



25 May 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600
ATTN: Mr Roger Blake, General Manager
Email: bettertax@treasury.gov.au

RE: MYOB's submission on the Tax Discussion paper

Dear Sir/Madam,

MYOB is pleased to make this submission in response to the Commonwealth Government's Tax Discussion Paper, Re:Think, released in March 2015.

Our submission represents the views of Australia's millions of small business owners and operators and recommends how the tax system can be changed to their benefit.

For more than twelve years MYOB has surveyed sole traders, small businesses and medium enterprises. For the past six years these findings have been published in the MYOB Business Monitor series. That's why our submission accurately reflects the concerns and priorities of the small business community.

Our research has found:

- Every time we have asked small business about their biggest pain point over the years, complying with the GST comes at the top of the list;
- Complying with Australia's Goods and Services Tax (GST) is costing small business more than \$13.7 billion a year;
- Small businesses spends an average of 84.1 hours a year to collect the tax on behalf of the Australian Government - or more than two full working weeks a year; and
- The cost of the time spent on GST compliance equates to \$6778 a year for each of the estimated 2.02 million small businesses and non-employed business in Australia.

These statistics alone justify the need for reforming the way GST is both collected and reported.



The biggest issue for small businesses is not just how much tax they pay, but how much it costs them to act as tax collectors for the Australian Government.

MYOB believes the path to reform is simple and clear.

The Commissioner of Taxation can make a decisive and effective reform of the GST by abolishing the requirement to provide additional information on GST-free transactions, and reducing the BAS form to the five key fields needed to calculate the payment owing or owed.

The need to allocate a GST-free code to each transaction results in uncertainty, confusion and compliance risk. It has nothing to do with the GST the company is required to pay and is solely used by the Australian Taxation Office for its own audit and risk profiling processes. This information can be gained from the annual return of the relevant entity.

In order to comply, small business operators should only have to determine one thing - whether GST applies to a transaction or not.

This reform would bring Australia closer to New Zealand where there is no requirement to report additional details about GST-free transactions. New Zealand companies spend only half the time of their Australian counterparts on GST compliance and we believe the main reasons are (a) the broad set of exemptions – which the government could remove and (b) the reporting requirements – which we call on the Commissioner to simplify.

And unlike other proposed changes to the GST system, this second reform can be achieved without the need for legislation and possibly without consensus among the states. All that is required is the will to make things easier for small business and changes to Business Activity Statement forms, which can be made through regulations on the authority of the Commissioner for Taxation.

By adopting MYOB's proposed reform, the Australian Government will do much to achieve its goal of making the tax system simpler and fairer for small business.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Tim Reed', written in a cursive style.

Tim Reed
Chief Executive Officer
MYOB



Easing the GST Burden on Small Business

A submission by MYOB in response to the Tax Discussion Paper

1. Introduction

The Tax Discussion Paper identifies the importance of easing the burden the tax system places on small business.

MYOB agrees with the following statements contained in the Tax Discussion paper:

- “Complexity and compliance costs have many drivers and are a growing problem in the tax system¹.”
- “There are opportunities to reduce the high costs of taxation due to complexity².”
- “Navigating a complex tax system can be disproportionately burdensome for small businesses³.”

MYOB’s submission demonstrates the impact of one tax – the GST – on the productivity and profitability of small business. Our submission argues that the time and cost of GST compliance can be reduced by changing the way small businesses are required to report the GST.

MYOB’s proposals are consistent with the Tax Discussion Paper’s stated objectives of creating “...a better tax system that delivers taxes that are lower, simpler, fairer⁴,” and the need to “focus on how revenue is raised, not just how much⁵.”

2. MYOB’s Research – The Hidden Cost of GST

MYOB’s research⁶ has identified GST compliance as the biggest source of red tape for small business.

MYOB surveyed 1026 business owners, managers and directors (known as business operators) to measure the costs of both the GST and overall tax compliance. Of the businesses surveyed, 85 per cent were micro or small businesses with fewer than five employees.

¹ Page 13

² Page 28

³ Page 105

⁴ Page iii

⁵ Page 5

⁶ Conducted by Colmar Brunton on behalf of MYOB, July 2014



The research found small business operators took an average of 131.2 hours each year to comply with all their tax obligations. While companies accept the need for a certain amount of time being spent meeting their tax obligations, the biggest surprise was how much of this time was spent on just one tax – the GST.

The GST accounts for 64 per cent of all the time each small business operator spends doing their tax. This equals 84.1 hours per year - or two full working weeks a year - where the owner's attention is dragged away from the day to day running of their business.

MYOB asked each company to nominate who performed the GST compliance tasks in their business as well as the value of the time of each person. The research also identified that it is the business owner who spends the majority of the time on tax compliance in their business (76 per cent).

***Table 1: Who does the GST compliance in a small business?
(Average time and cost)***

- Owners/directors: 76.3% @ \$87.30 per hour
- Paid employees: 15.1% @ \$65.20
- Friends/relatives: 8.6% @ \$48.20

Based on this distribution of time, MYOB calculates that the 84.1 hours spent on GST compliance is costing each small business \$6778 per year.

When this cost is multiplied across all of Australia's 2.02 million ⁷small enterprises, the total cost of GST compliance is \$13.7 billion each year.

However, the burden of GST compliance extends beyond the commitment of internal resources. Small businesses are outlaying an additional \$2433 each year for bookkeepers and accountants to help them administer the compliance costs of the tax.

3. Why GST Compliance is a Burden for Small Business

According to MYOB's research, the biggest problem for small business operators is the recording of information needed by the Australian Tax Office. This aspect of administering the GST takes up 78.2 hours a year on average for small business operators.

⁷ According to the Australian Bureau of Statistics in 2013 there were around 760,000 SMEs, these are businesses with between 1-19 employees, and an additional 1,264,298 'Non-employing' businesses. Australian Bureau of Statistics. Counts of Australian Businesses, including Entries and Exits, Jun 2009 to Jun 2013. Released 31 March 2014.



The first level of complexity is caused by the many exemptions to the GST which small business operators need to be aware of. The GST applies to 56 per cent per cent of the goods and services traded each year in Australia. Many food products, education, health, medical services and products, water and sewerage are exempt.

To complete their Business Activity Statement, a small business operator has to determine whether the goods and services they buy and sell attract GST or whether they fall within one of the exempt categories.

A second, and arguably more confusing layer of complexity involves the treatment of GST-free transactions.

Once a transaction is identified as GST-free the small business operator is then required to assign it to one of eight possible categories, based on the Australian Taxation Office's (ATO) GST-free codes.

The need to allocate a GST-free code to each transaction results in uncertainty, confusion and compliance risk. This adds an unwelcome level of complexity to an already onerous task.

The need to determine and assign codes has nothing to do with the collection of GST revenue as it only relates to transactions that are GST-free. The GST-free codes are used by the ATO to benchmark industries for auditing and for profiling. In other words, the requirement to assign transactions a GST-free code has no impact on the amount of GST a company is required to pay.

This onerous compliance mechanism may provide the ATO with peace of mind in their current risk profiling processes but it comes at an unjustifiable multi-billion dollar productivity cost to small business and the broader Australian economy.

4. MYOB's Proposed Reform

To ease the GST compliance burden on small business operators, MYOB recommends removing the need to assign GST-free categories for all businesses. Alternatively, the need to assign GST-free categories can apply to businesses with a revenue of less than AU\$2 million.

This simple adjustment to the GST reporting methods will significantly reduce the compliance burden on small businesses. It will also remove a complex task which unfairly causes anxiety among small business operators who may be uncertain in their reporting and classifications and therefore may lead to reporting errors. As a part of this the GST component of the BAS could be reduced to five fields.



MYOB argues that removing the requirement to report and classify various GST free transactions is a plausible and modest reform.

And importantly, this reform can be achieved quickly through a regulatory change, avoiding the need to pass legislation and create a consensus between the Commonwealth and the States.

This reform will not impinge on the ATO's capacity to track GST collection and MYOB encourages the ATO to identify alternative methods to access data in support of its risk management practices, for example using technology improvements to transfer data across the ATO rather than burdening small business with added compliance requirements.

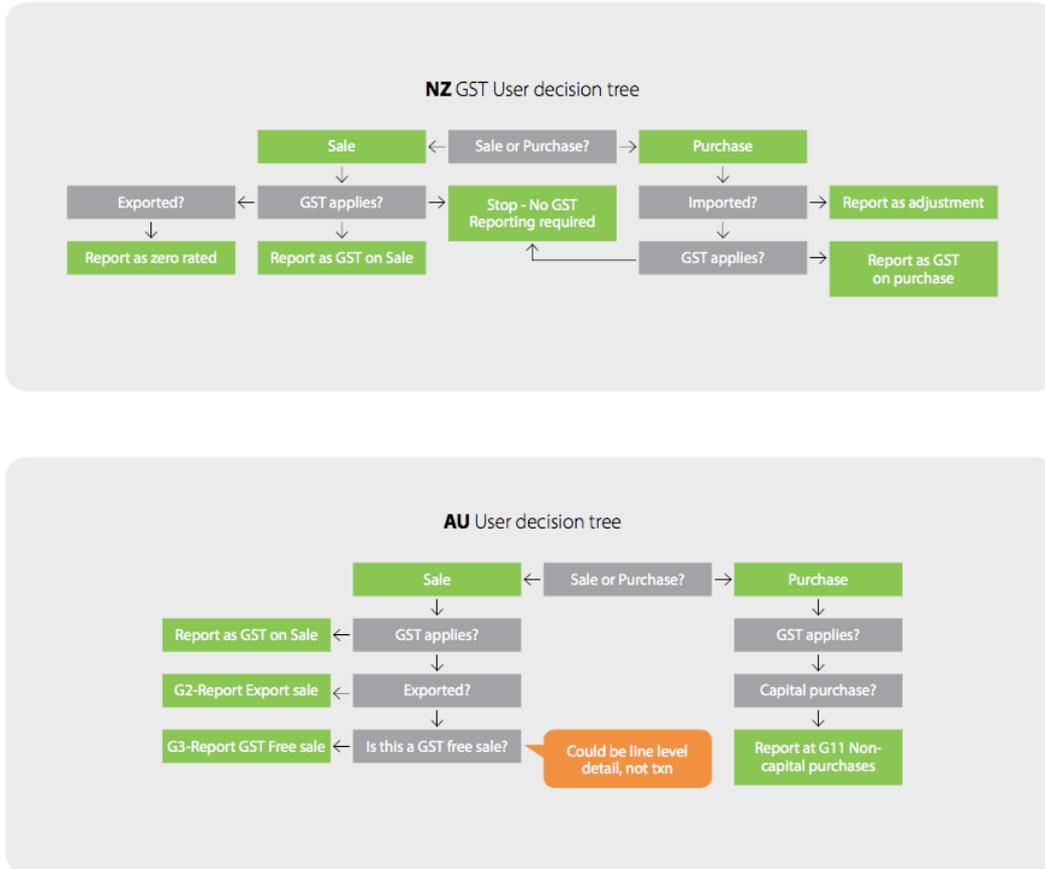
5. The New Zealand Experience

MYOB's proposed reform would bring Australia in line with New Zealand where there is no requirement to report additional details about GST-free transactions. New Zealand has fewer GST exemptions overall, making it easier for small business to comply with GST requirements.

The time taken by business owners in each country demonstrates the effectiveness of the New Zealand approach. According to MYOB's research, the average Australian business spends twice as long on GST compliance than similar businesses in New Zealand.

A New Zealand SME needs 39 hours on average to comply with the GST each year, compared to 84 hours by Australian SMEs.

Table 2: Australia v New Zealand GST Decision Tree



6. Support from Small Business Operators

MYOB has spoken to numerous small business operators about the GST and recently conducted a roundtable event on small business tax reform. The following views of support were expressed by small business operators for MYOB’s proposed reform:

- “I’m very displeased with how time consuming GST compliance is. It takes up a full working day every month, taking me away from valuable business activities. I can’t afford to employ an accountant so it’s extremely stressful.”
- “I’m supportive of the government removing the various ‘No GST’ reporting requirements, I want them to make it fair and simple for small business owners.”
- “There are complexity issues with the BAS form and submitting it, especially small businesses doing exports. It takes time and I have to go back and check I’m compliant.”



- “There are so many different sets of rules. It’s a very complex system for the average business.”
- “Please don’t make an accounting degree a prerequisite for owning a small business. SMEs don’t aspire to do bookkeeping and accounting, compared to running their business it’s not valuable to them.”

7. Conclusion

The Tax Discussion Paper is the beginning of a process that should lead to substantial changes to Australia’s tax system. However, big changes will take time. They will involve extensive debate both in and outside Australia’s Parliaments.

While this wider debate takes place, the Government should be prepared to make small but important changes such as those suggested in this submission.

Removing the requirement to report and classify every GST-free transaction is a sensible and modest reform that could be achieved through regulation, avoiding a more difficult political path of negotiation through Parliament and the States.

The AU\$13.7 billion cost of GST-compliance is too great for small business operators, and is a major impediment to their productivity. That’s why the Government should adopt our proposed reforms as quickly as possible.

May 2015