



# TAX FORUM

4-5 October 2011

## STATEMENT OF REFORM PRIORITIES

### PARTICIPANT NAME AND POSITION

Tony Greco – Senior Tax Adviser

### ORGANISATION

The Institute of Public Accountants (IPA) is one of the three professional accounting bodies in Australia, representing over 22,000 accountants, business advisers, academics and students throughout Australia and internationally. The IPA prides itself in not only representing the interests of accountants but also small business and their advisors. The IPA was first established (in another name) in 1923.

### STATEMENT OF PRIORITIES

1. What are your priority reform directions for the tax and transfer system?

The IPA is committed to tax reform and welcomes the opportunity to participate in progressing the debate and re-engaging with the recommendations contained in the Henry Review (Australia's Future Tax System). Whilst we strive to develop a long term tax reform agenda addressing the macro structural changes required to maintain sustainable revenue base that promotes economic growth, interim changes are required to support small business sector.

The IPA's major priority reform recommendation is to restore the risk reward equation for small business by providing them with a level of tax relief in the form of a concessional tax rate for small business income to compensate for the regulatory burden. IPA does believe that the tax forum will result in any reduction in the compliance burden facing small business in the short term and therefore immediate relief to this sector is warranted.

Small business needs to be rewarded with concessional tax rate to compensate them for regulatory burden that they face being the unpaid bookkeepers for the regulators. Unless the regulatory burden on small business is significantly reduced, then there are strong grounds to support some measured tax relief in the form of concessional tax rate for small business income. Small business income received by individuals is subject to progressive tax rates that apply to all individuals. Whilst there are small business tax concessions in existence, most only provide marginal tax relief.

Cost of compliance and regulatory burden on small business is disproportionate to their ability to absorb such costs relative to larger organizations. There is an inverse correlation between the size of the business and the relative cost of compliance.



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The level of complexity facing small business with respect to taxation compliance has increased substantially over the last few decades. With the introduction and development of Fringe Benefits Tax (FBT), Capital Gains Tax (CGT), Goods and Services Tax (GST), paid parental scheme and compulsory superannuation our taxation system has become too onerous for most taxpayers requiring the need to engage a professional tax advisor. Over 95% of businesses engage a tax practitioner to lodge their tax return. There is also a significant investment of small business owner's time in meeting administrative requirements of the regulators. The Fair Work Act has also added its own compliance issues into the mix. The proposal to increase the SGC rate from 9% to 12 % will also place significant cost pressures on small business. Also if the carbon tax proposal is implemented there is no direct assistance being offered to small business to offset costs increases which will eventuate when the flow on impacts on rising energy costs work their way through the economy.

Large businesses have the capacity to absorb the additional cost of administration and cost increases, small business does not. To address this imbalance what we propose is a concessionary rate of tax for small business income. The concessionary rate of income tax should apply irrespective of type of business structure been used. Small businesses can operate through a multitude of structures such as a sole trader, partnership, trust and company.

The proposal would operate on a similar basis to the existing entrepreneur tax offset (ETO) which the Government intends to abolish as from 1 July 2013. The entrepreneur tax offset was an initiative set up to provide an incentive for small business in their early stages of development by offering them a tax offset of up to 25% of the income tax attributable to a small businesses enterprises (SBE's) with a turnover of less than \$75,000. The ETO entitlement was available to:

- individuals
- companies
- partners in a partnership
- a trustee or a beneficiary of a SBE trust

The soon to be discontinued entrepreneur tax offset in its current form cut out too early for it to be of any assistance for the majority of small businesses, other than to assist small micro start up's.

Small business would much prefer lower tax rate than many of the existing plethora of tax concessions which they may not be able to fully exploit. Any other income earned by small business operator would be subject to existing progressive tax rates and would be unaffected by this measure. The current PSI rules would be used circumvent taxpayers trying to convert employment income into business income.



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Existing small business turnover threshold (\$2 million test) could be used to determine eligibility. Existing anti avoidance rules provide necessary integrity measures to discourage larger businesses being separated into smaller entities to take advantage of lower tax rate.

The proposal provides impetus to small business sector and can be used with other measures to address in part the two speed economy.

How are your proposals financed over the short and longer term?

## Measures to fund proposal

Removal of a host of existing and proposed small business tax concessions to flatten the tax rate applying to small business income. Small business owners would much prefer the benefits of a lower tax rate which provides them with added flexibility.

- The proposal of lowering of the corporate tax rate for small business would not be required. Given that less than a third of small businesses use a corporate structure, this measure would not have benefited the majority of small business owners. Non business income earned by companies would not attract concessional tax treatment providing further savings. Incorporation creates additional compliance burdens which most small business owners try to avoid. Lowering the corporate tax rate is a Clayton's measure in any case as it reduces the imputation tax offset and merely offers deferral advantage.
- Rationalising and streamlining the current small business capital gains tax concessions as recommended by Henry review. There are 4 separate small business capital gains tax concessions available to qualifying businesses or their owners. The concessions are complex which require taxpayers to navigate a legislative maze and threshold conditions and then additional conditions that relate to each of the specific concessions. Some of the existing concessions such as the 50% reduction and the 15 year exemption are highly concessional and can eliminate any CGT liability when business owners exit their investment.
- The proposal for small business to be able to claim up to \$5,000 as an immediate deduction for the purchase of motor vehicles should also be reconsidered in favour of above proposal. Not all small businesses benefit from this measure and would much prefer to have access to a concessional small business tax regime that all small owners can take advantage of.



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- Review the existing other small business income tax concessions with a view to rationalise and streamline existing concessions.

## LIST OF ATTACHMENTS

No attachments