

**2019-20 Budget**

# **Priorities Statement**

**Commercial & Asset Finance  
Brokers Association of Australia**

**2019**

**CAFBA**

Commercial & Asset Finance Brokers  
Association of Australia

2019-20 Pre-Budget Submissions  
Treasury  
PARKES ACT 2600

22 January 2019

## 2019-20 Budget Priorities Statement

The Commercial & Asset Finance Brokers Association of Australia (CAFBA) welcomes the opportunity to provide our views regarding priorities for the 2019-20 Budget.

CAFBA again recognises the different pressures and competing interests that the Government must manage in the development of the next Budget. CAFBA members are not only financial service providers, but mothers and fathers, we have parents, and we 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 thrive. 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 six 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 2019-20 Budget:

- **establish a long-term and means-tested instant asset tax write-off;**
- **establish a business investment allowance;**
- **secure investment in Australia;**
- **increase APRA Prudential Standard APS113;**
- **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 700 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 67% (East & Partners 2017) 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 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. 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 six proposals outlined by CAFBA will increase business confidence and encourage investment. Business investment is a big decision 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 \$20,000 instant asset tax write-off. 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 at the increased 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 to be increased to \$50,000 per asset and indexed thereafter.

### 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 most recent version of an investment allowance in Australia was in 2009 as part of a temporary package to limit the impact of the global financial crisis. That investment allowance was set at 50% of the asset cost. This had an immediate and positive impact on the economy and allowed businesses to invest in innovation.

The Australian economy is continuing to strengthen but businesses need incentives to invest and engage in more activity. Confidence is a key and a business investment allowance would improve 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 a turnover of less than \$10 million, which would work in conjunction with the Instant Asset Write Off. While larger, industry-specific allowances should be developed, a broad general investment allowance should be made available for assets in excess of \$50,000 and include:

- an additional 50% tax deduction available for capital purchases over \$50,000
- eligible assets will be tangible and depreciable
- commitment to invest must be made between certain dates
- eligible assets must be installed and ready for use by a certain date
- eligible assets must cost between \$50,000 and \$2,000,000 (excluding GST)
- eligible assets may be new or used.

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 are temporary and targeted. 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. Securing investment in Australia**

CAFBA believes that we need more government policies to encourage more companies to invest in Australia. Targetted tax relief for such investments, as well as research and innovation partnerships with government, need to be expanded. While the current tax environment is positive, we believe that more specific allowances need to be made to encourage investment.

#### **4. Increase APRA Prudential Standard APS113 to \$2.5 million**

The Australian Prudential Regulation Authority's (APRA) Prudential Standard APS113 requires banks to carry specific capital and more closely monitor any customer exposure over \$1 million. APS113 was established in February 2008 by the Australian Government in response to the Global Financial Crisis. The standard was based on a 1 million Euro (EUR) model adopted across Europe during the same time.

It is clear that the APS113 amount must be lifted. In 2008 the AUD equivalent to EUR 1 million was approximately AUD \$1.6 million. Additionally, the \$1 million threshold figure has never been indexed. If APS113 had taken the currency value and CPI rises into account, the threshold would now be approximately AUD \$2.5 million which is a far more appropriate figure for capital adequacy requirements and customer account management.

CAFBA sees the current A\$1mil threshold as an unnecessary level of red tape, a cost to lenders and an impediment to lending. We continue to make this point with APRA, The Reserve Bank, and of course the relevant Ministers with whom we are in regular contact. CAFBA made a strong case for raising the threshold in its submissions to the Financial Systems Inquiry. This matter has been raised in Senate hearings at CAFBA's request and has been discussed with Ministers of the current Government.

#### **5. 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.

#### **6. 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.