

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 49

Topic: Entrepreneur Tax Discount

Hansard Page: Written

Senator SHERRY asked:

Aim –

To find out how many small businesses qualify for the Entrepreneur Tax Discount and how much it costs per annum.

Background –

The Entrepreneur Tax Discount reduces the amount of income tax payable for small business as they are established. If a business has an annual turnover of \$50,000 or less, it receives the full 25 per cent discount on its income tax bill (Attachment A).

As the company grows, and turnover expands, the amount of discount is reduced. For each \$1000 increase in turnover above \$50,000, the discount is reduced by 1 per cent. Once a small business reaches turnover of \$75,000, the discount in income tax is eliminated.

The discount applies from July 1, 2006.

According to Treasuries Tax Expenditure Statement the cost of the Entrepreneur Tax Discount is \$380 million in 2006-2007, \$370 in 2007-2008 and \$350 million in 2008-2009.

Questions –

- (1) How many small businesses will qualify for the Entrepreneur Tax Discount, when it comes into effect on 1 July?
- (2) What is Treasuries latest estimate on the cost of the Entrepreneur Tax Discount for 2006-2007?
- (3) How many claimants are in the phase out range?
- (4) What's the average income of the claimant?
- (5) How many claimants are incorporated, partnerships or sole traders?
- (6) Is this cost projected to increase or decrease in following years, and if so, why?
- (7) What lead to the decision to make the threshold for the Entrepreneur Tax Discount annual turnover of \$75,000?
- (8) What lead to the decision to provide a discount of a maximum of 25%?
- (9) Is the Entrepreneur Tax Discount just another way of compensating small business for compliance costs – without actually addressing the core issue?

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Answer:

1. The Explanatory Memorandum to Tax Laws Amendment (2004 Measures No. 7) Bill 2004 (page 32) says that it is estimated that more than 300,000 businesses will be able to benefit from the Entrepreneurs' Tax Offset (ETO).
2. The ETO is estimated to have a \$380 million cost to revenue in 2006-07 (refer 2005 Tax Expenditures Statement).
3. This information has not been published.
4. Average income is not relevant – claims can be made as long as the turnover of the business is less than \$75,000.
5. As long as small businesses are in the Simplified Tax System, their entity type is not relevant to their eligibility for the ETO.
6. As shown in the 2005 Tax Expenditure Statement the cost is expected to decrease in the outyears.
7. The ETO was announced in the Government's 2004 election policy statement *Promoting an enterprise culture*. In that statement, the Government decided the annual turnover threshold would be set at \$75,000.
8. The ETO was announced in the Government's 2004 election policy statement *Promoting an enterprise culture*. In that statement, the Government decided the maximum offset available would be 25 per cent of the income tax liability attributable to business income.
9. In the Government's 2004 election policy statement *Promoting an enterprise culture*, it was stated that the ETO '...will provide further incentive and encouragement to small businesses – particularly those that set up and operate from home...' and that 'it will provide a further source of capital which can be ploughed back into a business at its most vulnerable start-up and development stage.'