

TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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106 | Review of Small Business Tax Concessions

The Board of Taxation is currently conducting a review of small business tax concessions in Australia. The aim is to see how effective current concessions are and where we need new or different ones.

Review of Small Business Tax Concessions in Australia

In this episode Dr Mark Pizzacalla will walk you through the process and purpose of this review. Here are some of our notes.

Dr Mark Pizzacalla and Peter Quiggin

Dr Mark Pizzacalla and Mr Peter Quiggin, PSM are both members of the Board. Mark since 2015 and Peter as an ex officio member of the Board for the Office of Parliamentary Counsel (OPC). Mark has extensive experience around small business and so will chair the review.

Working Group

A group of eight professional advisers, academics and small business representatives are assisting the review. These eight representatives are

1. Tony Greco – Senior Tax Adviser at IPA,
2. Michael Carruthers – Tax Director of Knowledge Shop,
3. Shannon Smit – Director of Smart Business Solutions,
4. Michael Parker – Partner Hall & Willcox,
5. Prof Chris Evans – Professor School of Taxation & Business Law, UNSW,
6. Susan Franks – Senior Tax Advocate at CA ANZ,
7. Chris Wookey – Principal at Deloitte Private and
8. Dr Brett Freudenberg – Associate Professor Griffith University.

Small Business

Small businesses play an important role in Australia's economy. They account for approximately 96 per cent of all businesses in Australia, employ 5.6 million Australians, and produce over \$330 billion of Australia's annual economic output.

But small businesses also face various challenges from the pressure to 'go digital' over the advent of the 'gig' and 'sharing' economies and other business models to pressure from larger, more established counterparts as

well as illegitimate operators in the black economy undercutting them on price.

Tax Concessions

Small business tax concessions (among other initiatives like the Black Economy Task Force) are to create an even playing field for small business against these challenges. But tax concessions also need to strike a balance between the broad and, at times, competing objectives of simplicity, fairness and efficiency.

Review

The question is whether the current tax concessions achieve these goals. Are the concessions still effective, easily accessible and well-targeted? Are there some that are less effective? Should we replace some tax concessions with others for a greater impact? The review sets out to answer these questions.

Principles

The Board and working group developed six principles to evaluate current and future tax concessions and identify opportunities for improvement. These principles are:

1 Concessions should be designed having regard to the small business life cycle

Small business typically move through successive stages from inception through a period of growth or maturity and ultimately to an exit stage when the owners will either sell or wind up. Whether a business benefits from a specific tax concession often depends on where it is at in its life-cycle.

2 Concessions can assist with small business cash flow

Cash flow is a crucial concern for many small businesses, especially at the inception stage. It can also impact whether a business is able to survive a temporary downturn. The tax system tries to help through tax concessions, for example through concessional rates or accelerated tax deductions. The issue is that in the start-up phase or during a temporary setback, these concessions may merely increase tax losses rather than provide an immediate cash flow benefit.

3 Concessions should relieve the compliance burden for small business

The costs of complying with tax obligations is not just about dollars. Small business owners can also suffer significant non-financial costs in the form of stress and lost time. Accordingly, easing the compliance burden for small business should be a primary concern in the design of concessions.

4 Concessions should promote growth and innovation

Accessing capital remains a key challenge for small business. The tax system should remove disincentives to invest in physical capital, technological innovation as well as human capital. It should help new businesses to take on employees, and established businesses to expand their workforce.

5 Concessions should be targeted and affordable

Tax concessions are expensive. And so require responsible administration and handling. Only their intended recipients should enjoy them. And they should only go as far as they need to go to meet their policy objectives. And not be over the top.

6 Concessions should not incentivise complex structuring

The Board has noted that private businesses increasingly adopt complex structures to combine the advantages of different entity types whilst minimising any downsides to their business operations.

Tax concessions should be designed with the aim of reducing incentives for complex structuring.

Public Feedback

The Board received significant feedback from the community for this review from written submissions over community meetings and face-to-face discussions. Sorting through all this takes time.

Time Frame

While the review had first been scheduled for completion in late 2018, the Board now plans to submit its report in the first half of 2019.

All this is just our brief take on the issue, but please listen to the episode above. Mark Pizzacalla explains all this in a much better way than we ever could.

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