

From: michelle@mksbusiness.com.au
To: [Tax Board](#)
Subject: Tax Concessions for Small Business
Date: Thursday, 12 July 2018 2:39:50 PM

To the Board of Taxation,

The email sent out regarding tax concessions for small business grabbed my attention and I would like to put forward a suggestion for improving the tax system and overall administration for small business.

I have operated in corporate, medium and small business and I am now a small business owner myself (and a qualified accountant) and some things just don't make sense for small business.

Although small businesses appreciate the tax concessions being considered by the tax office I believe the tax system is too complicated for the average person and small business owner. And additional concessions although welcomed, make things more complex.

I would like the Board to consider something quite dramatic – remove income tax altogether for small business and lift the small business definition to \$5 million and less than 20 employees (including business owners working in the business). If a business doesn't meet either the income threshold or the employee threshold then it would not meet the definition – a business would have to meet both conditions to qualify, this is fairer to all industries.

My reasons and suggestions for this approach is as follows:

- Most small business operators extract as much of the profit as possible as franked dividends so any benefit the tax office had in collecting business income tax is wiped out in the granting of franking credits through personal tax. I believe this is a false benefit to the tax office and the Australian economy plus it just adds complex rules and administration for both small business operators and the tax office.
- The non-taxation of small business would encourage operators to keep money in the business which will effectively encourage employment and capital re-investment through the business. It would create more entrepreneurial activity and healthier businesses in the long run as small business retains the cash flow they need to grow into sustainable businesses.
- Only once money is extracted by the business owner, in any form other than repayment of funds lent to the business, should that money then be taxed but at personal income tax rates, removing dividend complications for small business owners.
- Cash loans to business owners should not be allowed, all cash taken from a business other than the repayment of funds put into the business, should be declared as income.
- Payments to business owners in the form of anything other than loan repayments should go through the payroll system to ensure PAYG is collected. I believe however that it should be the owners discretion whether the owner wants super payable on that amount or not. Loan repayments should however be reported to the ATO but as a non-taxable item.
- Payments to shareholders who are also businesses or trusts should be an expense to the business making the payment but income to the receiving business or trust. Effectively an unfranked dividend, shareholder commission – or some other name to differentiate. These payments should be paid proportionately to all shareholders.
- Businesses should still submit returns but only to the extent a qualified person is

confirming record keeping and reporting is of a reasonable level and that there is some transparency to manage fraud.

- Businesses still need to collect and report GST, PAYG and income (the later to only ensure they still fall within the \$5 million limit – perhaps also report employee and working owner numbers as an average over the period).
- The suggestion to lift the small business definition to \$5 million and less than 20 employees is to be fair to all industries and small businesses. Our business is in food retailing and at \$2 million as a business owner we are barely making ends meet – living off 1 minimum wage between the 2 of us so I think the thresholds currently in place defining small business are a little narrow. \$5 million and less than 20 employees would be a better definition for tax concessions across different industries.
- Only the sale of the business or the sale of real estate should derive capital gains considerations but again this should be declared through individuals incomes or as income for business shareholders or rolled over into a new business with the same majority ownership.
- Businesses would be subject to grouping provisions similar to payroll tax to qualify for the concession.

Should this approach be considered businesses between \$2 million and \$5 million which are already operating should have the election whether they wish to operate under the existing or reformed system to be fair to the decisions made by businesses to date under the rules and regulations of the current tax system – respect has to be given to the setup and decisions that business owners make in the restraints of the current system. New businesses should have no such election available.

I know this would be quite a change but I hope it is one considered thoughtfully and in all seriousness for the future of Australian business growth, employment opportunities and entrepreneurship.

Kind regards,
Michelle Sutherland



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