



## Review of Small Business Tax Concessions

17<sup>th</sup> July 2018

### Recommendations

- One small business definition #1
- Reward the small business for meeting their obligations #2
- Reward a business for paying early #3
- Increase the PAYGW reporting thresholds #4
- Make the instant Asset write off permanent #5
- Make Superannuation Guarantee compliance natural #6
- FBT, Natural Business Income and Expense recognition #7
- Payroll Tax #8
- One to many to the multitude – Reward for seeking advice #9

#### #1 One small Business definition

Please progress the move towards one Small Business turnover threshold. \$2m, \$5m, \$10m and \$25m all apply. This creates confusion and unnecessary complexity.

#### #2 Reward the small business for meeting their obligations

What if the Government rewarded a business for lodging and paying on time. A \$100 credit to their Integrated Client Account which would therefore offset their next BAS etc.

#### #3 Reward a business for paying early

If a business manages their cashflow by paying cash to the ATO in anticipation of any of its liabilities, therefore paid before the due date, the Government should pay the reserve bank base interest rate to that taxpayers integrated client account.

There is much discussion about small business “stealing” from the system because it isn’t their money and they shouldn’t be using it. This is not correct. A knowledgeable business person would not pay money into an account that has no benefit or pay any obligation or supplier early unless there was a benefit in doing so. Therefore to encourage possible early payment of ATO obligations reward them by at least nominal interest rate.



#### **#4 Increase the PAYGW reporting thresholds**

Increase the PAYGW reporting thresholds. Monthly reporting has been required for employers who withhold \$25000 per year. This threshold was established many years ago. The next threshold is \$1m withholding per year when you go to weekly.

\$25000 withholding maybe only 2 or 3 employees at todays pay rates and withholding requirements.

It is time to review this threshold in line with other small business definitions and extend the reporting requirement from monthly to quarterly for a larger portion of the Small Business Community.

#### **#5 Make the instant asset write off permanent**

The annual re-instatement of the Instant Asset Write off is annoying and complicating what would otherwise be beneficial. This should be a permanent concession and thereby remove additional work that is being conducted each year.

#### **#6 Make Superannuation Guarantee compliance natural**

a/ Align the SG reporting requirements of the 28<sup>th</sup> of the month following with the quarterly requirements for BAS, including the extended lodgment dates for Agents.

b/ Allow a small business to be considered SG compliant when they have made payment from their bank account to any SuperStream compliant Clearing House or direct to the Fund by the due date (currently the 28<sup>th</sup> of the month following the quarter).

We currently have confusion due to the different dates required by the different clearing houses and payment gateways.

-The SBSCH provides SG compliance but not tax deductibility, if the payment is made into the SBSCH by the 28<sup>th</sup>.

-All other clearing houses have to receive and process the employers funds and then pay forward the contributions to the respective superfunds who must receive process and account for the contribution into the members account by the 28<sup>th</sup> in order for the employer to be considered SG compliant and to ensure the tax deductible status of the payment is obtained.

-Due to the different processing cycles of the different clearing houses and then the different funds we have a wide range of dates for the employer to adhere to.

-As can be observed in the above, the actual completion of all the steps is outside of the employers control following their engagement with their clearing house.

Align the SG compliance requirements with the tax deductibility requirements. So if you meet your SG obligations the payment IS tax deductible. (Note SBSCH payments have two different impacts: one application for SG compliance but a different (earlier) for tax deductibility)

#### **#7 FBT, Natural Business Income and Expense recognition**

Alter the concept of the application of FBT to small business.

Withdraw all aspects of FBT, but impose a natural business Income and Expense system: Natural recording of Business Income and Natural connection of Business expense to then calculate the Small Business Income Tax.



Business Expense means those expenses that are directly connected to the earning of income (same tests as applicable now to the expenses connection to the derivation of income so that the amount is allowed as a deduction.

Expenses that are not directly connected to the derivation of income and therefore not an allowed deduction are added back to the taxable profit. Current tax rates apply.

Non deductible expenses are considered drawings or loan account debits.

Any debit loan account MUST be considered as income paid to the recipient in that year and taxed in the hands of the recipient.

Make this simple. Not another Division 7a review; Small Business Loan Accounts – the natural business initiative

### **#8 Payroll Tax**

The perennial request by business to have this tax removed.

It is an incredible disincentive to growth and once it applies it is further complexity to being able to comply.

### **#9 one to many to multitude**

The solution to apply a complex tax system into small (non-compliance motivated) businesses, was the evolution of the tax intermediary: the tax system expert who would know the tax system and have the skill to understand the business.

Despite all the best efforts of the regulator (the ATO) they are trying to create one set of information to be applicable to every business person: one to mega-multitudes.

In our view: Stop it

The ATO should be developing suites of knowledge and solutions that are suitable for an expert to use, interpret and apply to business.

The ATO should do one to many (the many registered and accredited tax intermediaries) so that the many can deliver to the multitudes.

**BUT**

How do we motivate a small business person to utilise the services of an expert that will cost them money?

Provide a tax offset for lodgment of each form on time by their agent?

Provide a tax offset for having an Agent sign off on a Business Induction program?

This Tax offset could be off their Integrated Client Account so it offsets a PAYGW or GST liability and not waiting for income tax to be incurred.

An essential Implementation concept: The offset would only be available when the service has been provided by a “Small business accredited Agent” ie someone who has undertaken training and



accreditation in the ATO approach. We obtain certainty about the competent and up-to-date knowledge delivery. It is a new set of training and competencies available to Agents. There is to be **NO** grandfathering of any of the Agent community into being “Small Business Accredited” and there is to be **NO** move to take this into existing small business training programs. It is about Small Business Tax compliance.

## Notes on introductory Concepts

The Small Business Digital taskforce report was not acceptable and did not reflect an accurate position of the Australian Small Business landscape nor the role of advisors and intermediaries who assist business with their digital adaptation on a daily basis.

### Current Concessions

Not the complete list included below

Lower company tax rate

Good

The Unincorporated small business tax discount

Seems like a token to match incorporated businesses. We are not sure it receives the positive response that it should or could. The tax discount could be better positioned as equal to the company rate reduction. Match the same tax outcome. Communicate it so that it appears equal. Current reaction is that Government are saying if you are unincorporated that you are less important.

The \$1000 cap detracts from the concept

Capital Gains Tax concessions

Good

Instant Asset write off and Simplified Depreciation rules

Excellent. These achieve deregulation and simplification.

The annual re-instatement of the Instant Asset Write off is annoying and complicating what would otherwise be beneficial. This should be a permanent concession and thereby remove additional work that is being conducted each year.

Refundable R&D

No view

Restructure roll-over relief

Excellent and should be retained

Immediate deduction for professional expenses

Good



### Simplified trading stock rules

Irrelevant. This is inconsequential. While it removes some paperwork around a year end tax process and therefore prevents arguably immaterial stock adjustments, we would be surprised if the concession is widely used.

### Other measures listed

We remain generally in support.

## Principles

Simplicity, fairness, efficiency

- 1/ regard to small business life cycle
- 2/ cashflow
- 3/ relieve the compliance burden
- 4/ promote growth and innovation
- 5/ concessions targeted and affordable
- 6/ concessions should not incentivise complex structuring

### Reaction

In general positive

#### #3 above “relieve the compliance burden”

This concept is great but is at conflict with other ATO led discussions accusing individuals or SME or their Agents from claiming items based on the concessions or thresholds that have been put in place. The Tax Gap or Work Related Expense (over)claims discussion that occurs has two sides: One is the rorting that goes on but two is that they were instigated to help remove the frivolous compliance work required to claim small amounts.

How do we achieve relief from frivolous compliance steps and paperwork yet still uphold the integrity of the system?

### Missing

Promotion to seek expert assistance

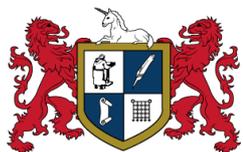
There is a lack of acknowledgement in these principles that business people primarily do not want to understand all of this tax compliance implications, possible implications and complexities. They want to get on with it. The principles of tax reform must include the concept that applies in every field where detailed or complex knowledge is required. Engage the expert!

### Self Assessment does not mean do it yourself

Small business should not go direct to the ATO and should not do it themselves.

Maybe the concept, that appears to be held by parts of the ATO, that a “self-assessment” system has to be permitted is being applied incorrectly. We agree that a business should be able to perform their compliance activities themselves, if they have the requisite expertise.

But for small business, they do not have the resource to have the required expertise therefore to obtain the small business concessions require them to seek assistance.



## What does a small business want?

They want to get on with it.

They do not want the added complexity of being in business that comes with “compliance”. What could happen to decrease the compliance requirement that would substantially improve the ease of doing business?

How can they comply in a way that doesn’t demotivate them? In a way that doesn’t mean they get behind or even worse ignore it and become non-compliant?

History would state that tax has always been complex and compliance is not high on the priority list for a small business person.

Hence the recommendations above to assist a small business to just “get on with it” but to be enabled to get on with it with appropriate expert assistance.

## Why do we complicate it

### **Why is GST getting more complicated**

The Government’s intention to “level the playing field” by imposing a GST regime on low value good and also digital products made sense conceptually however the implementation has disturbed and confused small business.

If a low value good is purchased then GST has to apply

If a digital product is purchased and you have provided your business ABN to the offshore provider then GST doesn’t apply.

But if you haven’t provided your ABN then GST does apply.

But if the offshore supplier hasn’t registered then maybe GST doesn’t apply? how do we know? Are they over the \$75k threshold and supposed to be registered?

Does the offshore provider have an ABN or an ARN?

Why have an offshore supplier with an ABN be advised of an Australian purchaser’s ABN and then be exempt from GST when every domestic transaction between ABN registered businesses has to have GST on it?

### **Too many GST rules**

Simplify the GST reporting regime by removing some of the lesser utilised “concessions” such as the annual GST return, the GST Instalment System, the PAYGI instalment system.

Have a simple system of quarterly reporting based on the natural business cycle and actual results. GST can be quarterly based on actual trading, PAYGW can be quarterly, PAYGI by rate can be quarterly based on actual income. Too many options to the different taxes

Further

Please contact the Author to discuss any clarification or further information on this or related matters.

Matthew Addison (Executive Chairman)

1300 85 61 81 matthew@icb.org.au