



26 May 2014

Mr John Emerson AM  
The Board of Taxation  
c/- The Treasury  
Langton Crescent  
CANBERRA ACT 2600

Dear Mr Emerson

The Australian Food and Grocery Council (AFGC) appreciates the opportunity to provide a submission in relation to the *Review of Tax System Impediments Facing Small Business*. The AFGC is the leading national organisation representing Australia's food, drink and grocery manufacturing industry, with small businesses comprising almost 40 per cent of AFGC's members.

The AFGC supports the objectives of this review, while noting that taxation generally is likely to be the subject of review later in the term of this Government. This raises the concern of "review fatigue" that, in the area of taxation in particular, there has been an abundance of review and insufficient reform. The Board should be mindful of the need to ensure that there are deliverable outcomes flowing from this review.

Together with our members, AFGC has identified a number of impediments within the Australian tax system that impose significant costs to small business and in doing so inhibit the growth of these small businesses into medium and large enterprises. We have outlined each of these impediments below.

### **The application of goods and services tax (GST) to food**

The application of GST to food is a complicated system that manufacturers must navigate. A bottle of water sold in a supermarket does not attract GST, however that same bottle sold in a food service outlet does. Likewise, a jar of honey sold by itself does not attract GST, however that same product sold as part of a hamper does.

The AFGC understands the political origins of this complexity, but it should remain of concern to the Board that the complexity generates compliance costs, especially when there is no evidence that the tax differential is achieving its intended goal of changing consumer behaviour in favour of the consumption of perceived "healthier" foods. To the contrary, Chapter 11 of the Henry Tax Review identified that the imposition of tax to change behaviours would likely be ineffective where demand was price inelastic.



The AFGC recommends either a simplification of the application of GST or the development of an on-line tool designed to help small businesses navigate the requirements for their product, in order to reduce the resource costs involved in compliance.

### **Business Activity Statements (BAS)**

There are three issues relating to business activity statements –

- (a) The requirement to submit a BAS on a quarterly basis can present both a cash flow challenge for small businesses as well as a resource cost.
- (b) The transition from cash accounting to accrual based accounting can also act as an impediment to growth for small businesses who lack the resources to adapt to managing their payment of tax in this manner.
- (c) The requirement to have lodged a BAS within 28 days can be challenging for very small businesses. Options to lodge BAS on a 6 monthly or annual basis as well as flexibility and support in the transition to accrual accounting will help foster the growth of small businesses into medium enterprises.

### **State Payroll Tax**

Differing payroll tax systems for each jurisdiction creates complexity and increases compliance costs for small businesses. This compliance burden is exacerbated where a business has small offices outside its home jurisdiction. One AFGC small business member is based in Victoria but has one employee based in New South Wales and another in Queensland, creating a tax liability in three jurisdictions. It is appreciated that the focus of this consultation relates primarily to federal taxes, but payroll tax is by far seen as the worst tax in terms of complexity, cost and disincentive to growth.

### **Back attribution of losses**

Under previous federal tax arrangements, small businesses were able to offset losses in the current financial year with profits from previous financial years through the re-submission of tax returns. This helped to improve cash flow, providing in turn the opportunity to overcome a period of disadvantageous business conditions. On repeal of these provisions, businesses are now required to wait for future profits before being able to offset these losses. A return to the previous arrangements would help to further encourage growth among small businesses.

### **Fringe Benefits Tax**

Small businesses are facing significant compliance costs associated with the payment and processing of fringe benefits tax (FBT). One AFGC member company noted that they pay on average \$60,000 in FBT each year and another \$10,000 in compliance costs due to the record keeping and tracking required for FBT. This is an inefficient and burdensome tax if the compliance cost to revenue ratio is so large.



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Please contact me should you have any questions about the matters raised.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Preston', written in a cursive style.

Christopher Preston  
Director, Legal & Regulatory