Mid market Pre-budget Pulse Check 2021

April 2021

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Foreword

The annual pre-budget survey of our client base by KPMG Enterprise this year takes place just six months after the previous Budget, held last October. Yet even in this shorter timeframe, the picture has changed significantly.

Our survey of 100 leaders in Australian businesses – ranging from listed companies just outside the ASX200, to private companies, family businesses, and some public sector organisations – shows that the mid-tier sector, the backbone of the national economy, is feeling upbeat and a lot less fearful about the ending of JobKeeper than it was in our previous survey, just ahead of the October 2020 Budget.

Two-thirds had either used government support mechanisms through COVID-19 and were now 'emerging with confidence', or said that new opportunities had emerged as a direct result of the past year's experience. Less than half said that COVID-19 or other factors had negatively impacted the business.

Notably, only one-third now expected the recent ending of the JobKeeper scheme to lead to a significant decline in economic activity and higher unemployment. This compared to two-thirds in our previous survey just ahead of the October Budget.

In further encouraging signs for future growth and innovation, significant numbers have taken advantage of the Instant Asset Write Off and plan to do so with the R&D Tax Incentive. It was positive to see strong support for innovation measures like the early stage investor incentive; innovation tax incentive; software-specific development and collaboration premiums. The government's e-invoicing program was also largely welcomed as a boost to productivity and efficiency.

Of course there are still challenges – the biggest seen by businesses was once again cost and margin pressures, followed by supply chain problems and recruiting skilled staff. Reduced revenue and demand, and changes to consumer spending were also prominent issues.

The debate, at some point, will turn to paying back COVID-19-related debts. Like KPMG, our Enterprise clients favoured moves to raise productivity as the best way to do so and major tax reform will be a key part of this. But if any single tax has to rise, GST was the clear favourite.

This was consistent with our previous survey and reinforces to policymakers that there is no business support for direct tax rises, on which Australia already has an over-reliance.

The mid-tier sector also favoured the two-tiered company tax rate system remaining, until finances allowed the higher rate for larger companies to come down. Not for the smaller companies' rate to go up.

The debts and the emergence from COVID-19 have seen a significant ramp-up in ATO compliance activity. ATO programs directed at the top 500 and 'next 5000' privately-owned groups, as part of its wider 'Justified Trust' tax assurance program aimed at Australian businesses and wealthy family groups, are now in full swing.

Perhaps understandably the survey found half of businesses concerned about this. Yet of equal concern to us is that nearly half of respondents believe they are well prepared for the additional compliance activity – despite nearly two-thirds saying they do not currently have documented tax risk management frameworks. This is a key part of proper tax governance as the ATO sees it and we think there may be a degree of unfounded optimism about the readiness of many businesses and family groups.

Another notable survey finding was the significant support for ownership succession to take place in family businesses without tax. This is a curious anomaly of the Australian tax system which effectively penalises organised succession planning in family companies while the owner is alive yet there is no tax impact on transfer when they die. KPMG research has shown that Australia is an outlier in this respect and we need to change our approach to give a boost to family-owned enterprises – which comprise around two-thirds of all businesses – as they emerge from COVID-19.

Our survey shows Australia's mid-tier businesses are up for the challenge. It is important that the tax system does not make that more difficult.

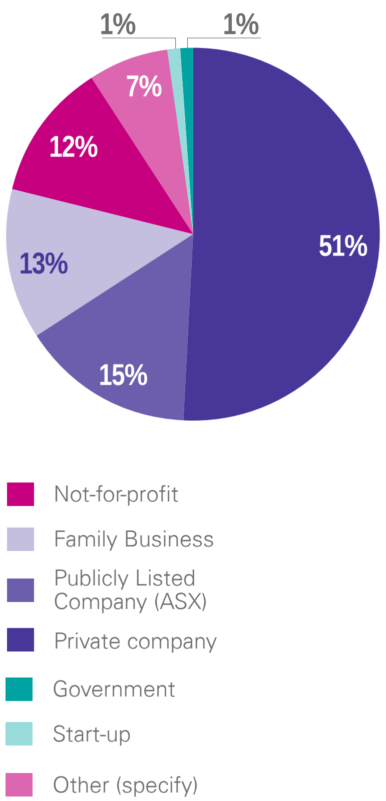
Clive Bird
Partner & National Tax Leader, Enterprise
KPMG Australia

Research Methodology

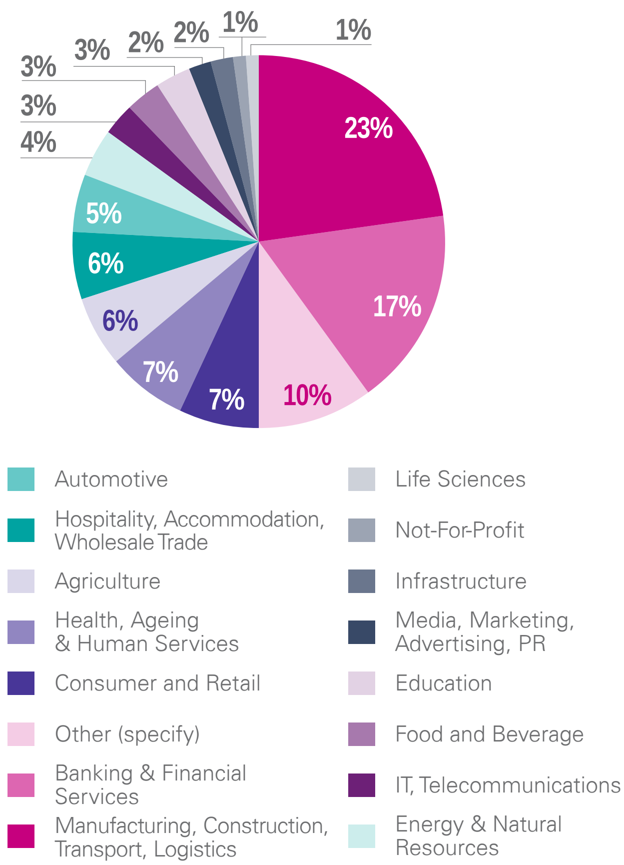
KPMG Customer Intelligence conducted a pulse check on behalf of KPMG Enterprise targeted at clients running mid-market firms in order to gauge sentiment regarding salient issues before the 2021/22 Federal Budget is announced. Australia's mid-market is often referred to as the 'engine room of the nation's economy', employing nearly a quarter of all Australians and responsible for almost 40 per cent of Australia's business revenue.

The survey was completed by 100 mid-market business directors and decision makers. Most respondents were from private companies, however there were also some from publicly listed companies, family businesses and NFP's. Respondents also came from a range of industry sectors; however the majority were from manufacturing, banking and financial services, retail or health and human services.

Company type



Industry type



Results are a valuable indicator of Enterprise clients' opinions concerning the current business and budget environment.

Overview of Key Findings

Impact of COVID-19

Considering the future of their organisation as we emerge from the COVID-19 pandemic, the majority of respondents (41per cent) felt their organisation had benefited from government incentives and could emerge with confidence (Figure 1). This is not to say, however, that their business had not declined due to COVID-19 – one third of those who feel their business had benefited from government incentives also reported a decline.

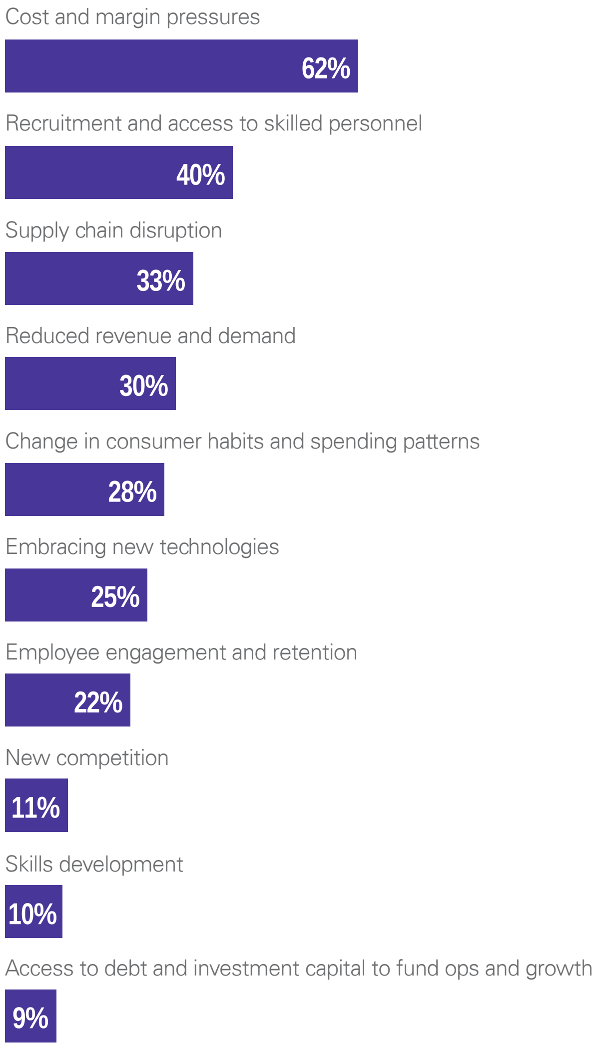
Cost and margin pressures are seen to be the biggest challenge for organisations in the next 18 months, as they continue on the path toward recovery. And with border closures still in place, recruitment and access to skilled personnel is also a key area of concern (Figure 2).

Fig 1:

Q. Thinking about the future of your business or organisation, as we emerge from COVID-19, which of the following do you agree with? Multi response. Base n=100

Fig 2:

Q. From your perspective which of the following are the biggest challenges for businesses over the next 18 months? Multi response. Base n=100



Response to Government Stimulus

Access and unwinding

Two thirds of mid-market organisations said their organisation had benefited from Government stimulus measures. This was predominantly Job Keeper, however Cash Flow Boost, Job Maker and the Instant Asset Write Off were also accessed by some (Figure 3).

Regardless of whether organisations received Government stimulus or not, most (68 per cent) are not concerned about the financial and economic impacts as the Government unwinds COVID-19 stimulus measures. However, optimism is not particularly high either, only 20 per cent feel economic growth will continue (Figure 4).

Fig 3:

Q. Has your business benefited from Government stimulus measures including Job Keeper, Cash Flow Boost and the Instant Asset Write Off? Multi response. Base n=100

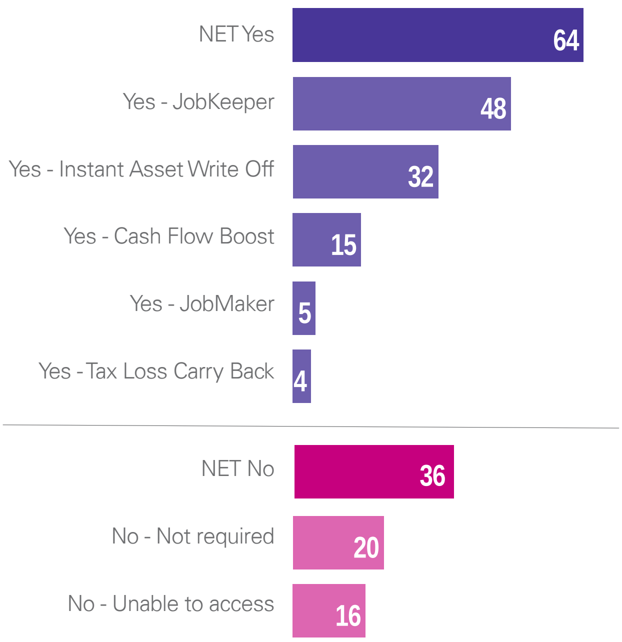
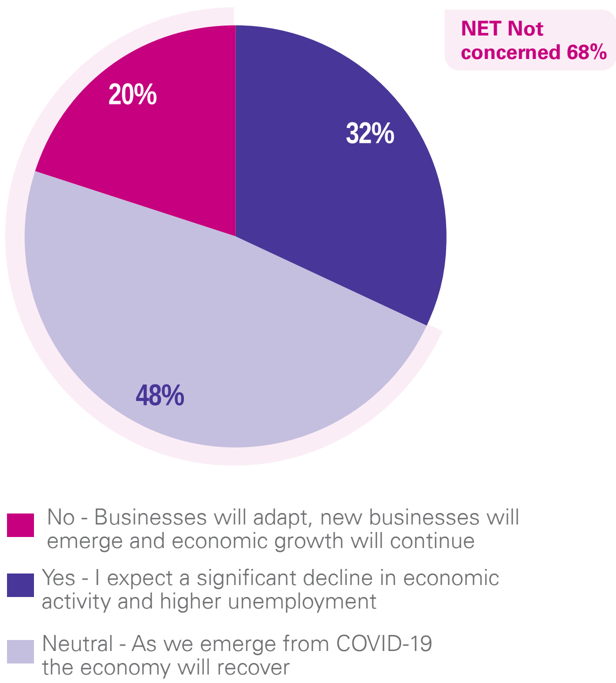


Fig 4:

Q. Are you concerned about the financial and economic impact as these Government stimulus measures unwind? Single Response. Base n=100



Debt repayment

Most survey respondents hold the perspective that increasing tax is not the way to tackle debt resulting from Government stimulus measures. 71 per cent believe an effective way to address debt is via raised productivity resulting in revenue growth (Figure 5).

KPMG holds the perspective that productivity gains leading to economic growth are the most effective way to reduce debt. This belief is echoed by mid-market organisations. Past major tax reform, there is strong sentiment that initiatives such as the re-establishment of critical manufacturing in Australia and greater investment in skills and training programs to address shortages will have the greatest impact on economic growth (Figure 6).

Fig 5:

Q. Government stimulus measures including JobKeeper, Cash Flow Boost and the Instant Asset Write Off have increased Government debt significantly. Which of the following do you think would be an effective measure to enable this debt to be repaid over time? Multi response. Base n=100

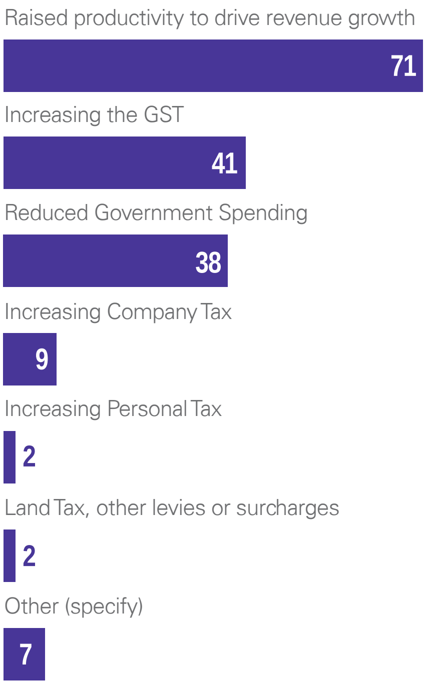


Fig 6:

Q. KPMG favours an approach to reduce debt through productivity gains and economic growth. Which of the following do you believe would contribute to growth? Multi response Base n=100

Taxation System

Audit

As we recover from the impact of the COVID-19 pandemic, the ATO has accelerated compliance activity, rolling out programs to ensure wealthy, privately owned groups are paying enough tax (Top 500 and Next 5000). While 50 per cent of mid-market organisations were concerned about this, most acknowledge that additional compliance activity is inevitable. A large portion are also not concerned as they feel well prepared (Figure 7).

The ATO has a new and growing expectation on mid-market businesses to prepare documented Tax Risk Management frameworks to achieve 'Justified Trust' on ATO review. One third of respondents felt their organisation had comprehensive Tax Governance documentation addressing tax risk management processes. One third had plans to prepare this documentation in the future (either in the next 12 months or when the ATO reviewed their business), and one third had no plans (Figure 8).

Fig 7:

Q. The ATO has accelerated compliance activity as we emerge from COVID-19, rolling out Top 500 and "Next 5000" programs. Are you concerned about the prospect of increased audit activity? Single response Base n=100

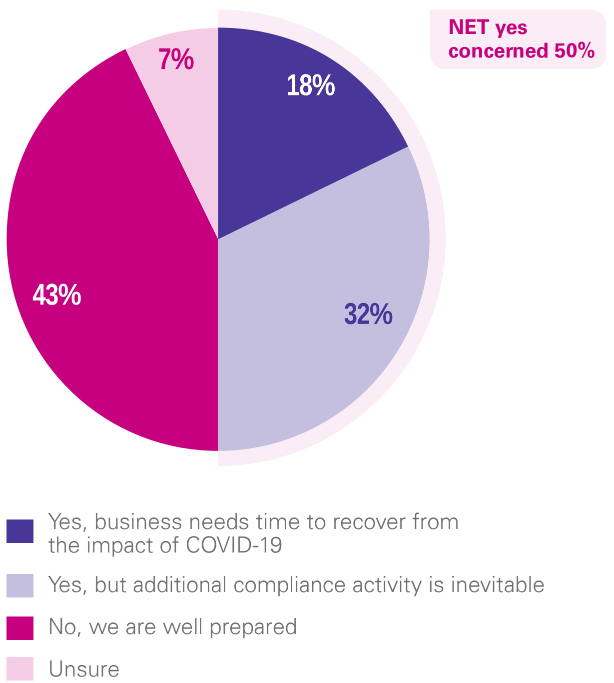


Fig 8:

Q. The ATO has a new and growing expectation on mid-market business groups to prepare documented Tax Risk Management frameworks to achieve "Justified Trust" on ATO review. How is your business positioned? Single response. Base n=100

Specific Tax Initiatives

Family Business

Family Businesses account for a large proportion of the Australian economy. Our tax rules provide no concessions for transferring ownership to achieve succession to the next generation. Most respondents believe the Australian tax system should allow for ownership succession without tax, within a defined family group (Figure 9).

Variation in Tax Rates

Australia now has a company tax system with tax rates of 25 per cent or 30 per cent, depending on group turnover and type of income derived. Some economists suggest there would be benefits to the economy in extending the lower company tax rate to larger companies. 67 per cent of mid-market organisations surveyed support the current system of different rates for different sized businesses. More than half of these, however, feel that the lower tax rate should be extended to large companies once the budget can afford it (Figure 10).

Fig 9:

Q. Family Businesses account for a large proportion of the Australian economy. Our tax rules provide no concessions for transferring ownership to achieve succession to the next generation, encouraging innovation and growth.

In relation to Family Business, which of the following do you most agree with? Single response. Base n=100

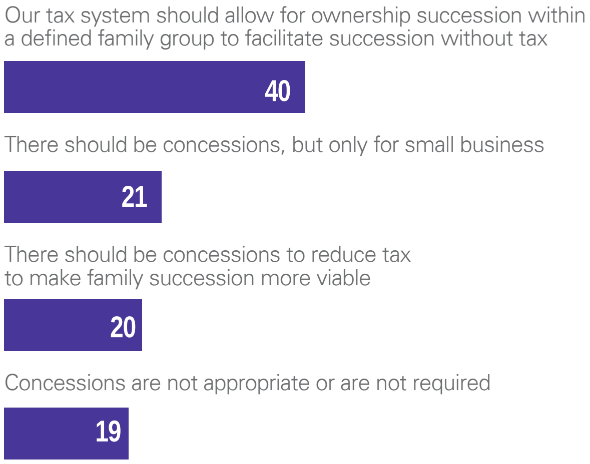
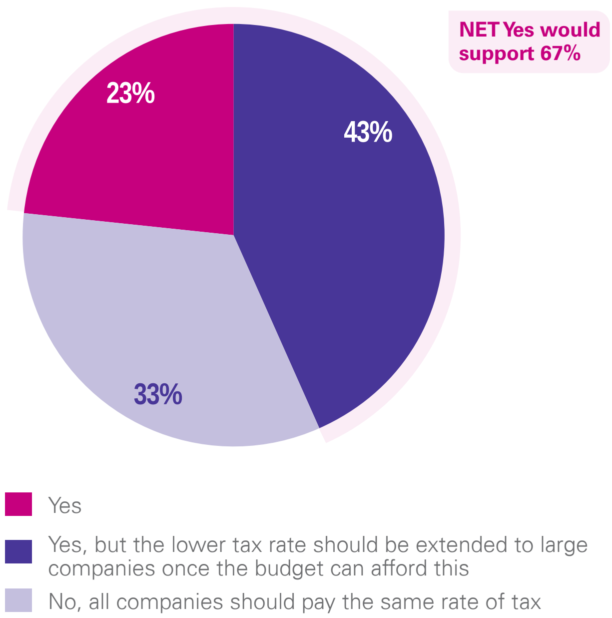


Fig 10:

Q. Australia now has a company tax system with tax rates of either 25% or 30% depending on group turnover and the type of income derived. Some economists suggest there would be benefits to the economy in extending the lower company tax rate to larger companies. Do you support the current system of different tax rates for different sized businesses? Single Response. Base n=99

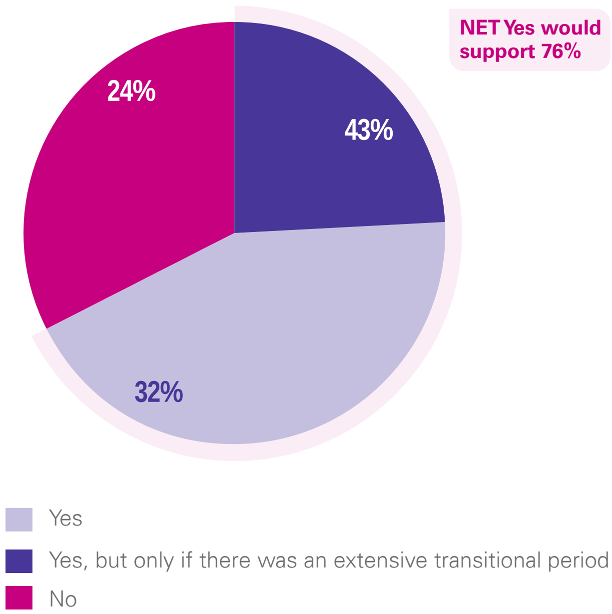


Stamp Duty

The productivity commission and other bodies have recommended that stamp duty on property transfers should be replaced by a broad-based land tax, arguing that stamp duty is an inefficient and inequitable tax. 76 per cent said they would support this move (Figure 11).

Fig 11:

Q. The productivity commission and other bodies have recommended that stamp duty on property transfers should be replaced by a broad-based land tax, arguing that stamp duty is an inefficient and inequitable tax. Would you support such a move? Single Response. Base n=99



Incentives & Innovation

The 2020-21 Budget announced renewed support and investment for the R&D Tax Incentive (RDTI) along with a range of other funding programs to help industry innovate and grow. One third of mid-market organisations said they intended to use the RDTI or similar funding programs (Figure 12).

Among mid-market organisations, the top two tax measures to boost innovation in the future are seen to be 1) a premium to incentivise businesses to collaborate with each other, and Australian researchers, and 2) enhancement of the Early Stage Investor Tax Incentive and Early Stage Venture Capital Limited Partnership programs (Figure 13).

Fig 12:

Q. The 2020-21 Budget announced renewed support and investment for the R&D Tax Incentive (RDTI) along with a range of other funding programs to help industry innovate and grow. Do you intend to make use of the RDTI or funding programs available? Single Response. Base n=99

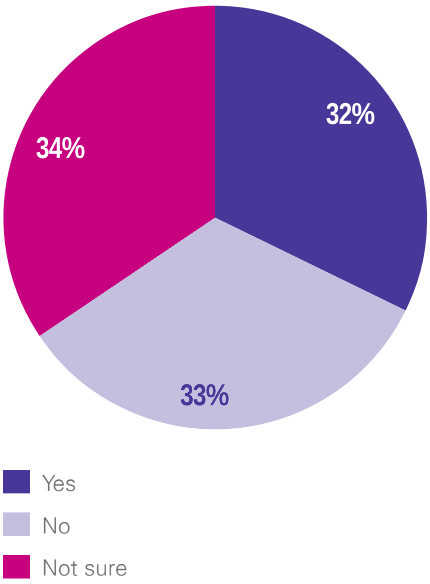
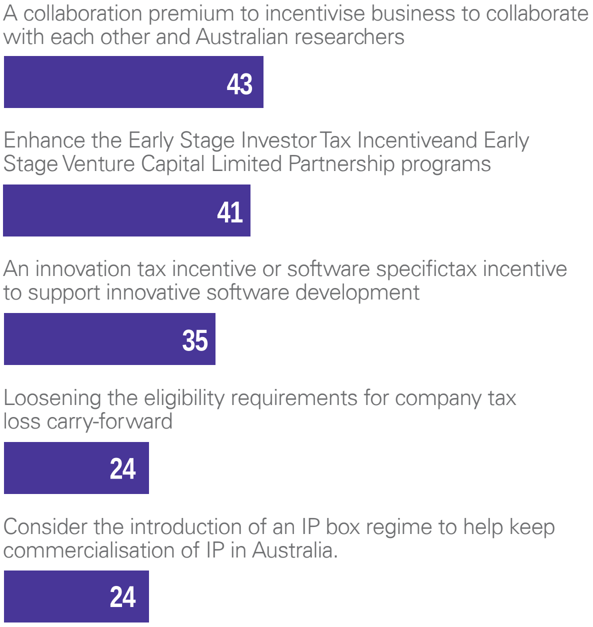


Fig 13:

Q. In your opinion, which of the following tax measures would best boost innovation? Select Two. Base n=95



The Government are considering mandating an e-invoicing scheme, along with many other countries, as part of a move to a more digital economy. 85per cent feel it is a good idea as it will enhance productivity and efficiency, however there is also some sentiment that it should not be mandatory (Figure 14).

Fig 14:

Q. The Government is considering mandating an e-invoicing scheme, along with many other countries, as part of a move to a more digital economy. Which of the below best reflect your perspective on this move? Base n=100

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April 2021. 649882751ENT