

Submission to the Multinational Tax integrity and Enhanced Tax Transparency Consultation Paper

August 2022

Introduction

TechnologyOne is an Australian founded ASX150 business providing Software-as-a-Service core business solutions, including fully integrated financial management, asset management, HR and Payroll and enterprise content management systems.

Founded in Brisbane in 1987, TechnologyOne is now a leading supplier of business software services to Government, Local Government, Health & Community Services and Education enterprises. For the purpose of full disclosure, the Department of the Treasury is one of TechnologyOne's 78 Federal Government agency customers.

TechnologyOne has evolved through successive generations of technology through its unwavering commitment to R&D, almost all of which is conducted in Australia. TechnologyOne, year on year, reinvests more than 20 percent of *revenue* in R&D and supports what we believe is the largest software R&D lab in Australia in our Brisbane HQ.

This constant product improvement is the foundation of TechnologyOne's competitive differentiation.

Competitors in the enterprise software market in Australia are exclusively multinational software providers. A tax level playing field is therefore strongly in TechnologyOne's interests. Our ability to maintain margins sufficient to support R&D is threatened if we are competing against imported products or services not subject to the same costs associated with tax obligations in the same transaction.

We submit the Federal Government as a consumer has a leading role to play in establishing model commercial behaviour.

TechnologyOne supports the principles and objectives of the Government in seeking a fairer and more transparent set of rules and requirements for multinational businesses competing in the Australian market.

Scope of this Response

For the purpose of this paper, TechnologyOne addresses only the proposed measure to require government tenderers to disclose their country of tax domicile for all contracts valued at over \$200,000.

Response to Issues Raised

TechnologyOne strongly supports this initiative and the important market signal that it gives.

One of the challenges of successfully designing measures to discourage the minimisation of tax through means such as shifting transactions or income to alternative reporting jurisdictions is that the incentives for this behaviour are so strong. Most initiatives are focused on changing conduct, not incentives, i.e on enforcement of rules or new means of regulating conduct. History has demonstrated businesses will often make a rationale cost-benefit assessment of the extent to which they will comply with such measures.

The most effective way to drive good behaviour in any market is to create incentives through price signals.

In our submission, the requirement to disclose where tax will be paid on a transaction with the Government is the first step toward giving a price signal to the market and the Government's expectations as a consumer, rather than a compliance (or non-compliance) cost signal.

That is, it implies that the Government values a taxation level playing field, and is aware of the potential for tender respondents who intend to "recycle" some of their profits gained from taxpayers' money within Australia through the tax system.

For the purpose of Q22, therefore, an unintended consequence of this transparency measure could be a "soft" market signal encouraging tax behaviour more consistent with Government and community expectations.

The method of implementation (Q23) should be simply through the addition of the requirement to the Commonwealth Procurement Rules.

Non-compliance with the rule – which would include providing incorrect information – could be made a ground for immediate and unilateral termination of the contract with appropriate compensation to the Commonwealth at any point during its term. This would create a strong, no-cost disincentive to tender respondents providing untruthful or misleading responses.

There are minimal compliance costs inherent in the propose, but these could be further reduced depending on how the question to tender respondents is framed.

For example, the question could ask respondents to confirm that the entity was domiciled in Australia, yes or no. If no, they could be required to indicate which jurisdiction they were domiciled in.

Additional Proposed Measure

The initiative has the potential to encourage better align corporate behaviour by those doing business with the Government to the expectations of the public by sending important signals about community expectations of those transacting with the Government and receiving taxpayers' funds.

However, it could also provide important information to policy makers about the extent of spending with businesses not paying tax in Australia, and the reasons for it. This could be invaluable in assisting policy makers determine what are appropriate future initiatives.

TechnologyOne proposes that the measure is supplemented with some minimal reporting requirements on agencies to provide this additional transparency.

We propose that, where a procurement office has selected a successful tenderer that has declared it is not domiciled in Australia for tax purposes, that procurement officer should report this and the reasons for this decision to the agency head. This information should be provided biannually to the responsible Minister.

We acknowledge that this measure does have the potential to increase compliance costs. We submit, however, these costs would be minimal and more than justified as they would provide a very clear window on the incidence and extent of the Government contracting with non-Australian domiciled entities. Any compliance cost would be justified by the visibility policy makers would gain into the extent of the problem alone.

Contact

For questions or further information, please contact:

David Forman
Director, Government Relations
David_forman@technologyonecorp.com
0438121114