

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 2012

30 May 2012

**QUESTION:** BET 14

**Topic:** Small business – 2 million threshold (ATO)

**Hansard Page:** 106

**Senator WATERS asked:**

**Senator WATERS:** To what degree are the gains from the earnings in the resources sector offset from the slowed growth in revenue in other sectors? That is the context in which I am seeking those details. I want to move to the small business tax question. Is there any evidence that the \$2 million threshold for defining small business leads to businesses trying to keep their income just below that threshold? Do companies generally report more in the \$1.9 million to \$2 million bracket than the \$2 million to \$2.1 million bracket?

**Mr Heferen:** I beg your pardon?

**Senator WATERS:** Is there any evidence that the \$2 million definitional threshold for small business sees companies trying to keep their amounts just below that figure?

**Mr Heferen:** I am not aware of that.

**Mr Quigley:** Certainly from our perspective in the ATO, we are not seeing any sort of outward trends for that to occur.

**Senator WATERS:** So there are not significantly more businesses reporting income just shy of \$2 million as opposed to just over? You have not noticed that trend?

**Mr Quigley:** Certainly not. I have not got the actual numbers, but intuitively I think I would be aware of it as a compliance risk, and it certainly has not been mentioned.

**Senator WATERS:** If you could have a closer look at that on notice, that would be great.

**Answer:**

The ATO can find no evidence that small businesses are keeping their annual turnover under the \$2 million threshold. Table 1 below shows a gradual decrease in the number of entities as the turnover range increases. There is no trend to indicate that small businesses artificially report just under the \$2 million turnover threshold.

The ATO does not consider this issue a significant compliance risk. Compliance activities include checking individual cases to ensure the correct application of small business concessions.

**Table 1: Number of business entities within turnover ranges for 2011-12 to 20 June 2012\***

Turnover range	\$1.6m - \$1.7m	\$1.7m - \$1.8m	\$1.8m - \$1.9m	\$1.9m - \$2.0m	\$2.0m - \$2.1m	\$2.1m - \$2.2m	\$2.2m - \$2.3m	\$2.3m - \$2.4m
Number of entities	6,766	5,901	5,484	5,078	4,387	4,103	3,800	3,708

\*based on income tax returns lodged to 20 June 2012 including all entity types: sole traders, partnerships, trusts, superannuation funds and companies.