



2025-26 Federal Pre-Budget Submission

Supercharging the economy

MYOB Submission

31 January 2025

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The Hon. Stephen Jones MP
Assistant Treasurer and Minister for Financial Services
Treasury
Langton Cres
Parkes ACT 2600
Sent via email: prebudgetsubmissions@treasury.gov.au

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On behalf of MYOB, thank you for the opportunity to share our submission ahead of the 2025-26 Federal Budget.

I am always struck by the resilience of Australian small and medium sized (SME) businesses. Despite the challenging economic environment Australian SMEs find themselves operating in (compounded by the after effects of a global pandemic and natural disasters), they continue to deliver world-class products and services with the nimbleness and grit they have come to be known for.

The unique characteristics of Australian SMEs make them well placed to springboard government efforts to address Australia's sluggish productivity growth. Numbering over 2.5 million and employing more than 5.4 million Australians, our SMEs make an outsized contribution to the economy. It makes sense to focus efforts to grow productivity on this vibrant and diverse sector.

To drive Australian businesses forward, our submission contains recommendations grouped into three areas:

1. Making Australia's tax system work for SMEs
2. Driving productivity growth through the SME sector, and
3. Preparing SMEs for the digital century.

We hope these recommendations catalyse a discussion on how we can realise a refreshed vision for the Australian SME sector, drive economic dynamism and growth and enhance living standards through meaningful growth in Australia's productivity.

I welcome further discussion about our submission's contents and recommendations at your convenience.

Yours sincerely,

Paul Robson
Chief Executive Officer, MYOB

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Helping SMEs to start, survive and succeed

About MYOB

MYOB has been part of the fabric of doing business in Australia and New Zealand for more than 30 years.

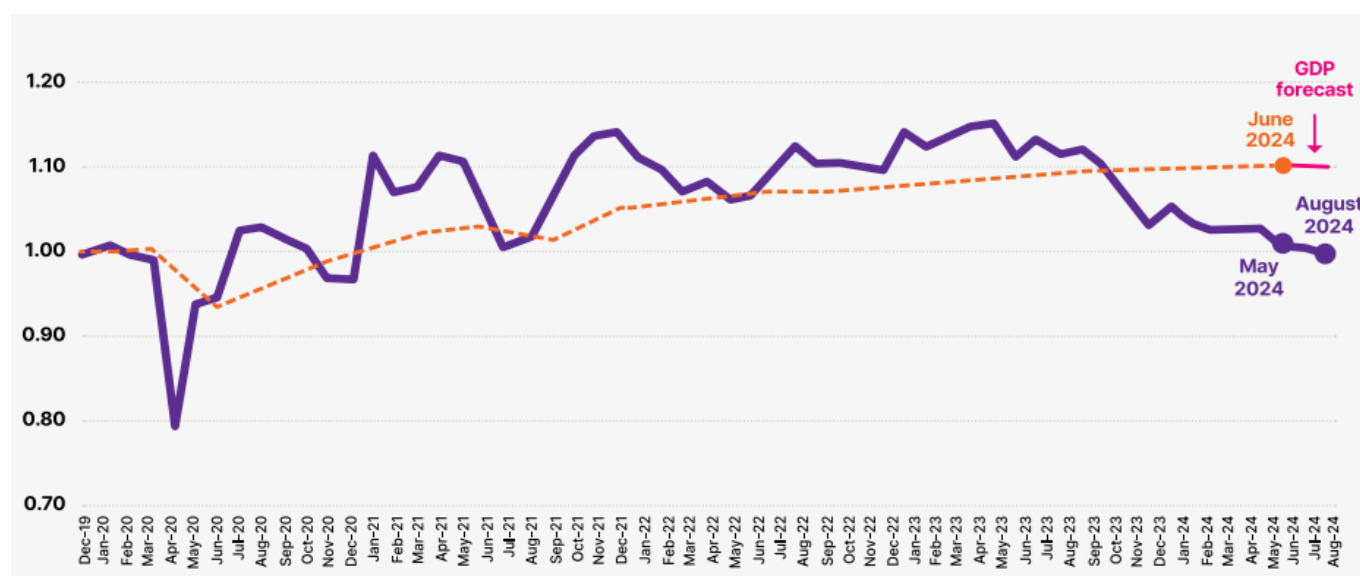
Starting out as accounting software, MYOB has grown to become an innovative and trusted cloud-based business management platform that integrates all the key workflows of running a business—from finance and accounting, to supply chain, inventory and employment management. Our software supports businesses of all shapes and sizes from sole traders to enterprises with 1,000 employees.

As Australia's first unicorn and tech start up, our business is rooted in the advantages of technology and data. We observe in real-time the challenges and opportunities SMEs are operating alongside. Because of this, we are uniquely placed to offer insights into this vital segment of our economy and offer recommendations to strengthen SME performance and help them reach their full potential.

Australia's small business environment

Australia's more than 2.5 million SMEs are the cornerstone of the Australian economy. Together, they represent our largest employer providing employment to more than 5.4 million Australians and contributing around a quarter of the nation's gross domestic product (GDP). The size, scale and diversity of this sector mean that when SMEs are doing well, so too is the economy overall (and vice versa). However, the sector can also act as a 'canary in a coal mine': when SMEs are struggling, this can indicate broader economic challenges.

MYOB's SME Performance Indicator is a measure of gross value added (GVA) for businesses with 1-19 employees, aggregated for the whole Australian SME sector. It draws on more than 17 million anonymised observations of 200,000 businesses. The deviation of GVA from real GDP provides a score of SME health relative to the Australian economy. Our August 2024 release found that the SME sector performance has lagged compared to GDP overall, with an SME performance score of -2.3 (down 0.3 from May 2024).¹ This highlights the disproportionate impact economic downturns can have on the SME sector.



Source: MYOB Business Monitor: Small and Medium Size Enterprise (SME) Performance Indicator, October 2024

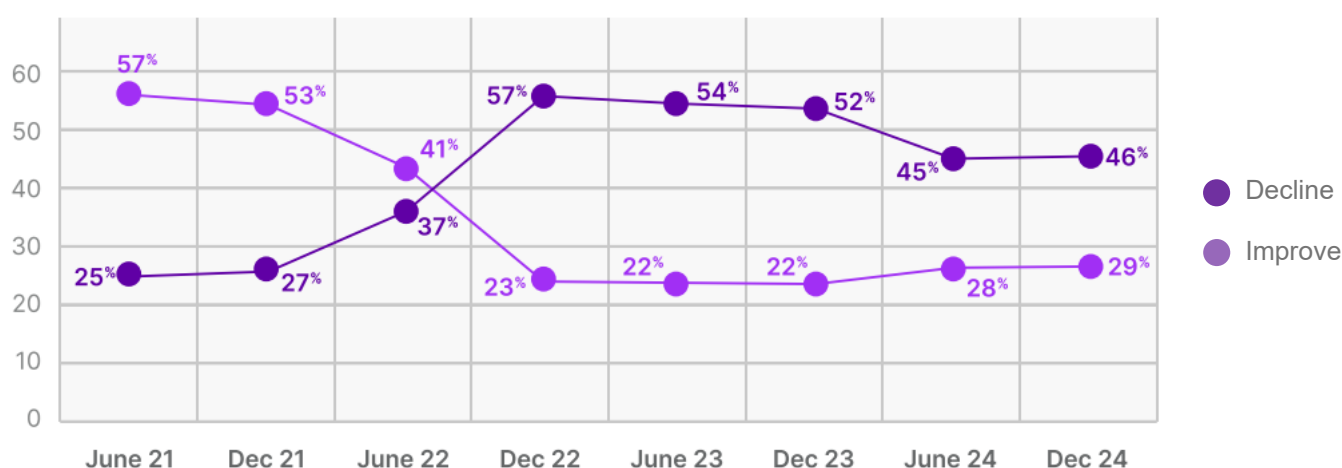
¹ MYOB & Impact Economics and Policy, MYOB Business Monitor: Small and Medium Size Enterprise (SME) Performance Indicator, October 2024, <https://www.myob.com/au/media/sme-performance-indicator>

SMEs continue to navigate a challenging economic landscape, with many investment and growth markers plateauing as businesses respond to reduced consumer spending and an uncertain economic outlook. However, this experience is not uniform with businesses of different sizes, ages, locations and in different sectors all reporting different experiences. Cash flow also remains a challenge for SMEs, decreasing their ability to invest, grow and absorb increasing costs. Many MYOB customers have seen median bank balances decreases from the same period 12 months ago.

Economic outlook

Looking ahead, many SMEs are feeling uncertain about the Australian economy. MYOB's Bi-Annual Business Monitor (released in January 2025 using data collected in December 2024) found that 46 per cent of SMEs surveyed believed the economy would decline further in the coming 12 months.² This perception was stronger among more established businesses with 51 percent of businesses aged 10 years or more expecting the economy to decline.

Expectations for the economy in the next 12 months



Source: MYOB Bi-Annual Business Monitor, December 2024

The economic optimism among younger businesses captured in MYOB's previous Business Monitor release has eroded since June 2024 with just 21 percent of start ups and 28 percent of businesses in operation for 2-5 years now expecting the economy to improve over the next 12 months.³ In more positive news, younger businesses were more likely to experience revenue growth, with 37 percent of newer businesses reporting increased earnings compared to 29 percent who had stated revenue was up in June 2024.

When it comes to profitability, 41 percent of SMEs report similar levels to 12 months ago, and just over a quarter (26 percent) report an increase. There was also a slight improvement in the proportion of businesses that said their business was less profitable, falling from 33 percent in June to 31 percent in December.

Medium-sized businesses (employing between 20 – 199 people) saw a major improvement in profitability over the period, with 55 percent reporting their profitability was up in the 12 months to December 2024.

Looking to 12 months ahead, 42 percent of businesses expect to maintain current levels of profitability, with 30 percent expecting more and 25 percent expecting less.

² MYOB, MYOB Bi-Annual Business Monitor, December 2024, <https://www.myob.com/au/media>

³ MYOB, MYOB Bi-Annual Business Monitor, December 2024, <https://www.myob.com/au/media>

SMEs operating in the information media and telecommunications, and agriculture sectors were more likely to outperform businesses in the healthcare, professional, scientific and technical, construction, retail and hospitality sectors. GVA was also higher in WA, SA, and QLD than in NSW, VIC and TAS.⁴

Given the size of Australia's SME sector, and their position as Australia's largest employer, there is an interesting opportunity to centre SMEs in designing policies to jumpstart Australia's lagging productivity growth, including through investing in information and communication technology (ICT). Cashflow, lack of knowledge and the cost of doing business are the main inhibitors of SMEs investing in ICT. This means their ability to drive ICT-related productivity gains is limited without government intervention.⁵

Governments considering ICT-driven productivity gains should consider digital and tech platforms as an efficient lever for improving ICT adoption in SMEs. For example, much of the Australian business sector's uptake of artificial intelligence (AI) is by default. AI is incorporated in the products, software and services they already use.⁶ To fully realise the productivity enhancements of digitisation, AI and tech, SMEs will need to be digitally literate, willing and able to invest, and willing to update long standing processes and systems to accommodate it. Each of these currently faces barriers to address, and government initiatives can be difficult to promote to the large number of SMEs operating in Australia. However, improving access to the goods and services digital platforms offer is a cost effective, targeted and more far reaching way of driving adoption.

Small business policy today

MYOB welcomed the 2024-25 Federal Budget's more than \$641 million investment in Australia's SMEs, particularly initiatives designed to ease the cost of living and doing business. At the time of the last federal budget, consumer research commissioned by MYOB found that 62 percent of Australians were spending less on entertainment. SMEs were feeling cost of living pressures on two fronts: their customers were spending less with them and the cost of doing business had increased.

Since the last federal budget, MYOB's Bi-Annual Business Monitor (January 2025) found that the cost of utilities, fuel prices and price margins and profitability were the leading causes of 'extreme' or 'quite a lot' of pressure for Australian businesses.⁷ The Commonwealth Government's energy bill relief initiatives were a welcomed salve. Given cost of living pressures have not eased, we would welcome further support in the 2025-26 budget.

MYOB also strongly supported the Commonwealth Government's support for digitisation, cyber resilience and improved payment times. We would like to see these initiatives continue to support SMEs realising the productivity gains that come with greater access to new and emerging technologies. In our view, the Albanese Government's small business policies are balanced in their approach and practical in their reform ambition (e.g. enhancing payment times, promoting online safety and secure payments, and fostering harmonisation across states and territories). However, greater support is needed to bolster SMEs through the current economic challenges, and springboard off their resilience to grow Australia's productivity.

We also believe there is merit in breaking the 'SME' cohort up into its small and medium-sized components for the purposes of formulating government policy. Australia's mid-market contributed 23 percent of Australia's GDP in 2022-23 or \$410 billion, and employed a quarter of all workers.⁸

⁴ MYOB & Impact Economics and Policy, *MYOB Business Monitor: Small and Medium Size Enterprise (SME) Performance Indicator*, October 2024, <https://www.myob.com/au/media/sme-performance-indicator>

⁵ Productivity Commission 2004, *ICT Use and Productivity: A Synthesis from Studies of Australian Firms*, Commission Research Paper, Canberra.

⁶ Productivity Commission 2024, *Making the most of the AI opportunity: AI uptake, productivity, and the role of government*, Research paper, no. 1, Canberra

⁷ MYOB, *MYOB Bi-Annual Business Monitor*, December 2024, <https://www.myob.com/au/media>

⁸ ASBFEO, Small Business Data Portal, <https://www.asbfeo.gov.au/small-business-data-portal/contribution-australian-gross-domestic-product>, May 2024

A business employing 150 people will have vastly different operating challenges and opportunities than a sole trader or small business employing a handful of employees. In our view, a thriving mid-market is vital to addressing some of the productivity challenges Australia is facing.

Based on our data, the mid-market is more likely to be:

- Resilient in the face of economic downturn
- Optimistic and willing to invest
- An employer
- Able to access finance for growth
- Operate in high productivity sectors

A 'carve-out' of mid-sized businesses for the purposes of targeting government policy and investment (similar to Germany's Mittelstand) will not only make government policy more responsive to the needs of Australian business, but also more effective at achieving its aims. We recommend a new division be formed at Treasury, distinct from the Small and Family Business Division, to focus solely on mid-market policy.

Driving Australian business forward

Making Australia's tax system work for SMEs

MYOB research has shown that 22 percent of SMEs feel meeting tax and compliance obligations causes extreme or 'quite a lot' of pressure—and this number is increasing year on year.⁹ In the lead up to the next federal election, SME owners are looking to the major parties' tax policies to determine their vote with 66 percent willing to vote for a party that would lower the company tax rate, 59 percent for policies that significantly simplify the GST/BAS reporting process, and 58 percent for making the Instant Asset Write-Off a permanent feature of the Australian tax system.

Federal and state tax settings matter a great deal to Australian SMEs and yet Australia's tax system has not undergone significant reform for over a decade. SMEs are navigating a complex system of state and federal government taxes that often differ between jurisdictions. This complexity is confusing, inefficient, regressive and increases the risk of both intentional and unintentional wrong doing. It also makes it difficult for a federal government to drive policy outcomes when state or local government taxes are shaping a different outcome.¹⁰

MYOB welcomes the re-establishment of the Small Business Ministers' Meeting to strengthen connections and collaborations between state and federal governments. We would like to see this forum address tax reform, regulation and SME definition harmonisation in 2025 and beyond.

Without large teams or resources to ensure tax obligations are fulfilled accurately and timeously, SMEs bear a disproportionately higher share of the tax compliance burden. MYOB joins others in advocating for a progressive tax rate for businesses, introduced gradually over 5 years:

- 20 percent for small businesses with a turnover of \$10 million or less.
- 25 percent for medium businesses with a turnover of \$10 million to \$250 million.
- 30 percent for large businesses with a turnover of more than \$250 million.

Further, we recommend the aggregated turnover threshold for 'small or medium business' companies of \$50 million be increased to \$250 million for the purposes of calculating prepaid expenditure.

Progressive tax rates in some form or another are a feature of similar advanced economies like Singapore, the United Kingdom and Hong Kong.

The Instant Asset Write Off is an important feature of the Australian tax system that should be made permanent (rather than subject to parliamentary ratification each year). The program not only incentivises investment into businesses but also improves business cash flow. Noting both the rising cost of goods and services and the urgent need to stimulate growth in productivity, MYOB would welcome the Instant Asset Write Off being increased to \$50,000.

Driving productivity growth through the SME sector

MYOB's Bi-Annual Business Monitor found that most SMEs were looking to keep their investments into the business steady over the next 12 months, rather than making significant increases or reductions.¹¹ Their caution around the health of the economy is a dampener on their confidence to invest for growth.

Government has a central role in setting market parameters and in providing confident, long term certainty in those parameters and conditions. Certainty then allows business to funnel investment into the market. The more stable and strong those government-set parameters, the more confidence businesses have to invest.

To that end, Australia requires a strong and assertive vision for the SME sector through a national small and medium business strategy that extends beyond the election cycle. MYOB believes that given the impact the SME sector has on the overall economy and Australia's GDP, it is vital that such a strategy centre SMEs in efforts to address Australia's stagnant productivity growth.

⁹ MYOB, *MYOB Bi-Annual Business Monitor*, December 2024, <https://www.myob.com/au/media>

¹⁰ Australia's Future Tax System 2009, *Australia's Future Tax System Review*, Final Report, Part 1, Overview

¹¹ MYOB, *MYOB Bi-Annual Business Monitor*, December 2024, <https://www.myob.com/au/media>

MYOB welcomes the Albanese Government's announcement of a review into productivity by the Productivity Commission and that harnessing data and digital technology will be one of the five inquiries undertaken by the Commission.

Preparing SMEs for the digital century

As a democratiser of technology, MYOB recognises the potential productivity gains that come from greater business-level investment in technology.

Digitisation not only drives efficiency, improves productivity and frees up time for small business owners, it also makes it easier for businesses to tap into new markets. Rapid digitisation during COVID-19 allowed many businesses to reach new customers and talent by moving their operations online. COVID-19 also showed that digitised businesses are more resilient to local shocks, natural disasters and other externalities.

Australia's proximity to the world's emerging markets means that Australian businesses are well positioned to access the 3.5 billion people who will be in Asia's middle class by the end of the decade. Digital and technological advances will change the way products are made, sold and consumed and the Australian businesses who have digitised will be in the strongest position to take advantage of this.

Despite these gains, recent MYOB research found that 39 percent of SMEs do not have an online presence and only one in five SMEs has increased the number of online tools used within the business in the last 12 months. Within this group, the greatest benefits were improved productivity (44 percent), assistance with collaboration and remote work (35 percent), help bringing in business (35 percent), becoming more profitable (31 percent) and getting paid faster (30 percent).¹²

Many small businesses identify cost as the main barrier to uptake, and rural and regional businesses are more likely to say they do not understand how digitisation will help their business. This highlights the need for a targeted approach to digitisation that takes various factors into account.

SMEs with more advanced levels of digitisation are 50 percent more likely to grow.¹³ Despite the obvious benefits, a significant number of SMEs do not use digital cloud-based software for any of their core business workflows (and sole traders and microbusinesses are more likely to be represented in this group).

However, as outlined earlier in this submission, not all SMEs are equal when it comes to investment in technology or productivity contributions.

Australia's services sector contributes 80 percent of Australia's GDP and employs 90 percent of Australia's workforce.¹⁴ Productivity enhancement at scale must focus on the needs and operational realities of this sector. While we accept that measuring productivity in the services sector can be fraught¹⁵, MYOB believes there is opportunity for businesses in this sector to harness technology for 'low-hanging' productivity gains. Digitising and/or automating business administration in this sector leaves more time for these businesses to 'serve'. Measuring a singular output of 'serving' is difficult, but more time spent 'serving' rather than on 'admin' would deliver productivity gains in aggregate.

MYOB would welcome financial and tax incentives for SMEs operating in the services sector to adapt systems and processes to incorporate AI technologies, accelerate 457-type visas for service sector applicants who can also demonstrate digital, cyber or AI-relevant skills and government programs that incubate, partner with or incentivise tech and software companies to develop tech solutions specifically for the services sector.

¹² MYOB, *MYOB Bi-Annual Business Monitor*, December 2024, <https://www.myob.com/au/media>

¹³ Deloitte Access Economics, *Connected Small Business*, 2017, deloitte.com/au/en/services/perspectives/connected-small-businesses-google.html

¹⁴ Productivity Commission 2024, *Making the most of the AI opportunity: AI uptake, productivity, and the role of government*, Research paper, no. 1, Canberra

¹⁵ Productivity Commission 2021, *Things you can't drop on your feet: An overview of Australia's services sector productivity*, PC Productivity Insights, Canberra, April 2021

Summary of recommendations



Recommendation 1

Continue energy bill relief for SMEs in 2025-26.



Recommendation 2

Establish a mid-market team within Treasury to develop policy targeted specifically at mid-sized businesses.



Recommendation 3

Address tax simplification and harmonisation through the re-established Small Business Ministers' Meetings.



Recommendation 4

Establish a progressive company tax framework that reduces the company tax rate for small businesses to 20 percent and establishes a 25 percent rate for mid-sized businesses.



Recommendation 5

Increase the aggregated turnover threshold for SMEs to \$250 million for the purposes of calculating prepaid expenditure.



Recommendation 6

Make the Instant Asset Write-Off program a permanent feature of the Australian tax system and increase it to \$50,000.



Recommendation 7

Develop a long-term small and medium business strategy that extends beyond election cycles to provide certainty to the business community.

**Recommendation 8**

Incentivise SMEs to digitise their core business workflows.

**Recommendation 9**

Target productivity-enhancing digitisation initiatives at Australia's services sector to maximise productivity gains. These should include:

1. Financial and tax incentives to incorporate digital technologies, including AI
2. Visa reform to advantage service-sector applicants who can demonstrate digital skills
3. Private sector partnerships to develop tech solutions targeted at the services sector.



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Contact: courtney.sloane@myob.com

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