

Master Builders Australia

Submission to the Black Economy Taskforce

Interim Report – March 2017

31 July 2017



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1 Summary of recommendations

- 1.1 The following submission provide an assessment of the recommendation included in the Taskforce's Interim Report – March 2017 and the subsequent Additional Policy Ideas report.
- 1.2 As a first step this section summarises some of the key additional recommendation which we believe will assist the Taskforce to achieve its objectives and help the tax system work more closely with industry.
- 1.3 These additional recommendations and the feedback provided in this submission have been developed with a number of guiding principles in mind, namely that:
- 1.3.1 Reforms must not increase the cost or complexity of compliance. Doing so would be counterintuitive to the primary objective of the Taskforce to reduce black economy activity. High effective tax rates are the single biggest contributor to tax evasion behaviour. One sure fire way to reduce black economy activity is to reduce the tax burden on industry.
 - 1.3.2 Greater enforcement should on deliberate and persistent non-compliance, not small business owners how might unknowingly or accidentally become non-compliant
 - 1.3.3 That any additional measures do not stifle the incentives to open a business. Small business is the engine of economic growth and employment in Australia.
 - 1.3.4 Any new regulations must not apply to businesses with a good track record of compliance. Increasing red-tape to honest businesses is unfair and is counter to other objectives of the Taskforce, such as enacting a cultural change.
- 1.4 Master Builder key additional recommendations are provided in the table below:

Report recommendation	Additional recommendation / amendment
Recommendation 1	We encourage further consideration of whether this could be extended to include State/Territory and PPP projects,

	as well as consideration to how procurement rules may be made consistent across different jurisdictions.
Recommendation 7	<p>We do would not support a recommendation to make tax and financial literacy modules a <u>compulsory</u> component of VET curricula, particularly for trade / Certificate III level qualifications.</p> <p>Alternatively, we recommend that an industry driven training campaign to offer new potential business owners with the literacy training specific to their industry. This would allow specified training modules to be developed and tailor to industry.</p>
Recommendation 9	<p>We recommend the Taskforce undertake a review of what is the most efficient and effective tax rate for businesses, to maximise the tax take and minimise the dead weight loss to the economy.</p> <p>We believe the cumulative tax rate is too high, reducing activity in the building and construction industry. Reducing this rate may therefore help increase tax revenue and compliance.</p>
Recommendation 17	Master Builders sits on the committee of the Phoenixing Taskforce and strongly supports its continuation.
Recommendation 28	We recommend the Taskforce work with other government agencies who are working on related programs, such as Business Simplification Agenda run out of the Department of Industry.
Recommendation 4 (Additional Policy Ideas)	We recommend the implementation of a Director Identification Number (DIN) as a better measure to ensure company directors are fit for the job.

Recommendation 42 (Additional Policy Ideas)	We recommend effective tax rates for business are reduced. One sure fire way to reduce black economy activity is to reduce the tax burden on businesses.
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2 Introduction

- 2.1 This submission is made on behalf of Master Builders Australia Ltd.
- 2.2 Master Builders Australia (Master Builders) is the nation's peak building and construction industry association, and was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder state and territory Associations. Over the past 125 years the movement has grown to over 33,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three – residential, commercial and engineering construction sectors.
- 2.3 The building and construction industry is a major driver of the Australian economy and makes a key contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy.
- 2.4 The building and construction industry is the second largest in the country accounting for approximately 9.4 per cent of total economic growth (Gross Value Added) on average per year since 1996 and employing more than 1.1 million people.
- 2.5 The building and construction industry includes more business entities than any other industry (approximately 360,000 as at June 2016) and is unique in terms of its operation and underpinning structure.
- 2.6 Building and construction projects are often undertaken through contractor and sub-contractor arrangements with often multiple layers of contractual arrangement between the various businesses which may be working on a construction site at any one time.
- 2.7 The size and nature of the building and construction industry, as well as the nature of how construction projects are delivered, creates an inherent

expansion of circumstances in which opportunities to display avoidance are present.

- 2.8 This is a risk to the sector, the economy, and Master Builders' members. It is a circumstance where those who do the right thing are undermined and disadvantaged. While the risk of unacceptable and deliberately illegal behaviour should be mitigated to the maximum extent practicable, this should be balanced against the need to not unduly burden those who do the right thing or whose actions are unintentional.
- 2.9 Overall, it is Master Builders view that scope exists within the tax system and regulators to work more cooperatively with industry to boost compliance levels. In particular, there is scope to simplify tax arrangements to reduce regulatory burden, which will have the effect of increasing compliance.

3 Background

- 3.1 The Commonwealth Government announced the Black Economy Taskforce ('the Taskforce') to consider ways to combat tax avoidance behaviour and misconduct in the Australian economy. This was done with recognition that these issues cannot be tackled by traditional tax enforcement measures.
- 3.2 The Taskforce has now released interim findings contained in the document *Black Economy Taskforce Interim Report – March 2017* ('the Interim Report'). This report includes a list of 35 initial recommendations.
- 3.3 In this submission, Master Builders will outline a position (where appropriate and relevant) on the initial recommendations. These positions will reflect both a response to the interim recommendations and the views expressed during initial Taskforce consultations.
- 3.4 A number of earlier Master Builders submissions express our position on tax and tax reform related issues. Some of this work is directly related to areas of tax evasion identified by the Taskforce, including, cash in hand and business phoenixing. Other elements of this work are not directly related but may help inform the recommendations of the Taskforce, such as the terms for security of payments, business entries and exits, and insolvencies. These can be found as Attachments B to D.

- 3.5 Master Builders' broader priority areas of for federal tax reform are found in the 2017 Pre-Budget submission – Attachment A.

4 Overview

- 4.1 Master Builders welcomes the opportunity to provide a submission in response to the Interim Report. Master Builders has worked closely with the Taskforce through the development of the interim report recommendations.
- 4.2 The ABS estimate that the black economy in Australia could be as large as 1.5 per cent of our gross domestic product, or around \$24 billion dollars. Black economy activities are both unfair for honest taxpayers and undermine our tax and welfare systems.
- 4.3 Master Builders has a long history of working with the Government to ensure a level playing field in the building and construction industry and to ensure that our members are protected against unlawful behaviour which may put honest businesses at a disadvantage.
- 4.4 The following submission builds on feedback given to the Taskforce during a number of consultation sessions and roundtable workshops attended by Master Builders and its State/Territory associations.
- 4.5 During consultations with the Taskforce Chair, Master Builders Australia shared our concerns and views related the black economy of relevance to the building and construction industry. Key issue raised include:
- 4.5.1 The need for the tax system to work with building and construction businesses;
 - 4.5.2 The need to further examine technologies that reduce the tax compliance burden, particularly for small businesses, and
 - 4.5.3 The need to simplify tackle regulator red-tape as a measure to boost compliance and reduce avoidance behavior.
- 4.6 Item 3.5.3 above is particularly important as the tax and compliance burden on the building and construction industry is amongst the highest in the economy, with taxes and regulations levied at all three levels of government.

4.7 Master Builders Western Australia also attended a Taskforce Roundtable held in Perth on 31 May 2017. The Roundtable considered some of the drivers of the black economy and a range of policy options to remedy these drivers. Some of the recommended remedies included:

- The establishment of a Tax Tribunal
- Increased education and training opportunities
- More targeted attention and focus on non-complying owner builders
- Incentives structured to encourage compliance
- Removal of tax system aspects that stifle innovation
- Rationalisation of information repositories (such as databases) across the levels of government, along with greater flexibility for information to be exchanged, to repetition and compliance burdens,
- More effective deterrents, and
- The deductibility status of cash payments..

5 Review of Recommendations – Interim Report, March 2017

5.1 This section provides preliminary feedback against the recommendations of the Interim Report. Additional policy ideas developed since the Interim Report was completed are also included.

5.2 Only recommendations which are pertinent and relevant to the building and construction industry, along with issues raised during Taskforce consultations, are examined.

5.3 **Recommendation 1:** *Access to Australian Government procurement opportunities should be limited to firms which have a good tax record (and not engage in bribery)*

5.3.1 Master Builders strongly supports this recommendation. We encourage further consideration including whether or not it be extended and include State/Territory government projects and PPP projects.

- 5.3.2 Consideration should also be given to what arrangements exist in State/Territory procurement rules and how these can be made consistent throughout.
 - 5.3.3 There should be no additional compliance burden to encourage greater compliance. We also strongly support the notion, expressed in the Interim Report, that any definition of a 'good tax record' must be carefully developed, objective, fair and non-arbitrary.
 - 5.3.4 For Commonwealth funded building work, we draw the Taskforce's attention to Part 5, sections 23 – 29, in the Code for the Tendering and Performance of Building Work, set out under the Australian Building and Construction Commission (ABCC).
 - 5.3.5 We recommend that access to Australian Government procurement for construction contracts remain under the jurisdiction of the ABCC, as set out under the Code.
- 5.4 **Recommendation 2:** *Tax (and other) incentives for small businesses who adopt and invest in non-cash business models*
- 5.4.1 Master Builders supports this recommendation in-principle but notes more information is needed in the final report to appropriately assess the impact on industry. We recommend that the final report outline what these tax incentives might include and how they would operate.
 - 5.4.2 Any incentives framework must also consider the costs imposed of moving to a non-cash business model on small businesses, including all financial, administrative and structural costs.
- 5.5 **Recommendation 4:** *Deductibility of cash wages and contractor payments*
- 5.5.1 Master Builders notes this proposal.
 - 5.5.2 Greater information is necessary in order to appropriately consider the recommendation.
 - 5.5.3 We support the notion that tax deductibility is a possible means to increase compliance and reduce 'cash economy' activity.
- 5.6 **Recommendation 6:** *Business Registration Integrity and Modernisation*
- 5.6.1 There is an urgent need to address duplication across and within government departments and regulatory bodies. Removing this

duplication would yield significant benefits and help to encourage tax compliance.

5.6.2 We urge the Taskforce to work with the Department of Industry Business Simplification agenda and consider ways to reduce duplication and compliance costs within the tax system, with the aim of encouraging compliance and reducing the costs of tax related red tape.

5.7 **Recommendation 7 (and 27): *Training for trades and small business people (Education)***

5.7.1 Feedback from industry suggests that a lack of business administration skills can be one of the biggest challenges facing new business owners in the building and construction industry and in some circumstances can be a cause of business failure.

5.7.2 Non-compliance can be a result of not know how to comply. Better education could therefore increase compliance and improve small business chances of success.

5.7.3 Master Builders would not support a recommendation to make tax and financial literacy modules a compulsory component of VET curricula (as noted in recommendation 27). Doing so risks having an adverse impact on completion rates, most likely in trades which are already facing a skills shortages.

5.7.4 Financial and tax literacy is not a requirement to successfully fulfil a role in most trades occupations. It is only if/when a tradesperson chooses to run/open their own business that these skills become necessary. As such, we consider such component ought to be optional and not compulsory.

5.7.5 In addition, we recommend that an industry driven campaign to build awareness and advise new business owners of the support available would be a preferable. This would allow specified training modules to be developed, which:

5.7.5.1 Are tailored to the specific requirements of industry

5.7.5.2 Are targeted at tradespeople who are looking to start their own business

- 5.7.5.3 Provides training at the time that it is needed and is contemporary.
- 5.7.5.4 Most tradespeople do not start their own business for several years after completing their qualifications. Therefore providing training during their apprenticeship/VET qualification may be out of date.
- 5.7.6 We would welcome the opportunity to consult further with the Taskforce on ways to develop an industry led business literacy training framework.

5.8 **Recommendation 9: Regulatory burdens affecting small business**

- 5.8.1 The best way to encourage compliance is to reduce the tax burden on industry. The higher the tax burden the greater the incentive not to consider avoidance.
- 5.8.2 A review of what is an efficient and effective tax rate for businesses to maximise the tax take and minimise the deadweight loss of business related taxes would make a significant contribution to tax reform in Australia.
- 5.8.3 Any review should focus on the cumulative impact of business related taxes on activity in the business sector. This review must be the first step in a serious reform of the tax system and the business sector.
- 5.8.4 Skills (people) as well as capital are becoming more mobile. This shifts the efficient rate of tax on these commodities given the increasing capability of businesses and labour to move to take advantage of lower taxing locations (overseas).
- 5.8.5 Australia's tax system must be competitive if we are going to attract our fair share of skills and capital.
- 5.8.6 As noted by the OECD (2010)¹, corporate taxes are the most distorting tax in an economy. Reducing these taxes therefore has the greatest potential to boost economic activity (and therefore tax revenues). We believe the cumulative effective tax rate on

¹ OECD, 2010, *Growth-orientated Tax Policy Reform Recommendations*, Tax Policy Reform and Economic Growth.

businesses is too high. Reducing this rate may therefore help to increase tax revenue and compliance.

5.9 Recommendation 14: *Limited use of amnesties*

5.9.1 Master Builders supports the use of amnesties to give businesses and workers in the building and construction industry the best opportunity to ensure they are properly complying with the law.

5.9.2 However, we would caution against using this amnesty as an opportunity to impose greater restrictions and penalties following the amnesty period.

5.9.3 Greater penalties, if deemed necessary, should be restricted to, and better targeted at, serial offenders. Increasing penalties for new entrants into the market puts them at a disadvantage against incumbent business and could potentially reduce competition in some industries.

5.10 Recommendation 15: *Withholding arrangements*

5.10.1 Master Builder's supports a review of withholding arrangements in line with recommendations outlined pertaining to the latter in the Henry Review (2010).

5.10.2 However, an assessment of withholding arrangements through contractor relationships must consider businesses legitimate rights to privacy and any potential impact on compliance behaviour (and therefore black economy activity).

5.10.3 Building and construction business seeking Commonwealth funded work are already subject to requirements under the Australian Building and Construction Commission (ABCC), Code for the Tendering and Performance of Building Work 2016, Part 3, sections 7 – 16A.

5.11 Recommendation 16: *Whole-of-Government use of data/privacy*

5.11.1 Master Builders supports the more efficient use of data across Government and would encourage the Taskforce to continue to work with the Digital Transformation Office and other government programs, such as the Business Simplification Agenda to look into ways to improve efficiency of data use and collection.

5.11.2 However there must be guarantees in terms of privacy. If not, a whole-of-government approach to data use may serve as a disincentive for compliance for businesses which put a greater value on the privacy of their data/information.

5.12 **Recommendation 17:** *Phoenix Taskforce*

5.12.1 'Phoenxing' activity hurts legitimate business and workers in the building and construction industry. It is illegal behaviour and is not supported by Master Builders or any of its affiliations or members.

5.12.2 Master Builders strongly supports the continuation of the Phoenix Taskforce.

5.13 **Recommendation 18:** *Beneficial ownership reforms*

5.13.1 Beneficial ownership arrangements which are used to illegally and deliberately avoid tax or launder money should be condemned and company directors should face the full legal consequences of these actions.

5.13.2 Concurrently, the use of trusts and other business structures are a legal and important feature of legitimate businesses tax planning and should remain in place.

5.14 **Recommendation 19:** *Support for non-cash payment methods*

5.14.1 We support efforts by the financial industry to improve efficiency and costs of non-cash transactions.

5.15 **Recommendation 20:** *Payment Terms*

5.15.1 Master Builders view about payment terms is provided in detail in a recent submission to the Small Business and Family Enterprise Ombudsman (27 January 2017) – Attachment B.

5.15.2 In short, there is a comprehensive legislative regime that already exists in each State and Territory that regulates many areas of commercial conduct between building industry participants including payment times, as well as related case law and other precedent. This layer of regulation has arisen and continues to evolve for a number of reasons, including the unique nature of the work undertaken, the project based structure that underpins the industry, the co-

dependency of building industry participants and the cyclical vulnerability associated with building and construction work.

5.15.3 Payment times should not be considered a silver-bullet solution. Greater consistency amongst various state/territory security of payment regimes must be the first priority.

5.15.4 Payment terms for construction businesses tendering for Commonwealth funded work are already covered by the Australian Building and Construction Commission (ABCC), Code for the Tendering and Performance of Building Work 2016, Part 3, sections 7 – 16A.

5.15.5 We also acknowledge the work currently underway as part of the Murray Review into the security of payments and recommend the Taskforce consider the finding of this review in their final report.

5.16 **Recommendation 21:** *Procurement/responsible supply chain management*

5.16.1 Master Builders supports the notion of giving more consideration to adverse behaviour throughout the supply chain. It is important, however, to note it is not the responsibility of private businesses or business procurement officers to assess the tax compliance of supplier to any extent beyond a direct risk to their business.

5.16.2 We note the recommendation to ‘publicise egregious supplier practises’. We recommend the final report contain more detail as to the definition of egregious behaviour and the assessment framework to identify, enforce and prosecute said supplier behaviour.

5.16.3 This detail should also include how the tax and regulatory agencies would go about screening complaints to ensure their validity.

5.17 **Recommendation 23:** *Consumer focussed action*

5.17.1 Master Builders notes this recommendation. We recommend that the final report also consider the costs/benefits of targeting consumer behaviour.

5.17.2 Additionally, given that consumers do not directly pay tax on the transactions of goods and services, the final report should consider what measures are available to enforce consumer focussed action.

5.18 **Recommendation 25:** *Sectoral and other targeted strategies*

5.18.1 While recognising that there is a need to reduce the level of activity in the black economy in the building and construction industry, we would also note that the construction industry is the second largest industry in the economy, second only to the financial sector, with revenues of over \$300 billion in 2016-17.

5.18.2 Construction businesses often face a tax and regulatory compliance burden from all three levels of government. Reducing complexity would reduce the incentives not to comply with the tax system.

5.18.3 We welcome an opportunity to continue to consult with the Taskforce and assist in communicating its messaging to businesses in the construction industry.

5.19 **Recommendation 28:** *Working with other Governments: State and Local*

5.19.1 Building and construction businesses can be subject to tax (or regulatory) compliance across all three levels of government. The cumulative impact of this can be cumbersome. There are examples from industry where new construction has not taken place because regulatory/tax compliance made it uneconomic.

5.19.2 We would recommend the Taskforce work with other government agencies who are working on similar programs, such as the business simplification agenda and the housing and homelessness program announced in the budget which includes a provision to provide incentive payments to state/local governments who reduce the tax/regulatory compliance burden on the housing sector.

5.20 **Recommendation 29:** *Working with industry associations and tax professionals*

5.20.1 We commend the Taskforce for their consultation so far and for reaching out to industry associations and businesses within industry to get a better understanding of how the tax system works with business.

5.20.2 We would welcome the opportunity to continue to engage with the Taskforce to improve the way the tax system works with the building and construction industry and to reduce black economy activity.

5.21 **Recommendation 32: Prosecutions**

5.21.1 We do not oppose the identification of offences for specific penalties. But would not support a recommendation to increase penalties.

5.21.2 A greater focus on enforcement of existing laws would likely be more effective.

5.21.3 Any measures to standardise offence specific penalties must ensure it does not remove the discretion of the courts.

5.22 **Recommendation 35: Creating and institutional legacy**

5.22.1 Black economy activity, as noted in the Interim report 2017, is as much a cultural problem as it is a structural one. We support the Taskforce's desire to create an institutional legacy by changing people's perceptions of the tax system.

6 Additional Policy Ideas

6.1 The following section provides an assessment of the additional policy ideas sent to the stakeholder group as an email attachment on Wednesday 2 August 2017.

6.2 **Recommendation 3: ABN reform – the Australian Business License**

6.2.1 Cleaning up the existing ASIC register would be a good first step in reducing the misuse of ABNs. In terms of the specific observations:

6.2.1.1 (a) We do not see any difference in whether a business licence is call an ABN or an ABL

6.2.1.2 (b) We do not support a compulsory requirement for prospective ABN holders to complete a business literacy

test. This could (1) reduce competition in the business sector, making consumer worse off, and (2) increase black economy activity by increasing the regulation and compliance burden.

6.2.1.3 Not being proficient in business literacy does not necessarily exclude a person from operating a successful business. Most business owners outsource their tax and regulatory compliance activities, or employ people to undertake these tasks.

6.2.1.4 In the building and construction industry this could reduce the number of skilled workers. It is likely that there are a large number of highly skilled tradespeople operating successful businesses without adequate business literacy skills.

6.2.1.5 There is a risk that compulsory business literacy training may reduce the number of skilled tradespeople in the building and construction industry.

6.2.1.6 It may also help to increase black economy activity by adding another layer of compliance and forcing business owners/tradespeople who do not pass the business literacy test to operate outside of the system.

6.3 **Recommendation 4:** *ABN reform – fit and proper person test*

6.3.1 Company directors and business owners have an obligation to the community to act as fit and proper persons. Their business activity should at all times be ethical and made with the best interests of their clients and the community in mind.

6.3.2 However, a better measure would be to introduce a Director Identification Number (DIN) to track the behaviour of directors and identify those who regularly engage in adverse behaviour

6.3.3 This is more targeted approach and could have a great impact on the behaviour of company directors in the building and construction industry.

6.4 **Recommendation 6:** *TPRS extension to government and other payments*

6.4.1 The TPRS is already in operation in the building and construction industry. We believe the system serves its purpose and would not support any change to extend its scope in the building and construction industry.

6.5 **Recommendation 8: A new class of strict liability offences**

6.5.1 Please refer to comments on recommendation 32 (prosecutions) in the previous section.

6.6 **Recommendation 9: A specialist tax tribunal**

6.6.1 While we support a tax tribunal to enforce, for example, a new offence regime around non-compliance and tax avoidance behaviours, such as phoenixing, we recommend that the Taskforce examine whether this function can be performed under existing frameworks as a first step.

6.6.2 More information is needed in the final report on how this specialist tribunal would work in practice, with industry and with existing regulatory frameworks.

6.7 **Recommendation 10: Tax privacy provisions**

6.7.1 Instance of fraud should be mitigated and prosecuted as much as possible. However, tax payer privacy must be maintained and any sharing of tax data beyond the current arrangements risks increasing activity in the black economy. If the main objective of the Taskforce is to reduce black economy activity then reducing the privacy of tax data may be counterintuitive.

6.8 **Recommendation 11: Reverse onus of proof for some offences**

6.8.1 Whilst we acknowledge that bearing the onus of proof does make it harder for the ATO to prosecute in some circumstances, the onus of proof is a common law principle - it is a "cardinal principle of our system of justice"². As such it may be questionable whether reversing the onus of proof would stand up in a court of law.

² *Sorby v The Commonwealth* (1983) 152 CLR 281, 294 (Gibbs CJ). See also, *Momcilovic v The Queen* (2011) 245 CLR 1, 47 [44] (French CJ). See also Heydon, above n 1, [7085]; Williams, above n 1, 871; Andrew Ashworth and Jeremy Horder, *Principles of Criminal Law* (Oxford University Press, 7th ed, 2013) 71.

- 6.9 **Recommendation 14:** *Cooperation with states and territories*
- 6.9.1 Please refer to comments made under Recommendation 28 (Working with other Governments: State and Local).
- 6.10 **Recommendation 15:** *Enforcement/Visible action*
- 6.10.1 Policy reform and regulatory requirements will never be more effective than the enforcement frameworks which support them. It is important that new initiatives are supported with equally well invested enforcement frameworks. Enforcement frameworks should be included in any cost/benefit of new policy of regulatory measures.
- 6.11 **Recommendation 17:** *ATO industry and union partnerships*
- 6.11.1 Please refer to comments made under Recommendation 29: Working with industry associations and tax professionals.
- 6.11.2 We would welcome engagement with union's representatives. However would do not support, and warn against black economy initiatives becoming a part of collective bargaining agreements or used in any way to expand union rights or entry or in bargaining of any type with businesses.
- 6.12 **Recommendation 24:** *Requiring non-cash payments of wages*
- 6.12.1 Please refer to comments made in Recommendation 19, (Support for non-cash payment methods).
- 6.13 **Recommendation 30:** *Government procurement – a good tax record*
- 6.13.1 Please refer to comments made in Recommendation 21 (*Procurement/responsible supply chain management*), and in Recommendation 1 (*Access to Australian Government procurement opportunities should be limited to firms which have a good tax record (and not engage in bribery)*).
- 6.13.2 As noted in the report, care will need to be taken to ensure this does not disadvantage new entrants, and/or favour a particular group of providers.
- 6.13.3 We would also stress that businesses which are currently under investigation or in dispute are not disadvantaged.

- 6.14 **Recommendation 31:** *Supply chain integrity – a certification framework*
- 6.14.1 Please refer to comments made in Recommendation 21 (*Procurement/responsible supply chain management*).
- 6.15 **Recommendation 33:** *Trade discounts*
- 6.15.1 We question how transactions for work equipment can be used to derive income in the trades industry. The final report should provide detail on exactly how this might work to assess possible tax avoidance behaviour.
- 6.15.2 Using benchmarks is problematic given the very broad nature of businesses in the industry – from multibillion international companies, to single operator sole trader who may only work part of the year. We believe this would be extremely difficult to administer and enforce and would recommend the Taskforce look at more efficient ways to track tax avoidance behaviour.
- 6.16 **Recommendation 34:** *Supply chain integrity – distributed ledger pilots*
- 6.16.1 We support the development of new technologies which help to reduce the compliance burden of tax on industry. However, we would not support a compulsory application of these systems and would recommend the Taskforce be careful when assessing the efficiency gains of these technologies.
- 6.17 **Recommendation 36:** *Vendor reporting requirements and incentives*
- 6.17.1 We would support a notion to allow for capped tax deductions for renovations backed by a valid receipt and ABN. But would recommend that the Taskforce seek more research in this area before making a final recommendation.
- 6.17.2 A requirement from homeowners to report renovation payments may not be feasible given the structure of the market and the nature of sub-contracting in the building and construction industry. How far would this report extend? To designers, certifiers, etc., or just building service providers? How would the Taskforce enforce this in the long term?
- 6.18 **Recommendation 37:** *Employee deterrents*

6.18.1 Employee deterrents push the penalty of non-compliance onto the individual rather than the business. This recommendation should be examined in consideration of the potential impact this may have on employment, while targeting workers compensation may penalise people at a time when they are most in need of support.

6.19 **Recommendation 38:** *Minimum tax assessment for high risk businesses*

6.19.1 While this recommendation may have some merit, there is a risk that it catches honest business operator unnecessarily. For example, capital to labour ratios across building and construction firms can be extremely diverse, with some operators highly capital intensive and other using larger workforces.

6.19.2 A number of sole traders also work intermittently during the year so their revenue may be lumpy and not align with, say a sectoral benchmark determined in business which operate all year round.

6.20 **Recommendation 42:** *High effective tax rates*

6.20.1 Please refer to comments made under Recommendation 9: *(Regulatory burdens affecting small business)*.

6.20.2 High effective tax rates are the single biggest contributor to tax evasion behaviour. One sure fire way to reduce black economy activity is to reduce the tax burden on industry

6.20.3 Perhaps the single biggest contribution the Taskforce could make to tax reform would be to examine what is an effective and efficient rate of tax for businesses which maximises tax revenue as well as minimising the deadweight loss on the economy.

6.21 **Recommendation 48:** *Phoenixing*

6.21.1 Please refer to comments made under Recommendation 17: *(Phoenix Taskforce)*

7 Conclusion

7.1 Master Builders Australia thanks the Taskforce for the opportunity to participate in the consultation process and in review of the recommendation of the Interim Report 2017 and the subsequent Additional Policy Findings.

- 7.2 More detail on our broader tax policy positions, for example around security of payments and invoicing for small business, can be found in the attached documentation to this submission.
- 7.3 Master builders commends to good work of the Taskforce and is keen to continue our close relationship, to help reduce black economy activity in the building and construction industry
- 7.4 We are also keen to continue to work with the Taskforce on ways in which the tax system can work more efficiently with business and in doing so, help to reduce the incentive of non-compliance.
- 7.5 We look forward to the delivery of the Final Report in October 2017 and look forward to further engaging with the Taskforce once the final report is complete.