



**Small Business
Development Corporation**

Our ref: D18/4038

Dr Mark Pizzacalla
Review Chair and Board Member
Board of Taxation
The Treasury - Melbourne Office
Level 6, 120 Collins Street
MELBOURNE VIC 3121

Dear Dr Pizzacalla

REVIEW OF SMALL BUSINESS TAX CONCESSIONS

The Small Business Development Corporation (SBDC) welcomes the opportunity to provide feedback to the Board of Taxation's ('the Board') review of Australia's small business tax concessions ('the review'). The SBDC is pleased that the Board has initiated this important review of Australia's tax system in order to identify options to simplify and improve its effectiveness and accessibility from a small business perspective.

Background

The SBDC is an independent statutory authority of the Government of Western Australia established to support and facilitate the growth and development of small businesses in the State¹. The agency's core role is to provide advisory services to new and existing businesses in Western Australia, including a focus on building the tax knowledge, financial capacity and legal acumen of business operators.

Another key role of the agency is to influence the policy and regulatory environment affecting the small business sector in Western Australia. In this regard, the SBDC regularly contributes to policy and legislative reviews and inquiries undertaken across all tiers of government.

Of relevance to the review, the SBDC has made various submissions to previous examinations of the tax system, including the 2010 "Australia's Future Tax System Review" (i.e. the Henry Review), the 2011 "Tax Reform – Next Steps for Australia" review by the Australian Treasury and the 2014 "Review of Tax System Impediments

¹ The views presented here are those of the SBDC and not necessarily those of the Western Australian Government.

Facing Small Business” as undertaken by the Board. The following views are based on these previously shared submissions.

Small business and the burden of taxation

It is well understood that the burden of compliance falls most disproportionately on the over 2.1 million small businesses that operate in Australia. Survey after survey reveals that tax compliance remains a significant issue and cause of stress and confusion for many small business operators.

In line with its ongoing advocacy to reduce the regulatory impact on small business, the SBDC welcomes measures to simplify the tax system and make compliance reporting fairer and more transparent for smaller operators as this is long overdue and essential if Australia wishes to remain competitive internationally.

Without addressing fundamental shortcomings in Australia’s corporate tax system, which is underscored by a complex design of concessions and reporting, small businesses will remain constrained by a regime that is often difficult, unwieldy and unnecessarily time consuming. This in turn limits the sector’s ability to contribute to the nation’s employment, income and export generating potential.

The review

According to the consultation guide, the review is looking at what tax issues are of particular concern for small businesses, which concession is not working or should be removed, and what is the most useful or effective concession.

The SBDC understands that the review follows calls from the Tax Institute to simplify the approach towards the eligibility criteria for small business tax concessions, which has argued that the varying rules and shifting definitions continue to confuse tax practitioners and their small business clients.

This assertion is strongly endorsed by the SBDC, and accords with its longstanding claim that the constant rule changes by the Australian Taxation Office (ATO) leaves many small business operators uncertain about their obligations in regards to depreciation and asset write-downs, superannuation, employee benefits and the like, and which often requires them to seek out expert tax or legal advice. It is simply unreasonable for the ATO to expect busy small business operators to continually stay abreast of the frequent revisions to exemptions and concessions, without the need to pay for expert assistance.

The issues

One of the main issues raised by tax and small business stakeholders relates to the lack of consistency of defining what a small business is under the various exemptions, offsets and concessions available under Australia’s taxation system.

According to the latest data², of the 2,238,299 actively trading businesses operating in Australia at the end of 2016-17, 98% (or 2,085,279) had annual turnover of less than \$2 million. Of these, just over a third (34.7%) turned over \$50,000 to \$200,000, while another third (33.9%) turned over between \$200,000 and \$2 million. Less than 3% had annual turnover of \$5 million or more.

Ideally, the concessionary tax system should be designed on this basis; i.e. that the overwhelming majority of all businesses turn over a comparatively small amount. The key challenge however is whether in fact it is possible to develop an all-encompassing definition of what a small business is for all tax purposes, instead of having different definitions depending on what particular rule or provision applies.

For example, some concessions are available if the entity in question meets the definition of 'small business entity', some if they meet the definition of 'CGT small business entity', some if they meet the definition of 'base-rate entity', etc. The SBDC supports the Tax Institute's assertion that a reform which would be of huge potential benefit to such taxpayers would see all of these concessions governed by one or two unifying qualification criteria.

Some commentators have argued that a simple area of reform that would help small businesses enormously and which keeps getting overlooked is lifting the PAYG withholding reporting threshold; the \$1 million annual withholding threshold has not been raised in decades and increasing this would allow many larger small businesses to report on a quarterly rather than monthly basis. In many cases, this would also align their PAYG withholding reporting with their GST reporting, which is something the SBDC would endorse.

In relation to the GST, though the reporting burden has eased somewhat since its introduction on 1 July 2000, the SBDC notes that GST compliance – in particular completion of Business Activity Statements (BAS) – continues to top the list of small business gripes.

As the SBDC has previously submitted, the International Research Bureau of Financial and Economic Modelling (IRBFEM) has made the argument that "[m]ore than half of 2.6 million BAS returns are basically a complete waste of time", based on the Henry Tax Review's finding that "a large number of very small businesses bear the compliance costs of the GST while contributing very little to overall revenue collection".³

The IRBFEM went on to argue that the GST reporting threshold level of \$75,000 should be "raised to \$500,000 or \$1 million with possibly little loss in collections but a massive decrease in social and administrative costs".⁴ The fact that this threshold has remained constant for many years while personal incomes/wages and cost of living have increased substantially warrants urgent remedying.

Additionally, the SBDC supports replacing the current small business entity thresholds (i.e. less than \$2 million, less than \$5 million and less than \$10 million)

² Australian Bureau of Statistics, "8165.0 – Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017", released 20 February 2018

³ "GST must be on tax reform agenda", Australian Financial Review, 12 September 2011, pg.51

⁴ Ibid

with a single threshold of \$10 million as this would simplify the tax system for many small businesses (and their advisors).

Another significant issue impacting on small businesses' interaction with the tax system remains the failure of exemptions and tax-free thresholds to address bracket creep. The impact of bracket creep can lead to perverse outcomes across the economy, particularly when small businesses are operating close to thresholds, and act as a handbrake on growth and employment.

Simplifying tax concessions and reporting requirements for small businesses would also deliver significant savings to the ATO in administering the tax system. For example, the previously quoted IRBFEM found that "the GST is incredibly costly to collect compared to other taxes, at least 40 per cent more per dollar collected and this is just ATO costs".⁵ For this reason, tax simplification should be pursued with commitment, purpose and urgency.

Concluding statement

It is of no surprise that for most small business operators, tax reporting is the least enjoyable aspect of being self-employed and is often confusing and costly. Whereas large corporations have the resources and capacity to meet their tax requirements, small businesses generally do not have the expertise nor resources (both financial and time) to manage their tax reporting obligations themselves and often rely on external paid assistance.

Given the fact that over 95% of all businesses in Australia are small, reforms to simplify the tax system and reduce the overall burden of compliance will have wide-reaching, positive impacts for the national economy. As the consultation guide states, "[u]ltimately, the aim is to strive for a tax system that best allows business owners to get on with doing business".⁶ Freeing up small business from their tax requirements would enable operators to spend more time in their business rather than on their business, and that would be good for the productivity of the nation.

Whilst welcoming this latest review, the SBDC remains cautiously optimistic that meaningful reform will actually occur given the raised expectations and subsequent let-downs of past reviews. If you would like to discuss this submission in more detail, please contact Mr Martin Hasselbacher, Director of Policy and Advocacy on (08) 6552 3302 or email martin.hasselbacher@smallbusiness.wa.gov.au.

Yours sincerely



David Eaton
SMALL BUSINESS COMMISSIONER

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⁵ Ibid

⁶ "Review of small business tax concessions: consultation guide", Board of Taxation, May 2018, pg.9