



SMALL BUSINESS ASSOCIATION OF AUSTRALIA

White Paper

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Small Business and Taxes

One Definition across Government of what is a Small Business

There are far too many definitions of Small Business which does not allow for true focus. The Small Business Association of Australia (SBAA) recommends one definition across all Government Departments. The Australian Bureau of Statistics (ABS) defines Micro Business as a small business with 0–4 employees and a Small Business as an actively trading business with 0–19 employees. This seems to be a reasonably correct definition.

Access to Statistics

There is a definite need for our organization, and I believe all of the others to have a regular flow of industry statistics so that we may facilitate a better interaction between our members and the Tax Department.

Restore Limited Liability to free up Investment

It has become very difficult for small private companies to attract funding because an investor would normally take a position on the Board to protect their investment. With the current rules on exposure of Directors this is no longer happening and funding is drying up. Director Penalty Notices effectively destroy limited liability, so less people are starting businesses. Entrepreneurs and investors take risks to create business, but they are not going to invest on an unlimited liability enterprise!

Incentive to hold cash in the Business

Most SME's are funded through borrowing against real estate, or small amounts of savings. In the initial stages of a business, trading can be unreliable. One year may be good and the business pays tax, then the subsequent year the business makes a loss and goes out of business as it has exhausted its funds. Primary Industry has averaging provisions, why not start-ups in the first 3 years? Further, could there be an incentive to hold assets in SME's so they can weather down turns? For example up to \$50,000 can be held in a tax free interest bearing account. Untaxed on accumulation. Accessible in times of need and able to be topped up when times are good.

Abolish Inefficient Taxes

A Business Council of Australia report found "Governments imposed 56 different taxes on business". Small Business has to manage and account for the same number of taxation activities as Telstra or BHP. Telstra or BHP have any amount of financial programs and people to account for these activities and this resource is only a small cost which has little if no impact on the operation of these companies.

Minimise Compliance Cost

For Small Business the time taken up with bookkeeping often with the proprietor doing a major portion of the work and then the need to employ professional bookkeepers and accountants becomes a major interruption and cost imposition on the business. The cost of employing bookkeepers and tax accountants (to make sure the book keepers are correct) because of the complexity, has become too expensive for most, especially the Micro Business.

The fact that there is a thriving industry for specialist tax accountants proves that the tax system for Small Business is well beyond the capability of a Small Business owner.

Book-keepers or accountants work for hourly fees. If the company gets behind in payments or has a problem that cannot be rectified easily then the cost could blow out well beyond the cash- flow capability of the company to pay. The accountant stops and the company is in trouble.

Where complex differences of opinion with the Tax Office develop large companies have the resources to challenge and defend against the Tax Department but Small Business cannot. They do not have the resources to fight, so of course they capitulate. They are easy prey.

Unpaid Tax Collectors

With GST Small Business is collecting taxes on behalf of Government at their cost, in their own time and without any reward. If the business owners make mistakes they are not only fined heavily but industry tends to feel they are being treated as cheats by the tax department.

Abolish FBT

FBT Tax is extremely time consuming and complex. SBAA believes that the imposition created and the revenue raised does not warrant the need for this tax. If FBT was abolished it would increase the velocity of money within the economy and subsequently increase GST revenues, more than compensating for its abolition.

Retirement and Sale of Small Business

Many SME owners will be looking to retire from their businesses in the coming decades. The Government needs to work on maintaining the value in these businesses so that the next generation is attracted to risking their capital and time in taking over the business. If Business owners cannot sell their business for a reasonable return then they will be less likely to self-fund their retirement.

Government need to think Globally, not Locally

In doing business, Australia needs to compare itself to the most successful countries not the ones we already beat. Australia should compare itself to Singapore regarded as the best Country to do business. Entrepreneurs and Investors now play in a global economy, and will establish their businesses in other jurisdictions if Australia plods along as it is. Uncompetitive legislation provides advantages to foreign business to the detriment of our own Australian businesses. A case in point is the \$1,000 GST free loophole.

In the current financial environment a Small Business has difficulty in building and operating a successful business without the imposition of non-profitable, complex and difficult, multiple, government tax collection activities.

The more Government regulations are imposed on Small Business and the more Government punish them the more Government loses. Small Business employs a large majority of private enterprise. More imposition means less profit which means less taxes or in the end, less businesses which means a major rise in unemployment.

Small Businesses should have a simple one tax treatment in a package which removes the daily, weekly and monthly load and allows for a professional accountant to bill an acceptable fee annually.

This single tax system would be calculated and established as a capped sum across the size and performance of the business, measured by employment numbers, turnover and profit.

The benefits are that Small Business tax would be easier, fairer and easily collectable. There would be far more time spent on strengthening and growing the business. There would be greater confidence by small business with far less administrative work to do and less control work by the Tax department.

Small Business, Government and Australia would prosper.

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