

# 2020 Budget

## Priorities Statement

Commercial & Asset Finance  
Brokers Association of Australia

2020

The logo for CAFBA, consisting of the letters 'CAFBA' in a bold, blue, sans-serif font. The letters are closely spaced and have a slight shadow effect.

Commercial & Asset Finance Brokers  
Association of Australia

2020 Pre-Budget Submissions

16<sup>th</sup> September 2020

Treasury

PARKES ACT 2600

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### 2020 Budget Priorities Statement

The Commercial & Asset Finance Brokers Association of Australia (CAFBA) welcomes the opportunity to provide our views regarding priorities for the 2020 Budget.

CAFBA recognises the different pressures and competing interests that the Government must manage in the development of the next Budget in the current COVID-19 environment. CAFBA congratulates the Government on the work they have done during this pandemic aiding Australian businesses and workers. CAFBA members are not only financial service providers, but small business owners who are actively involved in our community. We see the need to provide government investment across a range of services; however, we need the revenue to do this.

The members of CAFBA believe the government must continue to support economic growth and pursue policies that allow businesses in Australia to survive this pandemic and then continue a course of growth. Successful businesses need access to finance, a tax environment that encourages investment, and the capacity to reach out and receive services that assist them to grow when needed. CAFBA as an organisation has considered a range of different challenges being faced by businesses and has identified seven key priorities for the Australian Government to focus on in the development of the next Budget.

CAFBA recommends that the Australian Government should ensure the 2020-21 Budget:

- **establish a long-term instant asset tax write-off policy.**
- **continue a business investment allowance to encourage capital investment.**
- **amend existing legislation to make available assets eligible for tax incentives that are currently denied due to internal company structures.**
- **defer the increase of the superannuation guarantee until business has recovered.**
- **Treasury to work with lenders to encourage support for small business loans to make access to credit easier for small business, particularly the SME Guarantee Loan**
- **continue to defend company tax cuts; and**
- **support industry associations to advise the Government.**

CAFBA looks forward to continuing to work with all representatives in Parliament to improve the national economy. We believe this should be achieved by supporting small and medium enterprises to grow their businesses and create more jobs.

Should representatives from the Treasury, Finance or other government departments wish to discuss further we would be pleased to make ourselves available.

Yours sincerely,



David Gandolfo  
President



Matthew Atkin  
Vice-President

### Background on CABFA

The Commercial & Asset Finance Brokers Association of Australia (CAFBA) is the peak national body of commercial and equipment finance brokers, whose prime area of business is the distribution of commercial and equipment finance facilities to their clients. With over 900 members, in all states and territories, CAFBA is an important national voice in the Australian finance sector.

CAFBA members are career professionals, with recent studies showing nearly 73% (East & Partners 2020) of new commercial equipment finance is sourced through brokers. Our members and their clients are predominantly small to medium-sized businesses and operate in the commercial finance market. The total receivables in the Australian equipment finance market are approximately \$100 billion, so it is an important component of the Australian economy.

CAFBA members know that providing Australian small businesses with access to finance is crucial to economic growth. Although brokers are commonly associated with home loans, CAFBA members work in a complex environment to provide a boutique service. Without the work of CAFBA's professional members, many Australian small business owners would struggle to navigate the complexities involved with commercial equipment finance.

CAFBA embodies the strengths of its members in a unified approach for dealing with financiers and legislators at a national level and regularly seeks the views of members. As an association, CAFBA provides the framework and support to professionally assist our members in their daily activities. This involves education and training, legislative and regulatory updates and forums where the members can interact and exchange ideas with their peers.

CAFBA prides itself on being self-regulating and maintains strict membership standards on probity, continuing professional development, minimum education standards, industry experience, and reputation. It is a condition of CAFBA membership that commercial equipment finance brokers must belong to an ASIC-approved External Dispute Resolution Scheme.

CAFBA is a member of the Council for Small Business Australia (COSBOA) and works collaboratively with the government, regulators, and business groups.

## **Recommendations**

Each year, the CAFBA Executive and our staff examine and consider previous government budgets and the impact they have had on the economy, however this budget faces unique circumstances. We also consult members throughout the year to determine how future budgets may support both them and the businesses they provide services to. This forms part of our strategy to ensure that this document provides a strong voice to the Government.

Small businesses need to be confident in order to invest in expanding their operations. The seven proposals outlined by CAFBA will increase business confidence and encourage investment. Business investment is a big decision at any time, but more so now and business owners will consider the tax environment and Government incentives before considering purchasing additional equipment and investing in employees. Additional equipment purchases will enable business owners to concentrate on growth and taking their business to the next level while upgrading equipment significantly lifts productivity and long-term profitability. Lower taxes and incentives such as the instant asset write-off and investment allowances will greatly assist the confidence of business owners and encourage them to invest.

### **1. Establish a long-term and means-tested instant asset tax write-off**

CAFBA has consistently advocated for and supported the Australian Government's instant asset tax write-off, and welcomed the increase to \$150,000. CAFBA members have recognised that this allowance by the Government has improved business confidence and supported Australian small businesses to invest in new equipment. We believe that the Government must establish this as a long-term provision for a minimum of three (3) years at the amount of \$50,000, to encourage businesses to continually upgrade and enhance their operations. The increased total figure would capitalise on and strengthen the existing success of this policy.

A long-term approach to this instant asset tax write-off would provide businesses with more certainty in their planning for investments in the long-term. Financial planning is essential in good businesses and ensuring that businesses know that the tax write-off would be available over the long term would encourage more businesses to plan for additional purchases. It would encourage businesses to allocate additional finances towards upgrades, stimulating economic activity.

As stated above the instant asset write-off value must be maintained at \$50,000 per asset and indexed thereafter, and extended for a further 12 month beyond the current three year period at each successive Federal Budget.

## **2. Develop a range of business investment allowances**

CAFBA believes that a range of business investment allowances are required to further stimulate the economy and boost market confidence. The current investment allowance is set at 50% of the asset cost and this must continue as part of the overall investment strategy, and be available for assets in excess of \$50,000, as per current policy. The policy however should include used assets, as most of these are in Australia and which will assist second hand markets, which obviate the necessity to import. This will have an immediate and positive impact on the economy and allowed businesses to invest in innovation.

To strengthen the Australian economy businesses need incentives to invest and engage in more activity. Confidence is a key and a business investment allowance improves business confidence. It is clear that the investment allowance will increase purchases across the economy. There are some 2.1 million small businesses in Australia and the more of them that are purchasing goods the greater the movement of cash through the economy and the better the business returns. In turn, this creates additional revenue for the government due to increased GST revenue from the increased spending.

CAFBA believes that a range of new indexed investment allowances should be available to businesses with an aggregated turnover of less than \$500 million as is current policy, which would work in conjunction with the Instant Asset Write Off.

Previous investment allowances have applied to new and/ or demonstrator plant, equipment, and motor vehicles. CAFBA believes that any new allowance should apply to both new and used plant, equipment and motor vehicles, as used assets are usually purchased in Australia from Australian suppliers, which assists the Australian economy rather than offshore suppliers. An allowance that applies only to new assets could result in offshore purchases and could seriously disadvantage local second-hand sales.

The investment allowances that we advocate for should be for a minimum of 3 years to provide business with certainty and confidence. The investment allowances would be an additional tax deduction and would have an immediate and quantifiable effect. CAFBA believes it will have a greater incentive value than a small reduction in company tax, which is difficult to quantify and has far less impact on day to day operations.

CAFBA believes an investment allowance will have the necessary positive impact on the economy to increase capital expenditure, with the flow on effect of increasing employment and therefore government revenue.

## **3. Amend legislation to make available tax incentives to all company structures.**

We have for some time requested clarity around the unintended consequences that may be attached with the Immediate Tax write-off initiative.

A situation has arisen where a client has a trading entity and an asset owning entity which is a common structure in the SME space.

The operating entity earns the income and pays a management fee to the hire entity which will show as rental income or similar and there is a hire agreement in place between the 2 entities.

According to the Australian Taxation Office rules excluded assets include “assets that are expected to be leased out, for more than 50% of the time on a depreciating asset lease”.

We understand that the intent of this rule is to stop large hire companies from taking advantage of the incentive, however, it appears that this rule may be detrimental to an SME trying to take advantage of the government incentive, which they are currently excluded from participating.

#### **4. Deferral of the superannuation guarantee**

The superannuation guarantee is set to rise from 9.5% to 10%, and then eventually to 12% in 2024.

In the current COVID-19 economic environment it is CAFBA’s strong view that the proposed increase in the superannuation guarantee should be deferred until the economy has recovered.

Whilst CAFBA supports superannuation, at present business, and small business just cannot afford the increase. Many businesses are currently fighting for their economic survival. The effects of the increase will impose a further impost that will negate recovery plans, and potentially cost jobs.

Many businesses already have huge cuts in turnover and many are presently not profitable. They will not be able to find the additional funds for the superannuation rise. The choices are obvious for small business people: cut profit (if there is any), cut the hours of workers and/or retrench workers, or just close the business.

As reported in the Australian Financial Review, employees of small and medium businesses have been hardest hit by the coronavirus pandemic, with new analysis showing about 7.5 per cent of jobs in SMEs have been lost since mid-March. The analysis conducted by consulting firm Taylor Fry showed employees of Victorian SMEs were the hardest hit, followed by NSW, Tasmania and the Australian Capital Territory. The analysis showed businesses employing fewer than 20 people (small businesses) had lost 8 per cent of jobs nationally, while those with between 20 and 200 employees (medium businesses) had lost 7.2 per cent.

#### **5. More support for the access of credit for small business**

One of the most pressing areas of concern amongst small business is the difficulty accessing credit in the current environment. Whilst we acknowledge this is outside Treasury’s direct remit, Treasury does have influence to ensure there is adequate flow of credit, and it is incumbent on CAFBA to again draw this to your attention.

The most common problem is the business that took advice in March to defer payments for 6 months, as at that time the future was unknown and cash flow issues were of real concern. Many of the businesses fortunately have not been affected to the level anticipated, or even at all. In some cases, lenders are not allowing these borrowers to resume normal payment terms until the 6 months has expired, whilst continuing to capitalise interest. This also has the effect of limiting that business's ability to borrow for further acquisitions. This is in direct contrast to the government's initiatives of stimulus packages for economic recovery.

We are also concerned about the poor take-up of the federal government's SME coronavirus loan guarantee scheme. The government allocated \$40 billion for this scheme, which would be guaranteed 50% by the government, and approved 44 lenders to distribute these loans to small business that needed cashflow. Treasury data revealed that under the original settings only 16,000 loans worth \$1.6 billion of the \$40 billion available for lending have been approved. What the data does not reveal is how many applications have been made and how many have been declined. The government has now announced an extension of this program, where the cap on loan size was lifted to \$1 million, and the program extended to June 2021. Further changes include having the term extended to five years (up from three years) with payment holidays optional. These are welcome changes, but again the effectiveness is diminished if lenders will not approve the loans.

CAFBA requests that Treasury increases dialogue with the approved lenders to ensure these loans are made available to as many Australian businesses as possible, as these funds are essential for the business to continue, survive and employ.

## **6. Continue to defend and maintain company tax cuts**

CAFBA applauds the Government for engaging in a significant campaign to ensure that all businesses have a low-tax environment in Australia. Australia needs to lower business tax rates to help improve our economy. Tax cuts for all businesses act as a broad incentive for investment and drive both employment and economic growth. When big and small businesses are supported through a lower tax rate, all businesses succeed. Maintaining the current company tax cuts will be essential for the long-term viability of the Australian economy.

## **7. Support industry associations to advise the Government**

As an industry association, CAFBA works hard to provide strong advocacy to governments in Australia on a range of issues. Policy development is best managed in consultation with industries who are going to be impacted. CAFBA strongly believes that the Australian Government must do more to support small business industry associations to provide advocacy to governments on areas of policy that are going to impact them. While governments often make white papers and consultations available for comment, it is

essential for small business associations, who have limited finances, to be given support to provide advocacy.

CAFBA calls on the Government to provide a range of engagement platforms and research grants to support advocacy efforts.