

Business
Council of
Australia



SUBMISSION

Submission to the Black Economy Taskforce Interim Report

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The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

Introduction

The Business Council of Australia welcomes the opportunity to provide a submission to the Black Economy Taskforce Interim Report.

The Business Council strongly believes all companies and individuals must meet their tax obligations and we strongly endorse the work of the Taskforce in this regard. At the same time, laws and regulations should not be so overly complex or burdensome as to stifle business activity or discourage people from willing participation and compliance.

The policy changes to curtail the black economy should look to level the playing field for businesses doing the right thing. It should not be about revenue raising for its own sake. Indeed, improved compliance, by broadening the tax base, offers the potential for lower tax rates overall.

Addressing the black economy is also important for improving trust in the tax system and institutions. As the interim report notes, key drivers of the black economy include high tax and regulatory burdens, social norms, the availability of cash, and the risk of detection and penalties. The broad consultation process by the Taskforce is a positive step towards ensuring all stakeholders have a voice in this important process.

The final report should build a rigorous and robust evidence base on which to craft future policy responses to the black economy. Proportionality should also be considered when developing appropriate responses.

A simpler tax system

A simple, fair and transparent tax system that is easy to comply with helps foster more willing participation and trust, and reduces costs. Enforcement is also a key driver of compliance, both directly and indirectly, by promoting system integrity and fairness in application. Trust influences compliance decisions, driving increased voluntary compliance and creating a culture of compliance. The design and administration of the tax system can also support compliance, including through pay-as-you-go, withholding taxes and dividend imputation.

Tax simplicity may not be a goal in and of itself, but compliance imposes real efficiency costs and reducing these would increase economic wellbeing. Complexity can be measured through administration and compliance costs, but may also have indirect effects such as behavioural change – which may include the black economy.

Voluntary compliance is high

Australia's level of voluntary compliance is high, with more than 95 per cent of revenue collected by the Australian Taxation Office (ATO) derived from voluntary compliance, with the remainder a result of active compliance. By comparison, almost a quarter of net tax

revenue collected in Italy results from active compliance.¹ It is important that any changes proposed by the Taskforce have regard to, and seek to build on, the already high level of voluntary compliance in Australia.

A number of other factors affect compliance, such as attitudes towards government more generally and tax system fairness, and views on the appropriateness of government delivery and funding of services.² This implies that improvements in these attitudes can help lift compliance and allow the same amount of revenue to be collected at lower rates from a broader, and less distortionary, base.

Complexity increases costs and the black economy

Complexity increases costs to both taxpayers and administrators, reduces transparency, distorts decision making and the allocation of resources, and can reduce confidence in the fairness of the tax system. Complexity can also contribute to non-compliance due to honest errors or by providing increased scope for avoidance and the black economy. Where complexity has been introduced to address specific issues or drive behaviour, these incentives create choice but can also increase compliance costs for all taxpayers and administrators.

The benefits of policy measures must outweigh the costs

All stakeholders must have faith and trust in the tax system working effectively, but any proposed changes to the tax and regulatory system must be measured on a cost-benefit basis. The appropriate benchmark is that a policy will have a net positive effect on the economy.

Any policy measures identified by the Taskforce ideally should seek to address the underlying problem rather than overlay more regulation. This means a clear and well understood definition of the problem must be put forward with an equally targeted solution. For example, the interim report suggests tax thresholds and high effective marginal tax rates drive tax evasion. The Taskforce should assess the benefits and costs of various approaches to solve for this. Solutions could include improved education and a simpler tax system, increased compliance activities by the ATO or increased penalties. Alternatively, broader reform of the tax and transfer system may be a more robust solution.

The cash economy

The interim report raises several concerns with the use of cash in the context of the black economy. Cash accounted for 37 per cent of consumer payments in 2016, down from 69 per cent in 2007. Card payments account for much of this decline, doubling from 26 per cent of consumer payments in 2007 to 52 per cent in 2016 and these trends will

¹ Jordan, Chris. 2014. "Reinventing the ATO - building trust in Australia's tax administration." Commissioner's Address presented at the ATAX 11th International Tax Administration Conference, Sydney, 14 April 2014.

² Feld, Lars P., and Bruno S. Frey. 2002. "Trust breeds trust: How taxpayers are treated." *Economics of Governance* 3 (2): 87–99; Hofmann, Eva, Erik Hoelzl, and Erich Kirchler. 2008. "Preconditions of Voluntary Tax Compliance: Knowledge and Evaluation of Taxation, Norms, Fairness, and Motivation to Cooperate." *Zeitschrift fur Psychologie* 216 (4): 209–17.

likely continue apace.³ Indeed, the most important reason consumers used cash was that the merchant did not accept alternative payment methods or had minimum spend requirements. Any proposed changes should consider these trends and consider the role technology can play in reducing the instances of misreporting and underreporting of income, reducing compliance red tape and enhancing interactions and trust with the tax system.

Good data and analysis will be critical

The interim report raises many issues worthy of further consideration. Assessing them will be assisted by garnering more evidence, data and analysis. In addition, the interim report notes the New Zealand approach into the black economy of surveying taxpayers to discover the underlying drivers. This work was used to build an evidence base and a similar approach in Australia could be worth considering.

The ATO is due to publish tax gap estimates for individuals, including the value of work related expenses overclaiming, later this year. The Commissioner of Taxation has identified that the tax gaps for small businesses and individuals are likely to be bigger than for large companies.⁴ These estimates will better inform where the focus of policy and administrative efforts should be. There will also be an obligation on those analysing this data to be rigorous. Not doing so may unnecessarily undermine the community's confidence in the integrity of our tax system and distort any debate or efforts to address the underlying problems.

Business has a key role to play

Business has a critical role to play in addressing the black economy. The interim report considers this through the prism of more responsible supply chain management. The Business Council has already taken steps that will go part of the way to addressing both better supply chain management and the black economy through the Australian Supplier Payment Code. This is a voluntary, industry-led initiative to enshrine the importance of prompt and on-time payment for suppliers through a set of best practice standards.

As part of the Australian Supplier Payment Code, signatories will work with supplier businesses, where practicable, to apply technologies and practices that will speed up invoice reconciliation, approval and payment processes (such as through online portals, electronic invoicing, Electronic Funds Transfer, payment cards etc). The code represents an opportunity to accelerate digital payment systems.

The interim report also considered whether a good tax record for procurement is a good idea. The report acknowledges that 'any definition should be seen by businesses as objective, fair and non-arbitrary. It should not apply to firms in dispute with the ATO or those who have been guilty of minor lapses'. The Business Council shares these concerns and suggests the Taskforce consider alternative approaches, such as requiring the adoption of the Tax Transparency Code.

³ Doyle, Mary-Alice, Chay Fisher, Ed Tellez and Anirudh Yadav. 2017. "How Australians Pay: New Survey Evidence." Reserve Bank of Australia, Bulletin, March.

⁴ Jordan, Chris. 2017. "Commissioner's address to the National Press Club." Presented at the National Press Club, Canberra, 5 July 2017.

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