



Beautiful accounting software

19 January 2017

Secretary

The Treasury

Langton Crescent

PARKES ACT 2600

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<http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/2017-Prebudget-submissions>

Xero Pre-budget Submission

Dear Sir/Madam

Thank you for the opportunity to make a submission ahead of the 2017 Australian Budget.

Xero is one of the fastest growing cloud companies in the world. Founded in 2006 in New Zealand, Xero supplies cloud-based accounting software to over 860,000 paying subscribers across 180 countries. In Australia we have over 380,000 subscribers, most of which are small businesses.

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Xero currently employs over 300 people in Australia across Sales, Support, Marketing, Design, Business Services and Product Development, up from just 7 employees in 2009.

Over the past 12 months, Xero has recorded more than \$1 trillion across 450 million incoming and outgoing transactions.

Our pre-budget submission aims to speak on behalf of those small businesses and propose some ideas for the next budget that will help to boost the output and profitability of Australia's small business sector, which in turn will help employment growth in a big way.

Xero and the small business cloud revolution

Cloud accounting has become the heart of small businesses globally, connecting them with digital services in real-time through one platform, rather than separate manual processes.

For many customers, the Xero platform is not just an isolated accounting ledger – it has become integrated into their business alongside the dozens of other tools they use daily to get the job done. Small businesses are now able to gain an overall view of their financial standing in one place and manage banking transactions safely and securely.

Xero is well on its way to rewiring the small business economy as we know it. Our platform is making accounting more efficient, more productive and more useful to both our customers and the millions of businesses worldwide who have not yet accessed the cloud.

Underpinning the growth and profit of all small businesses is effective financial planning and accounting. Xero is based on the principle that small businesses are highly sensitive to shifts in their balance sheet and cashflow. Their ability to monitor financial performance in real-time and plan ahead is crucial. Small businesses make up more than 90% of all businesses by number across OECD countries, so their success or otherwise has a direct effect on the greater economy.

Australian small businesses have embraced cloud-based technology and it is clear that more transactions, record-keeping and other day-to-day aspects of small business are moving online.

Xero is helping to achieve a reduction in compliance costs for small business. We are digitising the small business market to help owners and managers get on top of their financial position. We need to continue to strive to streamline and reduce the burden on small business. Cloud accounting plays a vital role as an enabler to streamlining the workflow for small business by connecting them digitally to essential services.

We'd like to see a 2017 Australian Budget that encourages this trend and helps the millions of small businesses in Australia save time and money on administrative tasks and allow them to grow their businesses faster.

Below are some suggestions we have for policies that will assist the small business sector in Australia on this path.

The importance of cash flow and fair payment terms

Cash flow is one of the biggest stressors for small business owners. Chasing unpaid invoices over several months can mean the difference between thriving or having to lay off staff.

We note the Australian Government is showing leadership in this area through the relatively recent introduction of its own policy to pay small business suppliers (for contracts under \$1 million) on time, and within 30 days at the most.

Unfortunately many of the larger companies in Australia do not have a similar policy and we hear of many cases where small businesses have perished while they await payment from their larger customers. To be blunt, many larger businesses use small business suppliers as a medium term provider of credit and small businesses do not have the financial muscle to resist this.

Ordinarily the government may take the stance that such a situation is not worth intervening in so long as the conduct complained of is within the law, and where it is

not within the law then the ACCC can get involved. But the fact is that such conduct, even if it does not contravene any laws, is still a policy issue for the Australian Government because it is holding back economic growth and job creation in particular.

Industry Department Secretary Glenys Beauchamp identified late last year that start-ups and small businesses were driving net new job creation in Australia, and for this growth to continue at a more rapid pace it would be good to see the government publicly encourage large businesses to adopt a similar payment policy to that which has been introduced by the government itself.

The current inquiry by the Australian Small Business and Family Enterprise Ombudsman is also a step in the right direction, but hopefully your government can take action in this area swiftly after it receives the report in March.

Restructuring the \$20,000 small business asset write-off

The current small business asset write-off for items up to \$20,000 that was pioneered by the Australian Government has put millions of dollars back in the hands of small businesses to invest in growing their business, buying equipment and hiring the staff needed to get to the next level. It's an important affirmation of how important small businesses are to the Australian economy, given they contribute a third of private sector value to our GDP.

However the \$20,000 asset write-off deduction is still very much biased towards hardware — a business may go out and buy a coffee machine or a car, but a write-off provision doesn't provide a similar incentive for subscription-based services like cloud software or other technologies that could really help them improve their business. It would be better to restructure the incentive to remove the bias towards hardware and instead provide rebates or other measures for software so a business can decide what they want to spend that money on.

We understand the current budget setting mean the \$20,000 small business asset write-off deduction is due to end on June 30 this year but we would encourage the government to do two things: retain it beyond that date, and restructure it to remove the current bias towards hardware over software.

Addressing the skills gap

One of the big challenges were starting to see in the Australian economy is the lack of skills in areas where the global economy is heading. We're seeing a lot of encouragement of innovation from the budget and federal and state governments, but this has been slow to be reflected in the skills and training sector.

We suggest that the current funding provided by the Australian Government towards vocational training could be better prioritised in favour of courses that address this skills gap. This could be done in consultation with peak employer groups and other business organisations.

Small businesses need access to a workforce that has the skills to develop and harness technology to deliver products and services to customers in the most efficient way possible.

Next steps

At Xero, we are passionate about supporting our small business subscribers and we are pleased to see the Australian Government wants to see small businesses thrive as well. We'd be pleased to meet with you to discuss our policy ideas further. To arrange a meeting, please contact our Communications and Stakeholder Relations Director, Marina Holmes on 0416 663 396 or marina.holmes@xero.com

Yours sincerely,

Trent Innes

CEO

Xero Australia