

29 May 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

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Dear Sirs,

SUBMISSION ON RE:THINK TAX DISCUSSION PAPER

Bentleys Chartered Accountants has a long history of providing accounting services to small and medium enterprises (SMEs) across Australia. As well as accounting services, Bentleys provides audit and assurance, business advisory, financial planning, taxation consulting, and corporate recovery services. Seeking to gain a deeper insight into the issues and views of the SME market, Bentleys commissioned "The Voice" business survey in 2014, a long-term research project to follow and explore the mindset, needs, expectations, and concerns of its core client base.

Working with Empirica Research, the first wave of The Voice in early 2014 surveyed 2370 SMEs Australia-wide, providing insight into the different perspectives of Bentleys' key client industry sectors – agribusiness, health and ageing, education, government and professional services. The survey covered business sentiment relating to confidence and employment, uptake of technology, and foreign investment.

The second wave of The Voice ("Voice 2") was completed in December 2014 and involved the survey of 328 micro, small, and medium enterprises in all industry sectors across Australia.

The survey retained lines of questioning around confidence and employment, technology uptake, and foreign investment, and added an extensive section on tax, including GST and highlighted the marked differences between metropolitan and non-metropolitan businesses .

The comments made in this submission look to compare some of the findings from the second survey with the issues raised by the taxation discussion paper "Re:think". They focus primarily on foreign investment, GST, the complexity of the taxation system and the use of technology by the different business sectors.

We would be happy to provide a more detailed analysis of our findings from both our surveys if so desired.

Foreign Investment

37% of respondents to the Voice 2 survey believe there should be less foreign investment whereas 46% think there should be more. Interestingly the responses changed significantly when comparing metropolitan with non-metropolitan businesses. In the case of the former 55% considered there should be more foreign investment and 27% less whereas in the latter the percentages changed to 34% wanting more foreign investment and 50% less.

It is implicit in the comments contained within Re:think that more foreign investment is considered to be a positive thing for Australia. This was made clear by comments regarding our company tax rate being high by OECD standards and that uncompetitive tax rates will make it harder for Australia to continue to attract necessary investment. Also, comments regarding the imputation system encouraging domestic rather than foreign investment.

There is clearly a level of disparity between the view of Government that foreign investment needs to continue and grow and that our taxation system should assist in facilitating this and the views of business where they are much less certain, particularly in rural areas where the impact of foreign investment has perhaps been more visible. The benefits of foreign investment need to be “sold” to the business community particularly at the SME level.

GST

Only 9% of respondents to the Voice 2 survey believe the GST rate is too low, whereas 69% consider it to be at the right level. When asked whether they would be supportive of an increase to GST if it was accompanied by reductions in corporate and income taxes the percentage in favour grew to 18%, while 26% were somewhat opposed and 34% were strongly opposed. Medium businesses were the least opposed.

Most issues of concern involve an anticipated decrease to revenue and / or profit particularly with respect to businesses that sell to the public rather than to other businesses. It was also noted that 58% of respondents opposed overseas companies not having to pay GST, an issue that was recently addressed in part in the 2015 Federal Budget.

Whilst recognising the political difficulties associated with increasing the breadth and rate of GST, Re:think made the point that Australia has a low GST rate by world standards and a range of exemptions that make it more complicated and increase the compliance costs incurred by businesses. It also makes it clear that based on current policy settings, personal income tax will continue to increase as a percentage of total taxation revenues largely as a result of bracket creep.

Unfortunately whilst an increase in the rate and coverage of GST would appear to be a positive outcome for Australia for a number of reasons as outlined in Re:think, the political landscape together with an inherent dislike by the community of any new or increased tax (as evident in the responses to the Voice 2) makes a change in the near future difficult.

Complexity of tax system

The Voice survey showed that concern with respect to the complexity of the taxation system is much higher with micro and small business compared to medium business, perhaps because larger businesses can afford to employ people to look after their taxation issues. Concern was also higher with non-metro businesses than metro business probably because of the level and ease of access to their advisers. Overall, the major issue is complexity (34%) then how many taxes they must deal with (15%) and then how often they change (12%). 73% said taxes impact employing new staff, a worrying statistic.

The Re:think paper points out that the complexity of the taxation system and the attendant compliance costs are a growing problem, with an estimated cost of \$40b pa. An alarming statistic was that for businesses with a turnover of less than \$75k, tax compliance costs absorb on average 9% of revenue, for businesses with a turnover of between \$75k and \$2m it reduces to 1.2% and for \$2m to \$50m it reduces still further to .2%. As stated in the paper:

“Many of the costs of complying with tax laws are either fixed or do not vary with the size of the business. Small business owners can therefore either choose to spend limited resources seeking expert tax advice or completing tax compliance activities themselves, instead of engaging activities to support their business”.

It was also noted that 10 of the 66 questions raised in Re:think relate to the complexity of the tax system.

It is clear that for all of the reasons identified in Re:think that our taxation system has become overly complicated and that it needs to be simplified, the problem is simply the size of the task. The impact of this complexity has been shown by our survey to be a significant factor inhibiting the ability of businesses to grow and a significant inhibitor in the employment of more staff. It was also noted that Re:think analysed payroll tax from a perspective of tax efficiency but gave scant regard to the effect on business owners as far as taking on more staff was concerned. Surely this must be of significant concern.

In practice, we see first-hand the complexity of the taxation system having a disproportionate impact on compliance costs for SME owners. We support the recent budget announcements to assist small business as well as simplification measures arising from the Board of Taxation review of tax impediments facing small business.

However, to really reduce the complexity of the tax system for SME business owners, we need fundamental changes and an ongoing focus on simplifying tax rules and administration for SME businesses. For example, tax rules that provide the same tax outcomes for SME businesses regardless of operating structure could reduce a significant portion of complexity associated with operating structures.

Technology

Re:think proposed a number of possible initiatives to tackle the complexity problem including the development of a metric to measure and gauge complexity, the use of technology to better harness and use data, the adoption of a whole of government approach to administration and the integration of administration across Federation.

Of these it is noted that some progress is being made with respect to the use of technology including the standard business reporting initiative. It was noted in the Voice 2 survey results that the main challenges facing Australian businesses in relation to technology are data security (30% of businesses), insufficient funding (30% of businesses) and lack of staff experience (29% of businesses).

Overall, one in five businesses say they understand cloud computing 'not at all', with the proportion in this category highest among micro and non-metro businesses (31% and 30% respectively). Almost half of all businesses (48%) say they are not using cloud computing services for any business activities. This proportion is higher among non-metropolitan businesses compared to metropolitan businesses (62% vs 38%), and increases from medium to small to micro businesses (16% vs 48% vs 65%).

If the use of technology is to be used as a facilitator for reducing the level of difficulty in complying the tax system then there is clearly a considerable amount of work that will need to be done to assist those sectors that face the greatest challenge in dealing with it, particularly the micro and small business sector together with non-metropolitan businesses.

If you have any queries in relation to the above, please contact us.



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