

30 July 2018

Dr Mark Pizzacalla
Board of Taxation Secretariat
The Treasury – Melbourne Office
Level 6, 120 Collins Street
Melbourne VIC 3121
Via email: taxboard@treasury.gov.au

Submission by the Motor Trades Association of Australia Limited (MTAA) into the Board of Taxation Inquiry into Small Business Tax Concessions

This submission is provided as a public submission.

Dear Dr Pizzacalla,

The Motor Trades Association of Australia (MTAA) on behalf of its State and Territory Association and Automobile Chamber of Commerce members appreciate the efforts undertaken by the Board of Taxation to review the simplicity, fairness and efficiency of small business tax concessions so that small businesses are motivated by commercial concerns and objectives, rather than tax considerations. MTAA also appreciates Government efforts to stimulate economic activity through targeted tax concessions.

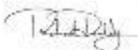
MTAA is the peak Australian automotive trades association and represents many of the 69,365 retail motor trades businesses which employ over 379,365 Australians and contributed \$37.1 billion to the Australian economy in 2015/16; which equates to 2.2% of Australia's GDP. The majority of Australia's automotive businesses (96.5%) are small and family owned enterprises with almost half having a reported turnover of between \$200,000 to less than \$2 million.

As tax requirements considerably impact the cash flow, compliance burden, growth and innovation, and ultimately, the profitability of automotive businesses, it is essential the Commonwealth Government delivers a taxation system that does not unduly burden automotive businesses or adversely affect their contribution to the Australian economy; including their ability to employ staff.

MTAA presents this member endorsed policy position on the review of small business tax concessions and remains available to assist with any additional line of inquiry or to access any industry participants who may assist the Board of Taxation to understand the impact of taxation and taxation concessions within the automotive industry. This submission should be considered alongside any of those that may have been submitted by any of the MTAA member associations.

Please do not hesitate to contact MTAA should you require any additional clarity or further information regarding this submission or more generally.

Yours Sincerely,



Richard Dudley
Chief Executive Officer
Motor Trades Association of Australia Limited



Submission by the Motor Trades Association of Australia on the Review of Small Business Tax Concessions

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MTAA recommendations

MTAA recommends:

- Consideration be given to the following characteristics of the automotive industry when developing taxation concessions:
 - critical contribution to the economy;
 - 96% of businesses are small businesses;
 - the industry is going through unprecedented structural adjustment;
 - automotive technology is rapidly advancing requiring increased capital investment;
 - capital costs are comparably high (floor stock, servicing and repair equipment, labour, etc.) as compared to other industries;
 - return on investment and profitability is commonly low;
 - financial turnover is not indicative of profitability; and
 - skills shortages are at record levels (35,000 short in July 2018).
- Targeted tax concessions that are specific to the automotive industry.
- Decrease the tax burden on small businesses by reducing the amount of tax and the number of taxes they are required to pay.
- Urge Australian State and Territory Governments to remove payroll tax as this should have been replaced with the Goods and Services Tax (GST).
- Reduce the level of red tape and the time/resources required to fulfill tax lodgment and processing requirements.
- Increased lodgment periods.
- Remove discriminatory aspects of land taxes based on location.
- Increase (and not reduce) financial thresholds for businesses to write-off the cost of capital equipment from \$20,000 (to potentially \$50,000 to \$100,000); particularly for the automotive industry with high capital investment requirements.
- Increase monetary turn-over limits defining small businesses. For example, reduce the \$10 million company tax threshold to \$5 million to allow more automotive businesses to access to the 27.5% company tax rate.

- Broaden tax concessions for fuel use for small businesses.
- Introduce tax concessions for power use for small businesses.
- Broaden and simplify tax concessions for research and development (R&D).
- Increase tax concessions to assist in hiring and training staff.
- Reduce the fringe benefits tax (FBT) rates for small businesses and make changes to rates of depreciation of vehicles to better reflect contribution to business.
- Align the FBT period with that of the end of financial year (EOFY) (i.e. 30 June 2018).
- Expand available tax deductions for businesses to stimulate vehicle usage (i.e. include vehicle costs for travel to and from employment).
- Introduce tax concessions to reduce cost of work cover insurance.
- Broaden tax concessions to promote compliance with environmental initiatives.
- A comprehensive review of definitions of small business, SME's, Family Enterprises, Micro Businesses, etc. be urgently undertaken with an outcome to include a simplification and reduction in the number of definitions applied across legislation and regulation.

The Australian automotive industry in context

Significance of the automotive industry

- MTAA advocates it is critical for the Australian economy and the nation's ongoing reliance on the automotive sector that Australia's taxation system does not adversely affect the viability and sustainability of automotive businesses or prevent investment in the Australian automotive industry which employs over 379,365 Australians across 69,365 registered businesses and contributed \$37.1 billion to the Australian economy in 2015/16; which equates to 2.2% of Australia's GDP¹.

¹ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

- The Australian economy relies extensively on the Australian automotive industry with over 91% of all Australian industries utilizing the goods and services of the automotive industry as intermediate inputs towards the value of their own production².
 - The road transport industry is amongst the largest industry users of automotive goods and services (\$6.8 Billion worth)³.
- Motor vehicles continue to be the preferred form of transport with 71% of people travelling to work or study by passenger vehicle and 88% of people using vehicles to get to places other than work⁴.
- The Australian automotive industry plays a key role in retailing, servicing, repairing and disposing of the 18.4 million vehicles registered for Australian Roads (January 2016). The national fleet is currently growing at approximately 2.1% annually which equates to approximately 380,000. 800,000 vehicles are removed from Australian Roads annually which illustrates the importance of the Australian automotive dismantling and recycling industry on Australia's environment⁵.
- Consequently, Australia can ill afford a taxation system that impedes investment in the automotive sector. MTAA advocates for increased taxation concessions for automotive businesses to encourage investment in an industry that provides essential support to Australia's economic growth and social wellbeing.

Increased competition

- In 2016, five million vehicles were sold in Australia consisting of 1.18 million new vehicles and 3.88 million used vehicles. The Australian automotive new car retailing market is one of the most competitive the world; with 69 vehicle marks and approximately 400 vehicle model variants⁶.

² Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

³ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

⁴ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

⁵ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 6)

⁶ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 6)

- Competition has reduced the return of ROI (commonly between 0.5 and 4.0%) and profitability of many automotive businesses which increase the impact of taxation, taxation concessions and other Government regulation on automotive businesses.
- The Australian automotive industry is challenged by:
 - *structural adjustment* as advanced automotive technology is introduced (i.e. electric vehicles, autonomous driving aids, composite and plastic manufacturing methods, etc.),
 - *increased power and influence of manufacturers and insurance companies* through vertical and horizontal business integration; and
 - *ending of Australian passenger vehicle manufacturing* which means that all new vehicles are imported into Australia and
 - *a significant shortage of skilled professionals in automotive peaking at 35,000 in July 2018.*
- Consequently, automotive businesses require high levels of investment in new skills and technology in order to service, maintain and repair vehicles and to transform and adapt to new market conditions.
- The profitability of vehicle dealers is also limited by unfair franchising arrangements that impose high investment requirements from franchisors, limited periods to recoup costs and unfavourable exit / termination conditions. MTAA urges the Board of Taxation to review the Australian Competition and Consumers Commission's (ACCC) new car market study (<https://www.accc.gov.au/publications/new-car-retailing-industry-market-study-final-report>) for further information concerning unfair franchising arrangements and other specific unfair businesses practices that impact profitability within the automotive industry (e.g. the limited access and inability to access automotive repair information). This report illustrates the precarious nature of many automotive businesses and shows the need for tax concessions to support the continued business sustainability and continuity.

Skills shortages

- 45.7 % of automotive businesses are experiencing the effects of a combined skilled shortage of 35,083 workers in 2018⁷. Skilled shortages are likely to remain due to insufficient numbers of automotive apprenticeships and recent changes to Government policies restricting skilled migration, as a temporary solution to critical skills shortages.

⁷ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 24)

- MTAA calls for increased tax concessions for automotive businesses that employ apprentices, up-skill their work force and sponsor skilled migrants; particularly in regions where businesses cannot attract Australian labour.

The significance of small business in the Australian automotive industry

- 96.5% of Australia's automotive businesses are small and family owned enterprises with almost half having a reported turnover of between \$200,000 to less than \$2 million.
- The automotive servicing and repair sector accounts for the largest share of automotive industry activity and employs 142,632 people within 37,406 businesses⁸.
- Consequently, small business tax concessions directly influence the sustainability and investment capability of many automotive businesses.

The Australian automotive industry in summary

- The following table is an economic summary of the value of Australian automotive industry (and its specific sectors) in 2015/16. It illustrates the scope of the Australian automotive industry, the financial contribution of the Australian automotive industry and the employment it provides.

⁸ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 16)

ANZSIC CODE	INDUSTRY SECTOR	EMPLOYMENT (No.)	BUSINESSES (No.)	INDUSTRY VALUE ADDED (\$m)
941	Automotive Repair and Maintenance	142,632	37,406	9,452.7
391	Motor Vehicle Retailing	66,002	5,752	7,707.1
2311, 2312, 2313, 2319	Motor Vehicle & Parts Manufacturing	43,627	3,054	3,826.1
400	Fuel Retailing	34,728	4,136	2,851
392	Motor Vehicle Parts & Tyre Retailing	28,295	4,288	2,211.9
350	Motor Vehicle & Parts Wholesaling	22,081	5,282	5,871
2399, 2462, 2491, 2461	Other Specialised Machinery and Equipment Manufacturing	11,500	849	1,900
6611	Passenger Car Rental & Hiring	7,997	1,624	1,705
4231, 9429	Outdoor Power Equipment	4,670	1,290	250
4245, 9429	Marine Equipment Retailing	3,365	829	219
4241	Bicycle Retailing	4,500	987	950
4610	Towing Services	3,052	2,465	203.8
9429	Agricultural Machinery Retailing and Repair	6,916	1,403	N/A
	TOTAL	379,365	69,365	37,148

Source: ABS and IBS World data

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- To ensure the ongoing contribution and sustainability of the Australian automotive industry, MTAA urges the Board of Taxation to comprehensively examine cash flow requirements, the compliance burden on automotive businesses, and the need for automotive business growth, innovation and transformation. MTAA also advocates that Government increase tax concessions to simulate investment from automotive businesses that are challenged by structural adjustment, advancing technology and skills shortages.

⁹ Motor Trades Association of Australia (2017) Directions in Australia's Automotive industry: An industry report 2017, Victoria Automotive Chamber of Commerce, Melbourne Victoria (p. 18)

Responses to the questions within the consultation document

- The following are industry endorsed responses to questions posed in the *Review of Small Business Tax Concessions: Consultation Guide*. In addition, there is information highlighted by MTAA member associations and their business constituents that are considered relevant to the submission.
- Information collected from MTAA member associations and their business constituents include a survey conducted by MTAA member association, the Victorian Automotive Chamber of Commerce (VACC), which comprised the responses from 89 member businesses from Victoria, South Australia and Tasmania. The survey shows 83% have between 1 and 19 employees and the remaining businesses primarily have between 20-199 employees.
- Responses to the questions posed are also based on in-depth summaries from key MTAA member association's business constituents from New South Wales.

1. What tax issues are of particular concern for small businesses?

- Although not a Commonwealth Government tax, many automotive businesses are concerned with the high and varying levels of payroll tax collected by State Governments. A significant proportion of automotive businesses believe the payroll tax should have been abolished when the Goods and Services Tax (GST) was introduced (as was originally proposed by Government).
- Automotive businesses are also concerned with the level of red tape and the time required completing and processing tax requirements. For example, some businesses perceive that they are fulfilling a tax collection role on behalf of Government, with little to no incentive to recoup costs associated with this activity.
- Automotive businesses are concerned that withholding funds for taxation purposes is constricting their cash flow; particularly if withholding requirements exceeds their taxation obligations.

- MTAA urges Government to take into account that financial turnover within the automotive industry is not indicative of automotive business profitability due to:
 - the high purchase and repair cost of vehicles;
 - high investment costs (i.e. the high cost of floor stock and repair and servicing equipment);
 - the increasing cost of skilled labour in a critical shortage environment; and
 - the increasing ability of manufacturers / suppliers to squeeze dealer profit margins through unfair franchising / contract arrangements.

- Another concern highlighted by automotive businesses is that lodgment periods need to be increased to provide them more time to process their tax obligations.

- MTAA advocates for a single streamlined tax system (i.e. GST) to reduce business requirements to pay a myriad of taxes that include income tax, GST, stamp duties, payroll tax, capital gains tax, land tax, Fringe Benefits Tax (FBT) etc. MTAA advocates that resources saved by individual automotive businesses would be better invested in increasing business productivity.

- Whether, local, state or Commonwealth taxes, MTAA is concerned that some taxes unfairly impact business based on geographic location. For example many small businesses operating in inner city and metropolitan locations are impacted by higher land taxes than in other areas. These taxes negatively impact profitability and in conjunction with high land values in these locations, provide an incentive for businesses to sell up and invest their resources elsewhere. This has consumer detriment as it may limit the supply of automotive services required by residents and businesses and may increase the purchase price of remaining available automotive services. For this reason, MTAA urges Government to reduce the rate of land taxes within metropolitan and inner city areas.

- MTAA and automotive businesses strongly oppose the proposed reduction of write-off tax concession from \$20,000 to the amount of \$1000 on 1 July 2019. This amount is impractical and does not address the level of investment required to provide automotive businesses the incentive to increase capital expenditure and therefore, will not increase productivity. As noted elsewhere in this submission, automotive businesses call for this tax concession to be expanded and to have the threshold increased.

- Automotive businesses are concerned that the high levels of tax paid and the resources required to manage taxation requirements is hindering their ability to undertake capital business investment; including employing and training staff. As a result, many businesses are unable to develop the capabilities to repair and service some modern vehicles and to remain relevant in a rapidly advancing industry.

- Other restrictions such as manufacturers preventing access to repair information for independent repairers is also limiting business investment and training opportunities.

2. What do you regard as the most useful or effective small business tax concessions? Why?

- Automotive businesses support depreciation requirements that allow capital equipment to be written off. More specifically, automotive businesses argue that the ability to write-off purchases of \$20,000 at the end of the financial year enable them to invest in capital equipment, increased Work Health and Safety (WHS) and staff training costs. Automotive businesses advocate that increased thresholds (up to \$100,000) better incorporate the high investment costs for automotive businesses. (More detail provided in the question 3 below)
- Automotive businesses are concerned that state government payroll tax requirements are a disincentive to hire additional employees, undertake business investment and growth. Payroll Tax forms an artificial barrier to business growth and investment. Business constituents also believe that the thresholds set by state Governments are often too low (i.e. in Victoria) and unfairly impact many small family owned automotive retail businesses with high vehicle purchase and servicing costs that don't necessarily correlate to high business profit. For example, the profit margin for a dealer selling a vehicle is commonly less than 1%; and dealers rely on vehicle servicing and financial lending to generate revenue.
- Variation in the payroll tax thresholds, the tax rate and Government rebates across Australian states and territories unfairly provides a competitive advantage for businesses in some regions as compared to others and also inappropriately intervenes in markets. MTAA urges the Commonwealth and state Governments to examine these variations and make efforts to create consistency across Australian states and territories or take measures to harmonise stamp duties and abolish the payroll tax altogether. MTAA considers that Government revenue lost through abolishing payroll tax could be replaced by increasing the GST. Increased GST receipts could then be distributed per government funding models to offset reduced revenues resulting from the abolition or harmonisation of such taxes.

3. What opportunities do you see for improving existing small business concessions?

- Automotive businesses urge Government to decrease the level of tax small businesses are required to pay as this would be a direct stimulus for increased business expenditure including employing additional staff. They also urge Government to decrease the level of GST if the Government does not abolish the taxes that it was initially introduced to replace.
- MTAA argues that a lower tax rate will provide an incentive for capital investment to increase productivity. For example, income tax is a significant cost for automotive businesses that are highly reliant on human labour for productivity. Therefore, MTAA advocates for reduced levels of income tax and other taxes payable by automotive businesses.
- Automotive business will have significantly more incentive to increase capital expenditure if the ability to write-off purchases of \$20,000 was at least doubled to \$40,000 (or even increased to \$100,000 specifically for the automotive industry) per year. The cost of automotive specific capital equipment is expensive as vehicles are introduced with new technology, advanced driving systems and manufacturing techniques. Much of the capital equipment required to service and repair modern vehicles exceeds the \$20,000 threshold (i.e. diagnostics equipment and automotive mechanical and motor body repair systems) and requires significant staff training and ongoing skills development. MTAA advocates that increasing the threshold will provide incentives for automotive businesses to invest in capital equipment and up-skill their work force. MTAA urges Government to consider the resulting increased economic activity and taxation revenue that would offset the additional cost of the increasing the threshold.
- A high cost for automotive businesses is fuel and some businesses have benefited from fuel credits. Vehicle users (i.e. transport and mining companies) have used the saving from fuel credits to invest in their businesses which increases demand for vehicle retailing, servicing and repair. MTAA advocates that the fuel credit scheme should be expanded and include light vehicles of 4.5 tonnes gross vehicle mass (GVM) or less that travel on public roads. MTAA advocates that this will stimulate broader economic activity and increase demand for the automotive industry and its goods and services.

- MTAA also urges the Board of Taxation to increase monetary turnover limits so not to penalize businesses that improve productivity as a consequence of more effective and targeted tax concessions.
- The high power costs in Australia are adversely affecting consumers and businesses; including automotive business that require power for equipment, lighting, machinery, etc. In the absence of successful efforts by Government to reduce power costs to a level that does not affect investment, productivity and profitability, MTAA urges Government to consider a scheme to minimize the cost of power for small businesses (i.e. through tax concessions, power credits, etc.).
- Automotive businesses call for the broadening and simplification of tax concessions for research and development (R&D) with many businesses considering current R&D tax concessions complex, time consuming to process and understand, and difficult to optimize.
- Automotive businesses call for increased tax concessions to assist in hiring and training staff; including apprentices, mature workers, workers from disadvantaged backgrounds and from overseas. Although Government provides some subsidies, many automotive businesses consider these insufficient to encourage them to train or hire additional staff. Many programs are mired in administration and complex multi-faceted / whole of economy foci which cannot deliver sector specific outcomes. MTAA advocates for tax concessions to assist automotive businesses to cover the initial cost of employment and provide ongoing assistance throughout the training period (i.e. 4 years for an apprentice) to recognize the ongoing resources required to train, mentor and retain trainees; sometimes under trying circumstances.
 - For example, an automotive business suggests that businesses could be credited with the value of the income tax collected on behalf of an apprentice or trainee in addition to any other subsidies. The business could claim this amount in BAS lodgments as a deduction from PAYG amounts.
- Automotive businesses call for the reduction in the fringe benefits tax (FBT) rates for small business and changes to rates of depreciation of vehicles.
 - For example; one automotive business calls for motor vehicle depreciation for FBT purposes to start earlier than 3 years and go further than a one-time event. Depreciation could start from year one with a fixed rate of 15% of original purchase value over 5 years; noting that often the vehicles depreciation will reach its limit within three of four years.

- One automotive business suggests that the FBT tax period be aligned with that of the end of financial year (EOFY) (i.e. 30 June 2018).
- Some automotive businesses advocate for increasing available tax deductions to stimulate vehicle use and increase economic activity.
 - For example, the cost of using a vehicle to travel to and from work could be a tax deduction. This would not only reduce costs for business owners who use their company vehicles (costs that could be invested in productive capacity) but it would stimulate demand for passenger vehicle retailing, automotive servicing, fuel retailing etc.

4. Which current small business concessions are not working and/or should be removed? Why?

- Many automotive businesses call for \$10 million company tax threshold to be reduced to \$5 million. This would allow many smaller automotive businesses to access to the 27.5% company tax rate. MTAA advocates that the existing threshold unfairly discriminates against smaller automotive business that commonly have a turnover of between \$5 and \$10 million per year.
- Many automotive businesses are unsure of what tax concessions are available to them due to their complexity (e.g. levels of depreciation), changing requirements and relevance to the automotive industry.
 - For example, often specific automotive equipment is outdated, redundant, worn out and written off before set depreciation periods. MTAA calls for a more simplistic and transparent taxation system that does not require high accountancy expenses and aligns to the specific operating requirements of the automotive industry.

5. What ideas do you have for new concessions that could help small businesses?

- Automotive business are unanimous in their call for reduce levels of company tax, payroll tax, income tax and other taxes such as land tax and stamp duty. If an increased GST cannot be used to reduce or remove such taxes, then the GST should be reduced.

- Automotive businesses also call for tax concessions associated with the cost of work cover insurance, especially if a business has invested heavily in work, health and safety (WHS) and are compliant with requirements or certifications.
- Automotive businesses also call for increased tax concessions for environmental initiatives, particularly with automotive recycling and disposal.
 - For example, MTAA advocates for Government to consider providing tax concessions for automotive dismantling and recycling businesses to entice participation and compliance with the requirements of an end-of-life vehicle (ELV) recycling program that is currently being proposed by MTAA.
- Many small automotive businesses argue for reduced land taxes particularly in inner city and metropolitan areas. MTAA argues that it is unfair to impose taxes on small automotive business that have operated from their location for many years and often prior to the real estate prices increasing in that area.
- As mentioned in the question above, many automotive businesses call for tax concessions addressing the high cost of power. The significant cost of power has increased dramatically in recent years and is reducing already tight profit margins and preventing capital investment.

6. Do you agree with the reform principles outlined in this document? Are there any other principles that should be considered? Why?

- MTAA advocates that all the principles of reform identified within the consultation guide are valid and of benefit and/or relevant to automotive businesses.

Principle 1: Concessions should be designed having regard to small business life cycle

- Many automotive businesses have indicated to MTAA that they do not understand or are not sure if current tax concessions are in fact focused on a particular part of the business life cycle.
- Most automotive businesses are primarily focused on business sustainability and profitability and seek tax assistance to help them pay current expenses. Automotive businesses seek opportunities to capitalize and grow their business and position themselves for success in a rapidly changing market where advanced diagnostic and repair equipment is required and where they can better access affordable skilled labour.
- Consequently, most automotive businesses are not seeking tax concessions to undertake large restructuring or transformation initiatives but are using them to survive and to 'help pay the bills'.

Principle 2: Concessions can assist with small business cash flow

- As highlighted above, many automotive businesses are struggling with business sustainability and relevance in a future automotive market. Tax concessions resulting in increased cash flow are welcomed and assist paying immediate direct and indirect costs that are often specific to the automotive sector.
 - For example, the requirements to purchase parts for a vehicle repair before payment by a consumer or insurance company is made.

Principle 3: Concessions should relieve the compliance burden for small business

- The burden to comply with taxation requirements is considerable for small businesses and MTAA advocates for this burden to be reduced and taxation processes streamlined and simplified. MTAA advocates that tax concessions be targeted to businesses and industries that need them most and are essential to Australia's ongoing success.

Principle 4: Concessions should promote growth and innovation

- The ability of automotive businesses to adapt to the changing nature of automotive vehicles and their servicing and repair requirements necessitates capital investment for transformation as much as growth and innovation. MTAA advocates for:
 - lower turnover thresholds to access lower taxation rates; and
 - increased tax concessions for increased training and higher levels of capital investment.

Principle 5: Concessions should be targeted and affordable

- MTAA agrees that concessions should be targeted to specific businesses and industries who can afford them to the extent they don't restrict capital investment.
- As for other industry sectors, MTAA supports the need for automotive businesses to contribute to the consolidated tax revenue. However, MTAA urges the Board of Taxation to consider the specific characteristics and costs pressures of automotive businesses when considering affordability.
- MTAA and its members are also concerned about the ability of larger businesses to avoid paying taxes and automotive businesses question the fairness of the current taxation system. Many automotive businesses believe they are unfairly contributing more consolidated taxation revenue than many large organisations; particularly off-shore international corporations (i.e. Google, Microsoft, etc.).

Principle 6: Concessions should not incentivise complex structuring

- MTAA agrees with this principle and believes that the majority of small automotive businesses do not undertake complex restructuring to combine the advantages of different entity types whilst minimizing any downsides to their business operations, nor have they resources to do so.

7. Should certain principles be prioritised over others? Why?

- In providing feedback to the consultation guide, almost all automotive businesses did not prioritise the above principles, but rather call for decreased taxation and increased tax concessions.
- MTAA advocates that in addition to prioritising of principles and when considering targeted tax concessions to stimulate economic activity, the Board of Taxation consider the particular characteristics and nature of the automotive industry, its industry sectors and its markets.

8. What are the objectives of small businesses using a particular legal structure (companies, trusts, partnership, sole trader)?

- Automotive businesses indicate their businesses structure was a reflection of their resources limitations and ability to invest, business size, business history, markets they wish to service and the type and amount of automotive goods and services they produced.

8.1. What are the main objectives businesses have when they seek structuring advice (for example, reducing tax liabilities, succession planning, asset protection, etc.)?

- Automotive business provided little information on the requirements to restructure their business based on tax liabilities, succession planning and asset protection. Rather, automotive businesses priorities included business sustainability, resource limitations, skills shortages and capital investment requirements as reasons for limiting growth.

8.2. Relative to other factors, how important is reducing tax liabilities?

- The relative high response rates from MTAA member association automotive businesses concerning this review of tax concessions emphasizes the importance of tax concessions on business investment, productivity and profitability.

- Automotive businesses were keen to provide positive feedback on the ability to write-off capital equipment to the value of \$20,000 (and proposed higher thresholds) and the resulting increased ability to undertake capital investment. They were also keen to confirm that targeted Government tax concessions can positively stimulate economic activity within the automotive industry.

9. Are small business tax concessions skewed to specific parts of the small business lifecycle? If so, should they be refocused and in what way?

- The automotive industry supports tax concessions throughout all phases of the business lifecycle. Many small automotive businesses are concerned with business sustainability and capital investment costs required to succeed in a rapidly changing automotive market.

10. Generally, tax concessions are broadly based and apply across different sectors of the economy. Should there be small business tax concessions for specific sectors? If so, why?

- The majority of automotive businesses consider that the automotive industry should receive specific and targeted tax concessions, due to the nature and market characteristics of the automotive industry and its unique industry sectors.
- The following automotive industry characteristics were provided by automotive businesses as some reasons why the automotive industry should receive specific, targeted tax concessions:
 - High capital costs to purchase and maintain automotive capital equipment.
 - Requirement to maintain obsolete equipment for when required.
 - High capital costs exceed that of many other industries.
 - The high levels of employment provided by the automotive industry.

- High turnover is not indicative of current levels of ROI and limits access to small business tax concessions.
- High turnover provides Government with high levels of tax revenue.
- To relieve the stress on small business operators and that many business owners are at breaking point.
- Skills shortages.
- The importance of the automotive industry to the Australian economy and mobility of Australians.

11. Does the small business eligibility criteria (for example, the \$2m turnover threshold for small business CGT concessions) influence you to not want to grow your business?

- Approximately a third of automotive businesses agree that the \$2 million threshold for GST concessions is influencing their motivation to grow in increase productively. MTAA advocates increasing the turnover threshold to allow more businesses to access GST concessions and to promote business investment.

11.1. Are there alternative mechanisms to phase-out small business tax concessions as opposed to a hard cut-off?

- MTAA, its member associations and automotive business strongly oppose any reduction in tax concessions. Rather MTAA advocates for expanding tax concessions particularly for automotive businesses. MTAA believes that tax concessions increase the ability of individual automotive businesses to invest in their business to increase productivity which stimulates economic activity and the consolidated tax revenue collected by the Commonwealth Government.

12. What changes to the tax system would make it simpler and reduce the compliance burden for small business?

- In addition to reducing the amount of taxes payable, automotive businesses are clear that reduced red tape, a reduction in the number of taxes payable and extended times to pay the tax will assist business operations.

13. Should the definition of small business for tax purposes be changed? If so, how?

- MTAA has advocated for some time that harmonisation of the definition of small business across policy and regulation, both at a Commonwealth and State and Territory jurisdiction level, is critical, overdue and an unnecessary source of cost, complexity and confusion. Multiple definitions in taxation, finance, welfare, education and employment and a range of other portfolio areas; and further breakdowns of small business, family enterprises, micro businesses, SME's etc.; is unacceptable.
- MTAA understands harmonisation and a significant reduction in the number of definitions will be complex and fraught with differences of opinion and meaning – possibly the reason why it remains unaddressed - but nonetheless such work must be undertaken. MTAA suggests that a whole of Government and industry workgroup be established to undertake the review of all definitions and recommend to Government a more streamlined, linear and concise definition alternative as an outcome. Perhaps this initiative could be led by the Board of Taxation. Participants could be drawn from the Small Business Stewardship Group of the ATO, the Australian Small Business and Family Enterprises Ombudsman Office and relevant government departments. MTAA is available to assist with any facilitation and coordination across industry sectors to achieve an outcome.
- MTAA members and their business constituents report definitions, outcomes and fit are confusing. As noted above, many automotive businesses are unable to access the tax concessions available to small businesses due to their turnover; regardless of low ROI and levels of profitability. Many automotive businesses call for an increased threshold for defining for small businesses (i.e. between \$5 and \$10 million).

14. Does technology make it easier to comply with your tax obligations and access small business concessions? Why or why not?

- Automotive businesses urge Government to stream line and simplify tax requirements and make it easier to access tax concessions. Many consider advanced computer technology as a method to do so and urge Government to develop a single touch system with easy access and high usability for business owners and those who submit and process tax requirements.

Conclusion

- The importance of the automotive industry to the Australian economy and the mobility of Australians cannot be understated. However, levels of ROI and profitability are often very low regardless of the high investment costs and turnover. This means that many automotive businesses are struggling to deal with the servicing, repair and deposal requirement of emerging vehicle systems and to remain relevant in changing automotive markets. Due to skilled shortages, businesses are also paying a premium for skilled labour and many can ill afford to train staff or employ apprentices. They are also burdened by a myriad of state and Commonwealth taxes and the processes required to manage these accountabilities.
- Tax concessions have proven a welcome assistance and have stimulated capital expenditure; including equipment purchase and increased opportunity for training. However, due to thresholds associated with the definition of a small business, some automotive businesses are unable to access small business tax concessions.
- MTAA is concerned that any reduction in these tax concessions will stymie economic activity and advocates for increasing tax concessions and making these concessions available for more automotive businesses.

END OF SUBMISSION