Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 55

Topic: Simplified Tax Scheme

Hansard Page: Written

Senator SHERRY asked:

Aim –
The highlight flaws of the Simplified Tax Scheme.

Background –
The Simplified Tax System is a package of measures that seeks to reduce the compliance costs faced by eligible small business taxpayers. It provides an alternative method of determining taxable income and commenced on 1 July, 2001. According to an article in 'The Australian' on February 7 2006 (Attachment A), only 27 per cent of eligible businesses, or 600,000 taxpayers, had signed on to the STS. The 2006-2007 Budget included a number of changes to the STS (Attachment B).

Questions –
(1) How many small businesses have adopted the Simplified Tax System, since its introduction in 2001?
(2) How does this figure compare to predictions? (ATO estimated 95% Treasury 60% for last year)
(3) Has research been undertaken to determine why the take-up rate has been so poor?
(4) Can you explain the changes to the Simplified Tax System, announced in the 2006-2007 Budget?
(5) What is the cost of these changes?
(6) Are these costs expected to increase beyond 2006-2007?
(7) In relation to the increase in the assets threshold for capital gains tax relief from $5 million to $6 million, tax experts claim this increase really isn't big enough to make an impact on compliance costs (Attachment C) – so is this really going to have an impact?
(8) How many small businesses would be helped by this increase?
(9) The Simplified Tax System includes a depreciation rule which increases the annual allowable depreciation of an asset by 33%. The changes to the depreciation rule bring Australia further inline with other countries. As far as you are aware, to what extent does the depreciation rule correspond with that of other countries?
(10) If the changes are supposed bring Australia in line with other countries, how does the omission of tax-losses and tax write offs from the depreciation rule fall into this context.

Answer:

1. As advised during Senate Estimates by Mark Konza of the Australian Taxation Office (ATO), there are approximately 620,000 businesses who have currently adopted the Simplified Tax System (STS). The ATO expects a substantial increase in the number of businesses adopting STS as a result of the legislative changes that took effect from 1 July 2005, however the actual numbers will not be known until taxpayers lodge their 2005-06 income tax returns as this is the only means of electing into the STS.

2. Take-up rates expressed as a percentage of the total eligible population can be misleading because the STS was never intended to benefit all eligible taxpayers or that all eligible taxpayers would elect into the STS.

3. Treasury does not consider that the take-up rate for STS is poor. No research has been done.

4. The Government announced the following changes to the STS from 1 July 2007 in the 2006-07 Budget:
   - the STS average annual turnover threshold will be increased from $1 million to $2 million;
   - the $3 million depreciating assets test will be removed from the STS eligibility requirements;
   - roll-over relief for depreciating assets will be extended to STS taxpayers to ensure that businesses can be restructured without triggering a taxing point; and
   - STS taxpayers will be eligible for the capital gains tax small business concessions without having to satisfy the net assets threshold and will be allowed to pay quarterly pay-as-you-go instalments on the basis of GDP-adjusted notional tax.

5. These measures are expected to have a nil impact in 2006-07 (the measures do not apply until the start of the 2007-08 income year); a cost to revenue of $1 million in 2007-08, $55 million in 2008-09 and $71 million in 2009-10.

6. See answer to (5).

7. The Government increased the small business capital gains tax (CGT) net assets threshold to enable many more small businesses to access the small business CGT concessions. Moreover, from 1 July 2007, small business taxpayers that are in the simplified tax system and have turnover of less than $2 million, irrespective of the value of depreciating or other assets, will be eligible for the small business CGT concessions without having to satisfy the new maximum $6 million net assets value test. This will reduce compliance costs for small business taxpayers.

8. From 2007-08, an additional 10,000 businesses are expected to gain access each year to the small business CGT concessions due to the increased threshold.

9. Under the STS, a taxpayer has access to simpler tax arrangements including pooling arrangements for the purpose of determining deductions for depreciation. In respect of non-STS taxpayers, in the 2006-2007 Budget the Government announced it would increase the diminishing value rate from 150 per cent to 200 per cent (refer to page 30 of the Budget statement *Continuing Tax Reform of 9 May 2006).* As shown in Chart 9 (page 31) of this statement the change brings Australia more into line with other comparable countries, enhancing the international competitiveness of Australian Business. More information on other OECD countries' depreciation arrangements can be found in Appendix 5.3 of the report *International Comparison of Australia's Taxes (3 April 2006)*.

10. Losses are not treated under the uniform capital allowance regime under Australia's tax system. Australia's tax loss rules allow the indefinite carry-forward of losses. More information on other OECD countries' tax loss arrangements and a comparison with Australia's arrangements can be found in Appendix 5.4 of the report *International Comparison of Australia's Taxes.*