Small Business
Development Corporation

GOVERNMENT OF
WESTERN AUSTRALIA

Our ref: D14/2243; D14/2282

Mr John Emerson AM
Chairman of Working Group
Review into tax system impediments facing small business
The Board of Taxation
c/- The Treasury
Langton Crescent
CANBERRA ACT 2600

Email: taxboard@treasury.gov.au

Dear Mr Emerson

Submission to the Review of Tax System Impediments Facing Small Business

I refer to your correspondence dated 8 May 2014 regarding the Board of Taxation's "Review of Tax System Impediments Facing Small Business" ('the Review').

The Western Australian Small Business Development Corporation ('SBDC') welcomes the opportunity to provide feedback to the review from a small business perspective.

As the attached submission argues, the SBDC would strongly support moves by the Federal Government to simplify the tax and transfer system in order to limit the amount of associated compliance on already stretched small business resources in Australia. Addressing the issue of bracket creep should also be another important reform priority, as should consideration of introducing an EFT taxation regime to further reduce small business compliance costs.

Please contact Mr Martin Hasselbacher, Director of Policy and Advocacy, on (08) 6522 3302 or email martin.hasselbacher@smallbusiness.wa.gov.au should you require further information.

Yours sincerely

Jacky Finlayson
A/SMALL BUSINESS COMMISSIONER

26 May 2014

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Small Business Development Corporation

SUBMISSION TO THE BOARD OF TAXATION
REVIEW OF
TAX SYSTEM IMPEDIMENTS FACING SMALL BUSINESS

MAY 2014

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GOVERNMENT OF
WESTERN AUSTRALIA

About the Small Business Development Corporation

The Small Business Development Corporation ('SBDC') welcomes the opportunity to provide this submission to the Board of Taxation's "Review of Tax System Impediments Facing Small Business" ('the Review').

The SBDC is an independent statutory authority of the Western Australian Government and was established to facilitate the development and growth of small businesses in this State. For over 30 years the SBDC has been providing support and assistance to small business operators in Western Australia. Central to this is improving business skills and knowledge in the small business sector, including in relation to taxation obligations and compliance requirements.

For the period July 2013 to 23 May 2014, the SBDC's Small Business Services team handled over 10,500 telephone, email and face-to-face enquiries from prospective and existing small business operators in Western Australia. Many of these enquiries related to taxation and reporting obligations.

One of the SBDC's other key strategic objectives is to advocate for a fair, conducive and productive environment for small businesses in Western Australia. The SBDC strives to achieve this by taking a leading role in influencing the policy and regulatory environment for small business, including providing submissions to relevant inquiries and reviews.

Small business and the burden of taxation

It is well understood that the burden of compliance falls most disproportionately on the small business sector. The SBDC has long advocated for reducing the impact of regulation on small businesses and as such welcomes this Review into those aspects of the tax system that hinder small business growth in Australia.

Taxation remains a significant issue for small businesses from both an affordability and compliance cost perspective. Any moves then to simplify the taxation system and make compliance reporting fairer and more transparent are important initiatives to improve the ability of small businesses to operate competitively in Australia's free market economy.

The requirement to pay taxes is a given for all business operations in Australia. Associated with this direct impost is the cost of complying with the various taxes that are applied by all levels of government. This impact can be particularly burdensome given the variations and complexity in the design of taxes and their reporting requirements. Reducing the overall burden of compliance through effective taxation reform will lead to a more productive and efficient economy in which businesses of all sizes can operate and compete.

Given the fact that over 95% of all businesses in Australia are small[1], reforms to the taxation system will have wide-reaching, positive outcomes for the national economy

[1] In this regard, a small business refers to businesses employing less than 20 staff. Refer to ABS Cat. No. 8165.0: *"Counts of Australian Businesses, including Entries and Exits"*

as the small business sector is a significant contributor to employment, income and export generation.

To this end, the SBDC has previously provided submissions to various Federal and State taxation reviews from a small business perspective, including to the 2007 "Western Australian State Tax Review" and as part of a whole-of-government submission to the 2010 "Australia's Future Tax System Review" (commonly referred to as the "Henry Tax Review").

More recently, the SBDC provided a comprehensive submission in response to the Federal Treasury's Discussion Paper, "Tax Reform – Next Steps for Australia" from September 2011. A copy of the SBDC's submission to that review is attached, and provides an in-depth examination of the burden of taxation on small businesses and discusses the most important areas in need of reform (at the time).

In regards to the present Review, the SBDC notes the limited timeframe for consultation and as such the following comments are offered only as a cursory examination of the main features of the tax system that impede the growth of small businesses in Australia.

Tax system governance

Survey after survey reveals that tax compliance reporting remains a significant issue and cause of stress for many small business operators in Australia. It goes without saying that this burden is most pronounced at the smaller end of business operations (i.e. sole traders and micro-enterprises employing less than five staff) due to the limited resources (both financial and time) and/or expertise of business operators to ensure compliance with their reporting requirements.

Despite the fact that the Goods and Services Tax ('GST') has now been in place in Australia for the past 14 years, its reporting via the Business Activity Statement ('BAS') continues to be a source of considerable burden. Whilst arguably GST reporting leads to better accounting and record-keeping practices, completing a BAS and ensuring compliance (e.g. accuracy, timeliness) can still be a significant and straining undertaking and can unduly impact on a business's cash flow.

The SBDC, however, also notes – and agrees with – the Board of Taxation's conclusion (refer to Finding 28) in its scoping study of small business compliance costs from December 2007[2] that:

> While concerns about completing Business Activity Statements (BAS) appear to be gradually decreasing over time as businesses become familiar with the requirements, the BAS is still regarded as the most annoying and time consuming tax compliance requirement for small businesses. The degree of the burden varies from business to business. **Ongoing education of small businesses about BAS requirements is likely to assist in easing the compliance burden.** [emphasis added]

[2] Board of Taxation, "Scoping study of small business tax compliance costs – A report to the Treasurer", December 2007, pg.92, Available from: http://www.taxboard.gov.au/content/reviews_and_consultations/small_business_tax_compliance_costs/scoping_study_report/downloads/small_business_tax_compliance_costs_scoping_study.pdf

Though the burden may have eased somewhat (especially for experienced business operators), it is noted that GST compliance still tops the list of small business gripes. A recent MYOB survey of what policies or initiatives small and medium business owners would vote for in the lead-up to the recent Federal Budget revealed that simplifying the GST/BAS reporting process was the key priority for 64% of the 1,032 SME respondents, and has been for a number of surveys now.[3]

As the ongoing provision of education and assistance to small business operators is paramount to ensuring strong BAS compliance and a fair and healthy tax system in Australia, the SBDC has some concerns about how this is likely to be achieved in future. In particular, the SBDC notes that the Federal Government's budgeted savings measure to reduce departmental funding for the Australian Taxation Office ('ATO') by $142.8 million over three years (from 2015-16)[4] is likely to impact on the ability to meet this important objective.

It is hard to reconcile how the planned total staffing reductions of 4,700 staff over the forward estimates period to 2017-18 will be able to deliver essential, ongoing assistance to the small business sector. Feedback received by the SBDC from small businesses indicates that ATO support lines and call centres already suffer from lengthy delays, which can only be further exacerbated by the announced job cuts.

Further to this, the SBDC is aware that the cost to government of collecting GST is comparatively higher vis-à-vis the collection of other taxes. According to the International Research Bureau of Financial and Economic Modelling ('IRBFEM'), the ATO "admits 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]

In line with this, the IRBFEM makes 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".[6] It 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".[7] This point is worthy of further consideration by the current Review (and fits in with the discussion below on the impact of bracket creep).

Coupled with this compliance burden is the ever-changing rules that apply to the various taxation schemes (such as changes to asset write-downs and depreciation, and small business exemptions, offsets and concessions). It is unreasonable for the ATO to expect busy small business operators from being able to continually stay abreast of these constant revisions, without the need to pay for expert assistance. This compounds the cost of compliance and adds further complexity to tax reporting.

[3] As reported on SmartCompany, "Budget 2014: SMEs call for easier tax reporting", 9 May 2014, Available from: www.smartcompany.com.au.
[4] As announced in the 2014-15 Federal Budget.
[5] "GST must be on tax forum agenda", Australian Financial Review, 12 September 2011, pg.51.
[6] Ibid.
[7] Ibid.

The impact of bracket creep

From the SBDC's perspective, another significant issue impacting on small businesses' interaction with Australia's taxation system remains the inability of exemptions and tax-free thresholds to address bracket creep. This is especially detrimentally impactful in the case of taxes considered to be inefficient or regressive, such as State-based payroll tax.

As an example, in response to the current "Inquiry into Microeconomic Reform in Western Australia" being undertaking by the State's Economic Regulation Authority ('ERA'), the SBDC has argued that the impact of bracket creep on payroll tax has been particularly pronounced on small businesses. The SBDC has long advocated for the level of the payroll tax exemption threshold in Western Australia to be significantly increased as well as indexed to inflation to limit bracket creep. The fact is that the present threshold of $750,000 – which has not increased since 1 July 2003[8] – has not kept pace with the escalating costs of the labour market and has perversely drawn more small businesses into its catchment.

In our December 2013 submission to the ERA, the SBDC made the argument that a small business employing just 10 staff now on the Average Weekly Ordinary Time Earnings ('AWOTE') of $1420.90[9] would exceed the current threshold and incur payroll tax.[10] This clearly goes against the object of the tax, which was never intended to apply to small businesses when it was first introduced.

In the SBDC's opinion, this has also lead to significant avoidance behaviours by many business operators in Western Australia. This includes the decision by small business operators to deliberately not expand by hiring more staff or utilising alternative forms of harnessing labour (such as via contracting-out services and offshore outsourcing). This dampener on employment generation in turn negatively impacts on Western Australia's overall productivity and Gross State Product, among other things.

The SBDC contends that the impact of bracket creep has similarly perverse outcomes across the entire taxation system, from marginal rates in the personal income tax system to the GST reporting threshold, and is worthy of further examination by the Board.

The need for a new hybrid tax entity

The SBDC believes consideration should be given to introducing a new low-cost, hybrid small business entity to eliminate the complexity of tax planning and reporting associated with operating under a company structure.

[8] The SBDC acknowledges that the Western Australian Government has committed to increasing the payroll tax exemption threshold to $800,000 from 1 July 2014, with a further increase to $850,000 from 1 July 2016.

[9] The Australian Tax Office 2013, *Average weekly ordinary time earnings (AWOTE)*, Available from: http://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?default=&page=35

[10] This statement is based on a calculation of total wages paid by the business exceeding $750,001 using the AWOTE figure for June 2013.

Some years ago the Institute of Chartered Accountants and Deloitte formulated a proposal for business income to be taxed when it flows to the owners of the business rather than in the business itself, known as "entity flow-through" ('EFT'). Under the proposal[11]:

> ..companies would receive tax treatment similar to that of a partnership, while maintaining the advantages of incorporation such as limited liability. For businesses that opt in to the system, this would mean avoiding a wide range of difficult-to-administer tax mechanisms such as carry-forward company loss provisions, fringe benefits tax provisions, family trust election provisions, trust loss provisions and franking credit rules.

In line with this proposal, the SBDC notes that the Consultation Paper released as part of the Henry Tax Review floated the creation of an EFT taxation regime, which would allow qualified small businesses to operate formally within a limited liability entity (typically a company) while effectively being treated as a partnership for taxation purposes. Under that proposal, the deemed partnership would calculate its taxable income (or loss) and allocate it to individuals based on their interest in the entity and assessed at the individual investor's personal tax rate.

The SBDC believes that the introduction of an optional EFT taxation regime could have the potential to greatly reduce compliance costs for businesses conducted through companies and trusts and allow business operators to focus on building capital and capacity.

Conclusion

The SBDC welcomes the opportunity to provide comment to the Review. As argued throughout, the SBDC would strongly support moves by the Federal Government to simplify the tax and transfer system in order to limit the amount of associated compliance on already stretched small business resources in Australia. Addressing the issue of bracket creep should also be another important reform priority, as should consideration of introducing an EFT taxation regime to further reduce small business compliance costs.

For further information on this submission, please contact Mr Martin Hasselbacher, Director of Policy and Advocacy, on (08) 6522 3302 or email martin.hasselbacher@smallbusiness.wa.gov.au.

[11] As reported on SmartCompany, "Plan to cut small business tax costs", 1 May 2008, Available from: www.smartcompany.com.au.

Government of **Western Australia**
Small Business Development Corporation

Small Business Development Corporation
Western Australia

Our Ref: D11/3572

Tax Forum
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SMALL BUSINESS SUBMISSION TO *TAX REFORM – NEXT STEPS FOR AUSTRALIA* DISCUSSION PAPER

The Small Business Development Corporation ("SBDC") welcomes the opportunity to provide feedback from a small business perspective on the Commonwealth Treasury's Discussion Paper, *Tax Reform – Next Steps for Australia*.

INTRODUCTION

The SBDC is an independent statutory authority of the Government of Western Australia established to facilitate the development and growth of small businesses in this State. One of the agency's key strategic goals is to improve business skills and knowledge in the small business sector by providing accurate and timely business advice on a range of topics, including regarding taxation obligations and compliance requirements.

During 2009-10, the SBDC's Small Business Advisory team handled a total of 49,162 telephone, email and face-to-face enquiries from prospective and existing small business operators in Western Australia. Many of these enquiries related to taxation and reporting obligations.

A key role of the SBDC is to identify and advocate for the removal or reduction of red tape impacting on the business community, including influencing the development of new or amended legislation and regulations by government agencies. The SBDC also works to influence government agencies, key decision makers, reviews and inquiries to ensure the impacts of policy decisions on the small business sector in Western Australia are properly understood, negative aspects (including compliance burdens) minimised and appropriate transition measures in place to support business. To this end, the SBDC has previously provided submissions to Federal and State reviews of taxation policy, including the 2010 Henry Tax Review and the 2007 Western Australian State Tax Review.

SMALL BUSINESS & THE BURDEN OF TAXATION

The SBDC strongly welcomes the Federal Government's review of the federal taxation system. As is well understood, taxation is a significant issue for small business and moves to simplify the system, and make the system fairer and more transparent, are important initiatives to improve Australia's overall tax competitiveness.

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According to the Australian Bureau of Statistics[1], there were 202,816 small businesses in Western Australia as at June 2009, accounting for 95 per cent of all businesses in the State. More than a third of these businesses employ staff with the remaining proportion (two thirds) being non-employing businesses.

The taxation system is an important element in the operations of all small businesses. In the Australian economy, business size and structure plays a significant role in the amount of tax to be paid, the way in which tax must be paid and the tax system to be complied with. However, it is also well recognised that the impact of the taxation system falls disproportionately on small business as compared with larger corporations[2].

Small business interactions with the tax system are complicated and wide-ranging. For example, a recent small business survey conducted by the Australian Chamber of Commerce and Industry[3] indicated that business taxes and government charges were the largest impediment to small and medium business investment over the June 2011 quarter.

Furthermore, a survey conducted in May 2011 by Galaxy Research on behalf of American Express[4] reported that small business owners spend an average of approximately 8.3 hours in the preparation of each quarterly Business Activity Statement ("BAS"). Business owners that generate more than 200 transactions per quarter spend as long as 12 hours per BAS. The survey also revealed that approximately 40 per cent of small business operators do not prepare their own BAS, choosing to use, for example, external accountants, bookkeepers or friends and family.

It goes without saying that the time and costs incurred by small businesses complying with their tax obligations equates to resources that are not being used productively in operating their business. Small business operators cannot be expected to be experts in every field and it is therefore essential that Australia's taxation system is made as simple, transparent and easy to comply with as possible.

Additionally, the Galaxy Research report revealed that only 18 per cent of small business owners indicated that they had a solid understanding of the taxation requirements for small business. Even more alarmingly, among those small business owners who had started in the past two years, only 9 per cent claim to have a thorough understanding of the tax requirements for their business.

In Australia, 96 per cent of all businesses are categorised as small business[5] and are a major source of employment and economic activity. Reform of the taxation system and a reduction in the level of regulatory burden on small businesses from their tax obligations would enable owners to give greater attention to being entrepreneurial, to better managing their cash and other liquid assets, and to implementing more effective management practices. In other words, freeing up small business from their

[1] Australian Bureau of Statistics 2009, *8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2009*
[2] National Institute of Accountants, media release, *First Wave of Tax Reform Favours Small Business, released* 2 May 2010
[3] Australian Chamber of Commerce and Industry, *Small Business Survey – Identifying National Trends and Conditions for the Small Business Sector*, released 17 August 2011
[4] *AMEX Tax Time Report* prepared by Galaxy Research for American Express Australia Limited, released May 2011
[5] Australian Bureau of Statistics 2009, *8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2009*

taxation requirements would enable operators to spend more time in their business rather than on their business.

The SBDC notes that a review of the Goods and Services Tax levels ("GST") does not fall within the terms of reference for this review and we believe that as an essential component of an integrated taxation system, the Federal Government has missed an opportunity to holistically consider the impacts of the regime on the Australian economy overall. Key findings from a September 2011 CPA Australia study into the economic effects of various levels of GST[6] reveal:

- increases in the GST rates to 12.5 to 20 per cent would lead to gross domestic product gains ranging from 0.4 to 0.9 per cent;
- a GST rate of 20 per cent would enable cuts to both company and personal tax rates; and
- increases in GST rates between 12.5 and 20 per cent would deliver aggregate standard of living gains of between $1.6 and $4.7 billion per year.

Notwithstanding this, the SBDC has considered the six topics to be discussed at the Federal Government Tax Forum on 4-5 October 2011 and made a number of recommendations as follows.

PERSONAL TAX

<u>Personal Income Tax</u>

Personal income tax applies to those small businesses operating as sole traders, partnerships and adult resident beneficiaries as trustees. It is also noted that even when a small business has a company structure, personal income tax is paid by its individual shareholders.

Personal income tax directly impacts on workforce participation rates and, together with the transfer payments system (as discussed in the next section), forms part of the effective marginal tax rate.

The SBDC strongly supports the Federal Government's reform of the personal tax free threshold from $6,000 to $18,200 in 2012-13, increasing to $19,400 in 2015-16. All taxpayers earning less than $80,000 a year will receive a tax cut from 1 July 2012, with most getting a cut of at least $300 and this could specifically benefit micro-businesses and sole traders who earn less than this amount. This is also expected to have a positive flow-on impact on small businesses as a result of individual taxpayers having more disposable income.

While this is a very welcome initiative, the SBDC is concerned about the potential for the tax free threshold not keeping pace with rising incomes. As such, the SBDC would prefer if this threshold was reviewed annually or pegged in line with the Consumer Price Index ("CPI") or wage increases in order to avoid bracket creep.

The SBDC also notes the Federal Government's announcement in the 2011-12 Budget of a reduction in the gross domestic product ("GDP") adjustment factor for Pay As You Go ("PAYG") instalment taxpayers who use the GDP adjustment

[6] CPA Australia, media release *GST rate increase would deliver productivity boost, study shows*, released 12 September 2011

method. Under this method, quarterly instalment amounts are calculated based on the previous year's taxable income, multiplied by the GDP figure. From 1 July 2011, the GDP figure will be set at four per cent, rather than eight per cent which would otherwise have applied for the same period using the previous method.

According to the Federal Government, many small businesses use the GDP method to calculate taxable income and the reduction in the statutory rate is intended to reduce tax payable and improve small business cash flow[7]. The SBDC supports measures to not only reduce taxation on small business but also to enable better business planning, including cash flow management.

Recommendations

The SBDC believes that the most efficient and equitable way for the Federal Government to raise revenue is by strengthening the income tax base. Economic efficiency would be improved if incomes were taxed more consistently – either by reducing the number of 'discounted' tax rates and exemptions under the personal income tax regime or by broadening the tax base.

By broadening the tax base and reducing tax rates simultaneously and correspondingly (i.e. with consideration of each element), the Federal Government could theoretically be able to collect the same amount of revenue more efficiently and fairly. Using such a strategy to strengthen the revenue base and restricting opportunities for avoidance may even increase revenue over the medium to long term.

The SBDC would also support further increases in the personal tax free threshold to increase overall workforce participation or at the very least pegging the threshold to avoid/minimise bracket creep.

<u>Superannuation</u>

In November 2009, the Federal Minister for Superannuation, the Hon Chris Bowen MP, and the then Minister for Small Business, the Hon Dr Craig Emerson MP, announced that the Federal Government would deliver a Superannuation Clearing House for small business. The service, which is free for businesses employing 20 or less staff, was made fully available through Medicare Australia from 1 July 2010.

The service is optional and is designed to reduce red tape and compliance costs associated with meeting small business superannuation guarantee obligations. The Superannuation Clearing House aims to cut the red tape burden by enabling small businesses to pay their superannuation contributions electronically to a single location, rather than to a potentially large number of superfund providers.

The SBDC notes, however, that as of June 2011 only 4,500 employers had registered with the Superannuation Clearing House, which is a very small proportion when compared with the number of employing small businesses in Australia[8].

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[7] Swan W, Treasurer, media release *More help for Australian small business*, released 10 May 2011
[8] Sherry, N, Senator The Hon, media release, *99% Satisfaction rating for small business superannuation clearing house, 16 June 2011*

The benefits to small employers are obvious – according to a recent Medicare survey of 5,600 small businesses using the service, 83 per cent of respondents indicated that using the Superannuation Clearing House saved them at least three hours a month of compliance related activity[9].

Furthermore, small business support for the Superannuation Clearing House is reported to be extremely high, with:

- 99 per cent of respondents saying they would recommend it to other small businesses;
- 98 per cent of respondents rating their satisfaction with the service as 'extremely satisfied' or 'satisfied';
- 96 per cent of respondents 'strongly agreeing' or 'agreeing' the service has reduced the time it takes to make their superannuation payments; and
- 90 per cent of respondents 'strongly agreeing' or 'agreeing' the service has reduced the amount of red tape involved in making their superannuation payments.[10]

Despite the establishment of the Superannuation Clearing House, small businesses frequently report that the superannuation system itself is too onerous, difficult to comply with and non-compliance measures overly punitive. More specifically, small businesses that employ staff are required to make superannuation submissions every three months to employees' superannuation funds and this requires extensive form-filling and administrative processes. As the Productivity Commission's *Annual Review of Regulatory Burdens on Business: Business and Consumer Services* notes, "administrative burdens on small business associated with making very small payments to many staff are significant while the benefits to staff are questionable."[11]

Under the regulations for Super Guarantee Contributions ("SGC"), an employer must pay quarterly superannuation contributions for employees by no later than the 28th day of the month following each quarter. When this deadline is not met, employers must pay a non-tax-deductible SGC amount equal to the contribution, an interest penalty of 10 per cent a year and an administration fee of $20 for each employee affected. Where an employer makes a false or misleading entry on an SGC statement, a penalty of up to 75 per cent of the SGC amount can also be imposed, even if the entry is a clerical error and not considered fraudulent. Whereas super contributions are tax deductible, the SGC is not and can prove very expensive for small businesses who fail to meet the deadline.

The SBDC understands that anecdotally, some small business operators are choosing to engage workers as contractors as opposed to employees to avoid certain responsibilities, such as the payment of superannuation. This leads to the prevalence of 'sham contracting', which has recently been investigated by the Australian Building and Construction Commissioner[12] and is in breach of the *Fair Work Act 2009*. The SBDC contends that if the requirements of superannuation

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[9] Bailey, M 2011 *Let Medicare clear your super stupor*, BRW 1 September 2011
[10] Sherry, N, Senator The Hon, media release, *99% Satisfaction rating for small business superannuation clearing house, 16 June 2011*
[11] Productivity Commission 2010, *Annual Review of Regulatory Burdens on Business: Business and Consumer Services*
[12] Office of the Australian Building and Construction Commissioner 2010, *Sham Arrangements and the use of Labour Hire in the Building and Construction Industry*

compliance were made less onerous, it may potentially reduce the occurrence of sham contracting.

Recommendations

Through our Small Business Advisory Service, the SBDC understands that a high proportion of small businesses are not aware of the free Superannuation Clearing House service. This may be an issue of marketing and promotion of the initiative and the SBDC would strongly support measures to increase its take-up by the small business sector.

As an alternative option, the SBDC believes that the Federal Government could give consideration to making the Superannuation Clearing House a compulsory service for small businesses under or above a certain threshold (whether by number of employees or level of turnover), with the opportunity to opt-out if preferred.

The SBDC would also welcome reform of the SGC regulations which appear to be overly punitive on small business. A warning or 'three-strikes' approach may be more appropriate, especially for small businesses which do not have specific financial accounting expertise and errors were made unwittingly.

TRANSFER PAYMENTS

Transfer payments are fundamentally provided as a means to ensure all members of society are able to access an adequate standard of living through income distribution. The discussion paper points to the Federal Government's use of transfer payments to encourage recipients to play an active role in the nation's labour market. Transfer payments are often targeted at and paid to individuals but frequently have a significant indirect impact on small business operators.

For instance, transfer payments can act as a disincentive to certain members of society from participating in the workforce. Put differently, the levels of financial support provided to individuals by the government may make it financially more favourable for certain members of society to not actively participate in the workforce (i.e. they can receive more money from the Government than they are able to earn through working).

In Western Australia, labour shortages are once again looming as a significant emerging issue for small businesses. In a recent survey of the challenges faced by Western Australian small and medium-sized businesses conducted by Bankwest[13], 45 per cent of respondents reported that it was tougher to retain employees and 50 per cent that it was tougher to attract new employees compared to the same time a year ago.

Optimising labour force participation rates (for example, through the efficient management of transfer payments) helps to ensure that the supply of labour meets the demands of the economy, particularly as the population ages. For example, while the current Western Australian labour force participation rate is the highest of

[13]*Bankwest business challenges survey*, released 6 September 2011

all Australian states[14], this is forecast to decline from 68.7 per cent presently to 56.3 per cent by 2051[15].

In the 2011-12 Budget, the Federal Government announced direct funding to small businesses through the provision of $94.6 million over four years to provide wage subsidies to businesses that employ the long term-unemployed. The subsidy will be set at the average rate of the Newstart Allowance and will be paid over six months, beginning 1 January 2012.

The SBDC notes that although small businesses will have the opportunity to make use of this scheme to help reduce staff shortages, this initiative is unlikely to address emerging skill issues as the long-term unemployed often do not possess the relevant and up to date skills required in the modern workplace.

Effective Marginal Tax Rate

The effective marginal tax rate ("EMTR") is the combined effect on a person's earnings of income tax and the withdrawal of means testing of welfare benefits. The efficient management of the transfer payment system is therefore an essential method to encourage workforce participation and the effective allocation of labour resources.

The EMTR measures the percentage of a one dollar increase in income that is lost to income tax and income tests on government payments and services. According to a study in the Economic Record in 2009 comparing EMRT between 1996-97 and 2006-07, the EMTR has actually increased for nearly one million Australians:

> Although sweeping income tax cuts reduced effective tax rates for many taxpayers, the extension of income-tested welfare payments and tax concessions worked in the opposite direction. The proportion of working-age Australians facing EMTRs of more than 50 per cent increased during the period, from 4.8 to 7.1 per cent, representing some 910,000 Australians.[16]

A high EMTR can make it less favourable for an individual to enter the workforce as the increase in income is offset by a reduction in financial benefits. Australia's high EMTR means that for some people, it is financially disadvantageous to enter the workforce or to work longer hours and financially more attractive to rely on Government assistance.

The Institute of Chartered Accountants has indicated that its number one priority for tax reform at the upcoming Tax Forum is a reduction in the EMTR:

> The most significant priority we would like to see a focus on is to provide a much greater incentive for people who currently sit outside the workforce to return to paid employment. Very high effective marginal tax rates are currently a major disincentive for people to return to work.[17]

[14] Australian Bureau of Statistics 2010 *6202.0, Labour Force, Australia, Seasonally Adjusted Series* October 2010 (does not include Northern Territory or Australian Capital Territory data).
[15] Department of Commerce 2009, Labour Relations Division, *Worklife Balance, The Business imperative for flexible work, Attracting and retaining your future workforce*
[16] Harding A et al (2009) *Trends in Effective Marginal Tax Rates in Australia from 1996–97 to 2006–07*, Economic Record, vol 85, issue 271 p449-461
[17] Khadem, N 2011 *Focus on Fixing Tax*, BRW 11 August 2011

Given this, it is imperative that any reform of the transfer payment system not only reduces the EMTR to encourage greater participation in the workforce, but also focuses on education and skills training to address the widely publicised emerging skills shortages.

To this end, the SBDC welcomes the Federal Government's allocation of $588 million over four years (as announced in the 2011-12 Budget) towards a National Workforce Development Fund, aimed at delivering 130,000 new training places during this period.

On top of this, the Western Australian Government announced in its latest budget that $33.4 million had been allocated in 2011-12 to provide an additional 12,000 training places, including apprenticeships and traineeships, in industry priority areas. A further $54 million in Royalties for Regions funding will be provided in 2011-12 to develop skills and training facilities in the regions, and $4 million will be spent over the next four years to increase the number of skilled migrants entering the Western Australian workforce.

Recommendations

The SBDC believes that, when coupled with specific skills training, a reduction in the EMTR – through targeted reform of the transfer payments system – would act as an incentive for greater workforce participation at a broad level, to the benefit of the Western Australian small business sector.

The SBDC also welcomes a greater focus on training and skills development to help alleviate labour supply and skills shortage problems currently being experienced by businesses of all sizes and supports the commitment by both the Federal and State Governments to increasing the provision of skills training.

<u>Paid Parental Leave</u>

The Paid Parental Leave scheme is a new entitlement for working parents of children born or adopted from 1 January 2011. Parental Leave Pay is available to working parents who meet the eligibility criteria. Under the scheme, eligible working parents can receive up to 18 weeks of government-funded Parental Leave Pay at the rate of the National Minimum Wage (currently $589.40 a week before tax).

While small businesses are not required to pay the Parental Leave Pay directly, employers are required to distribute these payments to employees on behalf of the Federal Government's Family Assistance Office ("FAO").

The SBDC notes that the administrative burden on small businesses of this 'paymaster' role is significant. Employers are required to provide written notice to the FAO of the business's payroll cycle, banking details, acceptance of the application for Paid Parental Leave and the business's contact details including their Australian Business Number ("ABN"). There are also record-keeping requirements for the administration of the scheme, including the retention by the business of all records of funds received from the FAO and paid to the employee being maintained for seven years[18].

Furthermore, businesses need to withhold tax from the Parental Leave Pay under usual PAYG requirements, and include their payments as part of annual and part-year payment summaries. Employers must provide employees with access to a record of their pay (usually in the form of a payslip) while also needing to keep written financial records of Parental Leave funds.

While the media has reported that many small business employers are supportive of the Paid Parental Leave Scheme overall, many are also worried the initiative will add burdensome paperwork and increase regulatory impost. As the CEO of the National Independent Retailers Association ("NIRA"), Mr Peter Strong, has stated, "the idea of paid parental leave is excellent and NIRA supports the concept but using this to create more red tape and more process for business is just plain silly."[19]

Recommendations

The SBDC supports in principle the Paid Parental Leave scheme but is concerned about the additional compliance burden that it places on small businesses. While the scheme is likely to have a minimal impact on large corporations which have the administrative and financial capacity to manage the scheme, small business operators will continue to be significantly impacted by this unnecessary regulatory impost.

The SBDC believes that the burden of the Paid Parental Leave scheme on businesses of all sizes, especially small businesses, would be substantially reduced if the FAO took full control over the administration of payments. In particular, the impost on small businesses would be greatly reduced if the FAO were to make payments directly to the employee rather than adding a new layer of bureaucracy by administering the system through the employer. In the SBDC's opinion, this is *prima facie* a case of cost-shifting from the Federal Government to the business community.

BUSINESS TAX

As announced in the 2010-11 Federal Budget, the company tax rate will be reduced from 30 per cent to 29 per cent for small businesses (i.e. those with annual turnover of less than $2 million) from 2012-13, contingent on the passage of the proposed Mineral Rent Resource Tax ("MRRT") through the Federal Parliament.

The MRRT has proven to be a controversial proposal to date, nevertheless, the Federal Government intends to push ahead and "deliver the MRRT legislation this year, with the tax to start in July 2012."[20]

Although the reduction in the company tax rate is roundly welcomed, a number of industry groups believe that it does not go far enough, citing the recommendation in the Henry Tax Review that:

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[18] Department of Families, Housing, Community Services and Indigenous Affairs 2010 *Paid Parental Leave Employers Business Requirement Statement*
[19] National Independent Retailers Association, media release, *Babies include red tape*, released 5 May 2010
[20] Quoted in Business Spectator *Gillard stands by MRRT*, published 25 August 2011

> The company income tax rate should be reduced to 25 per cent over the short to medium term with the timing subject to economic and fiscal circumstances. Improved arrangements for charging for the use of non-renewable resources should be introduced at the same time.[21]

The SBDC supports the view of the Institute of Chartered Accountants Tax Counsel, Mr Yasser Al-Ansary, when he claimed, "cutting to 25 per cent is a rate that's more internationally competitive and that will allow businesses to further grow and boost labour."[22]

Recommendations

The SBDC supports a reduction in the company tax rate over time to 25 per cent as recommended in the Henry Tax Review as a way of reducing operating costs for small businesses and providing more working capital.

<u>Entrepreneurs' Tax Offset</u>

As announced in the 2011-12 Budget, the Federal Government will abolish the Entrepreneurs' Tax Offset ("ETO") from 1 July 2012. The ETO is a tax offset equal to 25 per cent of the income tax payable on business income if aggregated turnover is $50,000 or less. A reduced offset rate applies for small businesses with a turnover between $50,000 and $75,000, with the maximum offset claimable being $2,750.

Instead of the ETO, the Government will allow small businesses to claim up to $5,000 as an immediate deduction on the purchase of a new motor vehicle from the start of the 2012-13 financial year.

The abolition of the ETO and the introduction of the $5,000 motor vehicle write-off have been welcomed by some small business advocates, as the ETO scheme was criticised for being too complex and only capturing a small proportion of very small businesses. According to the latest Australian Bureau of Statistics data, the number of small businesses in Western Australia with a turnover of less than $50,000 was approximately 60,000 as at 30 June 2009, compared to the 200,000 small businesses with a turnover of less than $2 million that will be able to access the motor vehicle write-off scheme.

It has also been argued that the ETO may have acted as a deterrent to small businesses growing beyond a certain size given that the discount on payable tax ceases when a business's turnover reaches $75,000.

From 1 July 2012, the $5,000 deduction for the purchase of a new motor vehicle will provide a financial benefit to those small businesses that use a motor vehicle for work purposes (such as tradespeople) or who operate a fleet. Under the existing rules, a small business owner who purchases a car for $33,960 would receive a deduction of $5,094 in the first year of owning that car, as the cost is depreciated at 15 per cent during the year of purchase. In the same scenario, the business owner would under the new scheme also receive an immediate write-off of the purchase

[21] Treasury 2009, *Australia's future tax system – Report to the Treasurer (commonly known as the Henry Tax Review)*
[22] Khadem, N 2011 *Focus on Fixing Tax*, BRW 11 August 2011

price of $5,000. By adding the 15 per cent depreciation on the reduced value of $28,960 to the $5,000 write-off, the total deduction in the first year would equate to $9,344.

It has been suggested that the replacement of the ETO with the new motor vehicle tax deduction is partly aimed at increasing the number of motor vehicle sales, in direct support of the Australian automotive industry. The SBDC notes that the 2011-12 Federal Budget made provision for a $300 million special appropriation in the current and out-years for the Automotive Transformation Scheme, which is the centrepiece of the Federal Government's assistance package to the automotive industry. When taken together, the motor vehicle tax write-off, special appropriations and annual appropriations provides budgetary assistance to the nation's automotive industry to the amount of almost $1.69 billion over the forward estimates[23].

The SBDC notes that many motor vehicle dealerships in Australia are small businesses and as such will benefit from the Federal Government's support for the industry. However, it can also be concluded that such levels of financial assistance for the automotive industry could be part of an interventionist industrial policy by the Federal Government to distort efficient market mechanisms by 'picking winners' and propping-up inefficient sections of the economy.

The Federal Government also announced as part of the 2011-12 Budget reforms to the method of determining the taxable value of car fringe benefits. The current tiered rate system will be replaced by a single rate of 20 per cent from 1 April 2014 which will apply regardless of distance travelled. Reform of the car fringe benefit tax rules are intended to remove the incentive for people to drive more to access higher concessions.

Recommendations

The SBDC questions the true value to the small business sector and the breadth of the replacement of the ETO with the new motor vehicle deduction. Measures that provide tax relief to small businesses and assistance in their early stages of growth, as well as a more broad-based approach to taxation that decreases the tax burden on as many small businesses as possible (as recommended in the Federal Government's *Rethinking Regulation – Report of the Taskforce on Reducing Regulatory Burdens on Business*[24]) are fully endorsed by the SBDC.

To this end, the SBDC would support the reinstatement of the ETO to assist the formation and growth of micro businesses, while maintaining the newly introduced motor vehicle tax deduction.

The SBDC also supports the simplification of the car fringe benefits tax as it will make it easier for small businesses to calculate their tax obligations.

STATE TAXES

The SBDC recognises that small businesses are also impacted by their interaction with the State taxation system. While State Governments are limited in terms of their

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[23] Priestly M 2011 *Budget 2011-12: Small Business car write-off* Parliament of Australia Parliamentary Library
[24] Regulation Taskforce 2006 *Rethinking Regulation – Report of the Taskforce on Reducing Regulatory Burdens on Business*

ability to raise revenue by the Australian Constitution and the *A New Tax System (Goods and Services Tax) Act 1999*, it would be inappropriate – in the SBDC's opinion – for the Federal Government to interfere with this area of State responsibility, unless it resulted in substantial structural changes to the overall taxation regime (for example, an increase in the level of GST or a redistribution of GST revenue).

The reality is that small businesses generally take issue with the amount of taxation they have to pay and its associated compliance burden, rather than which level of government is imposing the tax.

Payroll Tax

Payroll tax is a general revenue tax payable to the State by an employer based on the total wages paid to all employees. In Western Australia, this tax must be paid by any employer whose business pays wages of at least $62,500 per month or $750,000 per year. The current payroll tax rate in Western Australia is set at 5.5 per cent, and only the amount of wages paid above the threshold is taxable.

Small businesses and their representatives continue to contend that payroll tax is a tax on employment and that it acts as a disincentive to business growth and investment. Moreover, they argue that the payroll tax exemption threshold is too low, capturing too many small employers. The SBDC notes that while the average wage has continued to rise since 1 July 2003 (which is when the payroll tax threshold was last set), an increasing number of small employers have been pulled into the payroll tax net due to bracket creep.

Reform advocates (including the SBDC) have called on the Western Australian Government to link the payroll tax exemption threshold to at least the rate of inflation, to keep up with wages growth and minimise bracket creep. Further reductions to the payroll tax rate (which has remained unchanged since 1 January 2005) have also been called for.

The SBDC notes that in response to the global economic uncertainty in 2008, the Western Australian Government provided a one-off payroll tax rebate to all eligible employers who paid wages of up to $3.2 million in 2009-10, a move strongly endorsed by small business representatives. The rebate came into effect in August last year, with 6,700 small businesses receiving the rebate.

Recommendations

The SBDC supports measures to reduce the overall regulatory burden on small business and notes that the harmonisation of payroll tax across jurisdictions would reduce the significant compliance burden for businesses operating in more than one jurisdiction[25].

This is a view echoed by the Chamber of Commerce and Industry WA ("CCIWA") who argue "Greater harmonisation of taxes between jurisdictions would also help reduce the tax burden"[26]. The CCIWA goes further in suggesting that:

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[25] Ibid

[26] Mason D 2011 *Tax reform agenda recommended* Business Pulse, Chamber of Commerce and Industry WA, September 2011

> To achieve widespread tax reform, the Commonwealth and State tax systems must be considered as one regime. Until the mismatch between the State's ability to raise revenue and spending responsibilities is addressed, there is very limited scope to reform the most inefficient taxes.[27]

The SBDC also recognises, however, that the harmonisation of State taxes would not benefit the majority of small businesses who only trade in Western Australia.

If the Federal Government were to advocate for greater harmonisation of payroll tax regimes across jurisdictions, this should ideally be accompanied by the provision of alternative income streams for individual States. Given the current limited ability of States to raise revenue, there is a risk that service delivery could be negatively affected by reduced payroll tax in-takes and/or the abolition of other inefficient and nuisance State taxes, without access to other means of raising revenue.

The CCIWA have put forward the proposition of providing States access to income tax revenue in one of two ways, either "by passing the income tax base from the Commonwealth to the states, or for the states to share the income tax base with the Commonwealth (such as through a surcharge)."[28]

These are suggestions that should be seriously considered by the Tax Forum in the SBDC's opinion. Unless the Federal Government restructures the way States are funded (for example by providing access to income tax revenue as proposed by the CCIWA), State Governments will continue to primarily rely on raising revenue through their existing payroll tax regimes. Ultimately, it is small employers that lose out and get penalised for growing their operations and employing more staff.

<u>GST Distribution</u>

In March 2011, the Federal Government announced a review of the distribution of revenue from the GST to the States and Territories by the Commonwealth Grants Commission ("CGC"). The review, which will provide a final report in September 2012, will consider the distribution of GST and the current forms of horizontal fiscal equalisation.

The Western Australian Department of Treasury reports that:

> [T]he fiscal equalisation principle used by the CGC reduces incentives for States to grow their economies – as a large proportion of the revenues from economic growth are effectively redistributed to other States. For example, whereas Victoria will generate only $50 million in mining royalties in 2014-15, it will receive $3.0 billion after accounting for the GST redistribution. On the other hand, Western Australia will generate $6.7 billion in mining royalties in the same year, but receive only $1.2 billion after GST redistribution.[29]

The ongoing success of the Western Australian economy, due largely to the strength of the resources sector, underpins many small business operations in the State. The current inequitable distribution of GST revenues effectively penalises Western

[27] Ibid
[28] Ibid
[29] Department of Treasury and Finance WA 2011, *2011-12 Budget Fact Sheet Western Australia's GST Share*

Australia's economic success and jeopardises the foundation on which many small businesses are based.

Recommendations

The SBDC welcomes the review of GST distribution and looks forward to reform of the CGC's methodology to a more equitable, efficient and stable division of the nation's wealth.

The SBDC supports the Western Australian Government's proposal that a 'floor' be created of 75 per cent so that the State receives no less than 75 cents in the dollar as its share of GST grants. Western Australia's current GST relativity is only 72 per cent, with the long term downward trend expected to hit an unsustainable 33 per cent by 2014-15.

A 75 per cent return to the State would add an estimated $1.8 billion to Western Australia's GST grants in 2013-14 and an estimated $2.5 billion in 2014-15. This would then enable the State to reduce its reliance on collecting revenue from payroll tax and other nuisance taxes, thereby reducing the tax and compliance imposition on the small business sector.

ENVIRONMENTAL AND SOCIAL TAXES

Carbon Pricing System

The carbon pricing system aims to reduce carbon pollution by encouraging the use of renewable and clean energy sources. It will initially take the form of a direct tax on pollution (between 2012 and 2018), before transforming into a carbon emission trading scheme in which businesses will have to buy carbon credits to offset their pollution.

The SBDC notes that there will be no direct obligation on small businesses (or households) to pay the carbon tax, nor will they have to undertake compliance activity or complete any forms relating to the carbon price. Instead, the Federal Government will offer assistance to small businesses in promoting a move towards a more environmentally sustainable economy through the following initiatives:

- The $40 million "Energy Efficiency Grants" program which will provide grants to industry and non-government organisations to educate small businesses on how to reduce their carbon footprint;
- An immediate tax deduction in the form of a reduction of the instant write-off limit for eligible assets, including those that improve energy efficiency, to $6,500 (described as an instant income deduction). This will be available to small businesses with a turnover of less than $2 million in 2012-13 to encourage them to invest in energy efficient equipment;
- A "Jobs and Competitiveness Program" which will deliver $9.2 billion by 2014-15 to support jobs and encourage industry to invest in cleaner technologies. In addition to assisting small businesses involved in the renewable energy sector, this is expected to indirectly assist small businesses that do business with these industries (for example, by maintaining the level of trade); and

- The Australian Competition and Consumer Commission ("ACCC") will place its highest priority into educating businesses to not make false or misleading statements about their carbon costs.

While the SBDC welcomes these initiatives, it is also recognised that small businesses will be indirectly affected by the carbon pricing system. The large businesses that will have to pay the carbon tax are likely to either reduce their pollution (to limit the tax payable) or pass this cost on. Small businesses, as consumers of electricity and gas, are hence expected to be affected by the carbon tax on suppliers in the form of increased utility costs.

Further to this, if the general cost of living goes up due to higher utility bills, then consumer spending is likely to be impacted. This would have a direct and adverse impact on many small businesses, particularly those in the retailing and hospitality sectors and small businesses selling luxury/non-essential products and services. This would further exacerbate the current downturn in consumer spending, which is already badly impacting on the likes of retailers and restaurants throughout the nation.

Economic modelling undertaken by the Western Australian Department of Treasury has revealed that 419,000 households in the State will be worse off with the introduction of the carbon pricing system. The State Treasurer, the Hon Christian Porter MLA, has been reported as stating that the average household should expect to pay an extra $111 in electricity charges, $19.50 in public transport fares and $13.25 in water charges in the first year of the carbon tax.[30]

In relation to the new carbon tax, the SBDC believes small businesses are most concerned about the uncertainty surrounding the carbon pricing system. Anecdotally, the SBDC understands that very few small businesses fully understand how the system will work, who will pay the carbon tax and who will be able to trade carbon emission credits. Any uncertainty about recurring costs to small businesses (for example, in relation to their transport and utility costs or suppliers putting their prices up) can have significant negative impacts on their operations, in particular in relation to their business planning and ability to manage risk.

Recommendations

While the SBDC fully supports initiatives that provide for a sustainable and environmentally-viable long term future for Australia, it is important that any taxation measures to reduce carbon emissions consider the direct and flow-on impacts on the small business sector.

The SBDC is supportive of the Federal Government's move to educate small businesses about the carbon pricing system, and welcomes such initiatives as the Energy Efficiency Grants. The SBDC notes that though application details on the grants scheme have yet to be announced, there has been some commentary in the media that small businesses are unlikely to access the education programs because of the time and effort involved, for example:

[30] Quoted in PS News *Carbon tax not black and white*, edition 106 published 13 September 2011

> I'm in favour of any move towards sustainability, even one as compromised as the Carbon Tax, but it sounds like the small business 'advice' stuff is going to be more bureaucracy to wade through (grants tend to go hand-in-hand with paperwork) and I wonder how many small businesses will actively pursue it.[31]

The SBDC supports education and training programs to assist the small business sector to adapt to an environmentally sustainable business model, so long as accessing such initiatives is made available to all small businesses with minimal bureaucratic impost.

TAX SYSTEM GOVERNANCE

The recent survey conducted by Galaxy Research[32] which found that compliance with the Australian taxation system remains a significant issue for small business confirms the anecdotal evidence that the SBDC receives through our Small Business Advisory service.

The Galaxy survey of 509 Australian small businesses reported that the preparation of the BAS and tax reporting topped the list of the least enjoyable aspects of self-employment. According to the survey report, BAS and tax reporting is the second greatest cause of stress for small business owners, behind cash-flow management, and is considered a burden by nearly three quarters of small business owners. The survey reveals that many aspects of BAS and tax reporting cause stress for small business owners, most notably making sure that information submitted is accurate, record-keeping requirements are followed, and ensuring BAS and financial year reports are in on time.

The survey reveals that the preparation of the quarterly BAS involves the collation of a substantial amount of material – there is an average of 124 transactions in a typical BAS for a typical small business. Further, preparing a BAS imposes a significant burden on small business owners and their family's work/life balance, with 59 per cent of respondents reporting that this involves working evenings and 42 per cent working weekends.

According to the Galaxy research, small business owners spend approximately 8.3 hours each quarter in preparing their BAS and 14 hours in the preparation of end of financial year reporting. Taking into consideration the contribution of the input from other family members, the average small business operator spends around 57 hours of labour time each year fulfilling their GST reporting obligations.

Further to this, the Federal Government announced in the 2011-12 Budget that from 1 July 2012, businesses will be required to report annually on payments made to contractors in the building and construction industry. While the reporting regime requires businesses to report information that they should already collect under existing tax arrangements, this imposes an additional administrative burden on small businesses in ensuring they comply with these requirements.

[31] Mybusiness.com.au *The carbon tax and small business* http://www.mybusiness.com.au/news/the-carbon-tax-and-small-business, accessed 13 September 2011
[32] *AMEX Tax Time Report* prepared by Galaxy Research for American Express Australia Limited, released May 2011

Additionally, businesses will also have to include on all employee payslips the amount of superannuation paid, with effect from 1 July 2012. This adds further compliance burdens on already stretched small business operations.

Recommendations

In the SBDC's opinion, the current taxation system places a significant compliance burden on the business community across Australia. Whereas large corporations have the resources and capacity to meet their tax requirements, small businesses generally do not have the expertise or resources (both financial and time) to manage their tax reporting obligations themselves, often relying on external paid assistance.

As such, the SBDC supports Federal Government moves to simplify the tax and transfer system and believes that measures to reduce the amount of time that small businesses have to spend complying with their tax obligations would be widely welcomed by the sector.

The SBDC also notes that in July 2010, the United Kingdom Treasury established an Office of Tax Simplification ("OTS") whose role it is to "provide advice to the Chancellor of the Exchequer on simplifying the UK tax system, with the objective of reducing compliance burdens on both businesses and individual taxpayers."[33]

The SBDC would support the creation of an independent authority along the lines of the OTS to provide impartial, de-politicised advice to the Federal Treasury, specifically with the aim of reducing the tax burden on both business and individuals.

CONCLUDING STATEMENT

The SBDC welcomes the Federal Government's taxation reform agenda to create a stronger economy and a fairer and simpler tax system for small businesses. This submission contains a board range of recommendations to minimise the impact of the tax system on the small business sector, including:

- Broadening the income tax base and reducing taxation rates;
- Better promotion of the Superannuation Clearing House to the small business sector and reducing penalties for minor or unintentional superannuation reporting errors;
- Reform of the transfer payments system to reduce the effective marginal tax rate and encouraging greater workforce participation;
- Funding of vocational skills training to meet future workforce requirements;
- Transferring responsibility for the administration of Paid Parental Leave payments from small businesses to the FAO;
- Reduction of the company tax rate to 25 per cent in line with the Henry Tax Review recommendations;
- Reinstatement of the Entrepreneurs' Tax Offset;
- Reform of the GST distribution methodology and a more equitable share of GST for Western Australia;

[33] HM Treasury (UK) Office of Tax Simplification www.hm-treasury.gov.uk/ots_who_we_are.htm, accessed 14 September 2011

- Provision of further information and advice about the carbon pricing system and minimising the direct and flow-on impacts of the carbon tax on small business; and
- Further simplification of the overall taxation and reporting system to reduce the compliance impost on small business.

Following the comprehensive Henry Tax Review and the announcement of the Tax Forum to be held on 4-5 October 2011, there is now a high expectation among the small business sector that the Federal Government will introduce long overdue reforms of the Australian tax system. The SBDC takes heart in a comment made by the Hon Wayne Swan MP in October 2009 (prior to the Henry review) in which the Federal Treasurer indicated his support for the simplification of the taxation system:

> I'm not going to speculate about what will be in the review, but certainly anything that makes the system easier for average Australians would be welcome. It is very complicated at the moment – everybody agrees that where we have a situation where so many people have to pay by going to an accountant to receive advice is one that needs simplifying. Now we'll have to wait for the review, but the Government has a key objective of simplifying the tax system, making it easier for average Australians to use.[34]

The SBDC notes, however, that in the recent Galaxy/Amex tax survey, 61 per cent of small business respondents reported that they did not expect to see any reduction in their financial reporting burden as an outcome of the upcoming Tax Forum. In the SBDC's opinion, the forum provides an ideal opportunity for the Federal Government to introduce significant and meaningful reforms to the Australian taxation system and to implement measures to reduce the compliance burden on small business and simplify their currently complex interactions with the tax regime. This would substantially free up the ability of small business operators to focus on what they do best, which is to lead innovation and employ Australians.

Should you wish to discuss this submission in more detail, please contact Mr Daniel Hawkins, Senior Policy and Advocacy Officer, on (08) 6552 3304 or email daniel.hawkins@smallbusiness.wa.gov.au.

Yours sincerely

Ray Buttsworth
A/MANAGING DIRECTOR

30 September 2011

[34] Quoted in ABC News website www.abc.net.au *Swan flags end to tax returns*, published 21 October 2009