

**The Liberal Party of Australia**

FEDERAL SECRETARIAT

FEDERAL DIRECTOR
Brian Loughnan**11 August 2004****Mr Philip Andersen
National Director
Printing Industries Association of Australia
25 South Parade
AUBURN NSW 2144***Dear Mr Andersen:*

I am pleased to provide to you a detailed response from the Liberal Party of Australia on the policy issues your association put to us.

I believe that the policies and record of achievement of the present government on the economy, industrial relations and business stand in stark contrast to those of the Labor Party, which, I believe, threaten the achievements of recent years.

Accordingly, I commend the attached document to your association and your members.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brian Loughnan', written over a horizontal line.

RESPONSES FROM THE LIBERAL PARTY OF AUSTRALIA
for the Printing Industries Association of Australia

Employee Relations - Unfair Dismissals

The Liberal Party is committed to:

- exempting small business from unfair dismissal laws
- creating a single uniform system for unfair dismissals and removing the complexity and needless duplication of having 6 different IR systems
- ensuring that the unfair dismissal system discourages frivolous, speculative and unmeritorious claims

Current unfair dismissal laws are unnecessarily complex and are hindering jobs growth in small business. The Howard Government has attempted to remove the burden of the current laws from small business. Yet the Labor Party has voted to block these changes on 40 occasions in the Senate.

Employee Relations - General Employee Entitlements and Redundancy Scheme (GEERS)

The Liberal Party is committed to ensuring that under GEERS employees are entitled to:

- All unpaid wages
- All long service leave
- All accrued annual leave
- All accrued pay in lieu of notice
- Up to 8 weeks redundancy entitlements

The Liberal Party supports benefits remaining consistent with award termination, change and redundancy provisions.

The Liberal Party also supports the right of parties to reach agreement on termination and redundancy provisions through certified or individual agreements (eg AWAs).

However, Labor will reintroduce a Federal payroll tax to fund its policy on employees' entitlements. There has not been a Federal payroll tax since 1971, and there is no need for one now as GEERS is already in operation without requiring any new tax.

Employee Relations - Maternity Leave

The Liberal Party believes that parents should have flexibility and choice in their family and work arrangements. The Liberal Party will continue to encourage both employers and employees to take advantage of the full range of options available for agreement making, such as Australian Workplace Agreements and Certified Agreements.

The Liberal Party has introduced a maternity payment which provides a lump sum payment of \$3,000 to all new mothers, increasing to \$5,000 in 2008.

The Liberal Party believes that maternity leave provisions are best negotiated at the workplace level. The Liberal Party opposes the ACTU's application to the Work and Family Test Case that the existing provisions for 12 months unpaid maternity leave be increased to 24 months. This matter would represent an increase above the minimum award safety net and should be reserved only for workplace bargaining and available to employees by agreement with employers.

Taxation - GST on Books

The Government's decision to adopt the goods and services tax (GST) was due to the need to have a broad based indirect tax to enable State and Territory Governments to pay for community needs. With all GST revenue going to the States and Territories, this provides them with access to a secure and growing source of revenue and the capacity in the medium to long term to allocate additional funding to services such as health and education.

The GST is a broad-based tax that applies to most private consumption at a low, uniform rate. As a broad-based tax, it is appropriate that GST be levied on publications such as books, magazines, newsletters and newspapers, just as GST applies to goods and services generally. Removing the GST from these items would be contrary to the general principles of the GST and would lead to significant administration and compliance costs. In addition, making these publications GST-free would raise significant boundary issues and there would be calls for further exemptions to a range of other items.

The Government undertook a series of initiatives in the transition to the New Tax System to assist both producers and consumers of books, through the Book Industry Assistance Plan, which expired on the 30 June 2004. One of the measures includes the Educational Textbook Subsidy Scheme, which is administered by the Department of Education, Science and Training. Under this scheme, an 8 per cent government

subsidy applied with the intention of partly offsetting the effect of GST imposed on educational textbooks.

The assistance package was intended to be a transitional measure only. The GST now forms part of the normal commercial environment under which book publishers and sellers operate, and it is appropriate that GST continues to apply to educational textbooks.

Taxation - GST tax on tax

All GST revenue goes to the States, providing them with access to a secure and growing source of revenue and the capacity in the medium to long term to allocate additional funding to services such as health and education. The GST also provides the States with the ability to abolish narrow and inefficient State taxes.

The GST does not apply to Australian taxes, charges and fees such as stamp duties paid to the State revenue collection authorities. Stamp duties are State taxes and the calculation of those duties is determined by the States. Individual States can decide whether their stamp duties are levied on a GST inclusive or exclusive price and whether to adjust the rate of stamp duty, especially in cases where it applies to a GST inclusive price.

I understand that, in general, the States impose their stamp duties on prices which include GST. Accordingly, you should bring this matter to the attention of the State and Territory governments. I note that State and Territory governments expect to receive more than \$9,300 million in stamp duty on property conveyances alone in 2004-05.

Taxation - BAS and Reporting Requirements

A key measure announced by the Government in this year's Budget was that small businesses with an annual turnover of \$2 million or less will be allowed to apply private use apportionment for GST purposes on an annual basis, rather than each time they prepare their Business Activity Statements.

The Government recognises the legitimate concerns of small business about the cost of complying with the GST, and has implemented several measures to ease the GST compliance requirements. Following extensive consultation, with a specific focus on the needs of small business, the Government made significant changes in early 2001 to simplify and streamline the GST payment and reporting arrangements for small businesses. Under these changes, businesses with an annual turnover of less than \$2 million have the option to pay quarterly GST instalments

based on 25 per cent of the previous year's net GST amount, adjusted by a gross domestic product factor. Businesses with an annual turnover of less than \$20 million can make quarterly GST payments on the basis of a simple remittance form, showing only total sales, GST collected on sales and GST paid on purchases.

The Government announced further changes in the 2004-05 Budget aimed at reducing small business GST compliance costs and providing small businesses with greater flexibility in discharging their GST payment and reporting obligations. Under these changes, entities that voluntarily register for the GST will be given the option to report and pay GST on an annual rather than quarterly or monthly basis. As well, the GST instalment option will be simplified so that eligible entities will no longer be required to re-elect every financial year if they wish to continue to pay GST by instalments. This is in addition to the measure mentioned above for small businesses with an annual turnover of \$2 million or less to be allowed to apply private use apportionment for GST purposes on an annual basis, rather than each time they prepare their Business Activity Statements.

Compliance Burden

The Government recognises that compliance with government regulations can be costly and frustrating for many small businesses. As far as possible, the Government seeks to minimise this burden. With regard to the examples cited, there are sound public policy reasons to seek the assistance of employers. ABS survey data, for example, is essential for industry and government when formulating policy.

Nevertheless, since 1996, the Government has reduced the reporting requirement by an estimated 30 per cent and the Government recognises the ongoing need to reduce the compliance burden. For example, the Government has recently decided to abolish superannuation reporting for all employers from 2005 and to allow 740,000 eligible small business entities to report and pay their GST annually [at a cost to government of \$330 million]. Small businesses with a turnover of \$2 million or less will also be to undertake private annual apportionment for GST when they do their income tax return.

Australian-Made

The Government's procurement policy seeks to promote local industry without imposing additional costs on taxpayers. Commonwealth agencies are required to source at least 10 percent of their purchases from small and medium enterprises. This target is usually exceeded. For major information and communications technology services contracts over \$20

million, the threshold rises to 20% of contract value. The Government has also introduced mandatory 30 day payment terms for Australian Government Departments and Agencies to ensure small and medium sized enterprises are paid promptly for their goods and services.

Environmental Labelling

The Government is willing to discuss with interested parties the merits of a national approach to environmental labelling.

Corporations Law - Insolvency

Issue

There should be stringent and effective controls on the dispersal of assets, for personal gain, by Directors/Owners of Companies prior to insolvency.

Response

Under the Corporations Act a breach of the director's general law duties can result in liability to pay compensation to the company, liability to pay a fine, disqualification and, where the breach is dishonest, a criminal conviction. There are pecuniary penalties of up to \$200,000 for directors that improperly use their position to gain an advantage for themselves or someone else or cause detriment to the corporation. In addition to civil penalty proceedings, damages may be awarded. Some cases may warrant the award of exemplary damages for breach of fiduciary duty.

Preventative measures can be adopted where there is a risk of dissipation of assets by directors of companies in financial difficulty. ASIC can make an application for asset preservation orders under s 1323 and 1324 of the Corporations Act. In extreme cases it can appoint a receiver.

In 2003 the Government enacted the *Corporations Amendment (Repayment of Directors' Bonuses) Act 2003* which permits the recovery of unreasonable bonuses and other payments to directors in the 4 year period preceding a liquidation. The Government has recently increased the maximum period of disqualification of persons from managing corporations for insolvency and non-payment of debts from 10 to 20 years.

The insolvent trading and voidable transactions provisions of the Corporations Act are effective deterrents to insolvent trading and the dispersal of assets for personal gain. A court can set aside transactions by which a company disposes of property or makes payments to particular creditors within a relevant period of time prior to the commencement of formal insolvency.

The Government provided \$12.3 million over the next four years to ASIC for a program directed at insolvency-related misconduct by company officers.

Issue

Preferential Payments - Debts older than six (6) months that are paid within six (6) months of an insolvency, creditors to have an automatic right to retain the proceeds of such payment(s).

Response

The law currently provides defences to recovery of payments in circumstances such as the case of a continuing business relationship (section 588FA(3)) or where the recipient of the payment received the payment in good faith and was not aware of the company's insolvency (section 588FG(1)).

Under the Corporations Act liquidators may recover certain payments made, or reverse certain transactions entered into, by companies in the period preceding the company's liquidation. Two types of transactions are voidable: insolvent transactions (defined in section 588FC) and unfair loans (defined in section 588FD). The purpose of these provisions is to ensure that other unsecured creditors are not prejudiced by the disposition of assets of a company in a period shortly before a winding up, which would have the effect of favouring certain creditors.

Defences to recovery are available to the person receiving the benefit of the payment, that is where the person received the money in good faith and at the time of the payment had no grounds for suspecting that the company was insolvent or would become insolvent as a result of the transaction or in the case of a continuing business relationship (for example a running account). However, balanced against this is the need to deter the dispersal of companies' assets before they enter external administration and avoid preferences between creditors.

Issue

The intent of sections 588FA and 588FE(2) requires clarification and review. (In light of concern about unintended consequences such as companies being required to pay back to creditors payments they have received from companies in the preceding period prior to the appointment of administrators and liquidators.)

Response

It is a long standing and well established policy of insolvency law, both in Australia and overseas, that transactions may be set aside in circumstances where an insolvent company disposes of property or makes a payment to a particular creditor within a relevant period of time prior to the commencement of winding up proceedings, where to allow

the transactions would be unfair to other unsecured creditors of the insolvent company.

The law currently provides defences to recovery in these circumstances such as where the person received the money in good faith and at the time of the payment had no grounds for suspecting that the company was insolvent or would become insolvent as a result of the transaction (section 588FA(3)) or in the case of a continuing business relationship (for example a running account) (section 588FG(1)).

The various provisions seek to strike a balance between the rights of individual creditors and the general body of creditors.

Issue

The preservation of employee entitlements in an insolvency situation is supported.

Response

The Government is very concerned to ensure the protection of employee entitlements in the event of employer insolvency. It has enacted two significant insolvency related measures: the *Corporations Law Amendment (Employee Entitlements) Act* which attacks arrangements seeking to avoid the payment of employee entitlements and the *Corporations Amendment (Repayment of Directors' Bonuses Act) 2003* which permits the recovery of unreasonable bonuses and other payments to directors in the 4 year period preceding a liquidation.

It has sought to deter the incidence of phoenix companies. It recently increased the maximum period of disqualification of persons from managing corporations for insolvency and non-payment of debts from 10 to 20 years.

It has introduced a safety net scheme - the General Employee Entitlements and Redundancy Scheme (GEERS) - to enhance the level of coverage of unpaid employee entitlements resulting from an employer's insolvency.

Consistent with its 2001 election commitment, the Government has enacted legislation which has required employers to make at least quarterly superannuation contributions on behalf of their employees from 1 July 2003, or incur the Superannuation Guarantee (SG) Charge. This initiative enhances the prospect of payment of an important employee entitlement - superannuation - in insolvency.

Issue

Secured Creditors protection should be preserved, to do otherwise would increase the risk of lending, leading to increased lending costs and

interest rates, also possible earlier foreclosures. This would adversely affect all business particularly small businesses.

Response

The Government accepts that the legal framework should permit the creation, recognition and enforcement of security interests. Enforcement systems should provide efficient, inexpensive, transparent and predictable methods for enforcing security interest in property.

In considering the question of a super priority for employee entitlements the Government will take into account the impact of the proposal on the availability of credit.

Issue

Consideration could be given to the Australian Taxation Office (ATO) monitoring the viability of companies.

Response

The Government accepts that the ATO can play, and encourages the ATO to play, an active role in monitoring the viability of companies.

The Government considers it desirable for State and Commonwealth Government agencies having responsibility for the collection of revenue or levies and ASIC to consult on their respective interests, concerns and responsibilities in responding to phoenix company activities and coordinate their efforts including exchanging information. It is broadly supportive of initiatives along these lines recommended by the Cole Royal commission into the Building and Construction Industry.

It notes that the ATO may in appropriate circumstances seek to have a company placed into administration where it indicates that it is facing financial difficulties.

Issue

Rules put in place to provide transparency, and to control the maximum level of Administrator's and Liquidator's fees.

Response

The Corporations Act does not prescribe remuneration levels for administrators and liquidators. It encourages administrators and creditors to reach agreement on the question of remuneration as between themselves.

The Courts have a general supervisory role in settling disputes over remuneration or in setting remuneration where the administrator and the creditors have not been able to reach agreement or it is not otherwise practicable for agreement to be reached. They have highlighted the need for early disclosure of the basis for fee charging.

The Parliamentary Joint Committee on Corporations and Financial Services recently tabled its report on Australia's Corporate Insolvency Laws. It made a number of recommendations about the transparency, and level, of fees. The Government is considering its response to the Committee's 63 recommendations.

Industry Development

The \$48 million Enhanced Printing Industry Competitiveness Scheme (EPICS) was introduced to assist book publishers during the transition to the new tax system. The scheme was part of a broader \$240 million Book Industry Assistance Plan intended to offset any short-term negative impacts of the new tax system on industry, consumers and authors.

It is now clear that these effects were limited as far as the book printing industry was concerned. Sales dipped in 2000-01 but recovered in 2001-02 to equal 1999-2000 levels. Profitability dipped for most printers in 2000-01 but again recovered in 2001-02 to pre-GST levels. A similar fall in sales had occurred in 1997-98 so it is uncertain what effect the GST had on sales.

178 firms benefited from the Enterprise Development Fund (EDF), receiving almost \$30 million. The smaller Infrastructure and Industry Growth Fund supported projects with industry-wide benefits. Unfortunately, demand for this more strategic fund was modest. About a third of the fund was unspent, with the result that more than \$4.5 million was transferred to the EDF. This level of interest was disappointing given that applicants were required to meet only 20% of project costs in cash or in kind contributions (most other government programs require at least matching funding).

The Government believes that EPICS provided generous support to the industry in the transition to the new tax system and, in conjunction with other assistance, assisted many firms to make lasting improvements in their competitiveness. Sales data shows that demand in the market has returned to pre-GST levels, removing the original rationale for a specific sectoral program.

For these reasons, the Government believes it is more appropriate for printing firms investing in innovation or seeking to improve their business management to use the many existing Australian government programs. The R&D Start program, for example, offers almost \$200 million a year to support innovation.

The Government has provided significant support to advance the recommendations of the Action Agenda. The Printing Industry

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Association, for example, has received about \$3 million for projects relating to the Action Agenda. While the bulk of the funding was directed to book production, there were substantial spill-over benefits for general printing, such as the benchmarking study. Further progress on the implementation of the joint industry government commitments of the Action Agenda is dependent on the industry continuing its role as lead for the implementation of the Action Agenda

Industry Rationalisation

The Action Agenda identified the primary cause as over-investment in expensive equipment. However, overcapacity in parts of the industry also reflects low entry costs. The Action Agenda has contributed to raising awareness of this issue, through such initiatives as business diagnostic tools for small business operators. The Printing Industry Association has played a valuable role in promoting these tools. The Government does not believe that it should raise the costs of entry to the industry, which would diminish the opportunities in the industry and discourage new innovative businesses emerging. While exit strategies have often been discussed in general terms within the industry, no effective proposal has been developed. The ease of entry to this sector indicates that exit strategies mooted to date would be costly and likely to fail.

Industry Research and Development

The Government provides a suite of programs supporting innovation and research and development as part of its \$8.2 billion *Backing Australia's Ability* packages. The printing industry is encouraged to take advantage of these programs. AusIndustry administers these programs and has an accessible network of offices in State capitals and regional centres.

Full Restoration of Tariff Concession System

The Government is committed to removing the 3% tariff as soon as it would be economically responsible to do so. The recently negotiated Free Trade Agreements with Singapore, Thailand and the United States will see the 3% tariff eliminated for products from these countries.

Industry Training

The Australian Government will provide more than \$725 million this year to support New Apprenticeships, including direct incentives to employers. Employers receive a standard commencement and completion package for Cert III and IV New Apprentices of \$4,400. However, additional incentives are available to encourage employers to take on mature age New Apprentices. From 1 July 2003, an employer taking on

as a New Apprentice a mature age worker (over 45) who has been welfare dependent, or who is returning to work, or who has previously been made redundant will receive a further \$825 commencement incentive, and a further \$825 completion incentive.

Taxation - Complexity of Tax Laws

Australia's tax laws recognise the growing complexity in the commercial environment that they deal with. They are also sometimes used to achieve things other than raising revenue. In particular, they are used to encourage a range of desirable social and economic objectives (e.g. the GST exemption for education and the 125% deduction for investment in R&D). Such provisions themselves, as well as the rules needed to prevent the concessions being exploited, add to the law.

The Government continues to work to keep the complexity of tax laws as low as possible. These are some of the things that the government has done in this area:

- It supported the Tax Law Improvement Project (TLIP) that restructured much of the income tax law and rewrote it into plainer language. It is generally agreed that TLIP's rearrangement of the law and the new drafting style it initiated were steps forward;
- It announced in its A New Tax System (ANTS) paper in 1998 that there would be a greater use of principle-based drafting in future tax law. The then Assistant Treasurer reinforced that message in a speech she gave to the Australian Institute of Company Directors on 12 July of this year. Some tax measures that have already been enacted used a principle-based approach and many more are currently being developed;
- It commissioned the Ralph review of business tax. That review recommended adopting the tax value method (TVM) as a much simpler description of the income tax base. Although that recommendation was not accepted after the Board of Taxation advised that its benefits were not proven and did not have community support, it does prove that the government is always open to new ideas about tackling taxation complexity;
- It has established an independent Board of Taxation to advise it on the development and implementation of taxation legislation and the ongoing operation of the tax system and an Inspector-General of Taxation to review systemic tax administration issues and to recommend improvements to tax administration;
- It has required the Treasury to consult more widely about tax policy and draft taxation laws. Those consultations are being held and usually improve the law.

and retain people with highly regarded skills. The changes will also improve incentives to work and save, by increasing the rewards for those who wish to work overtime, seek promotion or acquire skills.

When comparing our personal tax rates with other countries, it should be remembered that some countries impose state or local income taxes, as well as compulsory employee social security contributions. For example, the latest available data from the OECD (for 2001) calculated the United States "all-in" rate (that is, inclusive of state or local income taxes as well as compulsory employee social security contributions) as being more than 8 per cent higher than the top federal personal tax rate. Australia is a relatively low taxing country overall. OECD data (for 2001) indicates that on the basis of total taxes (that is, including social security taxes) Australia's overall tax burden of 30.1 per cent of gross domestic product (GDP) compares favourably with the OECD average of 36.9 per cent of GDP, ranking us sixth lowest out of 30 OECD countries.

The tax cuts delivered by the Australian Government have been fiscally responsible and have been introduced whilst maintaining the Commonwealth Budget in surplus. This year, the United States budget is in deficit by 4.2 per cent of GDP. The equivalent size of such a deficit in Australia would be AU\$32 billion.

Tax - Superannuation Surcharge

The Coalition has reduced the superannuation surcharge twice since the 2001 election. In the 2004-05 Budget, the Coalition promised to reduce the superannuation surcharge to 7.5% by 2006-07. This legislation was frustrated in the Senate by the Australian Labor Party and the Australian Democrats, who, along with some key independent Senators, only allowed a reduction of 10% from 2005-06. The Coalition remains committed to the further reduction of the superannuation surcharge.

More generally, the Coalition has provided significant incentives to all Australians to save for their future retirement, including a generous superannuation co-contribution policy, more choice and flexibility as people head to retirement and the provision of significant taxation concessions for taxation. The total value of tax concessions for superannuation is projected to be around \$11b in 2003-04.

Bank Fees

The Coalition has been actively engaged in reducing the cost of banking. It has worked with the State and Territory governments to remove the Financial Institutions Duty (FID) and debits taxes. The removal of FID alone has reduced the cost of banking by almost \$1.4 billion per year. In

March this year, the Federal Government gained agreement by all states to abolish Debits tax by 2005, saving a further \$1 billion a year from 1 July 2005. Some States such as NSW have already abolished debits tax. Bank customers have also benefited from the decline in interest rates and margins under this Government, from 10.5 per cent to just over 7 per cent. According to the RBA, the fall in interest margins has more than offset recent fee increases. Average home loan interest rates have fallen from 12.75 per cent under the previous Government to 7.15 per cent under the Coalition.

The Coalition has fostered an environment of competition and innovation in the financial sector, resulting in new, cheaper technology such as ATM and EFTPOS devices. For example, customers who paid for over-the-counter transactions in 1998 but are now able to use EFTPOS, ATMs or telephone or internet banking services are saving up to \$1.75 per transaction. The cost of banking will continue to fall as a result of RBA reforms to the payments system; in particular, the RBA's credit card interchange fees standard is expected to reduce these fees by around \$400 million a year.

Australian Constitution

The Australian Constitution currently provides for maximum three year terms for the House of Representatives and a referendum would be required to amend the Constitution to change the term. You may recall that a proposal for maximum four year terms for the Senate and House of Representatives was put at the 1988 referendum, but was not approved by the Australian people as required under the Constitution. The Prime Minister is not a supporter of fixed terms for the House of Representatives. He has previously stated that he sees some merit in maximum four year terms, but it is not an issue the government intends to pursue for its own sake at this time.