



Building Southern Sydney

through Collaboration, Innovation & Partnership

Patron: Michael T. Tynan, OAM, QM.

SUBMISSION TO
AUSTRALIAN GOVERNMENT
TAX DISCUSSION PAPER MARCH 2015

ShireBiz

with the support of

Bundeena Maianbar Chamber of Commerce, Cronulla Chamber of Commerce, Engadine Chamber of Commerce, Gymea Chamber of Commerce, Menai & Sutherland District Business Chamber, Miranda & Districts Chamber of Commerce and Sutherland Shire Council

29 May 2015

ShireBiz submits this document for consideration by Treasury in the development of a tax reform process for Australia.

To develop this submission ShireBiz surveyed a large number of businesses in the Sutherland Shire in conjunction with all Shire Chambers of Commerce and Sutherland Shire Council.

Our survey focussed on issues known to be of importance to local businesses who are mainly SMEs and micro-businesses. Some questions also related to state and local government taxes.

As part of the survey process ShireBiz had many discussions with business owners in the area. From those discussions we ascertained that generally there is strong support for a higher rate of GST applied across **all** goods and services **but** with one proviso; that the states remove payroll tax, which is effectively a tax against employment.

ShireBiz and the Chambers applaud the Government's decision to reduce taxes on small business by 1.5% (plus other concessions) however, greater stimulation would occur if the reduction was to say 20%.

Barry Alchin

Chairman

ShireBiz

INTRODUCTION

Thank you for the opportunity to put forward this submission about the tax discussion paper. This submission supported by a survey to over 100 business owners in the Sutherland Shire, in Sydney's south.

The survey was organised by ShireBiz, a business lobby group dedicated to creating employment in Sutherland Shire and Southern Sydney. The survey was also supported by the Sutherland Shire Chambers of Commerce including Bundeena Maianbar Chamber of Commerce, Cronulla Chamber of Commerce, Engadine Chamber of Commerce, Gymea Chamber of Commerce, Menai & Sutherland District Business Chamber and Miranda & Districts Chamber of Commerce. Sutherland Shire Council also support the survey through distribution to business owners in the local government area.

The survey was conducted by Stable Research and findings were analysed by Infodec Communications. Both businesses that are also located in the Sutherland Shire.

The online survey was distributed through the local business network. Over 100 businesses responded to the survey putting forward their opinions about tax and tax reform in Australia.

Survey responses relate issues raised in the tax discussion paper as well as broader questions which focus on state and local government taxes.

We would welcome the opportunity to expand on the issues outlined in this submission as required.

Discussion about tax reform will also be addressed at an upcoming function organised by ShireBiz, the Sutherland Shire Chambers of Commerce and Sutherland Shire Council on 29 June 2015 where an expanded version of the findings of this survey will be presented to the Federal Treasurer, Joe Hockey, NSW Treasurer Gladys Berejiklian and Sutherland Shire Mayor, Kent Johns.

ABOUT SUTHERLAND SHIRE BUSINESS

In 2014 the Sutherland Shire Business Survey released by the Sutherland Shire Council noted that the industry groups in the Sutherland Shire with the largest number of businesses included Construction (19.4%), Professional, Scientific and Technical Services (13.7%), Rental, Hiring & Real Estate Services (12.8%).

The survey also highlighted that there were many long term businesses in the area with about one third of respondents indicating they had been operating their business for over ten years.

The majority of respondents to the Council's survey could be classified as micro-businesses.

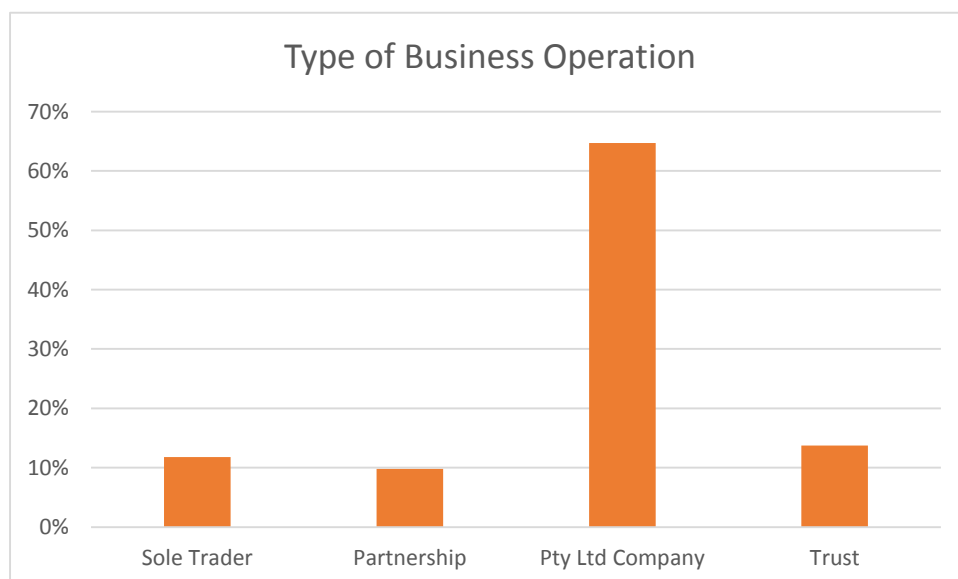
Sutherland Shire's Gross Regional Product was \$8.44 billion in 2014, growing 0.7% since 2013.ⁱ

SURVEY RESULTS

This online survey was distributed to a wide variety of businesses in the Sutherland Shire local government area over a period of approximately three weeks. The following information is a summary of the findings.

Type of business operation

The majority of respondents to the survey operated Proprietary Limited companies at nearly 65%. Trusts were the second most common business structure for businesses in the Sutherland Shire at 14% followed by sole traders at 12% and partnerships at 10%.



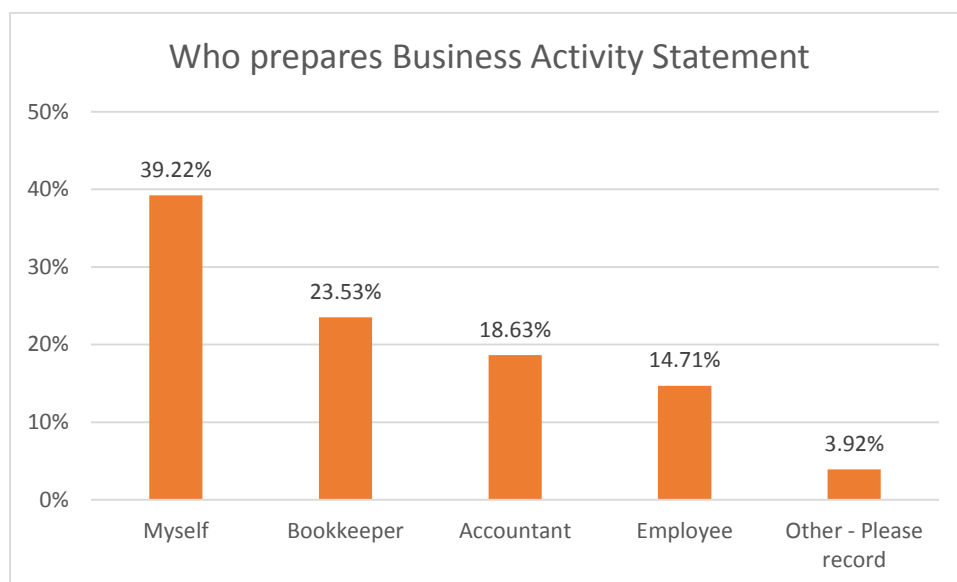
The majority of respondents employed less than 25 people at 88%. As well as financial considerations, The Australian Securities and Investment Commission defines a small propriety company as one that has fewer than 50 employees. Therefore, under this definition the majority of respondents to the tax survey can be defined as small companies.ⁱⁱ

While the tax paper notes that large companies tend to operate as companies and small businesses operate as sole traders, partnerships and trusts. The findings of this survey could support the identified trend of smaller entities operating as proprietary limited companies.

96% of survey respondents were registered for GST in comparison to 4% who were not.

Preparation of Business Activity Statement

While 96% of businesses are registered for GST the ShireBiz survey shows that the majority of respondents prepare their business activity statement themselves.



The costs associated with GST compliance could be considered one of the biggest red tape burdens for small and micro businesses.

In 2015 the MYOB report *The Hidden Costs of GST Hitting Small Business Hardest* noted;

- the current GST reporting regime is hurting small business who are bearing the brunt of the compliance burden.
- While it is often thought that the 10% GST is levied on most goods and services, in reality the GST applies to just over half (56%) of the goods and services traded each year in Australia.
- Australian governments have tried to alleviate the burden of GST compliance on small business over the years with altered record keeping and reporting arrangements. These include the option of reporting GST information annually rather than quarterly for businesses with turnover under \$2 million. Yet fewer than 1-2% of eligible businesses have taken up this option.ⁱⁱⁱ

The tax discussion paper also notes that many of the costs of complying with tax laws are either fixed, or do not vary in proportion to the size of business. Therefore, it

could be suggested that simplification of GST reporting is a priority and a number of options may assist including extension of the GST to all goods and services.

Effect of the current tax system on choice of business structure

The tax discussion paper notes that the tax treatment of different structures is now a key factor in choosing a business' legal structure.

29% of respondents to the ShireBiz survey indicated that the current tax system had little or no effect on choice of business structure. In comparison 46% of respondents identified that the current tax system did have an effect.

Interaction between the personal and business tax systems

The tax discussion paper highlights that the interaction between individual and business tax is one area where the tax system implicitly encourages the adoption of complex structures, making the total compliance costs experience by Australian businesses unnecessarily high.

The majority of respondents to the ShireBiz survey indicated that the interaction between the personal and business tax systems adds to the complexity of the overall tax system at 57% of respondents.

Fringe benefits tax

The Australian Tax Office notes that fringe benefits tax (FBT) is a tax employers pay on certain benefits they provide to their employees, including their employees' family or other associates. The tax discussion paper notes that the legal incidence of FBT rests with the employer and that only Australia and New Zealand impose FBT on employers with all other countries taxing fringe benefits in the hands of employees using far few valuation rules, concessions and exemptions.

The ShireBiz survey indicates that there is a significant lack of understanding by employers about items are covered or exempt from FBT. 51% of respondents indicated that they had little or no knowledge about what is covered by FBT and what is exempt with only 19% indicating that they did have some knowledge.

Small business Superannuation Clearing House

The Australian Tax Office highlights that the Small Business Superannuation Clearing House is a free optional program designed and administered by the Australian Taxation to reduce red tape and compliance costs for small businesses with fewer than 20 employees. It allows employers to pay their super guarantee contributions into a single location in one simple, electronic transaction.

31% of ShireBiz survey respondents indicated that they did not know how effective the Superannuation Clearing House was indicating that they may not be aware of the service or do not need to service as they have no employees.

Only 17% indicated that they believed that the superannuation clearing house was effective in simplifying superannuation compliance for business.

Industry Specific Tax Exemptions

The tax discussion paper notes that some tax concessions are available only for businesses in certain industries and that these industry specific concessions are intended to either support activity in a particular industry sector or recognise an objective to provide differential treatment for that sector.

A quarter of the respondents to the ShireBiz survey did not know whether these concessions boosted productivity and 31% did not believe that they boosted productivity.

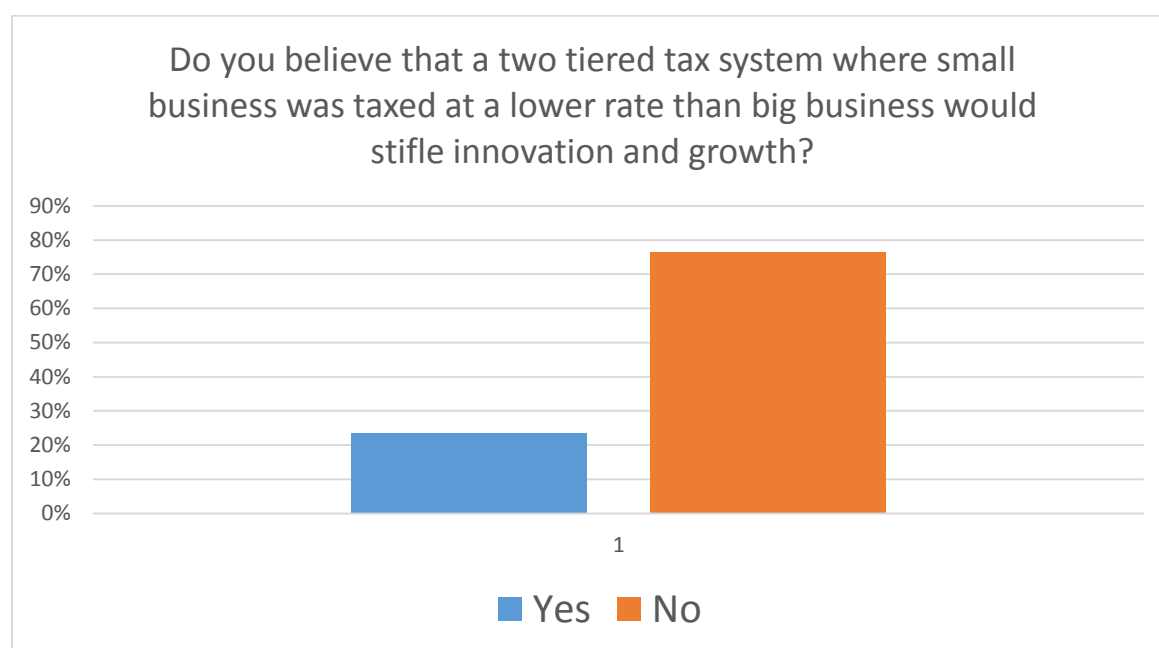
Tax rates for small business (corporations)

As part of the 2015 budget the Government announced that it was reducing the tax rate for incorporated businesses with annual turnover annual turnover less than \$2 million by 1.5 percentage points to 28.5 per cent and providing a 5 per cent tax discount to unincorporated businesses with annual turnover less than \$2 million from 1 July 2015.^{iv}

73% of respondents to the ShireBiz survey indicated that low tax rates for small business would be effective in boosting innovation and productivity.

Small business and big business tax

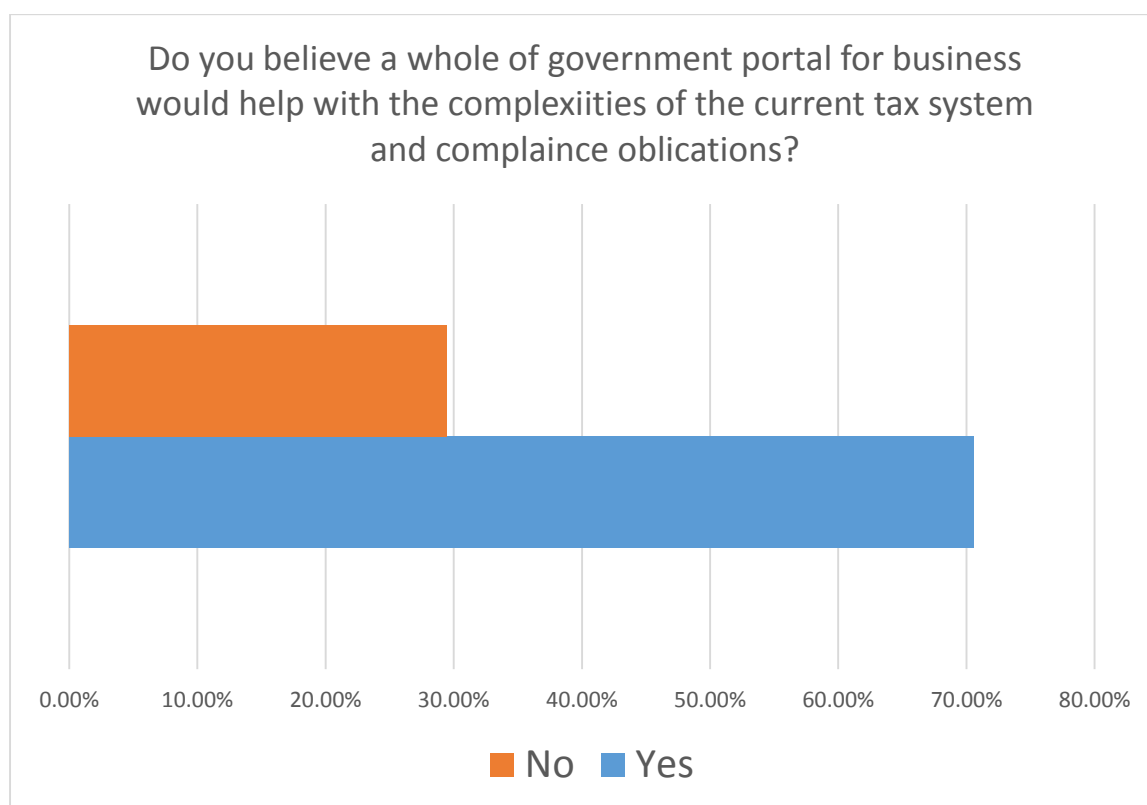
The majority of respondents to the ShireBiz survey indicated that they did not believe a two tiered tax system for small business would stifle innovation and growth indicating that they would support further moves to apply different tax rates to small business and big business in the future.



Whole of government portal

The tax discussion paper notes that the complexity in the design of the tax system is a major driver of costs to individuals and entities.

While tax is the focus of this review the majority of respondents to the ShireBiz survey believed that a whole of government portal would assist with the time and cost factors associated with running a business in Australia.



Investment, capital gains tax and negative gearing

The tax discussion paper notes that the tax treatment of investment properties is the same as it is for investment in any asset that produces a mix of current income and capital gain. Also, investment properties are the third most popular saving vehicle after the family home and superannuation.

80% of ShireBiz survey respondents agreed that the current tax system was influential in decisions related to investment

R&D tax incentives, investment, innovation and entrepreneurship

Research and development is a key component of supporting Australia's place in a competitive global economy. The tax discussion paper highlights that the R&D tax incentive is the primary mechanism by which Government seeks to encourage companies to undertake R&D activities in Australia.

36% of respondents believed that R&D tax incentives are effective in encouraging companies to conduct R&D, enhance investment, innovation and entrepreneurship, yet over a quarter believe they are not effective.

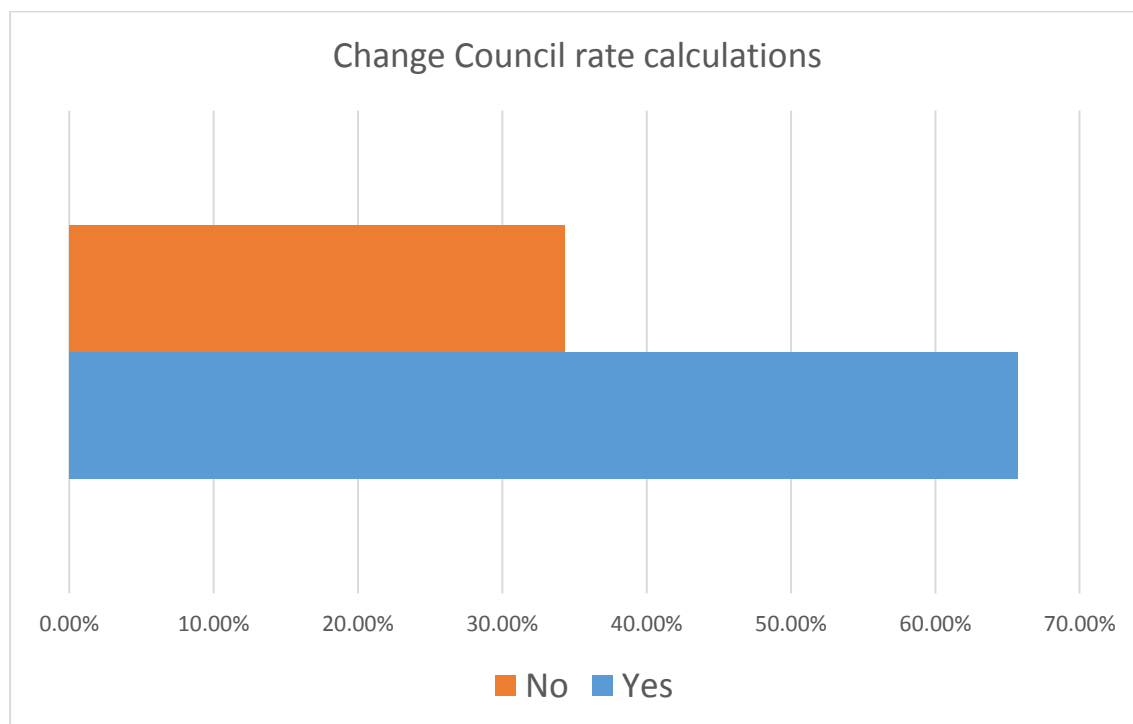
Increase of GST rate

Respondents to the ShireBiz survey were asked how much they agreed or disagreed with the following question? Would a 15% GST rate applied to all goods and services, with corresponding increased distribution to NSW and other states, be more acceptable if state taxes like payroll tax, land tax and stamp duty were reduced or eliminated?

62% of respondents agreed and strongly agreed that a 15% GST rate applied to all goods and services with corresponding increased distribution to NSW and other states would be more acceptable if state taxes like payroll tax and stamp duty were reduced or eliminated and 22% did not agree or strongly disagreed.

Local taxes and calculation of Council rates

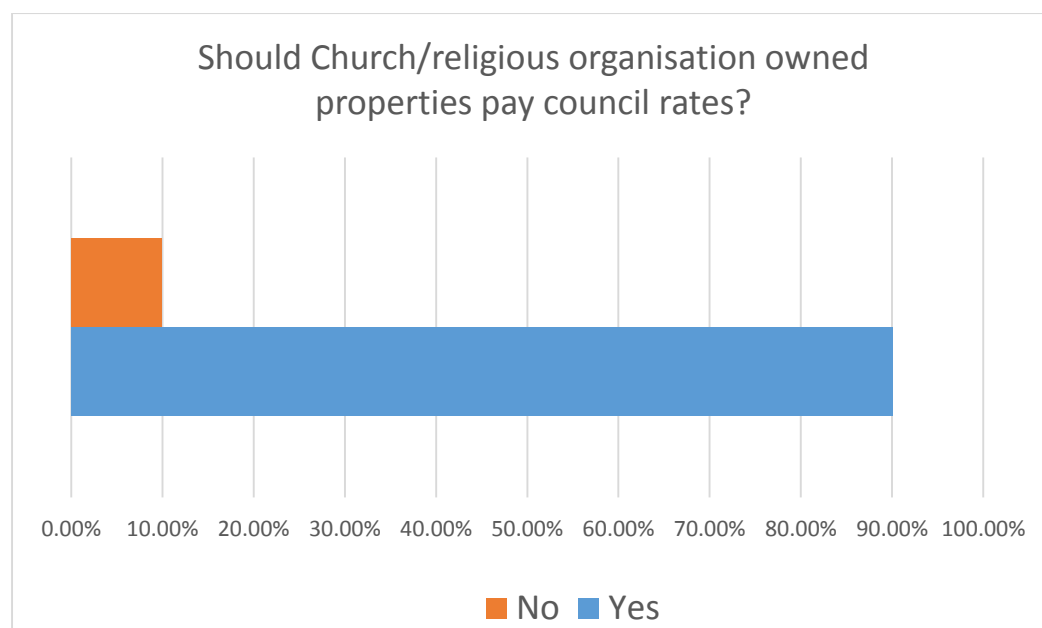
Respondents were asked whether they believed that an improved system should be developed when calculating Council rates in place of the current system that relies on valuations from the NSW Valuer General.



66% of respondents indicated that an improved system for valuations should be developed in comparison to 34% who felt they should not.

Should church/religious organisation owned properties, other than places of worship, pay local council rates?

In 2013 a report by Local Government NSW (LGNSW) submitted to the *Review of local government rating exemption provisions* noted that 'it has been established that the allowance of a rate exemption for particular uses of land within a local jurisdiction has the effect of re-allocating the burden of revenue-raising to the remainder of the community'.^v

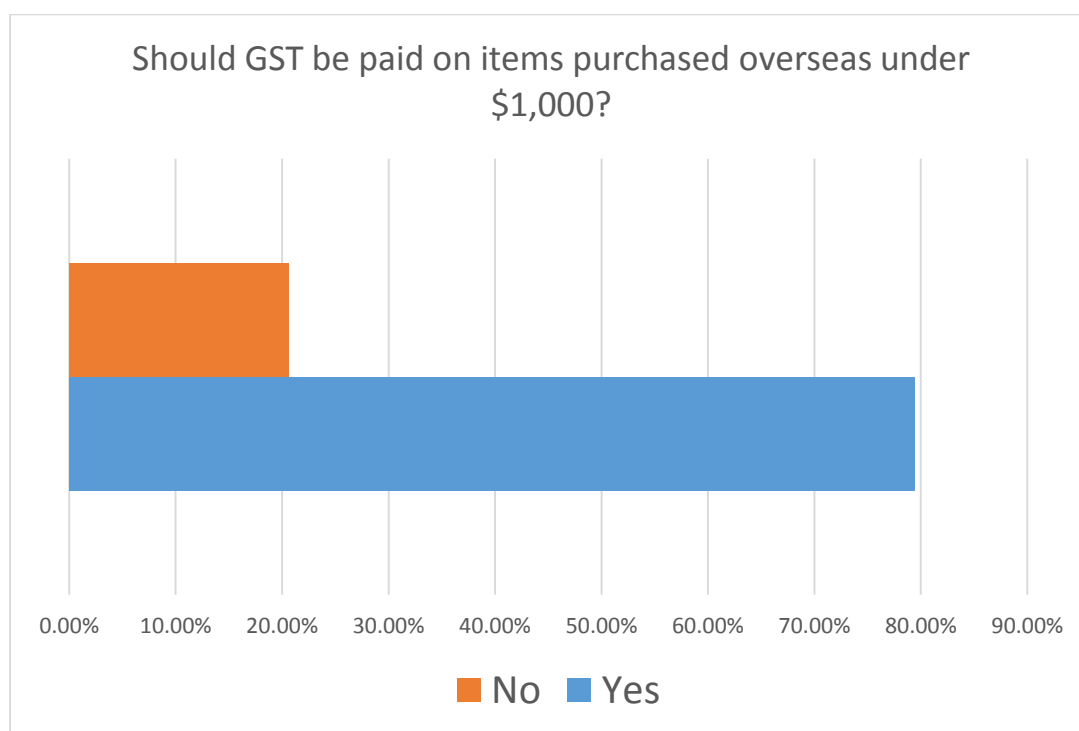


The large majority of respondents to the survey indicated that they agreed church/religious organisation owned properties should pay council rates

GST and items purchased online outside Australia that cost under \$1000

The tax discussion paper has highlighted that there are growing concerns both internationally and domestically that the strong growth in retail spending by consumers will continue to increase imports of low value good and services and intangibles directly over the internet.

The majority of businesses respondents surveyed indicated that GST should be paid on items purchased online outside of Australia that cost under \$1,000.



COMMENTS FROM RESPONDENTS

The Shirebiz survey also provided respondents with the ability to add comments related to the tax review. These comments are outlined below:

- Simplify -top corporate rate vs top personal rates- to be the same.
- Movement towards a system where tax is paid according to ability to pay as opposed to the current model which encourages a focus upon ability to avoid - typically, the wealthy (individuals and businesses) can and do invest in myriad strategies to lower their obligations and in the process, shift the liability to the sectors that can least afford the burden.
- People who only have 1 or 2 employees don't have to use the Superannuation Clearing Houses as it is a waste of time and money and one more unnecessary step.
- Increase GST to a level which would enable the elimination of personal tax, company tax, stamp duty, payroll tax, fringe benefits tax and a range of other taxes that in many cases don't even cover the cost of administering the tax or levy.
- Relief for small business in this current economic environment.
- Scrap payroll tax.
- Large multi nationals pay 30% of profits made in Australia.
- Land tax abolished. We need GST on food then all the people in the cash economy would be contributing tax.
- Capital gains tax should have say a 20 year sunset clause ,why should the government get 50% of your investment for no risk. We should have a flat tax on turnover for both individuals and Corporations with no deductions at all.
- Company Tax reduced so that more money can be put back into the business
- Eliminate payroll tax.
- Implement Henry Tax review - ALL of it!
- Change the legislation that allows large corporations not to pay tax.

- Income tax brackets brought up to date, i.e. a realistic approach to what is a median wage for people.
- Stop giving huge tax benefits to the 'rich' or 'people in the know' e.g. negative gearing is making the gap between the rich and the poor bigger in Australia.
- Consideration of tax breaks and incentives for volunteer workers, particularly emergency service volunteers who give their time at a financial cost to themselves personally and yet pay identical emergency levies as the remainder of the community and are unable to claim any costs (as a tax deduction) incurred in performing their role as they do not receive an income from these functions.
- Simplify the system
- Lower stamp duty on purchase of property.
- Reduce superannuation tax benefits
- Reduction of payroll tax would boost business growth and employment significantly.
- The introduction of a higher GST on purchases, with little, if any, exemptions.
- Simplifying- stop penalising small businesses that do everything right. Portal is a great solution.
- Reduction in personal income tax supported by an increase in the GST.
- Reduce taxes.
- Heavier tax imposed on high wage earners and business and less for the low income earners.
- I personally think that GST should stay the same. However should be across the board.. including ALL food stuffs. People will make a fuss about it and within a month will get used to the idea and this will create more income for Federal and state governments.
- The top 3% earners pay more tax whilst the bottom 5% earners pay less tax.
- Significant tax incentives applied to start-up businesses that achieve minimum roi thresholds
- Implement a penalty tax on unoccupied premises of twelve months or more.
- Income splitting for single income, married couples with children.

- Protection for locally manufactured goods and services.
- Delete Fringe Benefits Tax
- Apply an increased GST rate still excluding food items and as a result of this eliminate payroll tax, land tax, stamp duty and simplify FBT application.
- GST applied to all imports worth \$50 or more. Any increase in the GST will only increase the GST free imports. This will totally destroy small business in Australia which will result in more unemployment. Also clamp down on the hundreds of Australian registered websites that carry no stock and ship directly from Asia, Ireland, the UK and the US so they pay no taxes or GST. The average consumer thinks they are purchasing locally.
- Simplify it Eliminate overlaps.
- Stop big business from being the only ones who get away with paying less tax than everyone else. Make it easier for small to mediums to compete with multinationals.
- Result. More local jobs. More competition. Better quality products and innovation.
- Help to small businesses - especially when they are making and selling Australian made goods. For example why does an Australian small business have to pay to use the Made in Australia logo? It should be given to them to help them sell more.
- Reduce company tax
- Concessions for small businesses - there needs to be a tiered structure - we also need tax system penalising Corporates for delaying payments to small businesses for their services.
- Hurry up and make a decision instead of just talking about it.
- More incentives for small business's. Small business is the life blood of the Australian economy at the moment. More tax incentives need to be implemented to keep that sector flourishing and employing people.
- One rate for all income earners, say 25%? Entrepreneurs who employ most of the population and taking all the risk should not be penalised. People who want to work harder and have more than one job or one income are not penalised, and business owners could pay themselves a higher salary and value based on what they do, that would then in turn allow them to borrow more money and invest it back into their business, investments and/or community. Stop penalising the rich and giving to the poor. The lower income earners are also usually the people who do not spend wisely. eg. Cigarettes, alcohol, junk food etc which in turn

affects the government expenditure on our health care system etc.

- Increase and broaden GST, reduce income and property taxes accordingly. Increase Government Social Security payments to compensate.
- Being in the insurance industry taxes on insurance premiums must be reduced to ensure businesses and individuals have adequate insurance cover in place and to minimise under-insurance due to premium savings.
- Make it fairer for all. Incentivise people to work harder and remove this ridiculous notion that people don't work overtime because they pay more tax. People who study and work hard and in turn are able to earn more money are penalised by a tax system that basically says the harder you work and the more you earn the greater the tax bill you pay whilst those who earn the basic wage generally get whatever tax they pay back in benefits. They are therefore incentivised to not work any harder as they will lose their benefits and hence actually have to pay tax.
- Make the big companies pay a more realistic tax. I.e Apple, Hillsong - no benefit because it is a church, Ikea.
- Online GST
- Keep it simple. Stop printing cash. Put GST on everything at 15%. Remove income tax on 1st \$100,000 then 15% thereafter.
- Super clearing house not required for businesses that employ less than 5 employees
- Remove Fringe benefits and Payroll Tax, reduce PAYG and company taxes, and increase the GST
- Stop changing the rules and legislation for superannuation.
- Do not increase the GST.
- Have a family Tax threshold, instead of an individual tax threshold and look at reducing Centrelink payments.
- Index tax rates in line with inflation. CGT should be a flat 15%. That's a bonus recommendation.
- Create a tangible reward for compliance. At the moment it is all stick, no carrot. If you get all your GST returns in on time, and annual returns, and super and work cover etc then there should be an annual grant (or discount on tax rate, or whatever) that recognises the effort involved. It may even make it worthwhile employing that bookkeeper for a bit longer each week if there's going to be a

real benefit (rather than a fine).

- GST on all goods from overseas.
- Removal of payroll tax. This ridiculous tax stifles productivity and growth. Personally we will not grow our business above a certain amount so we do not have to pay it.
- A system where big business is more compliant and are less able to shift profits offshore to reduce tax
- Tightening of loopholes and schemes that allow very high income earners (corporate and individual) to legally avoid paying their fair share of tax.
- Lower the GST Threshold!
- I would like people that have paid taxes throughout their working life to be entitlement to the benefit of it when they cease work...irrespectively of their assets and stop those people that have not contributed to tax from getting anymore than a minimum benefit (\$, medical etc)
- More transparency and education.
- Payroll tax reduction
- Company tax reductions for small business.
- More resources and assistance to start up businesses with tax concessions within the first 4 years of operation.
- Better tax concessions for those with a high combined family income who have children with special needs.
- Increase GST and decrease personal tax. Choose where and when you pay the taxes.
- Extend GST across all activities including all imported goods & services.
- Yearly/6 monthly GST reporting for small business less than 1 million in turnover.
- Reduce complexity and greater transparency.
- I would like to see the roting Superannuation avenues closed. I utilise the benefits of "pension phase" but think that some of the benefits are far too generous and open opportunities for high wealth individuals to use super funds as tax management and not the primary purpose of retirement planning. I have a problem with allowing super funds to borrow. It is already a massive drain on the

budget and will only increase over time.

- Negative gearing should be allowed on one property only in this country up to a limit of the average median house price in Australia. You should not be able to cross collateralise assets.
- Payroll tax
- Get rid of bracket creep - and adopt one flat tax rate
- Lower tax rates for higher income.
- Same amount of tax charged on all products & services
- Removal of PAYG tax being paid in advance for both companies and individuals.
- Income tax should only be applied on net income 'above the poverty level'.
- Increase GST.
- Lowering of personal income tax and slight increase in GST with no exemptions.
- Change the whole system to one [expenditure tax on everything.] if that is not practicable increase the GST to 17%.
- Abolish state taxes completely. Have 1 federal system to be administered by a central body, to save the compliance costs on business of abiding by so many different taxes to so many different bodies.
- Removal of Payroll Tax
- Less complexity
- Increase in GST to 11-12% applying to most goods and services coupled with reduced income taxes
- Removal of land tax to encourage investment in property
- No tax on super contributions.
- Target tax avoidance by big business who are able to exploit tax loopholes. Ensure they contribute a fair proportion of their income by paying a fair, ethical and equitable corporate tax.
- Remove their ability to divert a disproportionate level of their tax revenue offshore - tax havens, shell companies etc, when inappropriate.

- GST on everything would simplify and reduce the cost BAS preparation and accounting.
- A couple with pre-school age children should be able to split the single salary/wage for tax purposes.
- Less administration time from individuals, and a better service provided by the ATO.
- A fairer fixed across the board flat tax rate for all.
- Overseas corporates and multinationals based in Australia need to contribute to our tax system - they earn it here they need to spend it here!
- Companies purchasing assets (eg major purchase of equipment or cars) that are Australian made and owned could get tax concessions or Fringe benefit free - might have saved the car industry and promote Aussie industry.
- Nothing really, I'm not an entire expert on these but see taxes as something that's always going to be applied. Just a reduction to reduce the strain would be great.
- Lower the tax!!!
- Apply an increased GST rate which continues to exclude food and eliminate payroll tax, land tax, stamp duty and simplify FBT.
- Simplify
- A Simplified Logical system. There are lots of examples all over the world that are getting it right. Those with money should pay more. Provide more benefits to them but they should also pay the right amount of tax.
- Three tier rate of personal tax on all income.
- First 10K exempt, 10% up to 30K, 25% up to 200K & 35% for everything over that amount. No write offs, no exemptions, no negative gearing.
- 1% of GST revenue collected by small businesses to be retained to cover compliance costs and to boost employment.
- Lower taxes for small business.
- That a flat tax rate should be introduced across all levels of income as soon as possible.
- Change the GST to a higher rate on all goods.

This submission and survey has been developed and prepared by:

SHIREBIZ

ShireBiz is a business lobby group dedicated to creating employment in Sutherland Shire and Southern Sydney. ShireBiz also provide a portal for business to each level of Government. ShireBiz is business led, with Government support.

Contact details: Barry Alchin, balchin@shirebiz.net.au

STABLE RESEARCH

Stable Research is a multi-award winning Market Research company located in the Sutherland Shire. Stable Research provides people and data for a range of research styles across a wide variety of industry sectors and government.

Contact details: Karen Johnston, karen@stableresearch.com.au

INFODEC COMMUNICATIONS

Infodec Communications is an experienced, professional and innovative communications company located in the Sutherland Shire. Infodec Communications provides customers with cost-effective and creative strategies to help them achieve the results they want. The team at Infodec Communications has successfully worked with a variety of clients including large and small businesses, industry groups and government agencies.

Contact details: Joanne Ryan, jryan@infodec.com.au

References:

-
- ⁱ <http://www.sutherlandshire.nsw.gov.au/Business/Business-Support/2014-Business-Survey-Report>
- ⁱⁱ <http://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/are-you-a-large-or-small-proprietary-company/>
- ⁱⁱⁱ <http://files.myob.com.s3-ap-southeast-2.amazonaws.com/news/the-costs-of-gst-hitting-small-business-hardest.pdf>
- ^{iv} <http://www.budget.gov.au/2015-16/content/highlights/jobsandsmallbusiness.html>
- ^v http://www.lgnsw.org.au/files/imce-uploads/127/deloitte-access-economics-review-of-local-government-rating-exemption-provisions-2013_0.pdf