

The Australian Chamber's response to the Interim Report of the Black Economy Taskforce

14 August 2017

Introduction

The Australian Chamber welcomes the opportunity to respond to the Interim Report of the Black Economy Taskforce.

As acknowledged in the Black Economy interim report, high taxes, a high regulatory burden and low profit margins are the most important determinants of the size of the black economy.

Noting this, the Australian Chamber is concerned that few of the recommendations made by the Taskforce effectively address the tax or regulatory burden.

The interim report places too much emphasis on restricting, or at least disincentivising, cash payments when these are not a cause of black market activity.

Rather than restricting cash and imposing further regulations or compliance burdens, the Australian Chamber suggests that the elimination of black market activity is best achieved by lowering the tax and regulatory burden – by tackling the causes of the activity and by removing the barriers to business and economic activity more generally.

Examples include:

- Streamlining workplace relations laws, and making it easier for employers to employ the people they need.
- Making it easier for businesses to invest and expand by reducing the tax rate for all businesses (to a maximum rate of 25%) over the next ten years.
- Ensuring that regulations are simple, easy to understand and harmonised across national jurisdictions and industries where possible.
- Ensuring that migrant workers are given a fair chance to secure work, upgrade their skills and receive the education they need to be successful in the Australian employment market.
- Ensure that businesses have access to judicial processes to hear disputes, particularly in relation to taxation and alternative mechanisms such as the services of an ombudsman.

Concerns over disincentivising cash transactions

The Australian Chamber understands the motives behind disincentivising cash – it simplifies the task of monitoring and policing existing tax and regulatory regimes and may increase taxation revenues over the short term.

The long term costs and benefits of this proposal have not been adequately weighed.

Policies to disincentivise cash undermine the legitimacy of physical cash as legal tender.

Government attempts to discourage businesses from using physical cash are particularly problematic to the stability of the financial system. The consequences of limiting the use of physical cash in the economy can be significant, particularly in periods of financial crisis and instability.

To understand why this would be a problem, we would encourage the Taskforce to remember that cash is both a medium of exchange *and* a store of value.

While the Chamber recognises that the Taskforce isn't advocating for a cashless society, moves to restrict/disincentivise its use are clearly a step in that direction.

Non-cash payment systems do not possess the integrity of a cash based system. Moves to restrict the use of physical cash – or limit its use - undermine the important role money has as a store of value.

There are two reasons for this.

1. Businesses become unwilling or less willing to accept or transact with cash.
2. Electronic payment systems bring with them a host of security and reliability issues which make them, by themselves, imperfect substitutes for physical cash as a store of value.

The Chamber notes that it is far easier in a society where cash has become marginalised for government to tax or deflate savings and wealth (negative interest rates for instance). This not only undermines money as a store of value but it can at times undermine confidence in the broader financial system.

This becomes particularly problematic during times of crisis, or during so called 'tail-risk' events. During these events, if cash is not readily available or transactable, then its 'store of value' is severely diminished and household wealth can be severely impacted.

As a medium of exchange, cash facilitates black market and legitimate activity alike. The Australian Chamber believes, however, that it is naive to think that restricting the use of cash would inhibit black market activity for those determined to engage in that space.

Participants in the black economy would simply develop other methods to facilitate payment or develop innovative ways to disguise transactions through the non-cash payments systems.

The Australian Chamber supports policies that promote competition and lower transaction costs in the non-cash system. If lower costs facilitate a more rapid uptake of non-cash payments then some of the negative outcomes discussed above become less relevant (provided cash remains a viable alternative payment).

The Chamber suggests the Taskforce should focus on reducing black market activity by addressing the underlying factors that cause it, that is, by addressing a high tax and burdensome regulatory environment. Physical cash transactions do not cause black market activity.

Table 1 – Response to Early Findings

Taskforce Comment	The Australian Chamber's response
<p>Low wages growth, pressure on business margins, regulatory burdens, and the expanding (and unevenly regulated) sharing economy are likely to strengthen incentives for black economy participation.</p>	<p>We agree that pressure on business margins and regulatory burdens are a driving force to black market activity.</p> <p>We do not agree that low wages growth is a contributing factor as this is based on rather anecdotal assumptions. Sluggish wage growth is a natural feature of an economy coming out of a cyclical downturn and subject to a significant structural transition. Recent low wage growth figures have ensured the unemployment rate has not lifted sharply.</p> <p>The Chamber does not support the assumption that higher wages will lead to less black market activity and has not observed any credible supporting evidence.</p>
<p>The impacts and drivers of black economy participation are multifaceted. It is not just a tax phenomenon.</p> <p>It touches on policy and regulatory settings across government, including: small business regulatory burdens; welfare and immigration policy settings; the role of cash in our payment system; the way we verify business and individual identities; and links with illegal activities (like money laundering).</p>	<p>We agree that black market activity is multifaceted.</p> <p>In particular, complex and burdensome regulatory barriers are a significant contributing factor. All efforts should be made to streamline and simplify business activity. This is particularly necessary for business/government interactions. The lack of harmonisation between local, state and national regulations creates major frustrations for business.</p>

<p>Lack of policy harmonisation is a further dimension of this.</p> <p>Indeed, it is a genuinely whole-of-government, whole-of-society phenomenon, where tax is often a symptom rather than the cause. All levels of government (Commonwealth, state and local) have a vital interest in combatting it.</p>	<p>We do not agree that the role of cash in our payment system is causative.</p> <p>We agree that there needs to be a whole-of-government approach in combating black market activity, and we believe addressing burdensome regulations and uncompetitive tax rates are the solution.</p>
<p>Current policy approaches, while effective in some cases, tend to focus on symptoms rather than causes.</p> <p>They also lack a clear behavioural focus and underutilise some policy tools, particularly those which can help 'hard-wire' our government and modernise our payment system (for example by better data sharing across Government or minimising the cost of non-cash payment methods).</p> <p>They tend to be fragmented, lack coherence and do not place sufficient focus on how the regulatory burden affects black economy participation.</p>	<p>We agree and note that most of the recommendations in the Interim report deal with symptoms.</p> <p>We do not agree that the mandatory digitisation of business services be implemented in full over the short term. Many businesses, particularly those in remote and regional areas suffer from severe internet coverage issues. This will likely affect the way in which these businesses conduct their operations. The rollout of any digital platforms must follow the rollout of secure, fast and reliable internet technology to all business owners in the country. This will ensure an even playing field for those that are required to report. Digital compliance should be phased in, with alternative options available.</p> <p>We agree that the government interface is fragmented and difficult to navigate. This requires to be streamlined in accordance with international best practice.</p>
<p>Cash is a key part of our payment system, but it offers anonymity to those in the black economy.</p> <p>Payment system reforms being led by the finance sector and the Reserve Bank of Australia (RBA), including the introduction of the New Payments Platform and alternatives, are lowering the barriers to a less cash-based economy.</p> <p>A more modern and low-cost electronic payment system has the possibility to limit opportunities for black economy participation and allow a more targeted approach toward those who continue to use cash.</p>	<p>We do not agree that limiting or suppressing the use of cash payments will substantially resolve black market activity. Despite cash payments declining from 70 per cent to approximately 40 per cent of all transactions today, this still represents a significant number of daily cash transactions.</p> <p>There is limited data on the purposes for which people use cash, including as a store of value and to facilitate illegal activity. The RBA states that the demand for cash for precautionary purposes increased following the GFC. Cash is an essential instrument in the event of a future financial/economic crisis.</p> <p>Cash must also be available as an alternative payment method in times when digital platforms</p>

	become unavailable
New and emerging technologies (such as smartphone and tablet applications, mobile payment and businesses technologies and biometrics) together with sophisticated data analytics, can be better used to counter the black economy.	We agree that emerging technologies can provide better information for data analysis, but technologies should be taken up by individuals and businesses voluntarily where they provide for greater convenience.
In light of this, there is a need for a forward-looking, innovative and genuinely whole-of-government strategy on the black economy, leveraging some of the good policy work already done or underway	We agree that a whole-of-government approach is required and this will involve several rounds of effective consultation.
<p>The business community, both small and large, is strongly supportive of this project.</p> <p>If we make progress in countering the black economy, they will benefit from a more level playing field.</p> <p>However, businesses also caution against approaches that increase regulatory burdens.</p>	We agree that businesses of all sizes will benefit from less black market activity, and that further additional regulations should be avoided where possible. There should be greater focus on how to improve existing regulations and where possible remove existing burdensome and complex regulations.
<p>The business community, professional associations and the public must all play a role in countering the black economy.</p> <p>Lasting behavioural change requires a concerted effort from all quarters.</p>	We agree that there is scope for behavioural change. Providing better information about compliance processes, streamlining business services and government agencies/platforms, competitive tax rates, and streamlined workplace relations laws to help business owners employ, retain and train staff, and grow their businesses will help deliver the best outcomes. Public education schemes may also be effective.

Table 2 – Response to Initial Recommendations

Access to Australian Government procurement opportunities should be limited to firms which have a good tax record (and do not engage in bribery)	We caution on the definition of a good tax record, in particular, what standards will be set to define a good tax record, who determines what a good tax record is, and how this will be assessed. This should not create an additional burden on business to demonstrate its tax record when tendering.
Tax (and other) incentives for small businesses who adopt and invest in non-cash business models	We do not agree that government should attempt to disincentivise cash payments. If businesses choose to use non-cash payment methods then they should do so on their own accord.
Expansion of the taxable payment reporting system	We do not agree that a payment reporting system is necessary to alleviate black market activity. This would be an additional cost and compliance requirement that may delay payments. If adopted, we would urge the use of proven and well-tested methods and a phased-in implementation.
Deductibility of cash wages and contractor payments	We do not agree .
An immediate ban on sales suppression technology	We agree that the immediate ban on sales suppression technology should be implemented.
Business registration integrity and modernisation	We agree that Australia needs a robust, real-time, business identification and verification system in order to reduce red tape, generate valuable data for government and businesses and improve the delivery of relevant services.
Tax literacy training for trades and small business people	We agree that tax literacy training be provided. This should be through easy to access online learning modules rather than formal on-site modules requiring participation and formal hours.
Funding for ATO activities	We do not agree that the ATO is under resourced or requires further funding.



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About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country,

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