

Submission to the Board of Taxation on:

The review of the legal framework for the administration of the GST

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Introduction

This submission comments exclusively on the proposal to simplify the reporting of GST by the introduction of BAS Easy. It raises concerns that BAS Easy will lead to a significant loss in revenue to Australian governments and will introduce inequities into the taxation system.

Concerns with the Snapshot Method

The snapshot method is based on the premise that a ratio determined over two periods of four weeks will give an accurate estimate of a business's future GST obligation. There is no study to validate this. Indeed, while it may be true in some low cost / high volume businesses (the current audience for SAMs), it is unlikely to be true for the majority of small business enterprises. The implication of this is that businesses will naturally choose snapshot periods that result in the most beneficial ratio. Furthermore, it is inevitable that many businesses will legitimately manipulate the ratio by various methods. For example, by running stocks down prior to a sample period, and building them up to an overstocked level by the end of the snapshot.

A consequence of this will be a significant shortfall in GST revenue. Moreover, businesses that behave legally and ethically will be placed at a competitive disadvantage against those that only behave legally.

Concerns with the Business Norms method

The business norms method is based on the premise that ratios for businesses in the same industry group will be tightly distributed around the average industry ratio. Again, there is no evidence to validate this. It is probable that for many industry groups the deviation from the average will be large.

The implication is that businesses who will reduce their GST obligation are much more likely to adopt the method than businesses who would be disadvantaged. This will result in a loss of GST revenue.

Undermining the taxation system

There is a well-founded perception in the community that the taxation system is unfair to taxpayers who are unable or unwilling to exploit all legal avenues to minimise their tax obligation. Furthermore, there is an expectation from hard working Australian families that the federal government should be striving towards a more equitable tax system.

There is little doubt that the introduction of BAS Easy will be a windfall for many small businesses, but it will come at a cost, both to government revenues and the equity of the tax system.

Capital Items

Appendices D and E, and section 2.3.39, imply the BAS Easy ratios will be exclusive of capital sales and purchases. As the examples show, this makes BAS Easy not that easy at all. Section 2.3.28 states that the most difficult part of the BAS for small businesses is distinguishing between capital and non-capital items, yet under BAS Easy it becomes more important that businesses get this right, as it will now have a financial impact on their GST obligation.

However, including capital items in the ratio, or giving business the option of treating capital items under \$1,000 as non-capital, will only further increase the likelihood of ratios being manipulated for self interest as discussed above.

Conclusion

While simplifying the administrative framework for GST is desirable, the marginal simplification that may result from the introduction of BAS Easy does not justify the significant GST revenue loss and the erosion in the fairness of the taxation system that would ensue.

If the BAS Easy proposal does go further, then thorough analysis should be undertaken to determine the extent to which individual business ratios vary from a business norms ratio, and the extent to which a business snapshot ratio would vary from one reporting period to the next. Based on this, estimates of the loss in GST revenue could be determined.