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Council of Small Business Organisations of Australia Ltd.

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Council of Small Business Organisations of Australia Ltd Submission to Senate Employment, Workplace Relations and Education references Committee inquiry into Small Business Employment dated 19 June 2002.

1. *The effect of government regulation on employment in small business, specifically including the areas of workplace relations, taxation, superannuation, occupational health and safety, local government, planning and tenancy laws.*

Comment

Small business has become over regulated resulting in high compliance cost for small business to protect themselves from wrongful dismissal, taxation changes, superannuation levy, occupational health and safety laws, local government regulations, etc. Small business wants to get on with their business with minimum interference.

The impact of over regulation, high compliance cost and the expectation that small business can keep picking up the cost of employee benefits is a disincentive to growing their business with additional staff. This results in longer hours of operation for less return. Small business is tired of change and wants to operate their business in a simple and low cost manner with a degree of certainty that provides a fair return for their investment and labour. Small business has found that FBT is actually a system that penalises small business, that is big business with in-house dining facilities do not pay FBT and can claim the cost of providing the same as a tax deduction. Small business if entertaining an important client etc. has to pay FBT and cannot claim the cost as a business deduction. It would help if the FBT year ended June 30 not March 31 as this would simplify some of the compliance cost and paperwork demands.

The new tax system has resulted in higher compliance costs for business especially small businesses in the food sector. (See Hall Chadwick report attached.)

Planning and Tenancy laws are also skewed towards favouring large entities, especially in the retail sector with the proliferation of shopping centre development. Very few small businesses and these days' even local authorities can afford to challenge a development proposal because few have pockets as deep as the major developers or shopping centre owners to take a proposal to appeal. The end result when the development is up and running is often a loss of sales and therefore a reduction in hours or staff.

There needs to be a better system of:

- really having to prove the necessity of a proposed development,
- having to fully take into account the likely impact on the existing retail structure.

2. *The special needs and circumstances of small business, and the key factors that have an effect on the capacity of small business to employ more people*

Comment

The capacity to pay for additional staff and the fear of wrongful dismissal slows growth and employment in small business. As small business grows the impact of payroll tax, workers compensation cost, insurance premiums will impact the timing of additional staff. Maternity leave in small firms add an extra burden of cost because of additional resources required to cover the loss of a worker for up to 12 months. Paid maternity leave by the small business is not acceptable and may be a disincentive for hiring woman of a child bearing age. This can put a great stress on small business operators and can be a disincentive for expanding their business.

3. *The extent to which the complexity and duplication of regulation by Commonwealth, state and territory governments inhibits growth or performance in the small business sector.*

Comment

The different IR laws both federally and state can be a disincentive because it adds a degree of confusion to which regime should cover the small business. Uniformity of one IR law across the nation would support additional growth of employment in the small business sector. In terms of complexity and duplication it needs to be realised that when a regulation changes or a new one is brought in, it simply, in large businesses, becomes another job or responsibility of someone in the accounting section or administration section, etc. In small business it becomes another task and something else to have to be remembered for the business owner or spouse. Regulatory compliance is not shared amongst a number of people; it is the responsibility of 1 or 2.

4. *Measures that would enhance the capacity of small business to employ more people.*

Comment

Encouragement of tax incentives for hiring extra people into the workplace eg 50% tax deduction for each extra person hired in that new financial year. Lower company tax for small business in their start-up phase.

Reduce premium costs for small business under workers compensation, public liability, professional indemnity insurance based on size and risk not just industry type. Government and insurance companies need to look at pooled risk that can result in lower premium for small business.

Financial assistance to assist small business to defend wrongful dismissal cases.

Provide incentives for small business to train and develop their staff so that the cost is not an impediment to providing training.

Small business should only have to pay 7.5% GST to compensate for the compliance burden and allow for growth.

Small business will employ more people when small business gets a greater slice of government spending for products that can be supplied by small business rather than multi-national companies.

Note: For additional information regarding Council of Small Business Organisations of Australia Submission please contact Mike Potter CEO 02 6242 7339

HALL CHADWICK REPORT

4 April 2001

Survey shows massive GST compliance cost burden on family grocers

Independent grocery retailers have been burdened with massive GST compliance costs, according to a survey by major accountancy and consulting firm Hall Chadwick, released today.

The National Association of Retail Grocers of Australia (NARGA) commissioner Hall Chadwick to survey GST set-up and compliance costs for the independent grocery sector.

The survey was conducted during March 2001 to examine the impact the GST has had across more than 1000 stores of various sizes.

In terms of size and turnover, the survey sample chosen is typical of all independent grocery business, which are predominantly family owned and operated, and which total more than 4000 stores nationally.

The Hall Chadwick survey covered the six months to 31 December 2000 and found:

Excluding the costs of BAS preparation, ongoing GST compliance costs (total for six months) across different sized food and retail grocers were:

- Small (turnover up to \$5 million pa) \$6199.81 (annualised \$12399.62)
- Medium (turnover \$5 m to \$20m pa) \$15300.43 (\$30600.86)
- Large (turnover more than \$20m pa) \$27295.67 (54591.34)

Compliance costs as a percentage of GST collected showed the much higher relative burden on smaller stores:

- Small 28.25 per cent
 - Medium 13.53 per cent
 - Large 1.25 per cent
- (This finding is supported by similar overseas studies).

The extra hours of weekly compliance work imposed on NARGA members were:

	Av paid hours	Av unpaid hours	Total Hours
- Small	12.64	5.96	18.60
- Medium	24.39	5.78	30.17
- Large	61.50	8.33	69.83

Average set-up costs for GST also impacted disproportionately on independent grocers:

- Small \$ 18622.41 (1.63 per cent of annual turnover)
- Medium \$ 44704.94 (0.58 per cent)
- Large \$212908.33 (0.17 per cent)

According to Hall Chadwick, in many instances set-up costs significantly eroded or negated operating profits of small and medium sized stores.

Completion of the BAS, undertaken quarterly in the majority of cases, contributed additional compliance costs, primarily in the form of the costs of labour for the store owner and employees and extra costs for external advisers.

For the six months to 31 December 2000, the costs of completing each BAS return (calculated as the total of hourly rates for each of the personnel involved) averaged;

- Small \$819.33
- Medium \$805.47
- Large \$186.67

Many of the small businesses surveyed, despite being eligible, did not indicate they would be adopting the recently announced 'simplified' BAS reporting option.

However, many independent stores are unable to utilise simplified accounting methods for determining GST liability primarily because their annual turnovers exceed \$2 million or because they operate barcode scanning systems.

The study found that checking invoices for GST and preparation of BAS documentation required the most attention and involved most of the cost in terms of ongoing GST compliance.

Hall Chadwick found that 58 per cent of respondents expected ongoing GST compliance cost to remain the same, while 35 per cent expected such costs to rise.

Cash flow benefits from GST collected on goods sold proved illusory for small and medium businesses, with the majority of respondents indicating such monies were used to offset the additional business operating expenses.

A significant number of respondents queried whether any material cash flow benefit actually arose from GST monies temporarily held.

Based on industry data for an independent store with an annual turnover about \$2 million, the aggregate annualised cash flow benefit of GST temporarily held at an interest rate of 3.5 per cent was calculated as a minimal \$2226.54 a year, or about 0.01 13 per cent of annual turnover.

By contrast, the cash flow benefits from GST being generated by the supermarket divisions of Coles Myer Limited and Woolworths Limited are estimated at around \$1.5 million and \$1.9 million respectively.

'The survey results are stark evidence of the crushing impact which the GST has had on the competitive position of smaller operators, compared with the major supermarket chains,' NARGA's national spokesman Mr Alan McKenzie said today.

'Coles Myer and Woolworths are laughing all the way to the bank while many independent grocery businesses are being put under real pressure to keep their heads above water,' he said

'The fact is, we warned the Howard Government prior to the introduction of the GST that these would be the consequences – for our members – of a multi rate goods and services tax, but they simply would not listen.'

Mr McKenzie said that many small grocery businesses had turnover in excess of the \$2 million cut-off for the recently announced BAS refers, although net profit margins in the grocery industry are

typically only about 2 per cent. The BAS reforms were therefore irrelevant to a large number of independent grocers.

‘We now have firm evidence of the disproportionate burden being carried by small and medium grocery businesses,’ he said.

‘The GST burden can only tend to exacerbate the long-term competitive disadvantages they suffer and which is currently the subject of an inquiry by the Australian Competition and Consumer Commission at the direction of the Senate.’

‘Clearly, urgent and effective action by the Howard Government to simplify and reduce the cost of GST compliance and some form of compensation for small and medium independent grocers are now required,’ Mr McKenzie said.

‘In this regard, we have been heartened by the Opposition’s commitment to a simpler and fairer GST, including compensation.’