Young report commissioned by NRA estimates that up to 33,400 local retail jobs will be lost if our local businesses continue to face this tax discrimination. Note that these jobs are often likely to be the jobs of the least skilled and most vulnerable workers in our country, as the retail sector employs a high proportion of our nation's least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.
3. The Commonwealth Government will be making good its responsibility for vigilantly protecting the GST revenue base on behalf of the States and Territories, by closing an emerging loophole that has become significant since the original design of the GST;
4. The States and Territories will receive additional GST revenues, allowing them to invest in public services and easing their reliance on Commonwealth financial support. The value of the potential GST revenues is \$819 million in 2013-14 and growing to over \$1 billion a year within the forward estimates, as forecast in a separate Ernst & Young Report, also commissioned by NRA.
5. The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.

We recognise and respect the Government's pre-election commitment to increase neither the size nor the scope of the Goods and Services Tax. We believe it is critically important for the newly elected Government to give businesses and consumers confidence and certainty in their operating

environments, and we believe this can best be achieved by the Federal Government maintaining its pre-election commitments.

However, this issue is not about increasing either the rate of the GST nor the range of goods and services to which it applies. This is about closing a loophole that rewards and encourages overseas retail, to the detriment of Australian businesses, workers and – ultimately, through reduced local competition – consumers. These are goods and services that, if purchased from an Australian on-line retailer, would attract the GST. However, there is a tax avoidance mechanism for overseas retailers that does not apply to Australian retailers. And this is impacting directly and indirectly on the long-term integrity of the Commonwealth Budget.

Previous examinations of this issue have raised concerns that the costs of collecting GST on low-value imports would exceed the revenue stream. However, the previous government's taskforce found that lowering the LVT even to \$500 would generate sufficient revenue to cover the collection costs. More importantly, however, the NRA submits that this issue is a contributing factor to a significant number of Australian retailers, particularly in the small and medium enterprise categories, closing their doors, laying off staff, or planning soon to do so. NRA has members who are proposing to close their doors and lay off their staff when their current leases expire and they nominate this issue as the main reason for their business decision. In this case, maintaining a tax loophole that is causing those closures simply because of the cost of closing it is a false economy at best.

## Business tax rate reforms

The retail sector is, unarguably, the single greatest stepping stone to working life for Australians. Many young people experienced their first taste of working life as a retail employee. Many Australians are given their first opportunities in leadership and management and supervision in retail. It is also the preferred pathway for many unskilled adults, those with only part-time availability, and those who are seeking to re-enter the workforce after a period away or in other sectors. Retail employs more than 1.2 million Australians. The majority of these jobs exist in small and family-owned business. We urge the government to use every available means to support these businesses, to allow them to sustain and grow their employment levels.

We acknowledge and welcome the Prime Minister's advice, delivered to the National Press Club on 2 February 2015, that the Government is working on a small business and jobs package. We note the promise of a small business company tax cut of at least 1.5 per cent from 1 July 2015. This was a pre-election pledge for the Abbott Government and we endorse the intention to honour it.

However, we urge the government to remember that many small businesses are not structured as companies. Partnerships, trusts and sole traders contribute their share of tax through alternate avenues, but are also strong contributors to employment and economic activity. The government must ensure that any attempt to bolster small business does not disadvantage some businesses simply due to their structure.

We also urge the government to end its proposed company tax levy on larger businesses now that it has signalled the end to its paid parental leave proposal.

## Long term tax and budget planning

The NRA echoes the position of the Australian Chamber of Commerce and Industry, outlined in its pre-Budget submission, calling for a formal tax cap of 23.9 per cent of GDP. We support calls for this tax-to-GDP ratio to be enshrined in the Government's medium-term fiscal strategy under the Charter of Budget Honesty Act. We also endorse the suggestion of a 10-year forward estimates period, with a long-term surplus target of one per cent of GDP at the end of that period. The current forward estimates period, coupled with the three-year election cycle, inherently leads to short termism on both the revenue and expenditure sides of fiscal decision making. A 10-year focus would show clearly the long-term impacts of all government decisions, and sound alarm bells far enough in advance of a fiscal emergency that it could be averted or at least minimised.

## Vocational Education and Training

The NRA supports the Federal Government's review of industry training initiatives, and particularly the focus on putting more options directly into the hands of employers. Whilst the allocation of funding between different priorities should always be up for considered review, the total funding for vocational education and training, and for the Industry Skills Fund, should at least be retained at existing levels. We note and agree with industry reports that investments by both State and Federal governments in the VET system have fallen in real terms in recent years.

The NRA believes industry training needs to be far more flexible – allowing employers and their staff to choose modules and subjects that suit their particular needs, rather than being forced in most circumstances to undertake entire certificates or qualifications. Providing training that allows workers to dip in and out of the system as required, may allow the government to achieve significant cost savings while also getting workers out of the classroom and back into the workforce more quickly.

We also warn of the risk of concentrating training programs solely on skills areas currently deemed high-need. This short-term approach may satisfy some sectors in the present day, however the resulting training shortfall in other skills areas will create parallel skills crises in other areas of the economy down the track. Moreover, it also ignores the fact that areas of skills shortage are not necessarily the greatest generators of employment, and nor are they the areas likely to demonstrate steady and sustainable growth over many years. Retail is a vital foundation for jobs creation and growth in the economy, and its training needs should not be ignored in favour of other industries.

We also warn of the risk that training rebates or incentives provided by government can be viewed as a "cash cow" by those with revenue or cash flow problems. We urge the Government to continually improve and tighten the eligibility for organisations applying for training funding, to ensure that they have the prudential arrangements and financial viability that should apply to any organisation receiving government funding in any other areas.

## Federal tobacco excise

With respect to tobacco excise, the NRA notes that the Federal Government has essentially implemented all of the changes recommended in the Henry Tax review but has not ensured that the new regulations are adequately policed and enforced. As a result, illicit tobacco sales have grown significantly and it is estimated that the Federal Government is losing up to \$1.2 billion annually in tobacco excise. The businesses of retailers selling a legal product who comply with new regulations are being undermined by the lack of enforcement against non-compliant traders selling counterfeit or contraband products. The intentions of government to reduce smoking through an increased price signal are similarly being undermined. An increased focus on enforcement activities by the Federal Government is needed to achieve the intentions of the Henry Tax review and potentially has a significant impact on the overall budget. This would better achieve the intentions of government health officials and would help to address the current perverse situation where retailers endeavouring to comply with the new regulations are being penalised relative to those who are deliberately non-compliant.

## The role of Government

Across a range of portfolio areas – including training, school building, home improvements and many others – there has been a tendency in recent years towards a “Government knows best” attitude to service delivery. Fundamentally, the NRA does not accept that this is the case. While we believe the public service has expertise (and in some cases monopoly expertise) in some areas of administration and service provision, we believe there is far greater scope for contestability in the work of government. We believe lower taxation is inherently linked to smaller government. Both are highly desirable, and can only be achieved through greater use of the private and not-for-profit sectors as delivery partners for government services, where ever possible. We believe increased use of private sector experts to deliver services on behalf of government will not only lead to lower costs, but also greater outcomes due to the enhanced accountability that comes with the contractual obligations of external service providers. As a budget item, the Federal Government should invite submissions and re-examine opportunities to move areas of service or administrative function to the private and not-for-profit sectors.



## Conclusion

At first glance, the GST LVT issue may appear to affect mainly state governments and their revenue streams. However, as has been outlined above, a weakened retail sector experiencing business closures and job losses will indeed have a detrimental impact on both revenue and expenditure for the Commonwealth. The NRA believes the Commonwealth can collect GST revenue on behalf of the states without significant new compliance expenditure.

We also believe the GST and other tax and spending changes suggested in this submission will give confidence to the retail industry, creating a fairer playing field for tens of thousands of business owners and their employees.

## Contact information

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