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Board of Taxation Secretariat  
The Treasury – Melbourne Office  
Level 6, 120 Collins Street  
Melbourne VIC 3121  
[taxboard@treasury.gov.au](mailto:taxboard@treasury.gov.au)

Dear Sir or Madam,

## RE: Review of Small Business Tax Concessions

Thank you for giving the Office of the NSW Small Business Commissioner (OSBC) the opportunity to provide a submission to the Board of Taxation's Review of Small Business Tax Concessions.

The OSBC is committed to supporting and improving the operating environment for small businesses throughout NSW. The OSBC advocates on behalf of small businesses in NSW, provides mediation and dispute resolution services, speaks up for small businesses in government and makes it easier to do business through policy harmonisation and regulatory reform.

I **attach** our submission to the review for your consideration. We offer our comments and recommendations after considering the consultation questions outlined and previous research undertaken by the Board, including the *Review of Tax Impediments Facing Small Business* and the *Scoping Study of Small Business Tax Compliance Costs*. The OSBC broadly supports the principles for reform identified by the Board, and we have had regard for these principles when shaping our recommendations.

Our submission is guided by our ongoing consultations with NSW small businesses and the concerns they have raised with us. We address the core questions outlined in the consultation guide in the sections of this submission. However, we have not structured our submission on the basis of these questions.

In formulating our submission, the OSBC also independently undertook a survey of NSW small businesses to gather intelligence on their concerns, issues and views of small business tax concessions and the tax system overall.

A summary of the survey results is provided at **Attachment 1** of the submission.

Our recommendations and commentary should not be considered an exhaustive list of small business tax concerns. Our submission has prioritised the issues that were most commonly raised in response to our survey, through our regular and ongoing

discussions with small business owners and that we identified as key barriers to small business through during our research.

Should you have any questions concerning our submission, please contact James Davis, Advisor Advocacy & Strategic Projects on 8222 4883 or [james.davis@smallbusiness.nsw.gov.au](mailto:james.davis@smallbusiness.nsw.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "Robyn A Hobbs". The signature is written in a cursive style with a large, looping initial 'R'.

**Robyn Hobbs OAM**  
NSW Small Business Commissioner  
2 August 2018





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# Submission to the Board of Taxation's Review of Small Business Tax Concessions

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Office of the NSW Small Business Commissioner

August 2018

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## Executive summary

Tax concessions attempt to address disadvantages small businesses face due to the disproportionate compliance and regulatory burden imposed on them by the tax system. Time poor operators often lack the necessary time and money to adequately prepare for and understand the tax administration that running a business entails. Small businesses cannot take advantage of the economies of scale benefits of their larger counterparts. Supporting small businesses through targeted tax concessions recognises their critical role in the Australian economy.

Concessions vary in type and impact. Past governments have implemented tax concessions which fall into two main categories:

- Concessions that provide a lower rate of taxation, or accelerated depreciation
- Concessions that excuse the taxpayer from requirements otherwise imposed

Previous Australian governments have attempted to simplify the tax system for small business. Notably, the 2001 'Simplified Tax System' (STS) reforms introduced a range of tax measures designed to simplify small business tax affairs. Since its introduction, the STS has been reformed on multiple occasions. Today, the majority of concessions are offered to businesses that meet the definition of a 'Small Business Entity'. Both the Federal and NSW Governments offer tax concessions to small businesses. A summary of those offered by the NSW Government is provided at **Attachment 2**.

The Office of the NSW Small Business Commissioner (OSBC) is focussed on supporting and improving the operating environment for small businesses throughout NSW. The complexity of the tax system is a significant barrier for small businesses. Continuously dealing with multiple layers of government, accounting for varying tax thresholds, understanding legislative changes to the tax system and keeping up with compliance requirements is a daunting prospect for most small business owners. In this context, taking advantage of small business tax concessions with various eligibility criteria can seem too difficult for many small business owners.

Based on our research, small business understanding of the tax concessions on offer is as great an issue as the suitability of the tax concessions available.

Compliance costs remain high for small businesses. Studies have suggested this cost has increased over time for smaller businesses and that efforts to reduce this burden to date have had only a marginal impact.

This has led many to bear the expense of accountants and tax professionals, in an effort to ensure they don't fall foul of tax requirements and can utilise the small business tax concessions they are eligible for.

Our submission to the review is informed by the consultation questions outlined and previous research undertaken by the Board, including the *Review of Tax Impediments Facing Small Business* and the *Scoping Study of Small Business Tax Compliance Costs*. We also considered previous Government reviews of the taxation

system, including the 2009 *Australia's Future Tax System Review (the Henry Tax Review)*.

The OSBC broadly support the principles for reform identified by the Board:

- Concessions should be designed having regard to the small business life cycle
- Concessions can assist with small business cash flow
- Concessions should relieve the compliance burden for small business
- Concessions should promote growth and innovation
- Concessions should be targeted and affordable
- Concessions should not incentivise complex structuring

We have had regard for these principles in shaping our recommendations. Our submission addresses the core questions outlined in the consultation guide. However, we have not structured our submission on the basis of these questions.

The submission addresses the following key areas:

1. Definitions of small business for the purposes of tax concessions
2. The level of small business owner understanding of the tax system and the current suite of tax concessions
3. Payroll tax
4. GST and BAS reporting requirements
5. The instant asset write-off

In preparing this response, the OSBC undertook a survey of NSW small businesses, asking for their responses to questions on the tax system and small business tax concessions. The Small Business and the Tax System survey was open for ten days, from 4 July 2018 to 13 July 2018, and received 520 responses, 445 of which were complete. A summary of the survey and its responses is provided at **Attachment 1**.

The OSBC makes eight recommendations which balance the concerns of small businesses with the principles outlined by the Board:

**Recommendation 1:** A review of Government definitions of small business should be undertaken, with a view to aligning definitions across legislation, policy and practice wherever possible.

**Recommendation 2:** The Australian Taxation Office (ATO) and other relevant agencies identify strategies to raise the awareness and increase the education of small business owners on tax administration and the concessions available to them.

**Recommendation 3:** In the short to medium term, the Federal Government should work with state and territory governments to harmonise rates and thresholds to reduce compliance costs, particularly for businesses operating across state borders.

**Recommendation 4:** Options for harmonisation should include a high tax-free threshold and low taxation rate, in recognition of the regressive nature of the

compliance costs associated with payroll tax.

**Recommendation 5:** The ATO should immediately investigate methods to rationalise reporting requirements into a single Annual Business Activity Statement, to be lodged by businesses under a certain threshold at the same time as their Income Tax Return. Where possible, documentation should be pre-populated using data previously provided by the business or individual.

**Recommendation 6:** In the medium to long term, only require GST be reported and paid through an Annual Business Activity Statement for businesses with a GST turnover of more than \$75,000 and less than \$2 million. These businesses would still be required to register for GST. Align lodgement times with Income Tax Returns and leverage previously provided data where possible.

**Recommendation 7:** The instant asset write-off should be continued indefinitely, with a cap of \$10,000, at least. At a minimum, this should be made available to businesses with an annual turnover of less than \$2 million.

**Recommendation 8:** Allow qualifying businesses to utilise the instant asset write-off for purchases up to the value of \$60,000 once every three years.

Our recommendations and commentary should not be considered an exhaustive list of small business tax concerns. We have prioritised concerns based on responses to our survey, our regular and ongoing discussions with small business owners and our research.

Taking up our recommendations will give the review the best ability to make meaningful and practical recommendations to increase the effectiveness and take-up of small business tax concessions, whilst reducing the compliance burden on NSW and Australian small businesses.

Thank you for giving the OSBC the opportunity to provide a submission to the Board of Taxation's Review of Small Business Tax Concessions.

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## Part 1: Tax concessions – for who, and why?

### Which NSW small businesses can access which tax concessions?

As outlined by the Board of Taxation (the Board), the Federal Government provides a suite of tax concessions to small business. Businesses that meet the ATO's 'small business entity' threshold can access the vast majority of these concessions. This threshold is defined in terms of aggregated annual turnover, and from 1 July 2016 this was increased from \$2 million to \$10 million.<sup>1</sup> According to 2017 figures, this change means an additional 27,283 NSW businesses can access these concessions (6.2 per cent of all NSW businesses – see **Table 1**).

**Table 1 – Count of Australian businesses by annual turnover, June 2017<sup>2</sup>**

	0 – \$50k	\$50k - \$200k	\$200k - \$2m	\$2m - \$5m	\$5m - \$10m	\$10m or more
<b>NSW (No.)</b>	94,812	150,052	161,076	19,694	7,589	8,805
<b>NSW (%)</b>	21.5	33.9	36.4	4.5	1.7	2.0
<b>AUS (No.)</b>	551,224	776,196	758,309	87,473	31,012	34,085
<b>AUS (%)</b>	24.6	34.7	33.9	3.9	1.4	1.5

This change to the threshold was not applied to concessions relating to capital gains tax (CGT), or the unincorporated small business tax discount. For CGT concessions, the threshold remains \$2 million, whereas businesses with less than \$5 million turnover can access the unincorporated small business tax discount.

For the ATO this effectively establishes three definitions of small business for the purposes of tax concessions:

- \$10 million turnover for most concessions
- \$5 million for the unincorporated small business tax discount
- \$2 million for CGT concessions<sup>3</sup>

These varying definitions are confusing, complex and difficult for business to navigate.

This is further complicated by the thresholds that are applied to State level tax concessions. Within the NSW Government, small business tax concession eligibility use three definitions:

- \$2 million aggregated annual turnover for insurance duty exemptions<sup>4</sup>

<sup>1</sup> ATO (2018). *Increase the small business entity turnover threshold*. [online] Available at: <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/increase-the-small-business-entity-turnover-threshold/> [Accessed 18 Jul. 2018].

<sup>2</sup> ABS (2018) 8165.0 - *Counts of Australian Businesses, including Entries and Exits, Jun. 2013 to Jun. 2017*. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0Jun%202013%20to%20Jun%202017?OpenDocument>

<sup>3</sup> ATO (2018). *Increase the small business entity turnover threshold*. [online] Available at: <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/increase-the-small-business-entity-turnover-threshold/> [Accessed 18 Jul. 2018].

<sup>4</sup> Revenue NSW (2018). *Small business exemption* | Revenue NSW. [online]

Available at: <https://www.revenue.nsw.gov.au/taxes/insurance/exemptions/sbe/> [Accessed 18 Jul. 2018].

- A business that does not incur a payroll tax liability is eligible for a \$2000 grant if they take on a new employee<sup>5</sup>
- A business will not incur a payroll tax liability in 2018-19 if their annual wage bill is less than \$850,000<sup>6</sup>

This is by no means an exhaustive list. For a NSW small business, and their tax advisors, whether or not they can access a tax concession is determined by five various definitions, at a minimum. While we acknowledge that definitions of small business vary generally, and that definitions have differing purposes, the current settings seem overly complex.

In 2007, the Board found:

*“Some progress has been made in standardising the definition of ‘small business’ in tax law, but different definitions are still used in other parts of the law, making it difficult to define clearly the boundaries of the small business sector. There would be merit in exploring the broader application of a standard definition across all legislation.”<sup>7</sup>*

In 2014, the Board again concluded:

*“... to the extent possible, particularly where objectives and underlying policy rationale align, definitions should be as consistent as possible. The Board considers it would be useful to review different definitions of ‘small business’ across the Commonwealth Government more broadly, not just in the tax law. This would require representatives from different Commonwealth agencies.”<sup>8</sup>*

**Recommendation 1:** A review of Government definitions of small business should be undertaken, with a view to aligning definitions across legislation, policy and practice wherever possible.

## Why offer concessions to small business?

Small business taxpayers bear a disproportionately high compliance cost. In absolute and relative terms, small businesses pay more in time and money than large businesses to comply with their tax obligations. This has been shown to be the case in all Organisation for Economic Cooperation and Development (OECD) jurisdictions<sup>9</sup>.

Australian taxes also impose regressive compliance costs on business. As the Board noted in 2007, a given cost imposes a proportionately higher burden the smaller the business.<sup>10</sup> When taxation compliance costs are expressed in relation to each \$1,000 of turnover for Australian businesses, the regressive pattern is clear:

<sup>5</sup> Revenue NSW (2018). *Small Business Grant* | Revenue NSW. [online]

Available at: <https://www.revenue.nsw.gov.au/grants/sbg> [Accessed 18 Jul. 2018].

<sup>6</sup> Revenue NSW (2018). *Payroll tax* | Revenue NSW. [online]

Available at: <https://www.revenue.nsw.gov.au/taxes/payroll> [Accessed 18 Jul. 2018].

<sup>7</sup> The Board of Taxation (2007) *Scoping study on small business tax compliance costs – a report to the Treasurer*. p. 75 – Finding 17.

<sup>8</sup> Board of Taxation (2014). *Review of Tax Impediments Facing Small Business*. A Report to the Government. Chapter 5 - p. 44

<sup>9</sup> Weichenrieder, A. (2007). *Survey on the taxation of small and medium sized enterprises, OECD draft report on responses to the questionnaire*. OECD, Paris.

<sup>10</sup> The Board of Taxation (2007) *Scoping study on small business tax compliance costs – a report to the Treasurer*. p. 44 – Finding 4.

- \$90.45 per \$1,000 for businesses with turnover less than \$75,000
- \$11.72 per \$1,000 for businesses with turnover of \$75,000 to \$2,000,000
- \$2.10 per \$1,000 for businesses with turnover of \$2,000,000 or more<sup>11</sup>

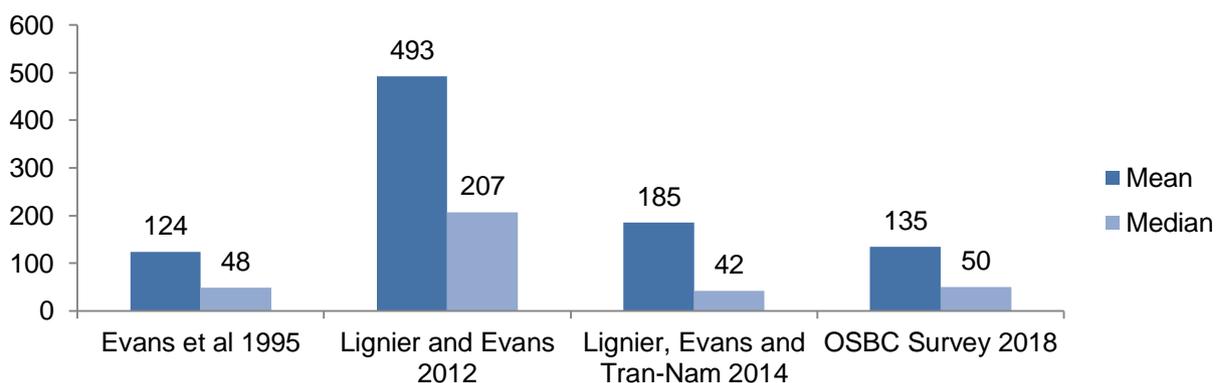
This high cost of compliance is driven by the inability of small businesses to realise the economies of scale benefits of larger businesses.<sup>12</sup> In addition, the compliance cost borne by small businesses has increased over time. A recent study suggested that from 1994-95 to 2011-12 the overall tax compliance cost of SMEs has increased in real terms by 118 per cent.<sup>13</sup>

The OSBC’s recent small business tax concessions survey (**Attachment 1**) highlights the considerable compliance burden borne by small businesses in NSW. We asked respondents to estimate the hours spent a year on administration related to tax obligations. After normalisation and removal of responses such as “too many”, 411 useable responses were collected. Of these, the average annual hours spent complying with tax obligations was found to be 135 hours (excluding businesses with more than \$10 million of turnover). The median number of hours was only a third of this, standing at 50 hours. As a last estimation, a trimmed mean removing the top and bottom 5 per cent of responses was computed, returning an average of 103 hours.

Surveys have previously been used to estimate the annual hours spent on tax administration by businesses in Australia. A summary of previous estimates of annual tax administration hours is provided below in **Table 2**.

Variations in estimates are likely to result from differences in the demographics of surveyed businesses. For example, 48 per cent of respondents to Lignier and Evans’ 2012 survey indicated they had \$3 million or more annual turnover, skewing the results upwards relative to the OSBC survey.

**Table 2 – Estimates of annual hours spent on tax administration**<sup>14,15</sup>



<sup>11</sup> Lignier, P., Evans, C. and Tran-Nam, B., (2014). *Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector*. Australian Tax Forum., 29, p.242. Table 14.

<sup>12</sup> Marsden, Stephen; Sadiq, Kerrie; and Wilkins, Timothy. (2013). *Small business entity tax concessions: Through the eyes of the practitioner*. Revenue Law Journal: Vol. 22 : Iss. 1 , Article 4. p. 1.

<sup>13</sup> Tran-Nam, B., Evans, C., Krever, R. and Lignier, P., (2016). *Managing tax complexity: the state of play after Henry*. Economic Papers: A journal of applied economics and policy, 35(4), p. 354.

<sup>14</sup> Lignier, P. and Evans, C., 2012. *The rise and rise of tax compliance costs for the small business sector in Australia*. p. 631. Table 7.

<sup>15</sup> Lignier, P., Evans, C. and Tran-Nam, B., 2014. *Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector*. Australian Tax Forum., 29, p.238. Table 9.

State level taxes create additional compliance costs for businesses operating in multiple jurisdictions. Payroll tax in particular adds complexity. NSW levies payroll tax at a rate of 5.45 per cent and has a tax-free threshold of \$850,000 in 2018-19. The ACT applies the tax at a rate of 6.85 per cent and has a tax-free threshold of \$2,000,000 – see **Table 3**.

Previous packages of concessions have attempted to reduce compliance costs. However, this has not necessarily been achieved. A 2013 survey of small business tax practitioners concluded that the Federal Government's 2001 'Simplified Tax System' package:

*"... had actually achieved the opposite result – it had increased the tax compliance costs for small business clients."<sup>16</sup>*

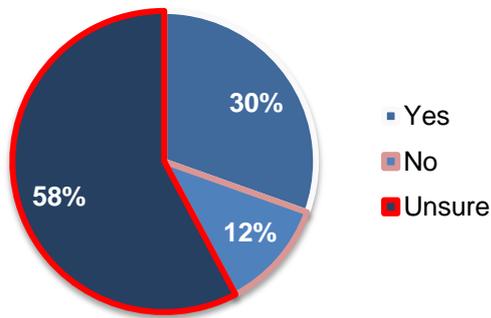
The OSBC's survey of NSW small businesses confirms this to be the case aligns with this conclusion:

- 96 per cent of respondents to our survey indicated they had less than \$10 million of annual turnover. Provided the self-reported turnover figures are accurate, the overwhelming majority qualify for many small business tax concessions provided by the Federal Government.
- Despite this, less than one in three respondents indicated they were eligible, and had taken advantage of, small business tax concessions (Chart 1). This confirms the current suite of concessions are poorly understood and underutilised.
- 70 per cent of businesses indicated they were not (12 per cent), or were unsure if they were (58 per cent), eligible for small business tax concessions (total of 445 responses).
- 72 per cent indicated they had not (41 per cent), or were unsure (31 per cent) if they had taken advantage of a small business tax concession (total of 445 responses).
- In addition, over a third of respondents indicated they found understanding their tax obligations either difficult or very difficult. Conversely, less than 20 per cent suggested they found it easy or very easy.

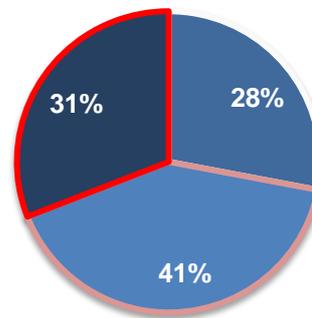
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<sup>16</sup> Marsden, S., Sadiq, K. and Wilkins, T., 2012. *Small business entity tax concessions: Through the eyes of the practitioner*. Revenue Law Journal, 22(1), p.18.

**Chart 1: Are you eligible for small business tax concessions?**



**Chart 2: Have you ever taken advantage of a small business tax concession?**



This complexity has implications for the ability of small business owners to understand their tax obligations and any concessions that may be available to them.

A common theme of business responses to our survey was the need for simplification. In response to our question on how small business tax concessions could be made better, many called for simplification of GST, BAS, CGT and superannuation payments. One responder remarked:

*“Simplifying tax overall – concessions are just another complication.”*

A greater number still indicated they did not know enough about the current suite of concessions to suggest improvements. Many called for better education of business owners on tax matters through plain English summaries provided by the ATO. One suggested:

*“Educate the business owner about what is available so they can be empowered. Currently it is a black box and only tax professionals get benefit as we end up giving the savings to them in the form of service fees so they claim and we get nothing.”*

The results of our survey also align with similar surveys of Australian businesses. A 2014 survey of Australian, Canadian and South African small businesses found only 14 per cent of Australian respondents thought they were eligible for small business tax concessions. 58 per cent thought they were not eligible – the highest proportion of the three countries surveyed.<sup>17</sup>

**Recommendation 2:** The Australian Taxation Office and other relevant agencies identify strategies to raise the awareness and increase the education of small business owners on tax administration and the concessions available to them.

## Part 2: Payroll tax and small business

### Payroll tax and its operation

Payroll tax is a state tax levied based on the wages paid by employers, and is calculated as a percentage of the total wage bill. It is a significant contributor to state government revenues; in NSW, payroll tax represented 27 per cent of total taxation revenue in 2017-18.<sup>18</sup>

In its current form, payroll tax is not levied on all businesses - those with wage bills below a set tax-free threshold are exempted from payroll tax liabilities. In 2008, the Independent Pricing and Regulatory Tribunal of NSW estimated that 10 per cent of businesses incurred a payroll tax liability in NSW.<sup>19</sup> Today, an even smaller proportion is set to incur a liability, as the NSW lift the threshold to \$1 million over the next four years.<sup>20</sup> These thresholds act as a type of concession to small business. Both the threshold and the rate at which the tax is levied vary across jurisdictions.

Thresholds vary from \$650,000 in Victoria to \$2,000,000 in the Australian Capital Territory. The rate varies from as low as 2.50 per cent to as high as 6.85 per cent. A summary of the various thresholds and rates can be seen in **Table 3**.

**Table 3 – Payroll tax thresholds and rates across jurisdictions**

Jurisdictions	Threshold (\$)	Rate (%)
Australian Capital Territory	2,000,000	6.85
Northern Territory	1,500,000	5.50
Tasmania	1,250,000	Between \$1.25m and \$2m: 4.00
		Over \$2m: 6.10
Queensland	1,100,000	4.75
Western Australia	850,000	5.50
Victoria	650,000	4.85
New South Wales (current)	750,000	5.45
New South Wales (proposed)	2018-19: 850,000	5.45
	2019-20: 900,000	
	2020-21: 950,000	
	2021-22: 1,000,000	
South Australia (current)	600,000	Between \$600k and \$1m: 2.50
		Between \$1m and \$1.5m: variable, up to 4.95
		Over \$1.5m: 4.95
South Australia (proposed)	1,500,000	Between \$1.5m to \$1.7m: variable, up to 4.95
		Over \$1.7m: 4.95

In NSW, the payroll tax rate is 5.45 per cent and the tax threshold for 2017-18 is \$750,000. As previously mentioned, in the 2018-19 budget, the NSW Government

<sup>18</sup> NSW Budget (2018). *2017-18 Budget Paper No. 1 – Budget Statement – Chapter 5: Revenue*, p.8. Chart 5.3. Available at: <https://www.budget.nsw.gov.au/sites/default/files/budget-2017-06/5.%20Revenue.pdf>

<sup>19</sup> Independent Pricing and Regulatory Tribunal (IPART) (2008). *Review of State Taxation – Report to Treasurer*, p. 100.

<sup>20</sup> Revenue NSW (2018). *Payroll tax | Revenue NSW*. [online] Available at: <https://www.revenue.nsw.gov.au/taxes/payroll> [Accessed 3 Jul. 2018].

announced a staged increase in the threshold, climbing to \$850,000 in 2018-19, \$900,000 in 2019-20, \$950,000 in 2020-21 and \$1 million in 2021-22.<sup>21</sup> The South Australian Government announced an increase from the current threshold of \$600,000 to \$1.5 million from 1 January 2019, also introducing a lower rate to apply to businesses with total annual wage bills between \$1.5 million and \$1.7 million.<sup>22</sup>

Governments in different jurisdictions employ a range of payroll tax rebates and concessional treatments that apply to types of businesses or employment. For example, NSW currently offers rebates to businesses with payroll tax liabilities that employ an additional person.<sup>23</sup> Tasmania offers a three-year payroll tax exemption for interstate businesses that relocate to regional Tasmania.<sup>24</sup> A recently concluded NSW Government inquiry has recommended NSW establish a 'metropolitan' and 'regional' zone for the purposes of payroll tax, with lower taxation to be applied to the 'regional' zone.<sup>25</sup> The NSW Government is yet to respond to the recommendations of the report.

Concessional treatments of businesses, through rebates or special rates of taxation, attempt to address the regressive nature of the compliance burden of payroll tax, but add complexity to the tax system. This complexity is compounded by the use of thresholds and the variance in both threshold and rate across jurisdictions.

Economists and tax experts argue that, in the long run, the cost of payroll tax is borne by employees (through lower wages) and consumers (through higher prices), as business is able to pass on the economic cost of the tax.<sup>26,27,28,29</sup> However, in the short run, this is less clear, as businesses can bear some of the burden from changes. The Henry Tax Review points out that business cannot pass on the cost of an increase in payroll tax rates through lower wages until wages have been renegotiated.<sup>30</sup> Just the perception of bearing the cost of payroll tax can impact businesses. The Centre for Independent Studies notes:

*“Even though most of the economic incidence of payroll tax may not fall on employers, the illusion that it does may be so strong that it actually influences business behaviour. For these reasons, the opposition to payroll tax has some economic respectability.”<sup>31</sup>*

Simultaneously, tax-free thresholds may deter some businesses from employing additional staff. This is because the marginal cost of employing additional workers increases once the threshold is exceeded. KPMG notes that payroll tax thresholds have the effect of distorting business choice of size, making businesses inefficiently small.<sup>32</sup> Commonwealth Treasury, however, has used business income data to show

<sup>21</sup> Revenue NSW (2018). *Payroll tax | Revenue NSW*. [online] Available at: <https://www.revenue.nsw.gov.au/taxes/payroll> [Accessed 3 Jul. 2018].

<sup>22</sup> Revenue SA (2018). *Rates and Thresholds – Revenue SA*. [online] Available at: <https://www.revenuesa.sa.gov.au/taxes-and-duties/payroll-tax/rates-and-thresholds> [Accessed 3 Jul. 2018].

<sup>23</sup> Revenue NSW (2018). *Jobs Action Plan | Revenue NSW*. [online] Available at: <https://www.revenue.nsw.gov.au/taxes/payroll/jap> [Accessed 9 Jul. 2018].

<sup>24</sup> State Revenue Office Tasmania (2018). *Interstate businesses relocating to regional Tasmania*. [online] Available at: <http://www.sro.tas.gov.au/payroll-tax/concessions-and-exemptions/interstate-businesses-relocating-to-regional-tasmania> [Accessed 9 Jul. 2018].

<sup>25</sup> Legislative Assembly of New South Wales (2018). *Final Report: Inquiry into Zonal Taxation*. Legislative Assembly Committee on Investment, Industry and Regional Development, p.vi.

<sup>26</sup> Independent Pricing and Regulatory Tribunal (IPART) (2008). *Review of State Taxation – Report to Treasurer*. p. 97.

<sup>27</sup> Econtech, K.P.M.G., (2010). *CGE analysis of the current Australian tax system. Report for the Australian Government the Treasury, March, Canberra*. pp. 63 – 64.

<sup>28</sup> NSW Treasury (1999). *The Case for Payroll Tax*. Section 2: Common Criticisms of Payroll Tax

<sup>29</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 294.

<sup>30</sup> Ibid

<sup>31</sup> Carling, R. and Carling, R.G., (2008). *State Tax Reform: Progress and Prospects*. Centre for Independent Studies. p. 6.

<sup>32</sup> Econtech, K.P.M.G., (2010). *CGE analysis of the current Australian tax system. Report for the Australian Government the Treasury, March, Canberra*. p. 63.

that firms generally do not bunch below the payroll tax threshold in an effort to avoid tax liabilities.<sup>33</sup>

Anecdotally, the OSBC has been told that businesses will choose not to hire additional staff when advised that this will mean they incur a payroll tax liability. In the Small Business and Tax Survey, 15 per cent of respondents indicated they had at one point or another managed their annual turnover or wage bill to access tax concessions, potentially indicating these businesses alter their behaviour in response to approaching tax-free or tax concession thresholds. The actual proportion managing their taxes in this manner may be significantly higher, as some business owners may have felt uncomfortable reporting their tax management practices to a government agency.

Further to this, the majority of respondents to our survey indicated that tax considerations influence their business decisions “a lot” (21 per cent) or “a moderate amount” (30 per cent).

### **The compliance costs of payroll tax, and potential solutions**

The cost of payroll tax administration is a significant burden on business. The NSW Business Chamber estimates that annual tax administration costs associated with payroll tax can be as high as \$10,000, consuming almost a third of the time of a full time staff member. They indicate total costs could be as much or more than \$25,000 a year for some businesses.<sup>34</sup> Other studies have found payroll tax alone consumes 11 hours of compliance time annually.<sup>35</sup> The NSW Government is currently reviewing the administration of payroll tax in an effort to reduce the compliance burden.<sup>36</sup>

In 1971, when control of payroll taxes was handed over to the states by the Federal Government, a uniform 2.5 per cent levy applied to all payrolls. In the following three years, the states uniformly increased the rate of taxation to 5 per cent.<sup>37</sup> Today, as has already been outlined, rates and thresholds vary significantly across jurisdictions (see **Table 3**). This lack of consistency affects a significant number of businesses: an estimated half of payroll taxpayers employ in more than one jurisdiction.<sup>38</sup>

States and territories have attempted to address issues of consistency through efforts to harmonise the administration of payroll tax to a large extent. New South Wales, Victoria, Tasmania, Northern Territory and South Australia have enacted identical payroll tax legislation. Queensland has also passed legislation to harmonise. In July 2010, the Commissioners of all state and territory revenue offices signed *A Protocol for Payroll Tax Harmonisation between Jurisdictions* confirming their continued commitment to the harmonisation process.<sup>39</sup>

Despite efforts toward harmonisation different rates, thresholds and special exemptions across jurisdictions remain. This adds to the cost, time and complexity of

<sup>33</sup> Ralston, B., (2018). *Does payroll tax affect firm behaviour?* Treasury Working Paper - Australian Government p. 1.

<sup>34</sup> NSW Business Chamber (2018). *2018-19 Pre-Budget Submission NSW Business Chamber*. p.4.

<sup>35</sup> Lignier, P., Evans, C. and Tran-Nam, B., (2014). *Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector*. Australian Tax Forum., 29, p.238. Table 9.

<sup>36</sup> NSW Treasury (2018). *Review of Payroll Tax Administration* - online.

<sup>37</sup> Reinhardt, S. and Steel, L., 2006. *A brief history of Australia's tax system*. Economic Round-up, (Winter 2006).

Available at: [http://archive.treasury.gov.au/documents/1156/HTML/docshell.asp?URL=01\\_Brief\\_History.asp](http://archive.treasury.gov.au/documents/1156/HTML/docshell.asp?URL=01_Brief_History.asp)

<sup>38</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 299.

<sup>39</sup> Payroll Tax Australia. (2018). *2010 Harmonisation Joint Protocol | Payroll Tax Australia*. [online] Available at: <https://www.payrolltax.gov.au/harmonisation/2010-harmonisation-joint-protocol> [Accessed 11 Jul. 2018].

payroll tax administration small businesses operating in multiple states. An instructional video by Payroll Tax Australia<sup>40</sup> uses a hypothetical example to showcase this complexity:

- A business employs people in both Tasmania and New South Wales.
- In Tasmania, their wage bill is \$1,000,000 – below the State’s payroll tax registrable threshold of \$1,250,000.
- In New South Wales, their wage bill is \$3,000,000 – above the State’s payroll tax registrable threshold of \$850,000.
- As a result, their Australia-wide wage bill is \$4,000,000.

Counter-intuitively, a business with the annual wage bills above would be required to register for payroll tax in both jurisdictions, because their Australia-wide wage bill exceeds the registrable threshold of both jurisdictions.<sup>41</sup>

While the OSBC appreciates this requirement exists to prevent businesses from receiving a full threshold deduction in each jurisdiction of operation, this would not be well understood by business owners, potentially leading operators to fall foul of regulations due to a lack of awareness. One respondent to our survey remarked:

*“Different thresholds on state payroll taxes when business is based in one state and we had to pay fines that was ridiculous. Glad to see this is changing.”*

The Board’s 2014 Review of Tax Impediments Facing Small Business made several suggestions on the operation of payroll tax:

- *“The Board strongly support the harmonisation of the payroll tax rates and thresholds across the states and territories. This would significantly reduce compliance costs. The Board notes, however, that this is a matter for the States and Territories to consider.*
- *“The Board considers that a central administrator for payroll taxes is worthy of consideration on the basis that it could significantly reduce compliance costs, especially for businesses operating across jurisdictions. Again, this is an issue for Commonwealth-State processes.”<sup>42</sup>*

The OSBC supports the comments made by the Board in 2014, and suggests rates and thresholds are harmonised as a matter of priority. The OSBC would support any reform that reduces the compliance costs imposed on small businesses.

Consideration should also be given as to how technology can be utilised to reduce the time and cost of complying with payroll tax obligations. The NSW Business Chamber has made this argument in a recent submission to the NSW Treasury’s *Review of Payroll Tax Administration*.<sup>43</sup> They highlight that the majority of the necessary payroll tax data is reported to the ATO already and that *Single Touch*

<sup>40</sup> Payroll Tax Australia. (2018). Payroll Tax Customer Education Videos | Payroll Tax Australia. [online] Available at: <https://www.payrolltax.gov.au/education/videos> Accessed 11 Jul. 2018).

<sup>41</sup> Payroll Tax Australia. (2018). *Payroll Tax Customer Education Videos | Payroll Tax Australia*. [online] Available at: <https://www.payrolltax.gov.au/education/videos> Accessed 11 Jul. 2018).

<sup>42</sup> Board of Taxation (2014). *Review of Tax Impediments Facing Small Business*. A Report to the Government. State taxes - p. 73

<sup>43</sup> NSW Treasury (2018). *Review of Payroll Tax Administration* - online. Available at: <https://www.treasury.nsw.gov.au/review-payroll-tax-administration>

*Payroll* may facilitate calculation of payroll tax liability without the need for manual effort.<sup>44</sup>

Using information provided once multiple times - a principle that drives the NSW Government's Easy to do Business<sup>45</sup> initiative, which is led by the OSBC and Service NSW - may assist in this process and improve business interactions with payroll tax. Technology could assist in the process of educating businesses on payroll tax and their obligations. We commend Payroll Tax Australia's short videos with simple explanations of payroll tax and propose this work is built upon.

### **Potential alternatives to payroll tax**

Payroll tax represents a significant revenue stream for state and territory governments. In 2009-10, payroll tax liabilities accounted for 32 per cent of tax revenues collected by the state.<sup>46</sup> As a result, state government action on payroll taxes has large budgetary implications. Federal Government assistance may be required to achieve parity across jurisdictions.

Indeed, after considering the impact of payroll tax on business productivity and employment, the Australian Parliamentary *Report on Barriers for Small Business* recommended:

*"... the Australian Government work with states and territories to boost employment and business productivity by reducing state and territory governments' reliance on payroll tax as a form of revenue."<sup>47</sup>*

Alternatively, it has been suggested payroll tax should be phased out and replaced with an alternative revenue source.

In 2009, the Henry Tax Review proposed:

*"State payroll taxes should eventually be replaced with revenue from more efficient broad-based taxes that capture the value-add of labour."<sup>48</sup>*

The Henry Tax Review proposed to replace, over time, payroll tax and inefficient state consumption taxes with a single rate, broad-based cash flow tax (CFT). This would tax the difference between an entity's cash outflows (purchases) and cash inflows (sales). Cash outflows related to labour remuneration would not be deductible. A CFT would potentially have the benefits of:

- Replacing multiple taxes with one, efficient tax that is applied to a broad base
- Providing a sustainable source of revenue for government services
- Reducing tax compliance costs, particularly for small business

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<sup>44</sup> NSW Business Chamber (2018). *Submission to the NSW Treasury Review of Payroll Tax Administration*. p.13-14.

Available at: <https://www.nswbusinesschamber.com.au/NSWBC/media/Policy/180706-NSW-Treasury-Review-of-Payroll-Tax-Administration.pdf>

<sup>45</sup> Service NSW (2018). *Easy to do Business*. [online] Available at: <https://www.service.nsw.gov.au/easy-do-business> [Accessed 17 Jul. 2018].

<sup>46</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 297.

<sup>47</sup> Parliament of the Commonwealth of Australia (2016) *Getting business booming – report on the inquiry into barriers for small business employment*. House of Representatives – Standing Committee on Education and Employment. p. 168

<sup>48</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 301. Recommendation 57.

The CFT would avoid complex exemptions and special rules, and could be designed so as to rely on financial or payroll systems, reducing compliance costs. The Henry Tax Review suggests businesses with simple tax affairs could utilise a single 'automatic tax account' to calculate net cash flows. Banks could offer to provide this service and report directly to the ATO. This would "leave more time for running a business".<sup>49</sup>

## Summary

In the short to medium term, all jurisdictions should establish common rates and thresholds of payroll tax that account for the disproportionate effect of compliance requirements on small business. The OSBC proposes that this would take the form of a high threshold and a low rate of taxation. This will also remove the cross-jurisdictional issues created by current arrangements. The Federal Government should provide support to the states and territories in this effort.

**Recommendation 3:** In the short to medium term, the Federal Government should work with state and territory governments to harmonise rates and thresholds to reduce compliance costs, particularly for businesses operating across state borders.

**Recommendation 4:** Options for harmonisation should include a high tax-free threshold and low taxation rate, in recognition of the regressive nature of the compliance costs associated with payroll tax.

## Part 3: Business Activity Statements and Goods and Services Tax

### Current reporting requirements

Most businesses need to lodge a Business Activity Statement (BAS) to report and pay Goods and Services Tax (GST). A business registered for GST purposes must lodge a BAS. In addition to GST, a BAS is used to report and pay:

- PAYG instalments
- PAYG withholding tax
- Other taxes

The frequency with which a business is required to submit a BAS can be monthly, quarterly or annually. Often the frequency of reporting is determined by the business' GST turnover.

For the purposes of reporting GST, a business must register for GST if their current or projected GST turnover is \$75,000<sup>50</sup> or more. Businesses must report and pay according to the following criteria:

- Annually if a business has less than \$75,000 annual GST turnover, and as a result is voluntarily registered for GST.
- Quarterly if their GST turnover is between \$75,000 and \$20 million.

<sup>49</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 279 – 284 – A cash flow tax.

<sup>50</sup> GST turnover is your gross business income, excluding sales not connected with Australia, input-taxed sales, sales not connected with an enterprise you run, sales that are not payment are are not taxable and GST you included in sales to your customers.

- Monthly if their GST turnover is \$20 million or more.<sup>51</sup>

For the purposes of PAYG withholding, the frequency of reporting and paying is determined by the amount of tax withheld from wages annually. This is divided into the following categories:

- ‘Small withholders’; those withholding \$25,000 or less a year must report and pay each quarter
- ‘Medium withholders’; those withholding \$25,001 to \$1 million a year must report and pay each month
- ‘Large withholders’; those that have withheld more than \$1 million in a previous financial year must pay and report twice a week.<sup>52</sup>

## Concessions available to small business for BAS and GST purposes

There are several concessions available to small business for the purposes of GST and BAS, as outlined by the Board. Two of the more prominent concessions are *Simpler BAS* and accounting for GST on a cash basis.

For businesses with less than \$10 million of turnover *Simpler BAS* has been the default reporting method since 1 July 2017. Less information is requested, asking businesses only to report total sales, GST on sales and GST on purchases.

These businesses can also account for GST on a cash basis, as opposed to the standard non-cash basis. This means GST on the BAS of that period is more closely aligned with the money flowing through the business at the time, making it easier to manage cash flow.

## The compliance cost of BAS and GST

The GST is a type of value added tax (VAT), applied at a rate of 10 per cent. A VAT taxes a business’ sales, but refunds tax paid on their purchases. Therefore, consumers bear the burden of the tax in the form of higher prices, as they’re not entitled to a refund. This effectively makes the GST a type of consumption tax. The GST is only applied to about half of all consumption. For business, this means working out exemptions and concessions is confusing and time-consuming.<sup>53</sup>

It is well-known that the GST is the most administratively onerous tax for business, and preparing BAS statements the most time consuming tax administration activity. In 2007, the Board found ‘the BAS is still regarded as the most annoying and time consuming tax compliance requirement for small businesses’.<sup>54</sup>

A 2014 survey of businesses found, on average, 67 hours were spent annually on GST by small business operators, representing 47 per cent of total time spent on tax administration.<sup>55</sup> A similar survey run in 2012 suggested the time spent on GST was much higher, with an average of 112 hours spent on GST by respondents with a turnover of less than \$1 million.<sup>56</sup> Over 50 per cent of respondents to our survey

<sup>51</sup> ATO (2018). *Options for reporting and paying GST*. [online] Available at: <https://www.ato.gov.au/business/gst/lodging-your-bas-or-annual-gst-return/options-for-reporting-and-paying-gst/> [Accessed 12 Jul. 2018].

<sup>52</sup> ATO (2018). *When to pay and report on activity statements*. [online] Available at: <https://www.ato.gov.au/business/payg-withholding/paying-and-reporting-withheld-amounts/when-to-pay-and-report-on-activity-statements/> [Accessed 17 Jul. 2018].

<sup>53</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia’s future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 286 - 288.

<sup>54</sup> The Board of Taxation (2007) *Scoping study on small business tax compliance costs – a report to the Treasurer*. p. 92 – Finding 28.

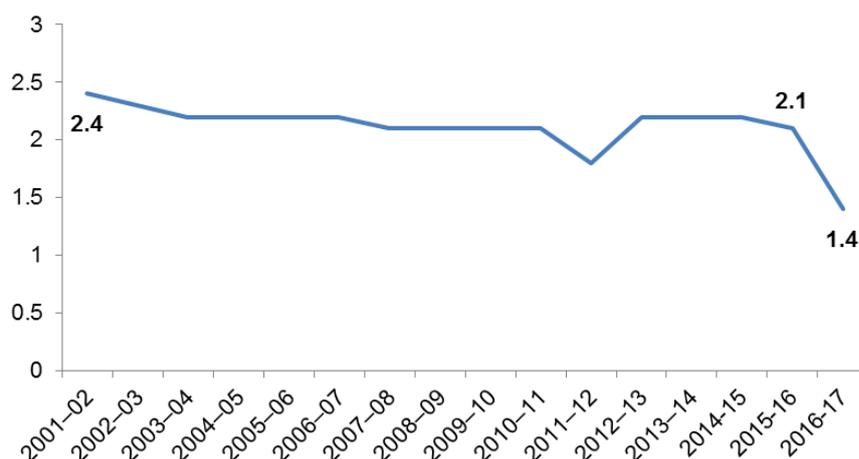
<sup>55</sup> Lignier, P., Evans, C. and Tran-Nam, B., (2014). *Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector*. Australian Tax Forum., 29, p.238. Table 10.

<sup>56</sup> Lignier, P. and Evans, C., 2012. *The rise and rise of tax compliance costs for the small business sector in Australia*. p. 630. Table 6.

indicated GST was the most time consuming business tax. An additional 22 per cent indicated it was the second most.

The compliance cost of GST is exacerbated by different supplies getting different tax treatments. Some supplies are GST-free or input-taxed, complicating the process for small businesses to record information on their BAS. *Simpler BAS* was intended to alleviate some of this burden. Based on ATO data, this new process has significantly reduced the time taken on forms (see **Table 4**).

**Table 4 – Average hours per BAS form<sup>57</sup>**



From 2001-02 to 2016-17, the time taken per BAS form has been reduced by 42 per cent. Since the introduction of *Simpler BAS* in 2016-17, the time taken has reduced by a third, 2.1 hours per form to 1.4 hours per form. When broken down by business size, micro businesses spent 1.3 hours and small to medium businesses spent 1.6 per hours per form in 2016-17.<sup>58</sup> The OSBC welcomes these efficiencies.

The ATO is currently researching the benefits and effectiveness of *Simpler BAS* through a consultation process. This is expected to be completed by July 2018.<sup>59</sup>

The vast majority of GST revenue is collected by a very small proportion of registered GST entities. In 2007-08, of 2 million entities that lodged a BAS for GST purposes, less than one thousand, or less than 0.05 per cent of all entities, were responsible for 40 per cent of total GST liabilities.<sup>60</sup>

In 2016-17, over 1.5 million businesses incurred a GST liability. Of these, 0.07 per cent – just over 1,000 businesses - had a liability of \$10 million or more. These entities accounted for 45 per cent of the total GST liabilities raised. Businesses in this category have accounted for over 40 per cent of total GST liabilities in every year since 2005-06. Businesses with a GST liability of more than \$500,000 – 1 per cent of all GST liable entities – accounted for 70 per cent of total GST liabilities. Conversely, businesses with a GST liability of less than \$100,000 accounted for 94 per cent – over 1.4 million businesses - of all liable entities, whilst only providing 17 per cent of total GST liabilities (see **Table 5**).

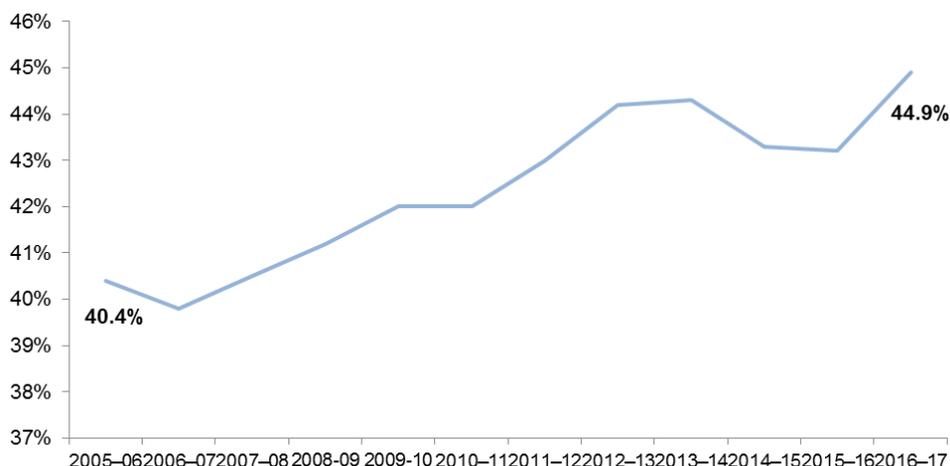
<sup>57</sup> ATO (2018) *Taxation Statistics 2015-16 Cost of compliance Table 1; Cost of taxation compliance data, by form type, 1998-99 to 2016-17*. Available at: [https://data.gov.au/dataset/taxation-statistics-2015-16/resource/1e529888-3bc9-4a4c-af02-8dd1bba6ada8?inner\\_span=True](https://data.gov.au/dataset/taxation-statistics-2015-16/resource/1e529888-3bc9-4a4c-af02-8dd1bba6ada8?inner_span=True)

<sup>58</sup> ATO (2018) *Taxation Statistics 2015-16 Cost of compliance Table 3; FBT and BAS forms time-box data, by market segment, 2015-16 and 2016-17 FBT and financial years*. Available at: [https://data.gov.au/dataset/taxation-statistics-2015-16/resource/a4b795c1-4cba-4edd-afee-0770774a0f69?inner\\_span=True](https://data.gov.au/dataset/taxation-statistics-2015-16/resource/a4b795c1-4cba-4edd-afee-0770774a0f69?inner_span=True)

<sup>59</sup> ATO (2018). *Matters under consultation*. [online] Available at: <https://www.ato.gov.au/General/Consultation/In-detail/Matters/Matters-under-consultation/?page=5#Business> [Accessed 18 Jul. 2018].

<sup>60</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 288 - 289.

**Table 5 – Percentage of total GST liabilities raised by entities with a GST liability of \$10 million or more<sup>61</sup>**



Large businesses contribute the vast majority of GST collected, whereas small businesses account for an infinitesimal percentage of GST revenue, incurring significant compliance costs in the process.

When introduced in 2000, businesses with an annual turnover of \$50,000 or more had to register for GST. In the 2007-08 Budget, the Federal Government increased the threshold to \$75,000.<sup>62</sup> This is still the threshold currently, and this has never been indexed to the wage or consumer price indexes. In real terms, this means the threshold becomes lower over time, forcing a higher proportion of businesses to register – an effect known as ‘bracket-creep’. This also creates large compliance costs for small businesses, whilst likely adding little to quarterly GST flows.

There has also been no change to the PAYG ‘Small withholders’ threshold for decades and it has never been indexed.

## Summary

In their 2014 Review, the Board recommended:

*“... the ATO, and its relevant advisory groups, review whether the quarterly reporting obligations for small businesses could be significantly simplified including whether at the end of each financial year businesses could complete a combined Income Tax Return and Annual Business Activity Statement based on the same data.”<sup>63</sup>*

The OSBC supports this view, given the high compliance costs associated with quarterly reporting. In their 2015 response to this recommendation, the Government

<sup>61</sup> ATO (2018) *Taxation Statistics 2015-16 GST Table 2; Net GST liabilities or refunds, by amount, 2005-06 to 2016-17*. Available at: [https://data.gov.au/dataset/taxation-statistics-2015-16/resource/0dde8649-7921-4578-8036-7f394b068ada?inner\\_span=True](https://data.gov.au/dataset/taxation-statistics-2015-16/resource/0dde8649-7921-4578-8036-7f394b068ada?inner_span=True)

<sup>62</sup> Australian Parliament House. (2008). *GST concessions for business in the 2007-08 Budget – Parliament of Australia*. [online] Available at: [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/BudgetReview\\_2007-2008/GST\\_concessions\\_for\\_business\\_in\\_the\\_2007-08\\_Budget](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview_2007-2008/GST_concessions_for_business_in_the_2007-08_Budget) [Accessed 11 Jul. 2018].

<sup>63</sup> Board of Taxation (2014). *Review of Tax Impediments Facing Small Business*. A Report to the Government. Chapter 4 - p. 26

indicated the ATO was investigating further and was soon to commence consultations regarding this change.<sup>64</sup>

Respondents to our survey suggested the threshold for GST should be increased:

- *Raise GST threshold to \$1m.*
- *Why does the GST threshold remain at the same level, when wages and inflation have increased, since its inception?*
- *Perhaps BAS and GST burden should be removed for businesses earning less than \$150k*

The OSBC proposes that businesses with a GST turnover from \$75,000 to \$2 million should only be required to report and pay GST through an Annual Business Activity Statement. Businesses in this category would still be required to register for GST. This would in effect create a fourth bracket for GST reporting purposes:

**Table 6 – Proposed GST brackets**

Frequency	GST turnover bracket	Required to register
Annually	<\$75k	No
Annually	\$75k - <\$2m	Yes
Quarterly	\$2m - <\$20m	Yes
Monthly	\$20m>	Yes

This would allow many businesses to greatly reduce their compliance costs, whilst not significantly reducing the flow of tax revenue to government in any one quarter.

**Recommendation 5:** The ATO should immediately investigate methods to rationalise reporting requirements into a single Annual Business Activity Statement, to be lodged by businesses under a certain threshold at the same time as their Income Tax Return. Where possible, documentation should be pre-populated using data previously provided by the business or individual.

**Recommendation 6:** In the medium to long term, only require GST be reported and paid through an Annual Business Activity Statement for businesses with a GST turnover of more than \$75,000 and less than \$2 million. These businesses would still be required to register for GST. Align lodgement times with Income Tax Returns and leverage previously provided data where possible.

<sup>64</sup> Board of Taxation (2014). *Review of Tax Impediments Facing Small Business – Government response*. [online] Available at: <http://taxboard.gov.au/consultation/tax-impediments-facing-small-business/> [Accessed 18 Jul. 2018].

## Part 4: Full expensing – the instant asset write-off

### The concession and the Henry Tax Review

The instant asset write-off of items up to \$20,000 in value applied from May 2015 to 1 July 2018, at which time the limit reduced to \$1,000. The concession allows businesses with a turnover of less than \$10 million to immediately deduct assets that cost less than \$20,000 in their tax return.<sup>65</sup>

In the 2018-19 budget, the Federal Government announced the extension of the concession for another year; however, this has yet to be legislated.<sup>66</sup>

The concession was initially introduced in response to the recommendations of the Henry Tax Review;

*“The capital allowance arrangements for small business should be streamlined and simplified by:*

- a. allowing depreciating assets costing less than \$10,000 to be immediately written-off; and*
- b. allowing all other depreciating assets (except buildings) to be pooled together, with the value of the pool depreciated at a single declining balance rate.”<sup>67</sup>*

The Henry Tax Review made no suggestion that the concession be temporary in nature.

### Research on the impact of special depreciation rules

There is strong empirical evidence from both the United States and Australia that incentives such as the instant asset write-off lead to increased business investment. In the United States, in two periods (2001-04 and 2008-10), firms purchasing qualifying equipment were allowed to immediately write-off a percentage of the costs of this investment in the same financial year it was purchased. The percentage that could be immediately written off varied in these periods, from an initial 30 per cent, to 100 per cent between September 2010 and December 2011.<sup>68</sup>

In 2017, researchers from both the University of Chicago and Deloitte used the investment data of over 120,000 firms to estimate that the accelerated depreciation led to increased investment of 10.4 per cent between 2001 and 2004 and 16.9 per cent between 2008 and 2010. They also found, that small firms responded 95 per cent more than large firms. They conclude that firms’ investment responds when the policy has an impact on cash flow, but not when cash flows only come in the future.<sup>69</sup>

<sup>65</sup> ATO (2018). \$20,000 instant asset write-off. [online] Available at: [https://www.ato.gov.au/Newsroom/smallbusiness/Lodging-and-paying/\\$20,000-instant-asset-write-off/](https://www.ato.gov.au/Newsroom/smallbusiness/Lodging-and-paying/$20,000-instant-asset-write-off/) [Accessed 11 Jul. 2018].

<sup>66</sup> Commonwealth of Australia (2018) *Budget 2018-19 – Budget Measures – BP 2*, p. 20.

Available at: [https://www.budget.gov.au/2018-19/content/bp2/download/bp2\\_combined.pdf](https://www.budget.gov.au/2018-19/content/bp2/download/bp2_combined.pdf)

<sup>67</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G., 2009. *Australia's future tax system – Part Two, Vol. I*. Canberra, Commonwealth Treasury. p. 173.

<sup>68</sup> Zwick, E. and Mahon, J., 2017. *Tax policy and heterogeneous investment behavior*. *American Economic Review*, 107(1), p. 217.

<sup>69</sup> Zwick, E. and Mahon, J., 2017. *Tax policy and heterogeneous investment behavior*. *American Economic Review*, 107(1), p. 223.

In 2017, the United States Government introduced ‘full expensing’ – the deduction of the full value of an asset in the same financial year it was purchased. This is a temporary measure, set to reduce from 100 per cent from 2022 and phase out by 2026. Under the changes, small businesses can now expense eligible investment up to the value of \$1 million. Previously the cap was \$500,000.<sup>70</sup>

In assessing the tax change, the OECD recommends the investment incentives be made permanent. They highlight that this would sustain economic growth.<sup>71</sup> If the measures were made permanent, Harvard University economists Robert J. Barro and Jason Furman have estimated the impact on long term economic growth would be significantly higher.<sup>72</sup>

Special depreciation rules have been used previously by Australian Governments to drive investment. During the Global Financial Crisis, the Federal Government offered a tax break to businesses in effort to drive investment. This took the form of extra, immediate tax deductions for equipment investment made between December 2008 and the end of 2009. Effectively, this allowed businesses to claim more than 100 per cent of the value of an asset as a deduction over its lifetime. The tax break evolved in nature over time and offered additional deductions to small businesses; defined as those with less than \$2 million of revenue.<sup>73</sup> In 2018, the Reserve Bank of Australia (RBA) analysed the impact of this tax break on business investment.

Using various methods, the RBA concluded the tax break had a strong effect on business-level investment, amongst both companies and unincorporated entities. Notably, the RBA found this additional investment did not take the form of investment that was merely brought forward from future years in response to the tax break. Small businesses increased their investment more than large businesses in response to the tax break. Finally, the RBA determined:

*“The tax break was important on macroeconomic level... both GDP growth and the cash rate would have significantly lower in 2009 without the tax break.”<sup>74</sup>*

## **Widespread support and use of the scheme, and its limitations**

The instant tax write off initiative has strong industry support. In their 2018-19 pre-budget submissions, both the Australian Chamber of Commerce and Industry (ACCI) and the Council of Small Business Organisations of Australia (COSBOA) identified the instant asset write-off as key to lifting business investment and driving economic growth.<sup>75,76</sup>

The scheme has been widely adopted by small business. In its first year of operation, 99,000 businesses took advantage of the write-off, claiming a total of \$415 million, up from \$165 million claimed as deductions the year before the scheme

<sup>70</sup> Michel, A. (2018). *Analysis of the 2017 Tax Cuts and Jobs Act*. [online] The Heritage Foundation. Available at: <https://www.heritage.org/taxes/report/analysis-the-2017-tax-cuts-and-jobs-act> [Accessed 17 Jul. 2018].

<sup>71</sup> OECD (2018) *OECD Economic Surveys: United States 2018*, p. 12.

<sup>72</sup> Barro, R. and Furman, J., 2018. *The Macroeconomic Effects of the 2017 Tax Reform*. Brookings Papers on Economic Activity.

<sup>73</sup> Rodgers, D. and Hambur, J., 2018. *The GFC Investment Tax Break* (Research Discussion Paper 2018-07). Reserve Bank of Australia. Section 3.

<sup>74</sup> Rodgers, D. and Hambur, J., 2018. *The GFC Investment Tax Break* (Research Discussion Paper 2018-07). Reserve Bank of Australia. Abstract.

<sup>75</sup> ACCI (2017) *2018-19 Pre-budget Submission*. ACCI. p. 6. Available at: [https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budget-submissions/consultation/view\\_respondent?show\\_all\\_questions=0&sort=submitted&order=ascending&q\\_text=Australian+chamber&uuld=453642770](https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budget-submissions/consultation/view_respondent?show_all_questions=0&sort=submitted&order=ascending&q_text=Australian+chamber&uuld=453642770)

<sup>76</sup> COSBOA (2017) *2018-19 Pre-budget Submission*. COSBOA p. 7. Available at: [https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budget-submissions/consultation/view\\_respondent?show\\_all\\_questions=0&sort=submitted&order=ascending&q\\_text=council+of&uuld=723595828](https://consult.treasury.gov.au/budget-policy-division/2018-19-pre-budget-submissions/consultation/view_respondent?show_all_questions=0&sort=submitted&order=ascending&q_text=council+of&uuld=723595828)

was introduced.<sup>77</sup> In 2015-16, close to 300,000 small businesses took advantage of the scheme - an increase of 50,550 from the previous year. The average amount claimed increased from \$4000 to \$9000.<sup>78</sup>

Responses to our survey confirm this positive impact. Four out of five of those businesses who took advantage of a small business tax concession indicated they had used the instant asset write-off. Many commented that the concession had a positive impact on their business and that it should be continued;

- *Instant write offs has given a pool of cash to grow the business.*
- *Asset write off great*
- *The equipment write off concession has been a real blessing – hugely helpful, and we really hope it continues into the 18-19 FY!*
- *Continue \$20K immediate deduction for assets*
- *Maintain asset write off*

Anecdotally, the OSBC has been informed that the \$20,000 cap that applies to the scheme excludes businesses operating in industries with expensive equipment. In particular, farm operators cannot realise the benefits of the scheme in its current form. Often capital investments made by businesses in this industry are one-off and of significantly higher cost than the \$20,000 cap.

In addition, respondents to the OSBC's survey have suggested the cap often precludes them from making investments in vehicles to be used as part of their business. To resolve these issues the Australian Small Business and Family Enterprise Ombudsman, Kate Carnell OAM, has proposed that small businesses should have the ability to claim up to \$100,000 once every three years. This would facilitate these more expensive, less frequent purchases whilst controlling costs of the scheme.<sup>79</sup>

## Summary

The instant asset write-off has appreciable positive impacts on business investment and has significant impacts on the cash flow of businesses. It greatly reduces the complexity of managing depreciating assets for tax purposes, and has been widely adopted by small business. International and domestic research highlights that allowing full expensing of equipment purchases drives business investment, which in turn lifts economic growth and the expansion of the labour market. The cost of the scheme to the budget is offset by the increased tax revenues that government can expect from businesses and wage-earners. Research also suggests these effects are larger when the incentives are permanent, rather than temporary.

The OSBC is of the position that better targeting of the concession may reduce budgetary costs and ensure its political longevity, potentially allowing the scheme to become permanent. Restricting the concession to businesses with less than \$2

<sup>77</sup> SmartCompany. (2018). *Budget 2018: \$20,000 instant asset write-off scheme extended for one more year* - SmartCompany. [online] Available at: <https://www.smartcompany.com.au/business-advice/politics/budget-2018-budget-2018-20000-instant-asset-write-off-scheme-extended-for-one-more-year/> [Accessed 16 Jul. 2018].

<sup>78</sup> Treasury – Media Releases (2018). *300,000 small businesses benefit from instant asset write-off* | The Hon Michael McCormack MP. [online] Available at: <http://mfem.ministers.treasury.gov.au/media-release/128-2017/> [Accessed 16 Jul. 2018].

<sup>79</sup> Waters, C. (2018). *Asset write-offs and a bank: the small business budget wish list*. [online] The Sydney Morning Herald. Available at: <https://www.smh.com.au/business/small-business/asset-write-offs-and-a-bank-the-small-business-budget-wish-list-20180503-p4zd1m.html> [Accessed 17 Jul. 2018].

million of turnover would still allow 93 per cent of Australian businesses to access the scheme (see **Table 1**).

**Recommendation 7:** The instant asset write-off should be continued indefinitely, with a cap of \$10,000, at least. At a minimum, this should be made available to businesses with an annual turnover of less than \$2 million.

**Recommendation 8:** Allow qualifying businesses to utilise the instant asset write-off for purchases up to the value of \$60,000 once every three years.

## Attachment 1 – Summary results of Small Business and the Tax System survey

### Key findings

- Less than one in three businesses surveyed indicated they thought there were eligible for small business tax concessions.
- Over 70 per cent of businesses with less than \$2 million of turnover responded with 'Unsure' or 'No' when asked if they were eligible for small business tax concessions.
- Small businesses indicated they spend, on average, 135 hours a year on administration related to their tax obligations (this included all businesses with less than \$10 million turnover).
- The majority of respondents identified GST as the most time consuming business tax. One in five suggested income tax (excluding CGT) was the most burdensome.
- Over a third of respondents found understanding their tax obligations difficult or very difficult.
- The most common suggestion for improving existing small business tax concessions involved payroll tax – with respondents proposing it be abolished entirely or that the tax-free threshold be increased.
- A quarter of respondents believed they're spending more time complying with tax obligations this year than last year. Over 40 per cent spend more time than five years prior.
- Four out of five of those small businesses who had taken advantage of a small business tax concession had used the instant asset write-off.
- 15 per cent of respondents suggested they had managed their annual turnover or wage bill to ensure access to tax concessions.

In preparing this submission, the OSBC undertook a survey of NSW small businesses. The survey included 21 questions relating to business characteristics, taxation and small business tax concessions. The survey was sent to 6,522 email addresses using Survey Monkey. 80 of these bounced, leaving 6,442 potential respondents. We received a total of 520 responses – a rate of 8.1 per cent. 75 of these were only partial, meaning the complete response rate was 6.9 per cent.

The survey was open for ten days (4 July – 13 July 2018), and reminder emails were sent on two occasions (9 July and 12 July).

### Questions in the survey

Question (in order used in survey)	Options provided	No. of complete responses
What is the annual turnover of your business?	<ul style="list-style-type: none"> <li>• Less than \$2 million</li> <li>• \$2 million to less than \$5 million</li> <li>• \$5 million to less than \$10 million</li> <li>• \$10 million or more</li> </ul>	445

<b>Question (in order used in survey)</b>	<b>Options provided</b>	<b>No. of complete responses</b>
How many full-time equivalent employees does your business have?	<ul style="list-style-type: none"> <li>• 0 (non-employing)</li> <li>• 1 to 4</li> <li>• 5 to 19</li> <li>• 20 to 199</li> <li>• 200 or more</li> </ul>	445
How many years have you operated your current business?	<ul style="list-style-type: none"> <li>• Less than 1 year</li> <li>• 1 to 2 years</li> <li>• 2 to 5 years</li> <li>• 5 to 10 years</li> <li>• Over 10 years</li> </ul>	445
What industry does your business operate in?	Amalgamation of ANZSIC Divisions. Results not analysed as too many respondents selected 'Other – please specify' option.	444
What is the legal structure of your business?	<ul style="list-style-type: none"> <li>• Sole proprietor</li> <li>• Company</li> <li>• Partnership</li> <li>• Trust</li> </ul>	444
Are you eligible for small business tax concessions?	Yes; No; Unsure	445
How easy or difficult do you find understanding your tax obligations?	Very easy; Easy; Neither easy or difficult; Difficult; Very difficult	445
How do you manage your tax obligations?	<ul style="list-style-type: none"> <li>• I manage them personally</li> <li>• I employ someone in my business to manage them</li> <li>• I pay an external service provider to manage them on my behalf (i.e. an accountant)</li> <li>• I manage my own taxes with advice from a professional</li> </ul>	445
Why do you pay an external agent to manage your taxes?	<ul style="list-style-type: none"> <li>• Tax matters are too complicated for me to manage</li> <li>• I don't have the time to manage it myself</li> <li>• It's more cost effective</li> <li>• To maximise tax deductions and offsets</li> <li>• I need expert advice on specific tax issues and/or legislative changes</li> <li>• Other (please specify)</li> </ul>	333
How many hours a year (estimated) do you spend on administration related to your tax obligations?	Free form responses	445
Did you spend more or less time complying with tax obligations this year than last year?	Much more; More; About the same; Less; Much less; NA – I was not operating last year	445
Did you spend more or less time complying with tax obligations this year than five years ago?	Much more; More; About the same; Less; Much less; NA – I was not operating five years ago	445
Please rank these business taxes from the most time consuming (1) to the least time consuming (a possible 7). If a tax does not apply	<ul style="list-style-type: none"> <li>• GST</li> <li>• Income tax (excluding CGT)</li> <li>• CGT</li> </ul>	445

<b>Question (in order used in survey)</b>	<b>Options provided</b>	<b>No. of complete responses</b>
to you, mark as N/A.	<ul style="list-style-type: none"> <li>• Employee withholding taxes</li> <li>• Employee superannuation</li> <li>• FBT</li> <li>• Payroll tax</li> </ul>	
Have you ever taken advantage of a small business tax concession?	Yes; No; Unsure	445
When did you last take advantage of a small business tax concession?	<ul style="list-style-type: none"> <li>• In the last year</li> <li>• Within the last two years</li> <li>• Within the last five years</li> <li>• More than five years ago</li> </ul>	124
Which tax concession(s) did you use? (Respondents could select multiple).	<ul style="list-style-type: none"> <li>• Instant asset write off</li> <li>• Deductions for professional expenses</li> <li>• Deductions for prepaid expenses</li> <li>• Small business income tax offset</li> <li>• FBT car parking or work-related device exemption</li> <li>• Superannuation clearing house</li> <li>• A CGT exemption</li> <li>• Simplified trading stock rules</li> <li>• Simpler BAS</li> <li>• Payroll tax rebate</li> <li>• Small Business Grant</li> <li>• Other (please specify)</li> </ul>	124
Do you agree or disagree with this statement: 'Small business tax concessions have assisted in the development of my business'?	Strongly agree; Agree; Neither agree or disagree; Disagree; Strongly disagree	124
What opportunities do you see to improve existing small business tax concessions?	Free form responses	347 (98 skipped)
Do tax considerations influence your business decisions? For example, tax considerations may have influenced your decisions about what legal structure to adopt or whether to invest in new equipment.	A lot; A moderate amount; A little; Not at all	445
Do you, or have you, managed your annual turnover or wages to ensure you can access tax concessions?	Yes; No	442 (3 skipped)
Please provide any further feedback or comments on your business experience with the tax system and small business tax concessions.	Free form responses	258 (187 skipped)

The statistics presented in this summary, and throughout the submission, only consider the complete responses. Not all questions were mandatory, and those respondents who indicated they had never taken advantage of a small business tax concession skipped three questions relating to concessions. Those businesses who

indicated they managed their own tax obligations, or employ someone within their business to do so, were not asked a further question on why they pay for external advice on tax matters.

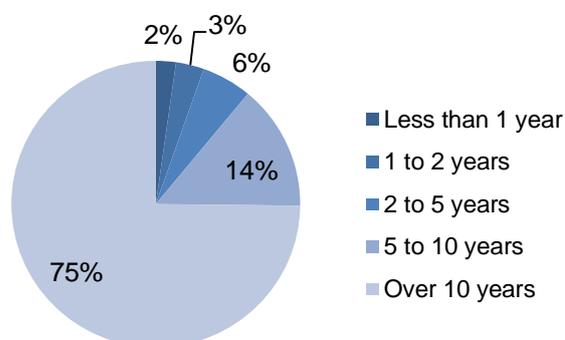
## Demographics

Based on the answers of respondents, the vast majority of businesses surveyed were small businesses, whether defined by turnover or number of employees.

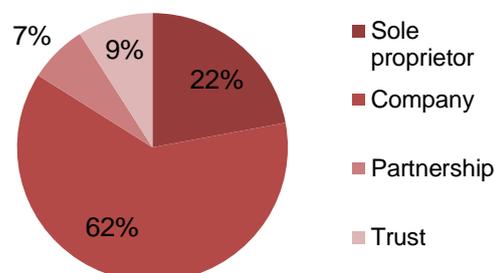
- Over 80 per cent of respondents indicated they had less \$2 million of annual turnover (n=445).
  - 96 per cent indicated they had less than \$10 million of annual turnover, which is now the small business entity threshold used by the ATO for the purpose of most small business tax concessions.<sup>80</sup>
- 92 per cent indicated they had less than 20 employees (n=445).
  - 26 per cent indicated they were non-employing businesses.
  - 47 per cent were micro businesses (1 to 4 employees).
  - 19 per cent were other small businesses (5 to 19 employees).

Three quarters of the respondents had operated their business for 10 years (n=445). 62 per cent operated their business as a company (n=444).

**Chart 1 - How many years have you been operating your current business?**



**Chart 2 - What is the legal structure of your business?**



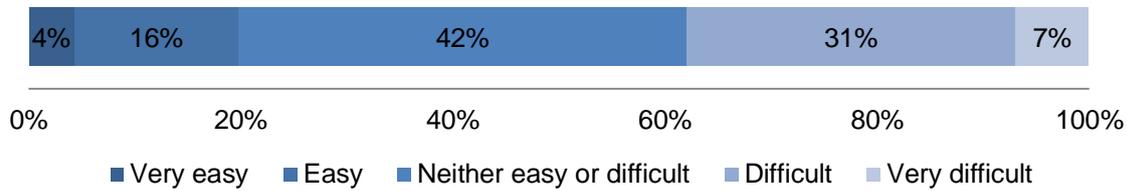
## Dealing with tax obligations

Respondents were asked seven questions relating to their dealings with the tax system.

Businesses provided the responses below to the following question (n=445):  
*“How easy or difficult do you find understanding your tax obligations?”*

<sup>80</sup> ATO (2018). *Increase the small business entity turnover threshold*. [online] Available at: <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Increase-the-small-business-entity-turnover-threshold/> [Accessed 9 Jul. 2018].

**Chart 3 - How easy or difficult do you find understanding your tax obligations?**



55 per cent (247) of respondents indicated they paid an external service provider to manage their tax obligations. Another 19 per cent (84) indicated they manage their own taxes with advice from a professional (n=445). Of this cohort, 46 per cent (154) suggested this was because tax matters were too complicated, and another 23 per cent (78) said this was because they needed expert advice on specific tax issues and/or legislative changes.

Businesses were asked:

*“How many hours a year (estimated) do you spend on administration related to your tax obligations?”*

Responses indicated the average hours spent per year on tax administration was 135 hours, with a median of 50 hours and a trimmed mean (5 per cent) of 103 hours. 411 responses were included in this analysis after normalising and removal of unusable responses. Hours increased with turnover, as would be expected.

**Table 1 – Average hours spent on tax administration by business turnover**

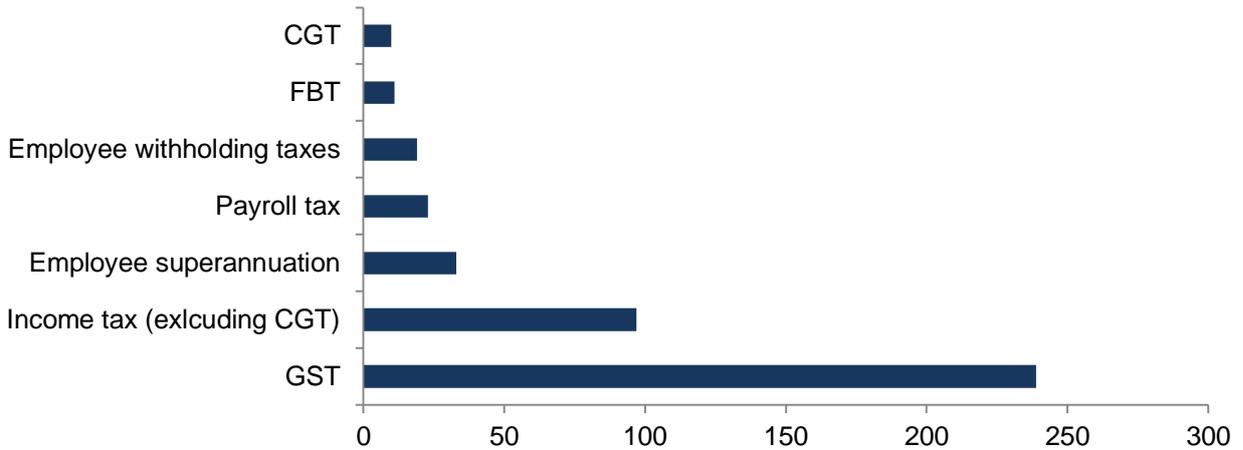
Turnover	Average	Count of responses
Less than \$2 million	132	348
\$2 million to \$5 million	145	49
\$5 million to \$10 million	186	14
\$10 million or more	N/A*	N/A*

*\*Note: not enough responses from businesses with \$10 million of turnover or more were collected to provide meaningful summary statistics.*

26 per cent of respondents indicated they had spent time complying with tax obligations this year than last year. In addition, 41 per cent indicated they spent more time than five years ago.

Businesses were asked to rank the following business taxes from the most time consuming (1) to the least time consuming (7); GST, income tax (excluding CGT), CGT, employee withholding tax, employee superannuation, FBT and payroll tax. GST was ranked the most time consuming by a majority of respondents, with income tax ranked the most time consuming by a fifth of respondents.

**Chart 4 - Business taxes ranked from least to most time consuming**

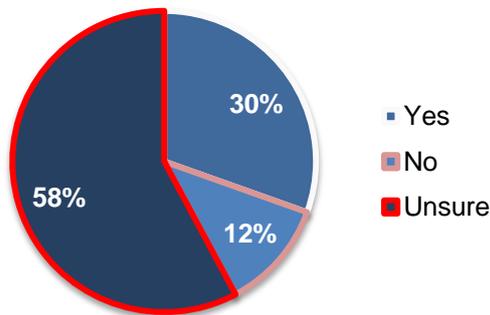


**Small business tax concessions**

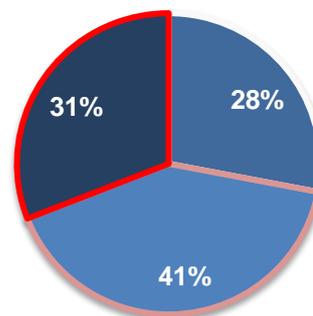
96 per cent of respondents to our survey indicated they had less than \$10 million of annual turnover. This suggests the overwhelming majority qualify for many small business tax concessions provided by the Federal Government. Despite this, less than one in three respondents indicated they were eligible, and had taken advantage of, small business tax concessions, confirming the current suite of concessions are poorly understood and underutilised.

- 70 per cent of businesses indicated they were not (12 per cent), or were unsure if they were (58 per cent), eligible for small business tax concessions (total of 445 responses).
- 72 per cent indicated they had not (41 per cent), or were unsure if they had (31 per cent), taken advantage of a small business tax concession (total of 445 responses).

**Chart 5: Are you eligible for small business tax concessions?**



**Chart 6: Have you ever taken advantage of a small business tax concession?**



Of those who indicated they had taken advantage of a small business tax concession (124), a majority indicated this was in the last year (69), with another quarter indicating it was within the last two years (31).

Businesses were asked to indicate which of a list of concessions they had taken advantage of. They could select multiple options, and indicate an alternative if the list did not contain the concession they used. 80 per cent (100) of these businesses suggested they had utilised the instant asset write-off. 34 per cent (42) had utilised the superannuation clearing house, 33 (41) per cent had made deductions for professional expenses and 30 per cent (38) had used *Simpler BAS*.

Businesses were asked the following question:

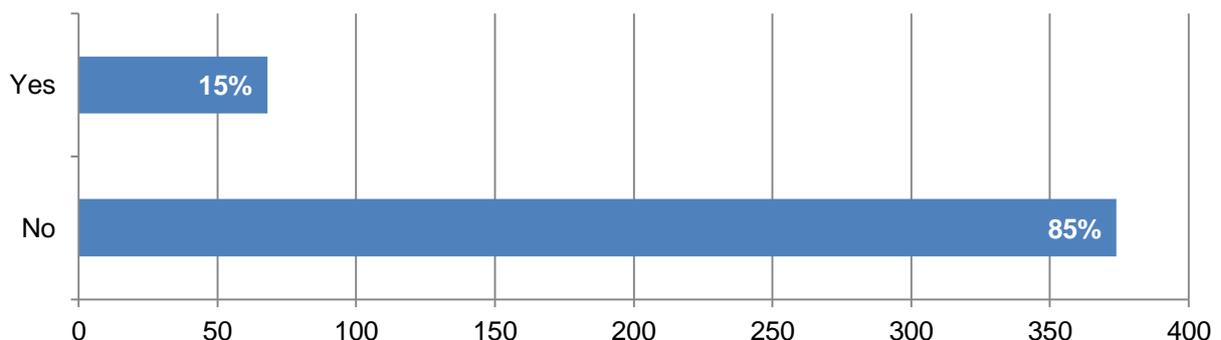
*“Do you agree or disagree with this statement: ‘Small business tax concessions have assisted in the development of my business’?”*

Responses suggested those who had accessed small business tax concessions thought they were useful to the development of their business. 35 per cent (44) either agreed or strongly agreed, whereas only 22 per cent (28) disagreed or strongly disagreed. 42 per cent (52) neither agreed nor disagreed.

Businesses suggested that tax considerations do impact their business decisions. 22 per cent (97) indicated they influence their decisions ‘a lot’. A further 30 per cent (135) indicated tax considerations impacted their choices ‘a moderate amount’.

15 per cent of businesses suggested they had managed their turnover or wages to access a tax concession at some point.

**Chart 7 - Do you, or have you, managed your annual turnover or wages to ensure you can access tax concessions?**



Businesses were asked two questions which they could respond in free form to;

*“What opportunities do you see to improve existing small business tax concessions?”*

*“Please provide any further feedback or comments on your business experience with the tax system and small business tax concessions.”*

The OSBC relied on answers to these free form questions in providing qualitative insights throughout this submission. Responses to these questions consistently raised issues relating to payroll tax, GST, BAS and the simplicity of the tax system. Many noted that they did not feel adequately educated on tax matters to effectively contribute to the survey.

## Attachment 2 – NSW Government tax concessions for small business

Tax concession	Explanation
Payroll tax threshold increase <sup>81</sup>	<ul style="list-style-type: none"> <li>• Small businesses do not pay payroll tax if their annual wage bill is below the threshold of \$750,000.</li> <li>• From 2018-19, the threshold will increase to \$850,000, increasing to \$900,000 in 2019-20, \$950,000 in 2021-21 and \$1 million in 2021-22.</li> </ul>
Payroll tax rebate <sup>82</sup>	<ul style="list-style-type: none"> <li>• Businesses that take on an additional employee, and attract a payroll tax liability, are eligible for a rebate if their full-time equivalent employee number is at or below 50.</li> <li>• The total rebate amount per new job is \$6000.               <ul style="list-style-type: none"> <li>○ \$2000 at the first anniversary of employment</li> <li>○ \$4000 at the second anniversary of employment</li> </ul> </li> <li>• The total \$6000 rebate is available for new jobs commencing on or after 31 July 2016.</li> </ul>
Insurance duty exemptions <sup>83</sup>	<ul style="list-style-type: none"> <li>• Small businesses, defined as those who have less than \$2m aggregated annual turnover, are not liable to duty on the following types of insurance:               <ul style="list-style-type: none"> <li>○ Commercial vehicle insurance – for a motor vehicle used primarily for business purposes.</li> <li>○ Commercial aviation insurance – for an aircraft used primarily for business purposes.</li> <li>○ Occupational indemnity insurance – insurance covering liability arising out of the provision by a person of professional services or other services (other than medical indemnity cover).</li> <li>○ Product and public liability insurance – insurance covering liability for personal injury or property damage occurring in connection with a business or arising out of the products or services of a business.</li> </ul> </li> </ul>
Small Business Grant <sup>84</sup>	<ul style="list-style-type: none"> <li>• Businesses that do not attract a payroll tax liability will receive a \$2,000 grant per new employee. For the business to receive the payment the new employee must:               <ul style="list-style-type: none"> <li>○ Commence on or after 1 July 2015 and before 1 July 2019</li> <li>○ Be employed for a full 12 month period</li> <li>○ Increase the total full-time equivalent employees (i.e. FTE must be higher for the full 12 month period</li> <li>○ Perform their duties wholly or mainly in NSW.</li> </ul> </li> </ul>

The NSW Government is also carrying out the Review of Payroll Tax Administration;

- NSW Treasury is leading the review.
- The review will examine any administrative arrangements that are required to comply with the payroll tax legislation.
- Rates and thresholds are out of scope.
- They are currently seeking feedback from businesses on their experience in dealing with payroll tax.
- The submission period ends on 6 July 2018.

<sup>81</sup> Revenue NSW (2018); last modified on 22/06/18; Available at: <http://www.revenue.nsw.gov.au/taxes/payroll>

<sup>82</sup> Revenue NSW (2018); last modified on 21/06/18; Available at: <http://www.revenue.nsw.gov.au/taxes/payroll/jap>

<sup>83</sup> Revenue NSW (2018); last modified on 13/03/18; Available at: <http://www.revenue.nsw.gov.au/taxes/insurance/exemptions/sbe>

<sup>84</sup> Revenue NSW (2018); last modified on 06/11/17; Available at: <http://www.revenue.nsw.gov.au/grants/sbg>