

## **Response from the Council of Small Business Organisations of Australia to the discussion document for the development of a Tax White Paper**

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## Introduction

It is essential to undertake a comprehensive review of the Australian tax system. The government should be congratulated on the breadth of the approach and the ambition to achieve an outcome.

It is pleasing to see small business receive special attention in the discussion paper. For too long the text book and theory based economists and academics have wanted all businesses to be treated the same in tax and in economic policy. The reality is that we have always had a two tiered tax system due to the ability of large businesses to minimise their regulation requirements and also minimise tax through use of highly paid advisers and the ability to move profits/income off shore to jurisdictions with more favourable tax rates.

Designing a system for all businesses will always mean big business gets its way and small business people have to struggle with extra complexity. This is a change from previous reviews of tax and shows that there is a willingness to embrace the challenges of the new economy.

The focus on removing complexity is also commended – a less complex system is less expensive and encourages business and innovators.

The issue of GST has to be confronted. If we are going to have low or zero company and personal tax then a consumption tax that is supported by all and applied to all needs to be in place. The Howard government gave us GST after decades of debate now is the time to fix the faults and pave the way for use of technology to ease complexity and also give confidence that people and companies will pay their way. COSBOA is happy to lead the way on confronting this issue.

A fair international taxation system is desperately needed by all countries, developed, developing or under developed. This will require the international business community and various country associations to come together and agree on how companies should be taxed and where that tax should go.

In the end innovation will come from entrepreneurs and small business and that is where the future of the economy lies.

## Summary of draft submission

COSBOA has developed several policy proposals below that will enhance the removal of complexity and provide small business people with options to help manage their tax obligations.

### Options for minimising tax compliance costs for small business

#### Choice of a lower tax rate in lieu of claiming deductions

Currently there are many deductions that a small business person can claim. These range from diesel tax rebates to travel, training, newspapers, power, office costs and the list goes on and on depending upon which industry the business is placed.

We are proposing that a small business may, at their choice, 'opt in' to a system where they decline all deductions that may apply in exchange for a much lower tax rate. For this to be

attractive the tax rate should be very low – around 5% or perhaps 10% for incorporated entities.

This would provide businesses with the opportunity to have a less complex tax return and less need to maintain records for tax purposes. We believe many small to micro business people would prefer this option.

#### **Agreed lump sum tax payment for a 3 year period for small businesses**

There is also an option to have small business person and the ATO agree on a set amount of tax to be paid by that business for a three year period. The amount to be paid would be determined by a previous year's tax return. This provides the opportunity for the business person to know their tax liability, not keep unnecessary records and concentrate on the business. Any major changes to the business that may occur, or sale of the business, would be dealt with as needed. We believe that the ATO would be open to this approach as it would also save them time and allow resources to be focussed on businesses that do not comply or are high risk.

This approach would need to be carefully considered as some members are concerned that some businesses would use this to their benefit without due regard to proper business practices.

#### **Sanctions for non-complying businesses**

If either of the above proposals were to be implemented than non-complying businesses could be sanctioned by a requirement to lodge returns and/or payments on a more regular basis. This creates a system that rewards compliance and punishes non-compliance.

### **Removal of businesses from collection of Superannuation**

COSBOA has been calling for the removal of employers from the collection process for superannuation for some years. The current system is complex and the superannuation funds, particularly the Industry Funds, are inefficient in their administration that causes inefficiencies for small businesses. Indeed small business people are the only people in the system who do not get paid for their work as all other individuals are employees of larger institutions and companies, yet the small business person is the only individual who can be fined for not doing their job.

Basically we are asking that superannuation be included in PAYG payments made to the ATO and that the owner of the funds, the ATO and the relevant superannuation fund determine how to manage those funds. A comprehensive paper on this issue is attached to this submission.

### **Changes to GST to remove complexity and create fairness**

COSBOA understands the complexity of the GST system and process. Our members have to deal with this every day. Some industry sectors have much more complexity than others and there is often confusion over GST issues.

We propose that the GST be broadened to include most goods and services with a few exemptions that reflect the needs of the Australian community. These exemptions would be on health services/products and non-commercial rent.

We also propose that the GST be increased to 15% to allow for the removal of other taxes and for better budget accounting

We understand that there would need to be increases in wages and pensions to compensate for the increase but given our comprehensive experience with GST that increase should be able to be determined easily and should not be that high.

### **Apply GST to all purchases made from within Australia**

Currently GST is not applied on most purchases made from outside Australia. This creates unfairness and provides support for non-Australian businesses. There is a belief that the GST is too expensive to collect but this is a fallacy as the GST can be collected at no cost to the government either by asking credit card companies and banks to collect the GST or asking the ATO to ensure GST is collected. A more comprehensive paper on this issue is attached to this submission.

### **Removing FBT on generic benefits such as childcare and health assistance for employees**

The imposition of FBT on childcare and health products such as Gym membership or personal trainers is not logical given the importance of these services to health and families. The FBT was introduced to stop the wealthy rorting the tax system; childcare and health are generically important and employers should not be penalised if they provide this support to their employees.

We understand that FBT on childcare and childcare rebates are complex issues and that the processes involved for parents to claim support may inhibit employer support but this is an issue that should be investigated further. If an employer wants to support an employee then neither party should be penalised either by extra tax or by removal of rebates.

### **Increase the threshold for definition of a small business from \$2m to \$5m**

Currently the threshold for determining whether a business receives small business deductions and considerations for tax and many policy issues is at \$2 million. This has been the threshold for many years and we believe this needs to rise to \$5 million. This would provide businesses in the intermediate phase between small and medium business to be able to access incentives and provide impetus to their growth cycle.

Ends