Tech Council

Tech Council of Australia
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Director
Small Business Tax Unit
Treasury
Langton Cres
Parkes ACT 2600

Dear Director

Thank you for the opportunity to comment on the exposure draft legislation for the Technology Investment Boost and Skills and Training Boost. The Tech Council of Australia (TCA) strongly welcomes the Australian Government's commitment to proceed with these measures, which will support small and medium enterprises (SMEs) to invest in new technologies, services and the digital skills of their staff, helping to lift productivity, create jobs and put SMEs on a more resilient footing.

About the Tech Council of Australia and the Australian tech sector

The TCA is Australia's peak industry body for the tech sector. The tech sector is a key pillar of the Australian economy, contributing $167 billion per annum to GDP and employing over 860,000 people. This makes the tech sector equivalent to Australia's third largest industry, behind mining and banking, and Australia's seventh largest employing sector.

The TCA represents over 160 member companies from a diverse cross-section of Australia's tech sector, including leading Australian software as a service and platform companies, fintech companies, venture capital and investment advisory firms, and multinational tech companies. A large portion of our members work in the business-to-business software sector, including companies such as Atlassian, Xero, WiseTech, SafetyCulture, Culture Amp and Employment Hero, reflecting that business-to-business software is one of the top 5 areas of comparative advantage for Australia in tech.

1. **Technology Investment Boost**

We support the exposure draft legislation for the Technology Investment Boost, which will generate major economic and productivity benefits.

However, we believe the legislation would be more likely to meet its objectives and avoid possible integrity issues if the definition of eligible expenditure were further refined to encourage small businesses to invest in products and services that go beyond business-as-usual and will have the greatest impact on their digital transformation. This would better reflect the rationale for the boost, which is to stimulate productivity enhancing digital investment by SMEs, rather than to refund business-as-usual ICT activity. For example, a similar scheme that operated in Singapore – the Productivity and Innovation Credit scheme – limited ICT investment eligibility to those activities that automate or mechanise business processes or otherwise enhance productivity. We have provided recommendations below on how this could be done.

Economic rationale

There is a strong economic rationale for the boost. Australia ranks in the bottom third of OECD countries for domestic capital investment in technology across the economy. The Productivity Commission's recent draft Data and Digital Dividend report also shows that small businesses are significantly less likely to adopt data and digital tools, while Australian businesses as a whole lag other countries in the uptake of more advanced technologies like AI and data analytics (with only 6 per cent of Australian businesses using data analytics, and even fewer using AI, compared to over 20 per cent in leading OECD nations).

Research by Xero shows that while investment in digital services by small businesses increased during the pandemic (up 13 per cent between March 2020 and June 2021), other markets saw more significant jumps, including New Zealand (25 per cent) and the UK (20 per cent). Australian small businesses' spend on ICT as a proportion of total expenses is half the rate of peers in the UK.

Increasing investment in technology by SMEs could not only unlock significant economic and productivity gains across the economy, but as research by companies such as Xero and MYOB shows, it also helps small businesses stay more competitive, improve their resilience, grow revenue and create more jobs.

Refining eligible expenditure

As currently drafted, the boost could be used for expenditure incurred "wholly or substantially for the purposes of an entity's digital operations or digitising the entity's operations".

While this would include productive investments to digitise an entity's operations, which we strongly support, we understand it could also include a wide range of business-as-usual activity, some of which may give rise to integrity concerns, such as digital media and marketing activities (the Australian Small Business and Family Enterprise Ombudsman is currently surveying small businesses to understand their experiences with digital marketing service providers).

Recommendation 1.1: To better target the Technology Investment Boost towards its primary objectives, we recommend the Treasury consider:

- Focusing eligible expenditure on productivity-enhancing digital expenditure that is wholly or substantially for the purposes of automating or digitising the entity's operations, or upgrading the entity's existing digital operations.
- Refining the examples of eligible expenditure in the explanatory memorandum to focus on examples of more productive and transformative technology solutions, such as software as a service, cloud, cybersecurity, data analytics, robotics, machine learning and AI.

Communication strategy to drive effective implementation

The introduction of the boost as a tax measure has significant potential to drive widespread digital transformation across the Australian SME sector, but it will only achieve its objectives if coupled with an effective communication effort across industry and government.

Recommendation 1.2: We recommend the Treasury form an advisory group of key stakeholders from the tech industry, small business sector, tax and accountant groups, and other relevant groups, to develop a plan to effectively communicate the Technology Investment Boost to SMEs. This will help build awareness and guide SMEs towards productive digital investments.

2. Skills and Training Boost

The Tech Council broadly supports the exposure draft legislation for the Skills and Training Boost, but is concerned by the proposal to limit the boost to registered training providers, which is inconsistent with existing arrangements for skills and training expenses, and is likely to result in lower take-up and utility of the boost for SMEs.

SMEs often train staff through shorter, non-accredited training courses that are better tailored to their immediate needs. For example, the 2021 Survey of Employer Use and Views of the VET System by the National Centre for Vocational Education Research (NCVER) found that over 42% of small business employers and 69% of medium business employers use unaccredited training, and an even higher proportion use informal training. Key reasons include that employers are seeking to develop skills that are highly job relevant or organisation specific, with cost, flexibility and the ability to tailor training the key factors for choosing unaccredited over accredited training.

This is particularly true for digital training, where shorter courses and micro-credentials often provide more job-relevant skills. NCVER's 2021 survey also shows that 60% of employers in the IT industry report using non-accredited training, reflecting that VET IT courses are in many cases not up-to-date with industry standards and expectations. In addition, preferencing nationally accredited training delivered by registered providers does not necessarily deliver better outcomes for students. NCVER’s VET Student Outcomes reports that less than half of students who have completed a Certificate III, IV or Diploma qualification in the IT field reported improved employment status after training.

Popular online skills and training platforms, such as Australian companies Go1, WithYouWithMe and OpenLearning, would also be excluded by the current legislation, despite being important providers of training to SMEs. The value of these sorts of platforms for supporting upskilling and reskilling was recently recognised under Singapore’s SkillsFuture Credit scheme, which was expanded to online learning platforms last year to drive increased take-up and improve flexibility.

Finally, seeking to utilise registered training organisations and higher education providers as a tool to support integrity and compliance may not necessarily be effective. There are a number of government programs which have had integrity issues due to poor behaviour of approved providers – for example VET FEE-HELP provided income-contingent loans to registered training organisations, who received an additional approval to access the program. In its 2016 audit of the program, the Australian National Audit Office reported Australian Government Actuary estimates that $1.2 billion of loans were issued inappropriately and unlikely to be recovered.

Recommendation 2.1: To ensure the Skills & Training Boost is better targeted at supporting the needs of SMEs, including to improve digital skills, the TCA recommends that the Treasury consider:

- *Preferred option*: Allowing the boost to apply to both accredited and non-accredited forms of training, consistent with the existing arrangements for tax deductions for skills and training expenses (including the FBT exemption for employers providing training to staff that are being made redundant, and for self-education expenses).
- *Alternative options*: If the Treasury is concerned about the costs or potential integrity issues with opening the boost to non-registered providers, it could consider a number of options, including: 1) creating a requirement for the business to transparently record the name, provider and details of the course in an online registry; 2) applying a cap on expenditure for training by non-registered providers; 3) limiting the eligibility of non-registered providers to digital training courses; or 4) establishing a determination setting out criteria and a process whereby certain eligible non-registered providers or courses could be approved for the purposes of the boost.

We appreciate the opportunity to contribute feedback to the exposure draft legislation and look forward to implementation of these important measures.

Yours sincerely,

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