

# THE TAX VALUE METHOD

SMALL BUSINESS COALITION  
SUBMISSION  
TO THE BOARD OF TAXATION

10 May 2002

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## **Background**

The Small Business Coalition (SBC) is an informal grouping of 30 industry associations in Australia with an interest in small business issues. Members are drawn from a wide range of trade, commerce, professional and industry associations.

In relation to this submission, the views contained herein are the collective views of the SBC. In forming the submission, the following SBC members have provided key support information:

- Australian Chamber of Commerce and Industry (ACCI);
- National Farmers Federation (NFF);
- Motor Trades Association of Australia (MTAA);
- Australian Business Limited (ABL);
- Victorian Automobile Chamber of Commerce (VACC);
- The Pharmacy Guild of Australia (PGA);
- Business Enterprise Centres Australia (BEC Australia)
- Business Enterprise Centres SA (BEC SA)
- Institute of Chartered Accountants in Australia (ICAA)
- Real Estate Institute of Australia (REIA)
- Australia Retailers Association (ARA).

The SBC was formed in 1990 and meets three to four times a year to discuss issues affecting the prosperity and growth of the small business community. Current high priority issues from a small business perspective include taxation reform and as such, providing input to the Board of Taxation on the Tax Value Method is considered vitally important to us.

The SBC has had an active role in reviewing policies and, where there is broad consensus, making representations. It acts as a conduit to government on the views of the small business sector and plays an educative role within the small business community.

The SBC appreciates the opportunity to provide input into this tax reform proposal.

**Introduction**

The Board of Taxation is seeking submissions to assist it in evaluating the feasibility of introducing the Tax Value Method (TVM).

The Board released prototype legislation covering the TVM core and key peripheral rules on 6 March 2002 and comment is sought on these materials.

**Recommendation**

The SBC is unable to support further examination of the TVM proposal and recommends that work on TVM should cease.

The reason for this recommendation is that the SBC does not believe that the TVM will provide clear benefits that outweigh the costs for small business.

TVM involves a radical change in Australia's income tax system that the SBC does not believe is justified, will not provide the short or longer term benefits promised and will come with significant costs, particularly for small business.

**Ongoing tax reform**

The SBC supports measures that reduce compliance costs and complexity for business; however we do not believe that the TVM will achieve this.

The SBC will, however, support tax reform measures that will clearly benefit small business as long as any introduction has a minimal impact on small business. In particular, time frames for implementation of any reforms will need to take specific consideration of the compliance issues for small business.

**SBC involvement in the consultation process**

Some members of the SBC have been involved in the TVM evaluation workshops conducted by the ATO and the Board of Taxation. We appreciate the opportunity to be involved in this level of consultation; however the SBC does not believe that members received any sufficient proof that the TVM would be better for small business than the current tax system.

Further, while the SBC welcomes the open consultative process, there are a large number of micro and small businesses that did not have the opportunity to provide input. In particular, those businesses that do not have the direct representation of a business organisation or association were disadvantaged through the consultation process.

Those members of SBC who have had the opportunity to test the TVM have not found it easy and have identified significant areas of additional compliance costs including the way in which information is gathered. These areas include the need to collect and collate information in a different way to that being used for GST compliance. This would be necessary to enable the accountant to correctly identify all assets and liabilities and to determine those items that will need a zero tax value. Due to this categorisation issue it is highly questionable whether there will be increased compliance under TVM and the cost of the extra work that the accountants will have to do will reflect in higher fees.

Further, small business has only just undergone a significant change in the way in which information is collected and recorded for the GST and another radical change to the system would be costly and unwelcome.

Small business has had to pay the price for a number of tax reform measures and the reality is that small business is forced to absorb many of these costs as it does not have the ability to pass them on.

### **Compliance cost evaluation**

The SBC understands that there have been a number of evaluations into the costs of compliance for business in relation to the TVM. It is understood that the conclusion is that the costs, in particular the transitional costs, will be very real and tangible. The impost this will put on small business when it is still feeling the additional compliance costs of the GST and will be a further burden small business does not need.

Small businesses depend on their tax advisors in relation to income tax matters. The SBC refers to the results of the Institute of Chartered Accountants survey results where 60% of respondents believed that the TVM would involve significant costs for their clients. What small business would be happy to pay an additional amount for their income tax return to be prepared when there should be no difference to the end result?

The SBC therefore cannot support a measure that will increase compliance costs for our members, particularly when we do not believe that there are any tangible benefits for small business.

### **Conclusion**

The SBC does not support any further work on TVM on the basis that we do not believe that any potential benefits will outweigh the costs for small business.

The SBC recommends that resources currently focussed on the TVM be directed to considering other improvements to the taxation system.