



Tax Laws Amendment (Simplified GST Accounting) Bill 2007

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Tax Laws Amendment (Simplified GST Accounting) Bill 2007

Date introduced: 13 June 2007

House: House of Representatives

Portfolio: Treasury

Commencement: The Act commences on the day it receives the Royal Assent. Schedule 1 commences on the later of:

- (a) the commencement of the *Tax Laws Amendment (Small Business) Act 2007*, and
- (b) the day on which this Act receives the Royal Assent.

Purpose

The purpose of this [Bill](#) is to amend the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act) to enable the Commissioner to make determinations of simplified accounting methods (SAMs) for small businesses and other entities with an annual turnover of less than \$2 million that:

- make a mix of taxable and GST-free supplies (mixed supplies), or
- acquire a mix of supplies that are taxable and GST-free for the suppliers (mixed inputs).

Background

Simplified accounting methods for retailers

Currently, Division 123 of the GST Act allows the Commissioner to create SAMs which some retailers can use to reduce the cost of complying with the requirements of the goods and services tax (GST).¹ SAMs are available to food retailers or retailers who make GST-free supplies in relation to non-commercial activities of charitable institutions, gift deductible entities or government schools. 'Retailer' is defined in section 195-1 as an entity that in the course or furtherance of carrying on its enterprise sells goods to people who buy them for private or domestic use or consumption.

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Five methods available to small food retailers

The Australian Taxation Office (ATO) has issued a guide to small food retailers titled [Simplified GST accounting methods](#) which describes the five SAMs available to them. The particular SAM to be selected will depend on:

- the annual turnover,
- the nature of the business, and
- the nature of the point of sale equipment.

The table below gives the five methods at a glance.

Method	Business norms	Stock purchases	Snapshot	Sales percentage	Purchases snapshot
Annual turnover	\$1 million or less	\$2 million or less	\$2 million or less	\$2 million or less	\$2 million or less
How a retailer estimates the GST-free sales and/or purchases	Apply standard percentages to sales and purchases	Take a sample of purchases and use this sample	Take a snapshot of sales and purchases and use this	Work out the percentage of GST-free sales made in the tax period and apply this to purchases	Take a snapshot of purchases and use this to calculate GST credits

Source: Adapted from *Simplified GST accounting methods*, page 4 (ATO publication)

The ATO has also issued nine Business Norms Fact Sheets which set out the business norms percentages for various types of food retailers. These are listed on page 24 of [Simplified GST accounting methods](#).

The above SAMs have been authorised by various determinations made by the Commissioner under subsection 123-5(1) of the GST Act.

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Background to proposed extension of simplified accounting methods to other retailers

Recommendation in the Banks Taskforce Report

On 12 October 2005, the Prime Minister and the Treasurer in a [Joint Press Release](#) announced the appointment of a Taskforce headed by Mr Gary Banks to identify practical options for alleviating the compliance burden on business from Commonwealth Government regulation.² The report of the Taskforce titled [Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business](#) (the Banks Taskforce Report) was released on 7 April 2006.³

The [Banks Taskforce Report](#) at page 118 highlighted the compliance problems faced by small businesses such as restaurants and grocers with mixed GST inputs. The report records that research commissioned by the National Association of Retail Grocers of Australia found that GST compliance costs as a percentage of GST collected were 28.25%, 13.53% and 1.25% for small, medium and large retail grocers respectively. To ease the compliance burden for small restaurants, cafes and caterers the Banks Taskforce in Recommendation 5.37 at page 118 recommended that they should have access to a simplified accounting method.

Announcement in the 2007 Budget of extending availability of simplified accounting methods

The measure in *Budget Measures 2007-08*, [Budget Paper No. 2](#) at page 22 titled *Simplified accounting methods —extending availability*, proposed to give the Commissioner of Taxation power to develop SAMs for all entities with an annual turnover of less than \$2 million that have mixed supplies – taxable and GST free or mixed purchases. This measure was to take effect from 1 July 2007. This proposal goes well beyond Recommendation 5.37 in the Banks Taskforce Report mentioned above.

Financial implications

The [Explanatory Memorandum](#) to the Bill states that the amendments will have the following revenue implications.

	2007-08	2008-09	2009-10	2010-11
GST	-\$1m	-\$2m	-\$2m	-\$2m
Income tax	Nil	\$1m	\$1m	\$1m

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The reduction in GST revenue is attributable to the SAMs developed for eligible business entities under the measures implemented in this Bill only making an approximate calculation of the GST payable. It is anticipated that these SAMs will be in favour of business to which the SAMs apply at a cost to revenue.

Budget Measures 2007-08, [Budget Paper No. 2](#) at page 22 states that a minor income tax gain from this measure arises because of the expected reduction in the net GST payable by businesses, which is tax deductible for income tax purposes. This income tax gain is reflected in the above table.

Main provisions

Change of heading of Division 123 to reflect availability of simplified accounting methods for retailers and small enterprise entities

Section 123-5 of Division 123 of the GST Act allows the Commissioner to determine SAMs for retailers that:

- sell food, or
- make supplies that are GST-free under the GST concession for charities.

Item 3 of Schedule 1 repeals the heading of Division 123 and replaces it with a new heading, namely —**Simplified accounting methods for retailers and small enterprise entities**. The change in heading reflects that Division 123 will continue to apply to retailers as well as to a range of small enterprise entities.

Meaning of small enterprise entity – Criterion of GST turnover not exceeding \$2 million

Item 7 of Schedule 1 inserts **proposed section 123-7** to provide the meaning of small enterprise entity (SEE). An entity is a SEE at a particular time if:

- (a) the entity is a small business entity (**proposed paragraph 123-7(1)(a)**), or
- (b) at that time the entity does not carry on business and its GST turnover does not exceed \$2 million (**proposed paragraph 123-7(1)(b)** and **proposed subsection 123-7(2)**).

Proposed paragraph 123-7(1)(a) excludes from the meaning of SEE an entity that is a small business entity under subsection 328-110(4) of the *Income Tax Assessment Act 1997* (ITAA 1997) because it's aggregated turnover is less than \$2 million in the current income year.

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The meaning of 'small business entity' will be inserted into the ITAA 1997 by **item 1 of Schedule 1** and **item 7 of Schedule 1** of the *Tax Laws Amendment (Small Business) Act 2007*. In consequence the Dictionary in subsection 995-1(1) states that it is the meaning given in section 328-110. The relative Tax Laws Amendment (Small Business) Bill 2007 has been passed by the House of Representatives and the Senate without amendment and awaits the Royal Assent at the time of writing this Bills Digest.

Item 59 of Schedule 2 of the *Tax Laws Amendment (Small Business) Act 2007* which inserts the meaning of small business entity into the Dictionary of the GST Act states that it has the meaning given by subsection 995-1(1) of the ITAA 1997 and will therefore be the meaning in section 328-110 of the ITAA 1997.

The reader is referred to the comments on pages 7 and 8 of the [Bills Digest No 156](#) of 23 May 2007 on the Tax Laws Amendment (Small Business) Bill 2007 for why an entity that qualifies as a small business entity based on current year aggregated turnover of less than \$2 million under subsection 328-110(4) of the ITAA 1997 is not entitled to the GST concessions considered there. Basically, the answer is that these GST concessions are applicable during the course of an income year and it is not possible to determine eligibility under the test in subsection 328-110(4) until the end of the income year. For the same reason SAMs are excluded for entities that qualify as small business entities under subsection 328-110(4) of the ITAA 1997.

Existing provisions for simplified accounting method for retailers of food and retailers of supplies to continue

Item 5 of Schedule 1 repeals paragraphs 123-5(1)(a) and (b), and substitutes **proposed paragraphs 123-5(1)(a) and (b)** to allow the Commissioner to determine in writing arrangements known as simplified accounting methods (SAMs) for retailers and small enterprise entities respectively. Currently, subsection 123-5(2) restricts SAMs to retailers of food and retailers of supplies that are GST-free under the GST concessions for charities.

Eligibility for simplified accounting methods by small enterprise entities based on mixed supplies (taxable and GST-free) or mixed acquisitions (creditable and non-creditable)

Item 6 of Schedule 1 inserts **proposed subsection 123-5(3)** to require that the kinds of small enterprise entities (SEEs) for whom the Commissioner could determine SAMs must be those SEEs that in the course or furtherance of carrying on their enterprises:

- (a) make both taxable supplies and supplies that are GST-free, or
- (b) make both creditable acquisitions, and acquisitions that are not creditable acquisitions.

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Proposed subparagraph 123-5(3)(b)(ii) states that SEEs who have acquisitions that are not creditable acquisitions because the supplies made to the SEEs to which the acquisitions relate, are GST-free.

In other words, the Commissioner can make determinations of SAMs for SEEs if either they have both taxable supplies and GST-free supplies or if they have acquisitions where the supplier has charged GST and acquisitions where the supplier has not charged GST because they are GST-free supplies.

Application

Item 18 of Schedule 1 provides that the amendments made by **Schedule 1** apply in relation to net amounts for tax periods starting on or after 1 July 2007.

Unanimous consent of the States required for this measure

As this measure will impact on the GST base and result in a loss of GST revenue, it will require the unanimous agreement of the States under subsection 11(1) of the [A New Tax System \(Commonwealth-State Financial Arrangements\) Act 1999](#). It was confirmed in [Budget Paper No. 2](#) on page 22 that this measure is subject to the unanimous agreement of the States.

Concluding comments

Under the measure implemented in this Bill eligible small businesses will be able to approach the Australian Taxation Office to seek the development of a simplified accounting method (SAM) to simplify their GST calculations and reduce their compliance costs.

This measure is one of several measures announced for the benefit of small business entities in connection with the 2007 Budget on 8 May 2007. In a press release under the title [Simpler Tax for Small Business](#) the Treasurer indicated that up to two million Australian small businesses, around 95 per cent of all Australian businesses, will be assisted by this package to reduce red tape and compliance costs.⁴

The other measures referred to in the Treasurer's press release in relation to the 2007 Budget GST measures included the following.

- From 1 July 2007, businesses with annual turnover of less than \$75,000 (presently \$50,000) will no longer be required to register for GST; the GST registration threshold for non-profit bodies will be increased to \$150,000 (presently \$100,000).

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- From 1 July 2007, purchases by businesses valued at \$75 or less (not including GST) will no longer require an approved tax invoice to claim an input tax credit. The current threshold is \$50. For purchases of \$75 or less business will be able to rely on the same record keeping for GST and income tax purposes.
- From 1 July 2008, the Government will allow taxpayers who do not have to register for the GST but do so, to pay their PAYG instalments on an annual basis subject to the other current eligibility requirements.

As mentioned above, the [Banks Taskforce Report](#) at page 118 noted that research commissioned by the National Association of Retail Grocers of Australia found that GST compliance costs as a percentage of GST collected were 28.25%, 13.53% and 1.25% for small, medium and large retail grocers respectively.

The measures in this Bill and the other GST measures in the 2007 Budget referred to above must be expected to have a significant impact on reducing red tape and compliance costs for eligible small businesses facing high GST collection costs.

Endnotes

1. Division 123 was inserted into the *A New Tax System (Goods and Services Tax) Act 1999* by the [A New Tax System \(Indirect Tax and Consequential Amendments\) Act 1999](#).
2. The Hon John Howard, MP, the Prime Minister and the Hon Peter Costello, MP, the Treasurer, [Taskforce on reducing the regulatory burden on business](#), Joint Press Release, Parliament House, Canberra, 12 October 2005.
3. Regulation Taskforce 2006, [Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business](#), Report to the Prime Minister and the Treasurer, Canberra, January 2006.
4. The Hon Peter Costello MP, [Simpler Tax for Small Business](#), Press Release No. 038, Parliament House, Canberra, 8 May 2007.

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