



National Tourism Alliance

23 May 2014

Mr John Emerson AM
Chairman of Working Group
Review Into Tax System Impediments Facing Small Business
The Board of Taxation
Via email: taxboard@treasury.gov.au

Dear Mr Emerson

I write in response to the Review on behalf of the National Tourism Alliance (NTA). The NTA represents industry associations with an interest in Australia's tourism and hospitality industry, and its membership comprises national and state industry associations who together represent the interests of an industry with 280,000 businesses in Australia; around 90 per cent of these are small businesses, and about half are in regional areas. These businesses employ 1 million people across Australia.

Small businesses across all sectors play a significant role in the Australian economy, particularly in terms of their contribution to employment and production. Around 95 per cent of the 2 million actively trading businesses in Australia in 2011 were small businesses: around two thirds had no employees, a quarter had up to four employees and a tenth had between 5 and 19 employees¹.

In this context, the NTA welcomes the Federal Government's attention to identifying features of the tax system that are unreasonably or unnecessarily hindering or preventing small businesses from pursuing and achieving their commercial goals.

The "Scoping Study of Small Business Tax Compliance Costs" undertaken by the Board of Taxation in 2007 identified in its findings a detailed overview of the tax compliance issues facing businesses, and these issues remain pertinent. The NTA would like to highlight the following five issues for the Board of Taxation:

1. Definition of small business.

Inconsistency in the definition of 'small business' is a challenging issue as it affects how businesses are treated by government agencies, banks and other institutions, as well as what exemptions or other concessions they may be eligible for. The Reserve Bank of Australia identified in a 2011 study that there were at least 10 definitions of 'small business' used by 6 agencies in their dealings, with some agencies using different definitions for different functions within the one agency. Government should develop uniform and precise definitions of 'micro', 'small' and 'medium' businesses for data

¹ Small Business, An Economic Overview, Reserve Bank of Australia, 2011,

collection and policy development. This would also assist in measuring and monitoring the sector, and would help the businesses in their dealings with financial and other institutions.

2. Comparative ATO compliance burden.

A majority of businesses in various surveys over the years report that the ATO compliance burden is the most significant in terms of cost and time taken², or that this is the area of regulation and compliance that they were most concerned about.

One reason could be that, as found in the surveys, including the Board of Taxation survey in 2007, it is often understanding the obligations and preparing the information that makes up the majority of the time and cost burden.

Whilst there is a significant amount of information on the ATO website, it can be difficult to find the relevant information quickly and easily. Often, small business people need to refer to a subset of a much larger body of information, or fill in an extensive form in which only a small portion refers to their business. A system of outreach could assist small business people to understand their specific compliance obligations and set up systems to streamline preparation of information. An advisor can direct them to the necessary information and inform them in simple terms what is required, rather than the business person having to sift through and interpret the large volume of information on the website and work out what is relevant to their business.

3. Simplified tax system

Since its introduction, the Simplified Tax System (STS) has often been perceived as the “poor cousin” in tax planning for small business. The stringent eligibility criteria and limited benefits meant it appeared unattractive to most small business owners at the time of its introduction in 2001. There have been amendments over the years to address this, and it would be timely to review and assess the effectiveness and take-up rate of the STS in the context of this review, to identify where the STS could be updated to assist in addressing the impediments to growth of tax compliance.

The STS eligibility criteria should align with the ATOs own definition of micro business, namely \$2 million turnover per annum. For further simplification, this could also become the sole criterion for eligibility to use the STS.

It is also recommended that the existing STS benefits should be expanded to include an exemption from fringe benefits tax entirely. This would mean that businesses classified as micro businesses under the STS would be exempted from FBT. Many small businesses undertake considerable compliance activities in relation to FBT, with a relatively insignificant revenue collection as a result. Given the low FBT reporting by micro businesses, this would have a negligible cost to the budget and a large positive impact in reducing compliance costs for those businesses.

4. Disproportionate burden on small businesses.

It is well established and acknowledged by governments and regulatory bodies that compliance costs have a more significant impact on small businesses than on larger businesses. The Board of Taxation report states “[compliance costs] are regressive, with a given cost imposing a proportionately higher

² NSW Business Chamber Red Tape Report 2010, 2011, 2013; ACCI Red Tape Survey 2012; *Measuring Red Tape: Understanding the compliance burden on Tasmanian businesses*, Stenning & Associates and KPMG, 2013

impost, the smaller the business.³ All State governments have instituted varying levels of red tape reduction initiatives, such as the Red Tape Commissioner in Victoria, in an acknowledgement that action is needed to encourage growth, innovation and diversity in small businesses where the compliance burden is felt disproportionately heavier.

It is important for regulators and institutions to act on this knowledge, especially as the costs to small businesses are often non-financial in that it can cause stress and related ill-health, and also affect the personal life of the small business people, which can have just as much of an impact on their ability to carry on business. This feature of the tax compliance burden can have a significant role in preventing small business people from pursuing commercial goals.

5. Compound effect of other compliance burdens.

Whilst the surveys demonstrate that the ATO in particular is seen by small business as imposing a significant compliance burden which restricts their growth potential, it is important to note that the impact of other areas of compliance can weigh just as heavily on small businesses. Taken in aggregate, the majority of businesses are finding that year on year the time and cost of all compliance activities is increasing. The surveys regularly find that at least half the respondents state that the compliance burden was restricting the growth or expansion of the business.

One development that is concerning is that the second most complex and time consuming area where businesses are finding it difficult to understand and comply with the requirements are the employment-related⁴ regulations of workplace health and safety, conditions of employment, and employing workers. This is not to say that businesses are trying to avoid their obligations; the issue is that the complexity in finding information, understanding what is required, and preparing the information is imposing the most cost on the business, and therefore constraining their ability to grow.

The cost and complexity of employing staff, apart from their actual wages, is a constraint to growth as many businesses may choose to remain below certain thresholds to avoid the regulatory burden. In recent surveys, employment-related compliance time and cost is starting to overtake that of the ATO. In the service-oriented tourism and hospitality sector, the compliance burden that acts as a disincentive to employ staff is a serious constraint to growth, as well as to quality of service.

6. Conclusion

The cumulative effect of the regulatory burdens faced by Australian small businesses should be of great concern to a Government whose objectives include economic growth. The current regulatory burden faced by small businesses is a tangible obstacle to innovation, investment and employment, and therefore are a significant impediment to national economic growth.

³ Scoping study of small business tax compliance costs, Board of Taxation, 2007

⁴ ACCI Red Tape Survey 2012

Thank you for the opportunity to make a submission. Please have your office contact me on 0488 0699 45 or jpayne@tourismalliance.org if you require further information.

Yours faithfully



Juliana Payne
Chief Executive Officer

NATIONAL TOURISM ALLIANCE MEMBERS

1.	Accommodation Association of Australia
2.	Australian Regional Tourism Network
3.	Australian Tourism Export Council
4.	Caravan, RV & Accommodation Industry of Australia
5.	Ecotourism Australia
6.	National Capital Attractions Association
7.	Queensland Tourism Industry Council
8.	Restaurant & Catering Australia
9.	South Australian Tourism Industry Council
10.	Star Ratings Australia
11.	Tourism Accommodation Australia (Division of the AHA)
12.	Tourism Council Western Australia
13.	Tourism Industry Council NSW
14.	Tourism Industry Council Tasmania
15.	Victoria Tourism Industry Council