



## The Hidden **Costs of GST** Hitting Small Business Hardest

**Special Report:** MYOB Business Monitor  
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# The Hidden Costs of GST Hitting Small Business Hardest

In the lead up to national debate about tax reforms this year it is important to consider not just the amount of tax that gets raised and who pays it, but the costs that tax collection and compliance have on small business.

Policymakers in Canberra and the big business lobby have been vocal in the national debate about tax reform and the GST. It is now time to hear from small business too.

While economists laud consumption taxes as more efficient than other types of taxation because they minimise distortionary economy behaviour, this glosses over the impact that GST compliance has on those collecting the tax – businesses.

MYOB has recently undertaken a study to understand the impact of administering the GST on Australian small business and found that two thirds of the time SMEs spend on tax administration comes from one single tax, the GST.

This survey of 1026 small business owners and operators found that it costs an average of \$6778 in time to comply with GST reporting each year. This time is spent collecting, remitting and accounting for the GST on behalf of the government.

On top of this, small businesses are spending on average an additional \$2433 in fees to accountants and bookkeepers to assist them with GST compliance.

By extending these figures across the national economy, MYOB has found that the time lost to GST compliance for the approximate 2,000,000 small businesses in Australia equates to a productivity cost of \$13.5 billion<sup>1</sup>.

GST compliance has been identified as the biggest source of red tape burden for small business<sup>1</sup>. And, MYOB's research shows that this ongoing concern has become enough of a worry to sway small business votes.

MYOB's research shows that the current GST reporting regime is hurting small business who are bearing the brunt of the compliance burden. This research also compares Australia's GST compliance regime with overseas and finds that Australia's approach requires far higher time and cost burdens on small business than in other countries.



<sup>1</sup>According to the Australian Bureau of Statistics in 2013 there were around 760,000 SMEs, these are businesses with between 1-19 employees, and an additional 1,264,298 'Non-employing' businesses. Australian Bureau of Statistics. Counts of Australian Businesses, including Entries and Exits, Jun 2009 to Jun 2013. Released 31 March 2014.

# GST Pain Points for Small Business

Australia's Goods and Services Tax (GST) was introduced in 2000 and in the most recent federal budget 2013-14 it raised \$51 billion in revenue, representing around 13% of tax revenue. The federal government expects GST revenue to grow in future years<sup>ii</sup>.

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. Many food products, education, health, medical services and products, water and sewerage are exempt. It has been pointed out by think tank The Grattan Institute that these GST exempt industries, such as childcare and health are growing faster than the rest of the national economy<sup>iii</sup> and that Australia has much lower GST coverage than most other OECD countries<sup>iv</sup>. The lost revenue from GST exemptions was calculated at more than \$18 billion in 2010-11, with just under \$6 billion from food and \$8.8 billion from health<sup>v</sup>.

Because all businesses with annual revenue above \$75,000 must collect GST on behalf of the Australian Taxation Office, the vast majority of businesses have to determine whether the goods and services they buy and sell attract GST. It is determining the GST status on the many exemptions to the tax that causes much of the complexity and compliance burden for business owners.

While some analysts have argued that the reporting required to comply with the GST has a beneficial effect for managers, by helping them to better understand the financial situation of their business<sup>vi</sup>, for the majority of small businesses in Australia the costs of compliance far outweigh any such benefit.

According to the Taxation Board, small business operators are worried that the time they spend on tax compliance impacts their business performance and well being, which diminishes their capacity to survive in business over the longer term<sup>vii</sup>.

MYOB's  
customers  
talk about the  
impact on  
their business:

For **Dee and Andy White** in Rainbow Beach Queensland, GST compliance distracts them from staff training and client interaction which are crucial activities in their real estate business. They too find GST compliance stressful and would welcome a change to remove confusing 'No GST' codes.



**Anthony Alder** spends a full day every quarter administering GST and he worries that his law firm, which specialising in helping start-ups, effectively stops in order to review GST in time for reporting requirements.



**Brindly Godapola** from Brunswick in Victoria finds it difficult to allocate the various 'No GST' codes to sales and purchases in his security business. He says that the time he spends on GST compliance impacts a number of other business activities but company finances like invoicing and banking tend to suffer the most.

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Estimate the time taken to complete this form. Include the time taken to collect any information.

## Every element of GST compliance is **time consuming**

On its 16 different BAS forms, the Australian Taxation Office (ATO) asks business to estimate the time taken to complete each form. The most recent data available indicates that of the 13,115,495, quarterly BAS statements completed in 2011-12, around 20% filled in this box and identified that the form takes around two hours to complete each quarter<sup>2</sup>. Although the hourly pay rates of employees and bookkeepers filling in BAS forms varies, MYOB's study used a combined hourly rate of \$66.90 to price the cost of small business operators' time. Using this figure, it can be argued that completing BAS forms each year costs all businesses in Australia as much as \$1.75 billion in their productive capacity.

## New research identifies the **GST burden** on small business

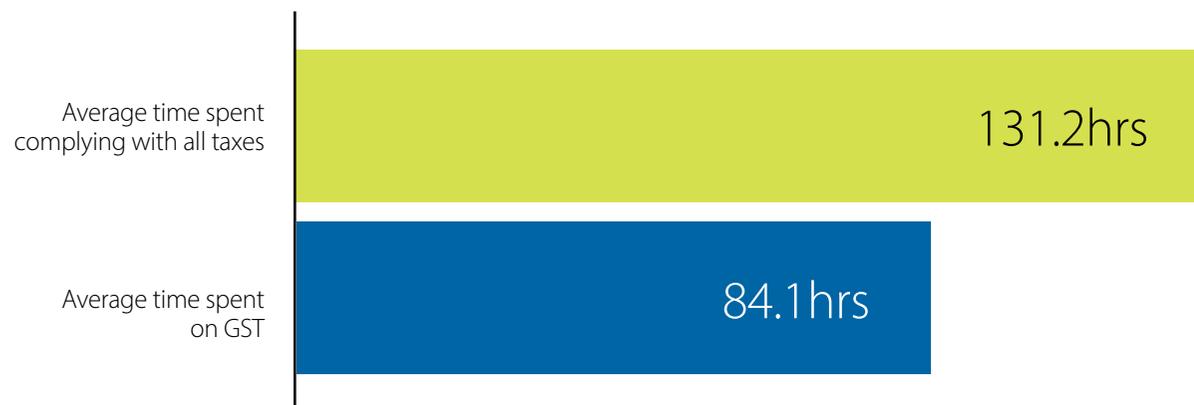
MYOB surveyed 1026 business owners, managers and directors (known as business operators) to measure the costs of GST and overall tax compliance on Australian small business. 85% of those business operators surveyed were micro or small businesses with fewer than five employees.

MYOB's research found that on average Australian small business operators are spending 84.1 hours of their time each year on GST compliance, this equates to an average of \$6778 internal costs each year.

Although time spent complying with all taxes took an average of 131.2 hours for small business each year, the greatest proportion of this time was spent on GST at 84.1 hours or 64% of the total. The research also identifies that it is business owners who spend the majority of this time on tax compliance in their business (76%). This time cost detracts from the overall running of their business.

The study found that the compliance activity which caused the most consternation for small businesses was the recording of information needed for the ATO, which took on average 78.2 hours per year.

As well as internal costs in terms of time and distraction, small businesses are outlaying on average an additional \$2433 each year for bookkeepers and accountants to help them administer the compliance costs of tax.



<sup>2</sup>From the ATO's Taxation Statistics 2011-12 Table 1 Cost of Compliance. Cost of taxation compliance data, by form type, 1998-99 to 2011-12 income years

## Special Report:

### MYOB Business Monitor – The Impact of GST on Australian and New Zealand Businesses, August 2014.

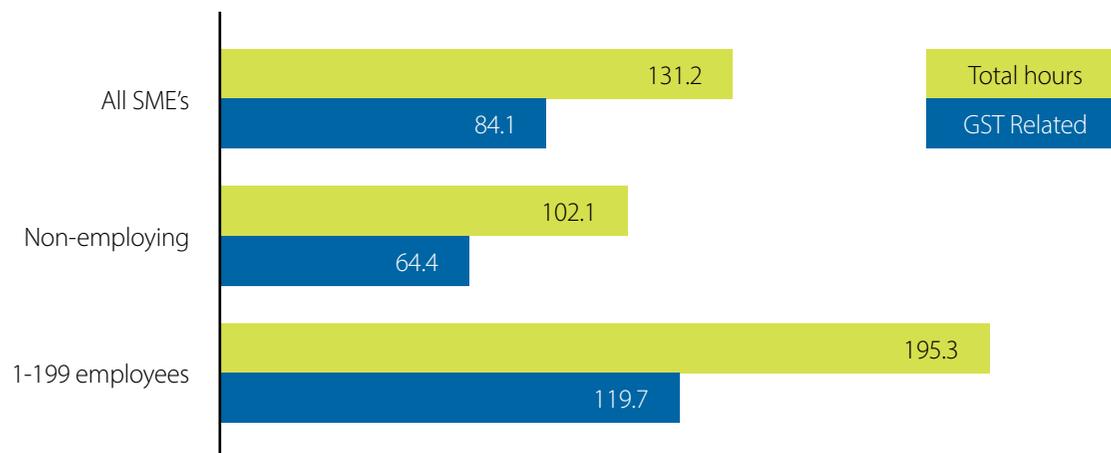
Business operators were also asked to determine the amount of time spent in the business on tax-related activities, and also on GST specifically against a number of activities including:

- > Recording information needed for tax
- > Calculating tax, completing tax return and paying tax
- > Dealing with the Tax Office (phone call, emails, visits)
- > Tax planning and tax advice
- > Dealing with your external tax adviser, including providing information to them
- > Learning about tax law, including reading newsletters, Tax Office websites, bulletins
- > Other activities

The critical pain points for businesses were:

- > Recording information needed for tax
- > Calculating tax, completing tax returns and paying tax

#### Time spent in the business on tax related activities



## **Policymakers** have known all along that small business is being unfairly burdened by GST

MYOB's research illustrates the cost burden of GST compliance for small business, but worryingly tax experts and policymakers have known for decades that small business has been hardest hit with administering the GST.

In fact, before the GST was implemented in Australia in the 1990s international research warned that the compliance costs of administering the GST, and in particular its complexity, "falls with disproportionate severity on smaller firms" and that "the costs and benefits from complying with a GST will not be evenly spread if such a tax were introduced in Australia"<sup>viii</sup>. International research has shown that in all OECD countries compliance costs affect small businesses more than large businesses and this burden has not been reduced over the years<sup>ix</sup>.

Governments of all partisan persuasions in Australia are aware that small business is hit hardest by GST compliance, and despite attempts to reduce the compliance burden on SMEs there has been little improvement<sup>vii</sup>.

The federal government's Tax Board identified that the main issue for small business is the confusing and time consuming classification of GST exemptions and concessions. Despite reviews into the matter the Tax Board has been unable to identify any specific incremental changes it could recommend to the government to alleviate the problem<sup>vii</sup>.

MYOB has been monitoring the impact of GST complexity on Australian small businesses for the last decade, and back in 2005 our small business survey said that GST was the biggest red tape burden for SMEs .



MYOB customer **Penny Martin** runs a hairdressing business in Arncliffe NSW says that GST administration and compliance is too much work for small business owners.

"I'm very displeased with how time consuming GST compliance is. It takes up a full working day every month, taking me away from valuable business activities. I can't afford to employ an accountant so it's extremely stressful."

"I'm supportive of the government removing the various 'No GST' reporting requirements, I want them to make it fair and simple for small business owners."

With its insight into the views of small business and expertise in supporting businesses to administer their tax compliance, MYOB has identified the opportunity for a regulatory change that could go far to reducing the GST compliance burden.

## Time and money are not the only costs of GST compliance

Tax experts note that the biggest issue for small business is the unnecessary complexity in the tax system and, in particular, ambiguous requirements that can expose the business to risk<sup>xi</sup>. This risk may cause stress and anxiety for small business operators who are unsure whether they are allocating GST correctly in order to conform to the ATO's obligations<sup>vii</sup>.

The psychological cost of compliance is an additional weight on people running small businesses distracting them from focusing on operating and growing their business. A qualitative study of GST compliance found that stress levels increased for small business operators at the times of year when their GST reporting and Business Activity Statements were due. This was particularly burdensome on those businesses with seasonal busy periods, such as harvesting or shearing, which may conflict with GST reporting periods<sup>vi</sup>.

How does this affect MYOB's customers?

"I don't really know the difference between the various GST codes. It's very stressful," says **Lauren Moxey** who runs a music school in Sydney. She is frustrated that complying with GST takes her away from spending time on those business activities that actually bring in income.

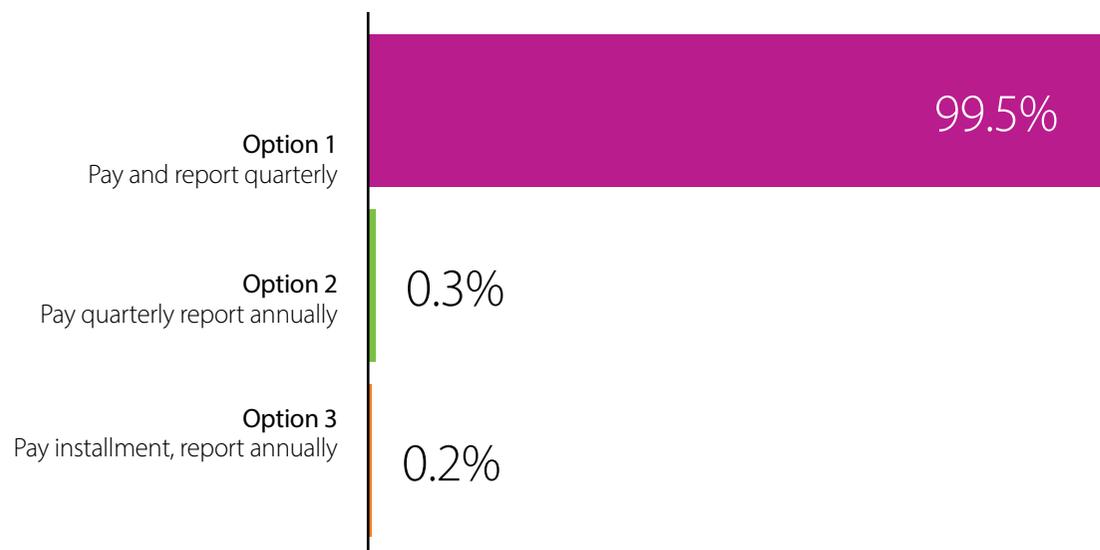
Despite regulators' efforts to date, GST compliance concessions for small business have been **ineffective**.

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<sup>xii</sup>. Yet fewer than 1-2% of eligible businesses have taken up this option.

Research into small business tax concessions has shown that in Australia and other jurisdictions, small business operators perceive the concession to be so complex that they are not worth the time and effort to take advantage of them<sup>x</sup>.

With current GST compliance concessions applying to only a small proportion of businesses and even then, so rarely utilised, small businesses need more effective and less burdensome administrative requirements.

### Quarterly Reporting Options

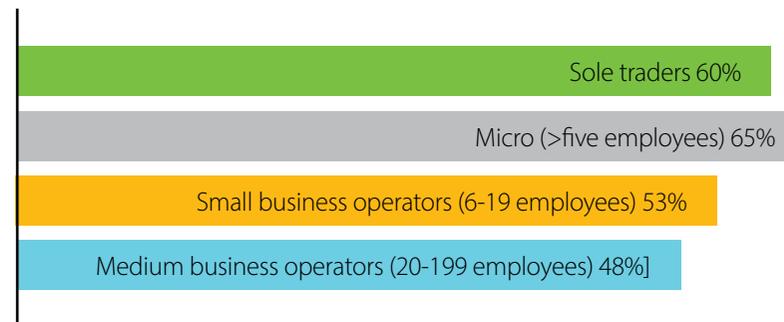


## A failure to alleviate the **compliance costs** on small business is creating voter dissatisfaction

MYOB's research shows that small business operators are concerned that government does not understand the challenges they face and subsequently dissatisfaction with the federal government is growing.

In MYOB's survey almost two thirds of business owners (61%) said that the Federal Government had a 'poor' or only 'fair' understanding of issues affecting their business. The same survey reported that 60% of respondents would change their vote in the next federal election if the government significantly simplified the GST/BAS reporting process. In particular, sole traders and micro businesses with fewer than five employees were more likely to be influenced by policies to simplify the GST, compared with larger businesses.

### Policies that significantly simplify the GST/BAS would influence my vote:



The larger the business, the less concerned business operators are about GST

Policies or initiatives that business operators would vote for/against	For	Against
Policies that significantly simplify the GST/BAS reporting process	60%	9%
Increased Federal Government funding for skills, training & apprenticeship programs	56%	7%
The establishment of an incentive bonus for businesses employing people over age 50	55%	10%
Keep the \$6500 instant asset tax write-off in play (rather than reducing it to \$1000, as planned)	55%	11%
Reducing the company tax rate from 30% to 28.5%	55%	13%
More Federal Government investment in transport infrastructure in our major states & cities	53%	11%
Keep the accelerated initial deduction for motor vehicles that allows small businesses to instantly write off \$5000 (rather than reducing it to \$1000 as planned)	53%	12%
Government backed loans to small business start ups	53%	12%
A proportion of Government procurement contracts being assigned to small businesses	50%	10%
Increased Government funding for innovation, research & development by Australian businesses	49%	9%
Free Govt-funded training to small businesses on how to use the Internet to enhance & grow their business	48%	12%
The creation of a single flat tax for personal tax & company tax	45%	20%
Continuation of the tax loss carry back scheme	39%	11%
Making the ATO responsible for the distribution of staff superannuation & maternity leave payments	33%	17%
Remove the threshold at which GST is collected on goods purchased from abroad	31%	22%
The abolition of the rise of the Superannuation Guarantee Levy from 9% to 12% by July 2019	30%	28%
Reintroducing a biannual indexation by the consumer price index of excise duty for all fuels (except aviation fuels)	27%	21%
Introduction of a paid parental leave levy for all businesses with revenue over \$5 million	21%	33%



MYOB customer **Margaret Van Der Meulen** runs a winery in Victoria's Yarra Valley. She says that complying with the GST is extremely stressful and takes her away from more important jobs like customer service. She would be supportive of removing the confusion and complexity of the various 'No GST' reporting requirements.

## **GST red tape** and compliance is hampering the national economy

At a time when government's focus is on improving Australia's productivity and economic growth, reducing the unproductive and wasteful time spent by small business operators on GST compliance should be made a priority.

By simplifying GST reporting compliance the government can assist small businesses to re-coup some of their time and in doing so boost their productivity.

The recent World Economic Forum Global Competitiveness Report illustrates this problem across Australia's economy. On almost every institutional ranking Australia places near the top of the scale compared to other countries except for the burden of government regulation and red tape, where we drop to 128th out of 148 countries, behind Russia, Zimbabwe and Iran<sup>xiii</sup>.

If the federal government is serious about positioning Australia to compete globally, by increasing productivity and reducing red tape burden, then it must remove the tax compliance costs borne by SMEs.

These findings have been supported in other research such as the Australian Chamber of Commerce and Industry's data that showed 80% of small businesses are most concerned about regulators' lack of consideration of their capacity to comply with regulation<sup>xiv</sup>.

While tax reform in Australia has historically been slow to come to fruition, the decade-long stall in regulatory reform to alleviate the GST compliance burden on small business is unacceptable and arguably the economy cannot continue to bear the hit to its productivity.

## A lesson for Australia on **GST compliance** from across the Tasman

It's not often we think of New Zealand as a decade ahead of Australia, but when it comes to tax reform we are being left behind.

Compared with New Zealand, Australian small business operators suffer a much higher compliance burden when it comes to administering consumption tax.

Average hours spent by NZ business operators on GST: 39 hours which equates to an average of \$2446 in time costs. They spend overall on all tax compliance 69.4 hours which equates to \$4340 pa. Average NZ business spends \$1367 on accountants and bookkeepers to administer their overall tax.

MYOB conducted the same research on GST compliance in New Zealand, surveying 1023 business owners and operators. Our research found that compared with New Zealand, Australian businesses are spending twice as long on internal costs to comply with GST, and twice as much on external costs of bookkeeping.

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**39** Average hours spent on GST  
**HOURS**  
 = **\$2446**  
 in time costs

**69.4** HOURS  
 Overall time spent on all tax compliance  
 = **\$4340pa**

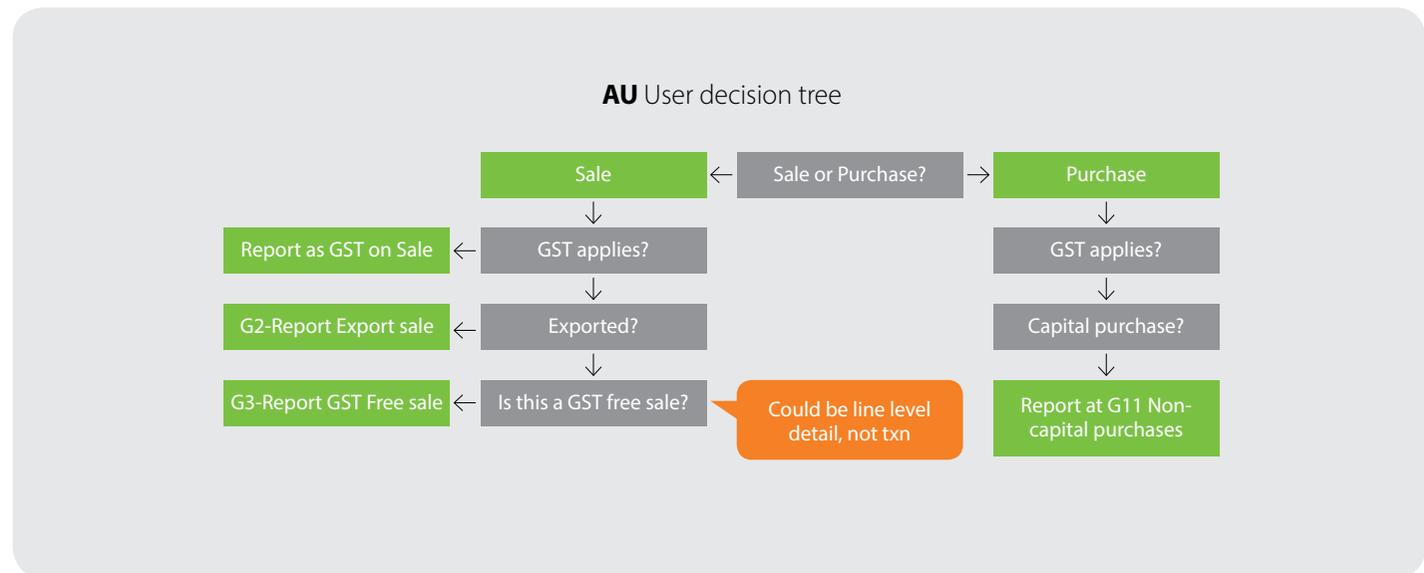
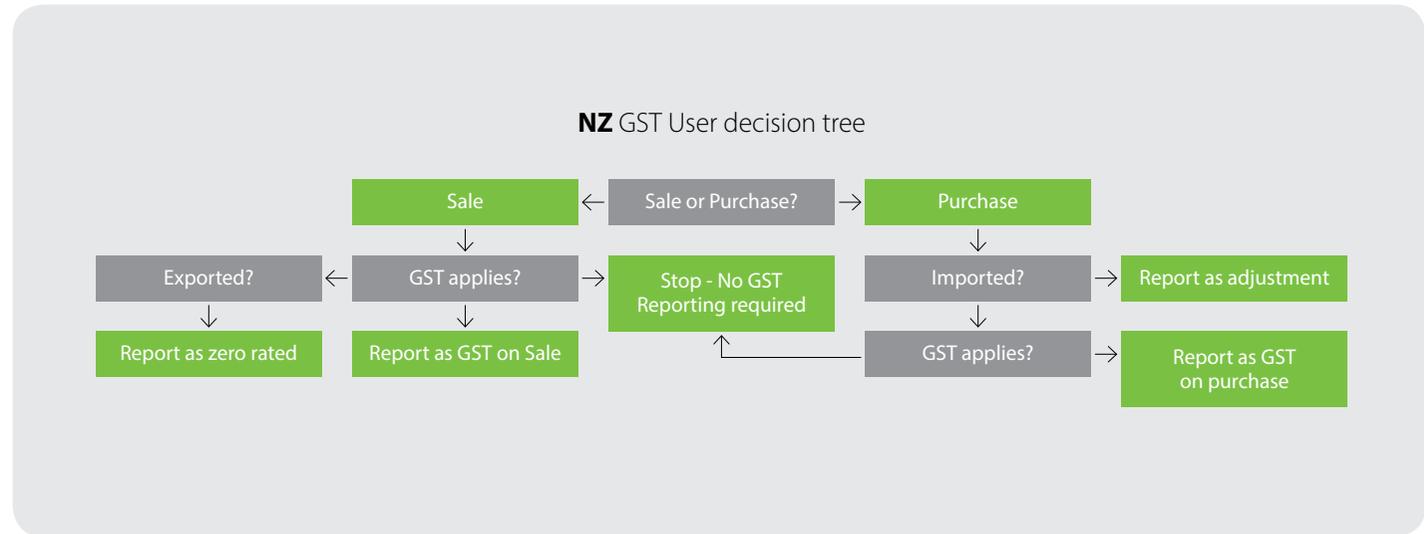
**\$1367**  
 Average spend on **accountants** and **bookkeepers**

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# What does New Zealand's GST system do differently?

In New Zealand there is no requirement to report further details about transactions that are GST free and there are fewer GST exemptions overall, making it easier for small business to comply with GST requirements. In Australia there are up to eight reporting codes used to pinpoint which GST Free status is applicable for each sale or purchase. Multiple 'No GST' codes, known as 'G codes' generate much more complexity and confusion for business in Australia.

It goes without saying that there are many differences between New Zealand's tax system and Australia's, but simplified GST allocations could be replicated in Australia relatively simply.



## Recommended reforms to GST compliance

With GST and federation reform on the agenda this year, policymakers should prioritise modest and common sense reforms that can generate significant productivity dividends.

Leaving aside deeper and much more politically sensitive policies such as raising the rate of GST or modifying its distribution to the states, there are two reform options government could consider which are more modest and less disruptive in nature.

By reducing GST tax compliance costs the government can increase productivity without affecting revenues and at the same time alleviate the stress on small business.

In order to reduce the problematic allocation of various 'No GST' categories policymakers have two options:

### **Option 1:**

Remove exemptions to the GST, so all transactions attract the tax.

### **Option 2:**

Retain current exemptions but remove the requirement to allocate each transaction to one of the various 'No GST' categories.

## **Option 1:** Remove exemptions to the GST, so all transactions attract the tax.

Many small business operators and advocates have called on the government to broaden the base of the GST to increase GST revenue and in doing so remove the complexity of 'No GST' allocations.

Research by The Grattan Institute in 2012 suggested that applying GST to currently exempt goods and services such as food and healthcare would generate an additional \$31 billion tax revenue which could be used to reduce other less efficient taxes or to compensate disadvantaged people who would bear the burden of increased costs of goods and services<sup>iii</sup>.

The political reality of broadening the base that the GST applies to would generate significant equity issues. MYOB encourages policymakers to be conscious of those who may be detrimentally affected by such a change and to put in place measures to compensate them. Similarly, if policymakers are going to fairly apportion the costs of GST across the nation then they must address the current costs being unfairly borne by small businesses.

## **Option 2:** Retain current exemptions but remove the requirement to allocate each transaction to one of the various 'No GST' categories.

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Policymakers can avoid the political and equity issues associated with reform Option 1 by adopting a more modest approach to alleviating the compliance burden of GST on small business.

By adjusting current reporting methods which require business to select one of a number of different 'No GST' allocations for each transaction, the time and complexity burden of compliance will be significantly reduced.

Currently business must tag every line item on an invoice and select whether GST applies, and if the good or service is exempt, they must also identify which type of 'No GST' code pertains to the transaction.

Most businesses must then negotiate a number of possible coding options for each 'No GST' transaction, for some there are up to eight possible classifications from which to select. Uncertainty and confusion around selecting 'No GST' classifications leads many small business operators to make errors in their reporting, some of which alert them to the ATO for audit.

The various 'No GST' codes are not in place to assist business to calculate their GST obligations, instead they are intended to be used by the ATO to benchmark industries for auditing. This administrative anachronism has had the perverse consequence of contributing to the 84 hours of time small business operators spend administering GST each year.

MYOB argues that removing the requirement to report and classify various GST free transactions is a plausible and modest reform that could be instituted via regulatory change rather than more difficult and politically-fraught legislative amendment.

This change to GST reporting will not impinge on the ATO's capacity to track GST collection and MYOB encourages the ATO to identify alternative methods to access data in support of its risk management practices, for example using technology improvements to transfer data across the ATO rather than burdening small business with added compliance requirements.

The Australian Taxation Commissioner currently has powers to create simplified GST accounting methods for businesses with less than \$2 million revenue to alleviate the compliance burden<sup>xii</sup>. MYOB calls on the federal government and the Commissioner to implement the Option 2 proposal that has the potential to greatly alleviate small business' GST compliance burden.

## About this research:

Established in 2004, the MYOB Business Monitor is a national survey of small and medium business owners and managers, commissioned to independent market research firm Colmar Brunton. The most recent study ran in July and August 2014, surveying 1,026 Australian operators from sole traders to mid-sized companies, representing the major industry sectors. The Monitor researches business performance and attitudes around areas such as profitability, cash flow, pipeline work, technology usage and government. Note: the weighting of MYOB client and non-client respondents is reflective of overall market proportions.

## About MYOB:

Established in 1991, MYOB is Australia's leading accounting software provider. It makes life easier for approx. 1.2 million businesses across Australia and New Zealand by simplifying accounting, payroll, tax, CRM, websites, job costing, practice management, inventory and more. MYOB also provides ongoing client support via many channels including a network of over 40,000 accountants, bookkeepers and other consultants. It is committed to ongoing innovation, particularly in cloud computing solutions, and spends more than AU\$35 million annually on research and development. For more information, visit [myob.com.au](http://myob.com.au).

## Source

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Love your work

