

Ai Group Survey

Business Priorities for the 2014-15 Federal Budget

 AUSTRALIAN INDUSTRY GROUP

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Budget priorities: cut company tax, invest in infrastructure and balance budget within five years.

The top three priorities for business in the May Budget are reducing the company tax rate; lifting investment in infrastructure and bringing the budget back to balance within five years.

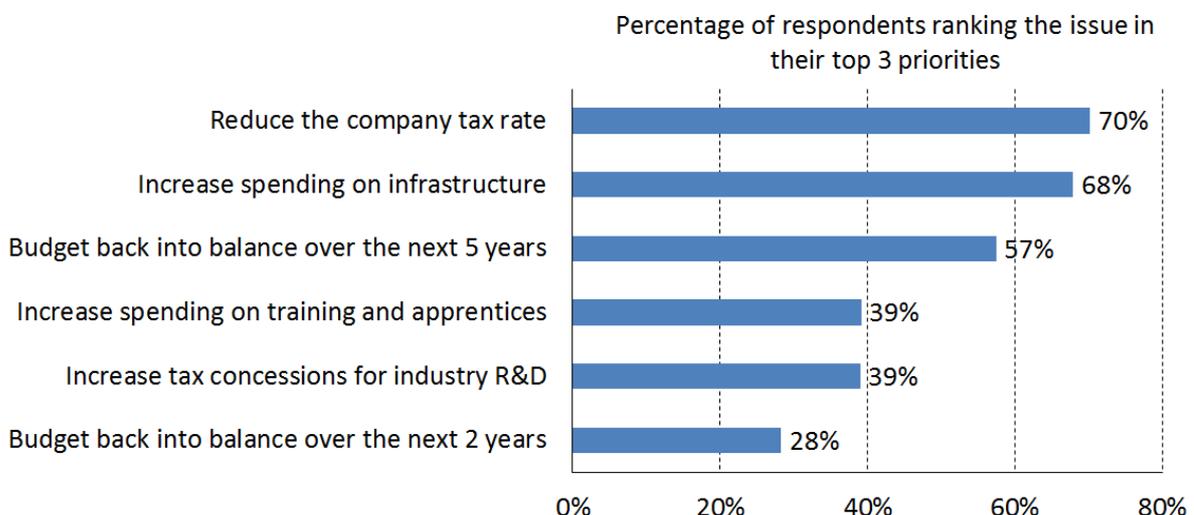
The latest Ai Group Survey of businesses priorities for the 2014-15 Federal Budget highlights the importance business gives to lifting domestic investment and productivity while proposing a medium-term approach to restoring the strength of Australia's public finances.

- The leading priority for the majority of businesses is reducing the company tax rate. Around 70 per cent of businesses rank this as one of their top three priorities (see Chart 1).
- Reducing the company tax rate is rated only slightly ahead of investing in infrastructure which is ranked by almost 68 per cent of businesses as one of their top three priorities.

While not ranking as highly, businesses also clearly attach considerable importance to strengthening Australia's fiscal position over the medium-term.

- 57 per cent of businesses rank balancing the budget over a five year period as one of their top three priorities.

Chart 1: Business Priorities for 2014-15 Federal Budget



These priorities highlight the emphasis that business gives to policies that would boost investment and productivity.

Cutting the company tax rate would immediately address a shortcoming in the competitiveness of our taxation system and would help attract investment across the full range of Australian industries. Higher investment would help lift productivity and competitiveness and would assist in rebalancing of the economy as the mining investment boom winds down. This aligns with recent modelling by the Commonwealth Treasury suggesting that a reduction in the company tax rate can bring a permanent increase in Australia's GDP levels, capital investment and labour productivity.

Lifting investment in infrastructure, if well directed, also has the potential to lift productivity and would provide a timely boost to engineering construction at a time when capacity is being released with the completion of large-scale mining projects.

Both a reduction in the company tax rate and a lift in infrastructure investment would help lift the pace of economic expansion leading to faster growth of the tax base and a stronger budgetary position over the medium-term.

Key findings

In this year's Ai Group Survey of businesses priorities for the 2014-15 Federal Budget, a lower company tax rate, higher infrastructure spending and medium-term fiscal consolidation are listed by Australian businesses as the three most important objectives for the 2014-15 Federal Budget (Chart 1 and Table 1). In particular:

- **reducing the company tax rate** is again the most cited measure for the upcoming Budget, with 70% of respondents nominating this as one of their top three priorities. In addition, 32% of Australian businesses said lower company taxes is the number one key priority for their business (Table 1). This measure is particularly important for manufacturers, exporters and businesses who face fierce import competition as the Australian dollar remains at an elevated level.

Recent modelling by the Commonwealth Treasury suggests that a company income tax cut from 30% to 29% would increase GDP levels by 0.15-0.35% in the long run, mainly driven by an estimated 0.25-0.5% increase in capital stock from greater foreign investment.¹ Labour productivity is also forecast to increase as a result, with real disposable income expected to rise by 0.14-0.30% and labour supply by 0.05-0.09%. A one percentage point cut in the company tax rate can also deliver a permanent rise in domestic household consumption by 0.07-0.19%.

- **increasing spending on infrastructure** (e.g. on transport links) is almost as important as a reduction in the company tax rate, with 68% of Australian businesses listing this as one of the three most important objectives for their business. 28% of the respondents also ranked higher infrastructure spending as the number one priority for the 2014-15 Federal Budget (Table 1). These results again highlight the need for the Government to continue investing in infrastructure despite the fiscal challenges it faces. Indeed, the Productivity Commission's draft report on *Public Infrastructure* noted that governments have the capacity to fund more projects than under current fiscal and debt management practices if they implemented the reform package in the report.
- although businesses appreciate the importance of budget discipline, in the face of below-trend domestic economic growth and the need to invest in infrastructure, **rapid fiscal consolidation comes as a clear last** for Australian businesses. Only 6% ranked this as their number one priority. On the other hand, businesses generally think **medium-term fiscal consolidation is much more sensible under current economic conditions and outlook**, with 57% choosing a plan to bring the Budget back into balance over the next five years as one of the top three priorities for the 2014-15 Federal Budget (Chart 1), while 23% ranked it as the most important objective for the Budget (Table 1).

¹ *Economic Roundup, Issue 1*, Commonwealth Treasury, 2014.



- a smaller number of Australian businesses (39%) cited **increased spending on training and apprentices** as one of their top three priorities for the 2014-15 Federal Budget but only 7% ranked this as their top priority.
- 39% of businesses listed stronger **tax concessions for industry R&D** as one of their top three priorities for the upcoming Budget, although just 4% ranked this measure as the number one objective.

This year's business priorities for the Federal Budget are not dissimilar to the priorities that businesses said they had last year for the 2013-14 Federal Budget. However, a greater proportion of businesses now think that balancing the Budget is their top priority, compared with last year, although the majority favoured medium-term fiscal consolidation over a rapid approach. This indicates that businesses acknowledge and understand the difficult position the Federal Government is in, with regard to the need to support the domestic economy, to build more infrastructure, as well as to balance the Budget over the longer term.

Table 1: Business Priorities for 2014-15 Federal Budgets

% of respondents ranking budget measure as the most important objective

	Reduce the company tax rate	Increase spending on infrastructure	Bring the Budget back into balance over the next five years	Increase spending on training and apprentices	Bring the Budget back into balance over the next two years	Increase tax concessions for industry R&D
Manufacturing	37	29	21	3	4	5
Services	31	27	25	6	8	3
Construction	24	29	22	13	8	5
Small (<20 employees)	34	28	19	8	7	4
Medium (20-100 employees)	31	28	30	5	5	2
Large (100+ employees)	32	26	24	6	-	12
New South Wales	26	30	27	7	6	4
Victoria	35	30	19	7	6	3
Queensland	35	26	25	5	5	5
Rest of Australia	33	22	20	7	11	7
Total	32	28	23	7	6	4

Survey results by industry

Among manufacturers:

- reducing the company tax rate was viewed as the most important objective for the upcoming Federal Budget, with 37% of respondents listing this measure as the top priority (Table 1 and Chart 2). Around 76% of manufacturing businesses listed a lower company tax rate as one of the top three priorities for the Budget. This result reflects the pressure manufacturers are under to reduce their costs in an extremely challenging and competitive environment.
- 29% of businesses in the manufacturing industry listed higher spending on infrastructure as the number one priority for the upcoming Budget, while two-thirds cited this as one of the three most important objectives for the 2014-15 Budget.
- 21% of manufacturers picked the goal to bring the Budget back into balance over the next five years as the most important objective for the Budget. 56% listed it among one of the top three priorities.
- only 4% of manufacturers think that achieving a balanced Budget over the next two years should be the number one priority in the 2014-15 Federal Budget.



- a smaller percentages of manufacturing businesses viewed higher tax concessions for industry R&D (45%) and spending on training and apprentices (35%) as one of the top three focuses for the upcoming Budget.

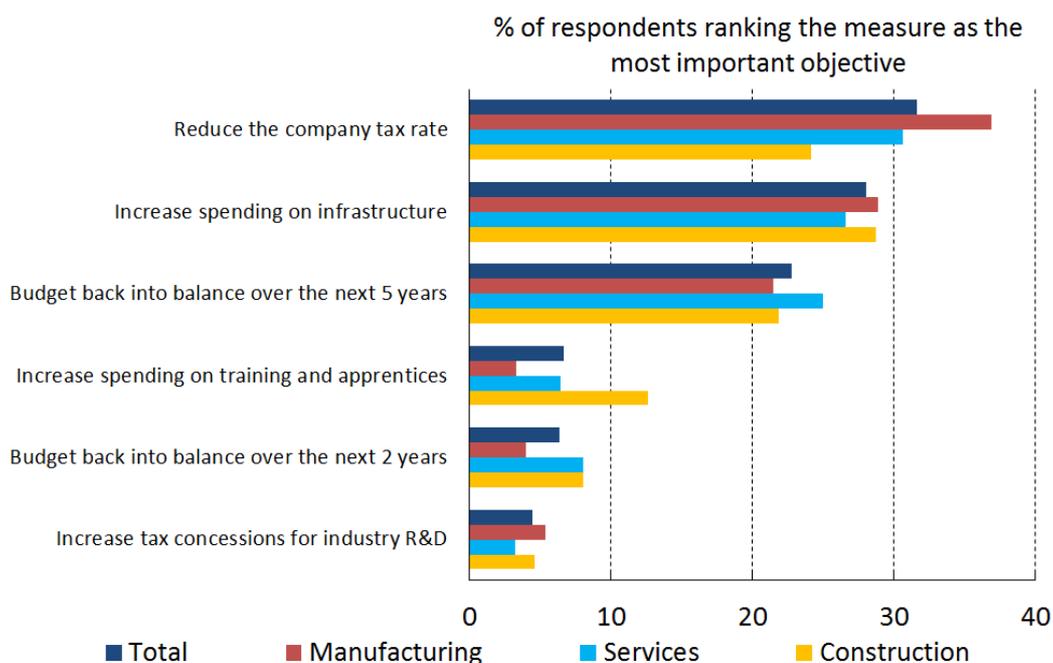
Among **services** businesses:

- around 31% of **services** businesses listed reducing company tax as their top priority for the 2014-15 Federal Budget, while 64% picked this measure as one of the three most important objectives for their business.
- 27% of the respondents cited higher infrastructure spending as the number one objective for the Budget, although three quarters ranked it among the top three priorities.
- a quarter of the services businesses think achieving a balanced Budget over the next five years should be the number one priority in the upcoming Federal Budget, although only 8% think it should be a top priority to achieve a fiscal balance over the next two years. In addition, 58% of the respondents placed a five-year fiscal balance target as one of the top three priorities for the 2014-15 Budget.
- increased spending on training and apprentices and tax concessions for industry R&D were also listed as one of the top three priorities for the upcoming Budget by 42% and 32% of services respondents respectively.

In the **construction** industry:

- higher infrastructure spending was expected to be more beneficial than a cut to the company tax rate, with 29% of businesses citing it as their number one priority for the 2014-15 Federal Budget and 60% ranking this measure among the three most important objectives for their business.
- 24% of construction respondents viewed a lower company tax rate as the most important objective for their business and almost 70% placed it as one of the top three priorities.
- construction businesses mostly think it is more important to bring the Budget back into balance over the next five years (58% listed it as one of the top three priorities) than achieving the goal within two years (38%).
- construction businesses also favoured higher spending on training and apprentices than manufacturers and service businesses, with 13% listing it as the number one priority for the upcoming Budget, the highest among all the three major industries in this survey. Furthermore, 43% chose this measure as one of the top three priorities. This is likely because such public expenditure is a crucial channel for providing long-term stable supply of required labour in the construction industry.
- around 38% of construction businesses viewed higher tax concessions for industry R&D as one of the top three priorities for the 2014-15 Federal Budget.

Chart 2: Business Priorities for 2014-15 Federal Budget, by industry



Survey results by business size

Reducing the company tax rate was listed as the number one priority for the 2014-15 Federal Budget by most businesses regardless of their size (Chart 3):

- almost 34% of small businesses with fewer than 20 staff think this measure is most important for their business. 70% of small businesses also listed lower company taxes as one of the top three priorities.
- 32% of large businesses (with more than 100 employees) chose this measure as the number one priority for the Budget, while 71% cited it among one of their top three most important objectives.
- 31% of medium businesses (with 20 to 100 staff) reported lower company taxes as the key priority and 68% placed this measure among their top three choices.

There was also little divergence in the priority given to **increased spending on infrastructure** across businesses of different size:

- around 28% of each of small and medium sized businesses listed higher infrastructure spending as their top priority, and 26% of large businesses did so.
- furthermore, 72% of medium sized businesses, 71% of large businesses and 65% of small businesses chose this measure as one of the three most important objectives for the Budget.

With regard to **bringing the Federal Budget back into balance**:

- 19% of small businesses cited a five-year fiscal balance target as their number one priority for the 2014-15 Federal Budget and 7% chose a five-year balanced budget plan as the most important Budget objective for their business. Meanwhile, 57% of small businesses listed a medium-term fiscal consolidation goal and 29% cited a two-year goal among their top three priorities for the Budget.
- slightly over 30% of medium businesses think the top priority of the 2014-15 Federal Budget should be achieving fiscal balance over the next five years but only 5% think the Federal Government should bring the Budget back into balance within the next two years. In addition, 63% cited medium-term fiscal consolidation as one of the three most important objectives and only 28% chose rapid fiscal consolidation.
- large businesses appeared to be less concerned about achieving a balanced budget. Just under a quarter of large businesses listed a five-year fiscal balance target as the top priority for the upcoming Budget while none thinks the Federal Government should primarily aim to bring the Budget back into balance over the next two years. Furthermore, only 44% of large businesses cited medium-term fiscal consolidation as one of the top three priorities for the Budget while just 15% chose rapid fiscal consolidation.

On increased **tax concessions for industry R&D**:

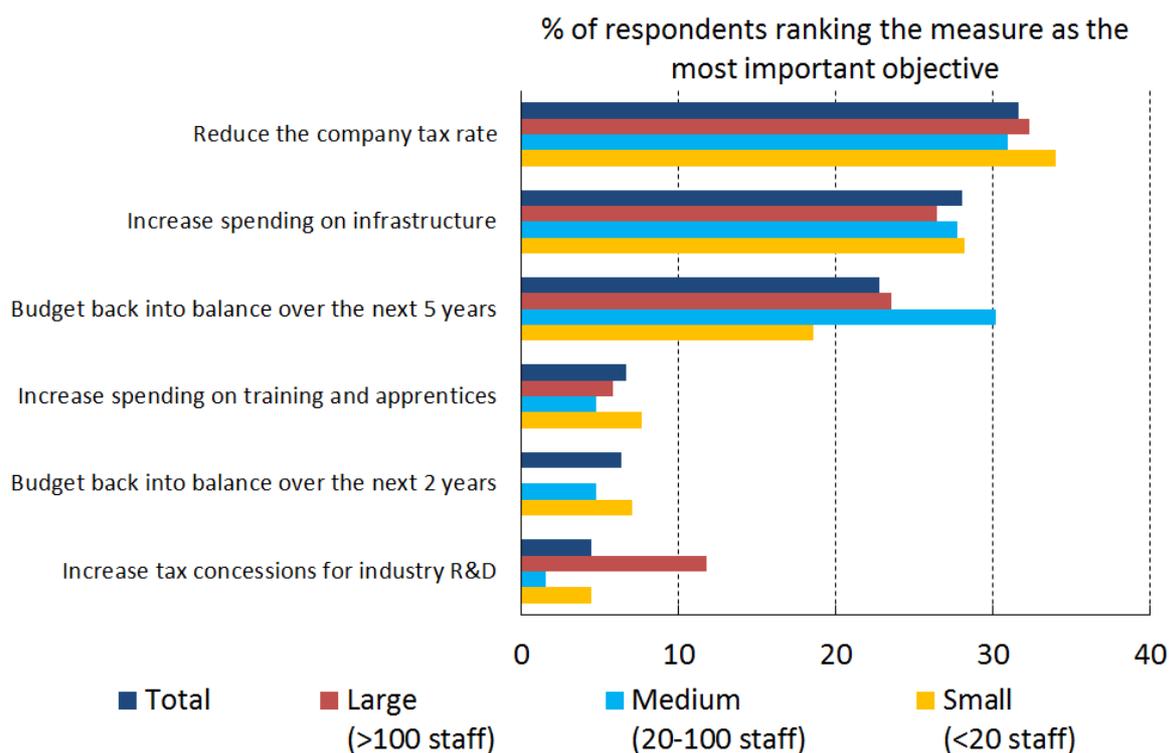
- almost 12% of large businesses listed increasing tax concessions for industry R&D as the number one priority for the upcoming Federal Budget, compared to 4% of small businesses and 2% of medium businesses.
- 59% of large businesses also placed this measure among the top three priorities for the 2014-15 Budget, compared to 37% of small and 36% of medium businesses.
- This difference is possibly because large businesses are more likely than smaller businesses to undertake large scale industry R&D projects.

In terms of additional funding for **training**:

- 8% of small businesses are predominantly focused on higher spending on training and apprentices in the 2014-15 Budget, compared to 5% of medium businesses and 6% of large businesses.
- however, 44% of large businesses listed higher spending on training as one of the top three priorities, followed by 43% of small businesses and one-third of medium sized businesses. This indicates that training remains very important to businesses across different sizes even though it is not listed as the number one priority.



Chart 3: Business Priorities for 2014-15 Federal Budget, by business size



Survey results for selected states

Across the states (see Table 1):

- a **lower company tax rate** was cited as the highest priority for the 2014-15 Federal Budget by 35% of Queensland and Victorian businesses, but only 26% of businesses in NSW. In addition, almost three quarters of Victorian and Queensland businesses, and two-thirds of businesses in NSW placed lower company taxes among the three most important objectives for the Budget.
- businesses in NSW are more focused on **increased spending on infrastructure**, with 30% listing it as a top priority. Almost 30% of Victorian businesses and 26% of Queensland respondents cited higher infrastructure spending as the most important objective for the 2014-15 Budget. Between 67% and 73% of businesses in these states also placed this measure as one of the top three priorities for the Budget.
- almost two-thirds of respondents in NSW think **bringing the Budget back into balance** over the next five years should be one of the top three priorities for the 2014-15 Federal Budget, followed by 60% of Queensland businesses and almost half of Victorian businesses. Only between a quarter and a third of businesses in New South Wales, Victoria and Queensland think the Federal Government should mainly aim to achieve a balanced Budget over the next two years (i.e. as one of three most important objectives).
- **higher spending on training and apprentices**, as well as **more tax concessions for industry R&D**, only featured as one of the top three priorities for the upcoming Budget for a relatively small percentage of businesses in New South Wales (38% and 32% respectively), Victoria (39% and 46%) and Queensland (31% and 44%).

For the rest of Australia, which includes responses from South Australia, Western Australia and Tasmania, a lower company tax rate was listed as the top priority for the Budget by 33% of businesses, followed by higher infrastructure spending (22%), bringing the Budget back into balance over the five (20%) and two years (11%), increased spending on tax concessions for industry R&D (7%) and spending on training and apprentices (7%). In addition, 70% of these businesses placed lower company taxes among the three most important objectives for their business, while 60% and 58% did so for higher infrastructure spending and medium-term fiscal consolidation.

Business Priorities for the Federal Budget: 2013-14 vs 2014-15

In March 2013, Ai Group conducted a similar survey of companies across Australia to gauge what they thought the priorities should be for the 2013-14 Federal Budget. In 2013, around 330 businesses ranked the relative importance of each of five broad policy areas for the 2013-14 Budget.

Compared to the survey results for the 2013-14 Budget, a significantly higher percentage of Australian businesses listed “**bring the Budget back into balance**” as the highest priority for the 2014-15 Federal Budget (Chart 4). Around 29% of respondents said their number one priority for the upcoming 2014-15 Budget is to achieve a balanced Budget position, compared to 16% in 2013, although most (23%) assessed a five-year time frame to be a more realistic target.

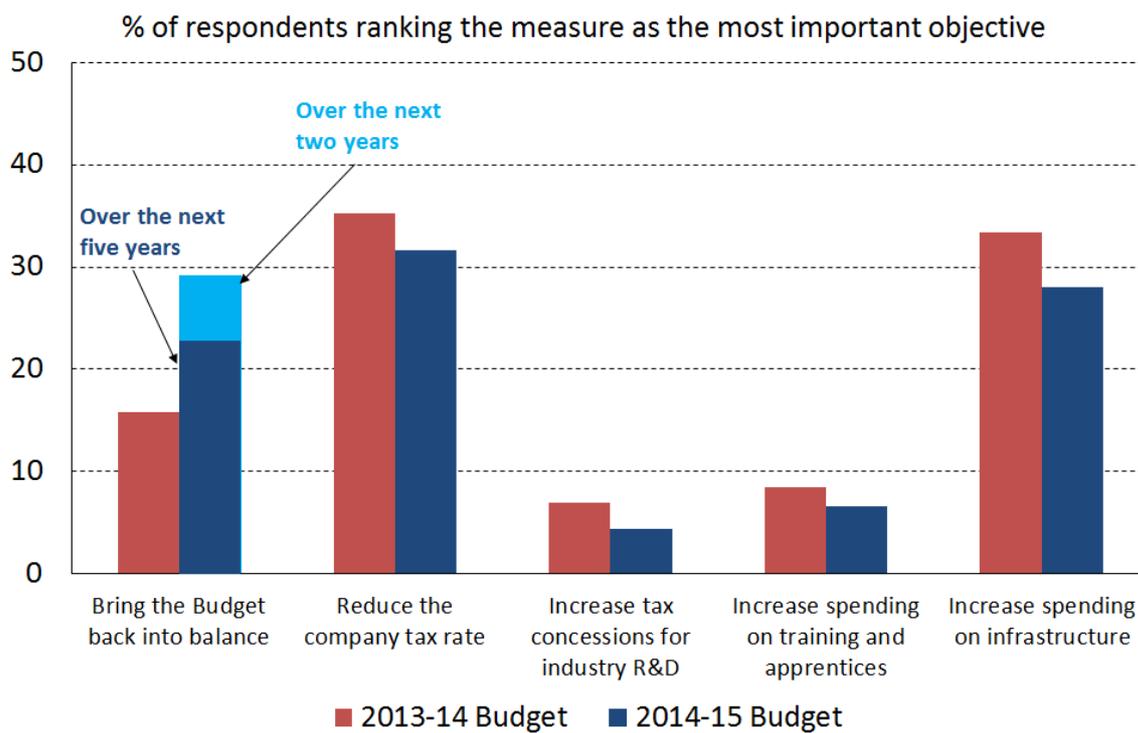
Conversely, Australian businesses appeared to attach relatively less weight to other objectives for the 2014-15 Budget compared to the previous year. Nevertheless, reducing the company tax rate was still listed by 32% of respondents as the top priority in 2014, compared to 35% who said this was their most important objective in 2013. A relatively smaller percentage of respondents also listed higher infrastructure spending, training and apprentices expenditure and tax concessions for industry R&D as the top priority for the 2014-15 Budget when compared to the 2013-14 Budget.

By industry:

- reducing company tax remains the top Budget priority for **manufacturers**, even though fewer manufacturers said a lower company tax rate is their top priority in 2014 (37%) than in 2013 (43%). The proportion who said higher spending on infrastructure is their top priority also fell (29% in 2014 vs 32% in 2013). Just over a quarter of manufacturing businesses now think the top priority of the Budget should be achieving a balanced fiscal outcome, with 21% thinking this should be done over the next five years. In comparison, only 12% of manufacturing respondents cited a balanced Budget as their most important Budget objective in 2013.
- bringing the Budget back into balance has also become more important for **services** businesses, with 33% listing it as their top priority in 2014, including 25% who think this should be achieved over the next five years. This compares to 17% who ranked Budget balance as their top priority in 2013. A similar proportion of services respondents (31%) ranked lower company taxes as their most important objective in 2014 as they did in 2013. A smaller percentage of services businesses in 2014 (27%) chose higher infrastructure spending as their most important Budget objective compared to last year (36%).
- fewer **construction** businesses cited higher infrastructure spending as their most important Budget objective in 2014 (29%) than in 2013 (34%). Instead, an increased number of construction respondents listed a lower company tax rate as their top priority for the upcoming Federal Budget in 2014 (24%), compared to 2013 (20%). In 2014, more construction businesses (30%) think the Federal Government should mainly focus on bringing the Budget back into balance than they did in 2013 (26%), with 22% listing a five-year target as their top Budget priority in 2014. There were relatively fewer construction respondents calling for higher spending on training and apprentices, with 13% listing it as their top priority in 2014, compared to 18% in 2013.



Chart 4: Business Priorities for the Federal Budget in 2013 (the 2013-14 Budget) and 2014 (the 2014-15 Budget)



Appendix: Survey question and composition of respondents

In early March 2014, CEO's and managers from around 360 Australian businesses answered this survey question:

The Federal Budget for 2014-15 will be announced in May. Please rank the following objectives in order of their importance to your business (1 = most important objective and 6 = least important):

- Bring the Budget back into balance over the next two years;
- Bring the Budget back into balance over the next five years;
- Reduce company tax rate;
- Increase tax concessions for industry R&D;
- Increase spending on training and apprentices; and
- Increase spending on infrastructure (e.g. on transport links).

Table 2: Ai Group survey respondents, March 2014

	No. of respondents	% of total respondents
Manufacturing	154	42.3
Services	126	34.6
Construction	84	23.1
Small*	156	42.9
Medium*	127	34.9
Large*	36	9.9
New South Wales	117	32.1
Victoria	129	35.4
Queensland	62	17.0
Rest of Australia	56	15.4
Total	364	100.0

* Excludes businesses that did not disclose their staff numbers.

Ai Group Economics and Research Team

Julie Toth	Chief Economist	(03) 9867 0124
David Richardson	Manager, Economics and Business Services	(02) 9466 5456
Pip Freebairn	Senior Adviser, Economic Policy	(03) 9867 0261
Yi Ming Hu	Economist	(03) 9867 0231
Gareth Shaw (part time)	Research Coordinator	(03) 9867 0280
Elle Spyropoulos (part time)	Research Assistant	(03) 9867 0108

