



Board of Taxation: Tax Impediments Facing Small Business

*A submission by:
Enterprise Network for Young Australians Ltd*

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1. Introduction

The Acting Assistant Treasurer, the Minister for Small Business and the Parliamentary Secretary to the Treasurer have asked the Board of Taxation to conduct a review to identify features in the tax system that are hindering or preventing small businesses from reaching their commercial goals.

This is a response to a call for submissions for that review.

Given the short timeframe for submissions, this document should be taken as a summary of key issues only and not an expansive response.

2. Main Issues

The Enterprise Network for Young Australians Ltd (“ENYA”) has identified three main features of the tax system that it believes are hindering or preventing small business of working efficiently.

Specifically, ENYA believes that:

1. The tax systems annual reporting requirement, through the use of a complex Company Tax Return introduces undue complexity into tax affairs of SME’s;
2. The turnover level for the small business entity concessions should be increased to \$5 million and expanded; and
3. A higher Fringe Benefits Tax exemption threshold should be introduced for small business entities to avoid the need for complex compliance issues associated with relatively small fringe benefits.

3. Company Tax Return

Most small businesses are operated by individuals. The current tax system is geared towards a relatively simple BAS process, however an overly complex company tax return.

In ENYA's submission, thought should be given to setting up an "etax" equivalent for small business entities. By undertaking such a project, the government would be required to review each label on the current Company Tax Return, consider its revenue effect vis-à-vis small business and decide if the revenue measures associated with the label could feasibly be removed from Small Businesses (or have Small Business exempted from compliance).

4. \$5 million is a small business

ENYA submits that many businesses remain "family" businesses effectively controlled by one person yet still turn over in excess of \$2 million. Furthermore, the \$2 million threshold acts to discriminate against high turnover low margin businesses. For example, computer hardware businesses can have margins as low as 3-5% and therefore a \$2 million turnover company could have a gross profit as low as \$60,000.

It is submitted that the threshold should be increased to \$5 million.

5. Fringe Benefits Tax

Based on ENYA's anecdotal observations, Fringe Benefits Tax is poorly reported by micro and small businesses.

The removal of the requirements to comply with the FBT regime as long as total FBT payments in small and micro businesses was below a reasonably low grossed up figure

like \$20,000 would have little effect on revenue, yet avoid the need to lodge FBT returns for small FBT liabilities that exceeded the threshold.

6. Conclusion

The tax burden is something that needs to be shared by all Australians, however the current system is focussed on a simple personal tax return regime and overly complex company and trust regime.

The company tax return should be simplified for small businesses so that it becomes much easier and cheaper to comply. In ENYA's submission, this can be done without a significant effect on the revenue.