PART 2

THE IMPACT ON SMALL BUSINESS

THE TIMING OF TAX PAYMENTS

"Any tax... is going to be an imposition on the cashflow of small businesses. The issue is how you make that most manageable."'

7.1 Evidence to the Committee in this inquiry has indicated that the payments upon the cashflow of small business can significantly affect both the initial and ongoing viability of many small businesses. The following comments by the Institute of Chartered Accountants in their submission to the Committee summarises popular sentiment on the issue:

> The issue of timing within the taxation legislation can represent a most crucial aspect of the implication of any legislation. Business operators, generally, earn their income and subsequently receive that income. This contrasts to employment salaries where the income is earned and received at the same time. Several taxes are raised on business operators at the time income is earned. These included include provisional tax, company tax, income tax, and sales tax. In these cases those business operators are required to fund those tax payments from other sources of cashflow. These issues impact greater on Small Business operators as they do not have the level of cashflow to self fund those payments, and alternate resources are more difficult to obtain.

7.2 While timing of payments is an issue which involves all taxes paid by business, provisional tax and associated uplift factor, wholesale sales tax and company tax attracted the greatest concern in evidence to the Committee. There were also minor concerns about timing of certain aspects of capital gains tax, the prescribed payments system, and about FBT.

Major Problems

Provisional Tax

7.3 Problems with timing with respect to provisional tax relate to the fact that tax payments are required to be made before some of the income is derived. The Committee has addressed this issue with recommendation 1.1, reproduced below:

Recommendation 1.1:
The Committee recommends that where provisional tax is payable in quarterly instalments, the earliest due dates be 30 October, 30 January, 30 April of the year of income, and 30 July immediately following the year of income.

PAYG

7.4 Widespread dissatisfaction with the current provisional tax system has prompted the Government to propose alternative payment arrangements, the PAYG system, which has been proposed as a voluntary instalment system available, *as an option,* to unincorporated non-wage and salary earners.

7.5 Most, if not all, of the tax payable would need to be paid within the year of income, although the ATO canvasses the possibility that 90 per cent may be sufficient within the year of income, with the balance becoming payable by 30 November. Understating taxable income may result in a PAYG taxpayer being forced back into the provisional tax system. The PAYG system would place a premium on meticulous accounting and record keeping.

7.6 There is some concern at the seemingly narrow margin of error available for estimating the end of year instalment. The Committee's comments and recommendations need to be read in the context that the PAYG proposal is in the early stages of development and consultation, and that its fundamental viability in relation to ATO's administrative machinery is dependant upon a reasonably high take up rate from provisional taxpayers. Nevertheless, the Committee endorses the concept of PAYG conditional on some refinement outlined in Recommendation 1.2, below.

Recommendation 1.2:

The Committee endorses the concept of PAYG as an option and further recommends that:

(i) the proposed PAYG system be refined to enable maximum flexibility of voluntary payment arrangements to recognise the reality of the volatility of small business incomes and the difficulties encountered by small businesses in containing compliance and accounting costs; and to this end

(ii) the proposed PAYG system allow flexibility to small businesses in estimating their end of year instalment; and

(iii) small businesses be ensured of retaining any provisional tax credits upon electing to enter the PAYG system.

Provisional Tax Uplift Factor

7.7 The provisional tax uplift factor is currently set at 8 per cent, with the Government proposing that this level remain for 1995196. It is essentially a timing device, rather than an added impost, as it anticipates growth in incomes subject to provisional tax. Tax that is overpaid as a result of provisional incomes growing at less than the PTUF are refunded or credited against the following year's tax liability.

7.8 Historically, the uplift factor has not been a good predictor of income growth. This is probably because the very concept of anticipated average growth for all provisional income is essentially meaningless. The PTUF has been less effective than a predictor set at a constant rate. More importantly, however, it has resulted in considerable inequity because the changes in the annual rate of growth in incomes which have fluctuated considerably for all groups to which the factor has been applied have produced uneven results, advantaging some, and disadvantaging most of the rest. In addition the majority of provisional taxpayers do not experience growth in income at the level predicated by the uplift factor.

7.9 A provisional taxpayer, anticipating a reduction in income or even a lower than 'average' rise in income, can choose either to pay tax at a rate higher than appropriate to their income, or to lodge an

application to vary their provisional tax instalments based on their estimated income for the remainder of the year. The second option often has an associated accountancy cost and it may be difficult, or impossible, to make an accurate prediction about movements in taxable income. If taxable income is understated by more than 15 per cent, the taxpayer is automatically liable to a tax penalty with the onus on the taxpayer to prove their case, subjecting the taxpayer to further costs in time and money.

7.10 The majority of the Committee favours linking the uplift factor to the consumer price index.

> Recommendation 2.1:
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> The Committee recommends that the provisional tax uplift factor be set at a level no higher than the current or projected annual movement in the Consumer Price Index.

7.11 The Committee also suggested that the Government also examine the following alternative, namely that:

(i) The Provisional tax uplift factor be abolished in its current form and replaced by individual provisional tax uplift factors which are calculated by using a five year average based on the movements in the taxable income of each provisional taxpayer for the previous five years, or less if the taxpayer has not been paying, provisional tax for that length of time;

(ii) such an uplift factor should be capped at a level to be determined by Parliament;

(iii) either:

> **(a) two applications to vary Provisional tax be allowed annually, or**
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> **(b) applications to vary Provisional tax should allow a margin of error greater than the current 15 per cent (perhaps 25 per cent) to reflect the volatility of annual changes in the movements in the taxable incomes of the provisional taxpayers; and**

(iv) if, and only if, suggestions (i), (ii), and (iii) above are accepted, that provisional taxpayers be required to lodge variations if they reasonably expect that their taxable income will ***increase*** **by an amount greater than the margin allowed as a result of recommendation (iii) above.**

7.12 The Committee also favours changing the penalty for understatement of income which is subject to provisional tax.

> Recommendation 2.2:
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> The Committee recommends that the only penalty for understating taxable income when lodging an application to vary provisional tax be a levy calculated by applying the highest commercial rate of interest to the unpaid tax resulting from understated income.

7.13 The timing of sales tax remittances was of particular concern to many small businesses. They maintained that the current monthly deadline for sales tax remittances adversely affected their operations because of the need to fund tax liabilities before receipt of the income from which these liabilities are derived. Businesses affected considered that the payment deadline should extend well beyond the 21 days after the end of the month in which the transaction occurred.

7.14 Important alternatives that were suggested were for sales tax to be remitted within 21 days after the end of the month in which payments are received**,** and for the access threshold for quarterly remittances to be lifted to $100,000 from $50,000. Changing the; date of remittance to 21 days after receipt of income is not considered to be feasible because of the implied shift from accruals based accounting and the concomitant scope for tax avoidance through deferring receipts of income. Increasing the access threshold is complicated by the fact that the total amount of sales tax remitted by a business is an uncertain way of determining the size of a business.

7.15 The Committee considers that further relief from financing tax liabilities in advance of cash receipts should be based on business size as defined by the ABS (see Introduction to this Report).

Recommendation 3.1:

The Committee recommends that, in addition to the current threshold which enables quarterly remittances, businesses defined as 'small' by the Australian Bureau of Statistics in ABS Catalogue No. 1321.0 (Small Business in Australia 1993) be permitted to remit sales tax either:

(i) on a quarterly basis; or
(ii) 45 days after the end of the month in which the transaction occurs.

7.16 The current small business exemptions are based on a threshold which is contingent upon the annual ongoing sales tax liability of a business remaining less than $l 0,000. The threshold should be indexed.

Recommendation 3.3:

The Committee recommends that the $10,000 sales tax threshold for the small business exemption be indexed annually.

Company Tax

7.17 The Committee has identified two problems with timing in relation to company tax. The first is a matter of notification to small businesses of changes made to taxation arrangements. The second is

matter of options open to small businesses as to whether payments are made on a quarterly basis or as a lump sum. These two problems have been addressed with recommendations:

Recommendation 5.1

The Committee recommends:

(i) that the Government investigate the adequacy of the notification of the new company tax arrangements, in particular, to those companies with company tax liabilities of between $8,000 and $20,000; and

(ii) that the Government ensure that taxpayers which are affected by changes in the legislation are properly notified well in advance.

Recommendation 5.2:

The Committee recommends that 'small' and 'medium' company taxpayers be permitted the option of paying their tax instalments on a quarterly basis applicable to either 'medium' or 'large' taxpayers.

Capital Gains Tax

7.18 Evidence suggests that capital gains tax limits the scope of small businesses to restructure or form new businesses. Recommendations included a call for small businesses to be granted an exemption from the CGT on proceeds they receive from the sale of their businesses provided the proceeds are reinvested in another business within 12 months. Such rollover relief is a timing issue which continues the deferral of tax liabilities upon capital gain and is recommended as a means of achieving capital and human mobility in the small business sector.

7.1 9 An extensive analysis of the issue by the Beddall Committee in 1990 remains relevant to the issues.

Recommendation 6.1:

The Committee recommends that capital gains tax be deferred on the capital gain realised on the sale of a trading business which is rolled over by the vendor into another trading business.

7.21 if the CGT should be progressively phased out in relation to fixed assets which are held for more than 10 or 15 years, it would act as an incentive to hold assets for a long period rather than making speculative gains in the short term.

Recommendation 6.2 (I):

The Committee recommends that the Government examine the proposal to phase out the capital gains tax on fixed assets once they have been held for a certain period of time, say 25 years.

Prescribed Payments System

7.22 A problem arises when payment is not received until the year of income following completion of work and rendering of an account (for example, in the period June to July). The income is assessable on those earnings in the earlier year even though the PPS tax is not deducted until the later year because it is withheld at the time of payment. The person cannot, therefore, gain a credit for that tax.

7.23 The result is that when the return is lodged, the taxpayer is taxed as if that PPS tax had not been deducted, notwithstanding that s/he will gain a tax credit in the following year.

7.24 The suggested solution was to allow the credit in the year in which the income is assessable despite the fact that the tax will not be remitted until the following financial year. The ATO has the power to exercise a discretion to allow this.

Fringe Benefits Tax

7.25 Suggestions were made to the Committee that the FBT year be aligned with the financial year.

Other Matters

Wine Industry

7.26 Many winegrape growers are provisional taxpayers whose incomes from grape sales to wineries are received after delivery in three instalments straddling the financial year: 30 April, 30 June and 30 September. Small growers whose lump sum provisional tax (of $8,000 or less) is due by 31 March will not have received any payments for income which has been accrued and assessed, which may force payment through debt financing.

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7.27 The ATO has advised that it is willing to grant extensions of time in which to pay tax but, for reasons which are. not clear, will not permit growers to adopt a substituted accounting period to compensate for the seasonal nature of their industry. The Committee considers that either the proposed PAYG system or a substituted accounting period is the appropriate remedy and has accordingly recommended.

Recommendation 1.3:

The Committee recommends that winegrape growers industry look at taking advantage of the new PAYG system of payments if it is implemented. The Committee also recommends that in the event that PATG turns out to be unsatisfactory to the industry, the Government consider granting use of a substituted accounting period appropriate to the industry's financial and seasonal circumstances

Accruals vs Cash Basis of Accounting

7.28 Some of the discussion about the timing of tax payments on complications arising from accrual accounting which has evolved within the Australian and international financial systems Under the accruals system, income is accounted for when all the events which determine the right to receive have occurred. It is not the actual receipt of income but the right to receive income which determines when liability arises.

7.29 Mr Paul Greenwood, immediate Past Chairman of, COSBOA coined an expression which described the early payment feature of provisional taxation as 'pay as you send out your invoices', which to some extent describes an important functional element of the accruals system of accounting.

7.30 Trading income is generally derived when the right to receive it arises as a debt due and owing. Professional fees for individuals are subject to either the accrual method and the cash basis for accounting depending upon the profession involved. Salary and wages (including back pay and arrears) are derived when the money is received - they are assessable in the year of receipt.

7.31 The accruals system of accounting is a timing issue which needs to be carefully distinguished from the timing issues which arise from the requirement to pay tax liabilities before all the taxable income is actually received.

7.32 The Committee considers that while taxable income will generally be calculated in accordance with the accruals method, there is some scope to refine the payment schedules applicable to various tax liabilities, regardless of whether an enterprise is operating on a cash or accruals basis.

Cash Flow Management

7.33 The Australian Chamber of Commerce and Industry (ACCI) commented that there were two schools of thought within small business:

(a) those Who want regular, predictable timing, e.g.: quarterly; and
(b) those who prefer to pay when they have the capacity, in tune with their actual cash flow.

7.34 The ACCI expressed the opinion that the difficulties faced by many small businesses in meeting tax commitments were not so much related to the timing of lodgement dates, but relate to poor cash flow management and record keeping skills. Commenting that this raised issues of improved business planning and the capacity by the Tax Office to exercise flexibility in receiving payments, the ACCI complimented government support in promoting a computer based training package in record keeping skills for small enterprises. However, it expressed the belief that current industry support and training programs are still not adequately addressing fundamental skill deficiencies evident in meeting compliance requirements in regulatory areas like taxation.

7.35 The issues of record keeping and cash flow management are equally applicable to the whole range of taxes and imposts to which small businesses are subject. This is especially the case where a small business is subject to several taxes particularly those which are complex, such as the FBT, the WST and the CGT.

Carry Back of Losses and Carry Forward of Profits

7.36 The Committee received submissions from Mr Shann Turnbull of M.A.I. Services Pty Limited, and Mr Robert Lunney of Grant Thornton advocating what was referred to as either the carry back of losses or the carry forward of profits.

7.37 The current tax system in Australia allows losses to be carried forward to a subsequent year of income when the loss may be offset against a profit, thereby reducing the taxable income in that subsequent year. However, '...the business has suffered in the meantime.'

7.38 Mr Lunney suggested that an assessment received in a previous year, for example 1994, may be amended to allow a deduction for the loss incurred in 1995. While the current carry forward of losses:'...appears at first glance to be generous, the tax benefit of those losses is received when the business is profitable.' Mr Lunney makes the point that **the tax benefit is needed when the business is making losses** and the granting of a carried back deduction on a loss at the time the loss is incurred could make the difference to whether a business, and particularly a small business, survives.

7.39 Mr Turnbull made similar points, and added that in the US the practice was described as the carry forward of profits and provides several advantages (in addition to the arguments put forward by Mr Lunney):

- it creates an incentive for business to pay tax as it makes the government a business partner who will provide cash in times of need;
- it would allow more srnal11 businesses to survive resulting in an increase of the nations tax base and so avoid loss of revenue, loss of employment and other social costs of allowing businesses to fail when there may be no long term reason for such failure;
- it would allow small business to even out liquidity requirements over the business cycle as is possible to some degree in rural activities;
- it would make Australia internationally competitive with other countries which allow carry forward of profits as well as losses; and
- it would justify the use in Australia of accounting practice, used in the USA, which recognises the tax value of losses as an asset.

7.40 Mr Turnbull added that:

> The carry forward of profits is of special value to small businesses who do not have access to capital markets to make up for loss of liquidity when losses are incurred. In addition, banks are unlikely to provide carry-on cash to small business when losses are incurred and liquidity is most desperately required."'

7.41 Carry back of losses has been adopted in various forms in some OECD countries, including the USA, which allows a three year carry back, and the UK, which allows a one year carry back. The schemes vary according to the extent of carry back allowed, or according to the proportion of carryback allowed. Carry back proposals have been the subject of previous inquiries, including those conducted by the Ligertwood Committee in 1961 and the Asprey Committee in 1975.

7.42 The Ligertwood Committee rejected the proposal on the grounds of:

(a) the possible dislocation to revenue in a depressed period;

(b) the lack of finality in assessments (probably the most important); and

(c) the complications inherent in amending the assessments of certain classes of taxpayers, for example, trusts and private companies.

7.43 in 1975, the Asprey Committee recommended that carry-back of losses for all taxpayers (except trust estates) be allowed for two years. The Asprey Committee commented that the '..,difficulties foreseen by the earlier committees do not appear to be sufficiently formidable to justify the continued absence of any loss carry-back':

(a) carry-back of losses will involve some dislocation to revenue, but this will be minor having regard to the total revenue now flowing from taxation;
(b) the degree of the lack of finality in assessment depends largely on the period for which losses may be carried back. A short carry-back period should not cause undue administrative difficulty', and
(c) carry-back of losses should not be allowed to trust estates.

7.44 Mr Turnbull suggests that the reasons given in 1961 for rejecting carry-back are even less relevant today than in 1975. In this regard, it is clear that the revenue base has expanded considerably and that the ATO's modern computerised administrative systems should be more than capable of dealing with the complexities of retrospective assessments.

7.45 Although there are some very limited carryback opportunities available in the current legislation, the Committee considers that, at the very least, carry-back of losses should be allowed to businesses which meet the ABS definition of 'small'.

Recommended 7.1:

The Committee recommends that the Government investigate the efficacy of implementing carry-back of losses for a limited period.

Statutory Warranties and Accrued Leave

7.46 Submissions were made to the Committee that income tax is frequently assessed on a level of taxable income which is significantly higher than the real business profit.

7.47 Horwarth and Horwarth, chartered accountants, put a submission to the Committee through the MTAA that statutory warranties on goods such as motor vehicles sold in a particular year of income, but for which warranty costs will not be met until a subsequent income year. Asserting that the future warranty costs are easily calculated based on the history of costs incurred in the past, they maintain that the deduction for future warranty costs at the time of sale is justifiable as the total revenue from the sale is taxed at the time of the sale. 'It would be a proper matching of the expense with income.

7.48 A similar situation arises in relation to accrued long service leave and recreation leave. Like some warranties, they are statutory requirements. The liabilities crystallise at the time leave fails due, regardless of whether an employee uses the leave within the year that it accrues. Horwarth & Horwarth maintain that the tax deduction should arise at the time the liability fails due, and not when it is paid.

7.49 White and Lewis Consulting Pty Limited put a similar case with some vigour. The company, originally employing sixteen workers, was created by a management buy-out funded by loans raised against the personal assets of its four directors. After several years, the firm had increased its work force and reported its first profit of $180,000, which was shared with its staff and shareholders as bonuses and dividends. The tax liability on the taxable income turned out to be $125,000, not $60,000 as originally anticipated.

7.50 The problem arose when the company set aside the amount required to fund liabilities arising from accrued long service leave and recreation leave which had not yet been taken, as well as '...a number of other critical events that sensible accounting standards require prudent business men to anticipate before declaring a "profit" to the essential stakeholders in the business. The amount set aside had been assessed as taxable income.

7.51 Under the ITAA, deductions cannot be claimed for funds which have been set aside for such liabilities until the costs have actually been incurred, which 'in this circumstance is considered to occur when the employees have been paid for taking leave. The situation is similar for bad debts:

> Many companies make provision for bad debts in their accounts but that specify conditions that there are specific provisions in the law must be met before a deduction **is** allowed for bad debts. 16

7,52 The Treasury elaborated on this issue, advising that although provision for liability had been made in a particular year, there was no guarantee that payment would have to be made:

> That is the distinction between setting aside amounts and actually incurring an expense. They may set aside an amount of money for a particular person who does not stay there for the 15 years, in which case they have never actually had to incur that expense.

7.53 Notwithstanding that the deductions will eventually be allowed once an employee takes leave, the current arrangements clearly create cash flow problems for small businesses which cannot easily 'be absorbed. In addition to the timing issue, accounting complications arise:

> In terms of some of the accounting Policies... the liability arises immediately [and] has to be placed in the balance sheet and to that extent provision made for it. Therefore it is a properly incurred expense at that point... our association was advised by our accountants last year that ' although it is not a taxpayer, it had to start cash funding long-service leave and annual leave provisions. My members were astonished to find that 1 had to charge them this large amount of money which then had to be put aside separately and we incurred both a liability and an asset on the balance sheet in order to do it ....

7.54 The Committee observes that the prohibition against deductions being made, or more specifically against being exempt from consideration as assessable income, before the liability is discharged does not distinguish between voluntary provisions for events such as bad debts, and for provision made for statutory liabilities such as warranties and long service leave. To this extent, the Committee draws attention to an analogous and equally unsatisfactory situation in relation to the FBT which can impose a tax liability upon an employer for the provision of a statutory award which cannot be cashed out.

7.55 Although making provision for long service leave, recreation leave and the like arises in response to statutory obligations, and is clearly a responsible business and accounting practice, it appears from ATO/Treasury's evidence that it is not tax deductible because '...there is no guarantee that [the employer] will have to pay it.'

7.56 Cash flow restrictions which characterise much of small business existence need to be recognised and a distinction needs to be drawn between provisions which are made for liabilities arising from statutory requirements, but which may not be discharged in the year in which the provision is made, and provisions which are set aside because of other requirements. The Committee agrees with the ATO and Treasury that such a provision should not be a deduction until the expense is actually incurred, but considers that it should be exempt from assessment until that time.

7.57 The Committee considers that a facility should be established to enable provisions set aside to meet statutory liabilities to be quarantined from access by the employer, for example in a rollover fund or equivalent, until an event triggers its payment to the eligible recipient. Once the provision for that liability is safely 'parked', it should then be exempt from assessment. Such a facility would be supported by anti-avoidance provisions which limit the rolled-over amount to the extent of the accrued liability.

Recommendation 7.2:

The Committee recommends that the Government investigate the possibility of allowing the providing of money for statutory liabilities (such as long service leave) to be placed in approved deposit schemes, or equivalents. Money deposited in such a scheme should not be treated as assessable income until such time as it is withdraw from the scheme.

Income Averaging and income Equalisation Deposit Scheme

7.58 Income averaging allows unincorporated primary producers and certain classes of 'eligible persons', such as artists, composers, inventors, performers, production associates, sportspersons and writers, who have fluctuating incomes, to apply an averaging calculation which ensures that they do not pay greater tax over a number of years than those on comparable but steady incomes.

7.59 In 1990, the Beddall Committee expressed the belief that there were clearly disadvantages in extending income averaging provisions on the current basis of selecting specific business or professional categories, because individual businesses within these categories may take advantage of a benefit regardless of whether they actually experience large fluctuations in income. Consequently, the Beddall Committee recommended that these provisions be extended on an individual basis to other small businesses which can demonstrate large income fluctuations across income years.

7.60 The Committee endorses an opinion expressed by the Beddall Committee that the Income Equalisation Deposit scheme has considerable merit not only for primary producers but for any small business which experiences income fluctuations and would benefit from an incentive to put aside funds in 'good'years for use in 'bad years'.

7.61 The Government's reasons for not implementing the Beddall Committee's recommendation to small businesses which experience large income fluctuations across income years were contradictory:

it acknowledged the Beddall Committee's reasoning that the current system should not be available to categories of business but should be limited to individuals or businesses which actually demonstrate wide fluctuations in income from year to year;

it reiterated that income averaging is currently granted only to those categories of taxpayers whose income typically fluctuate markedly from year to year; and yet

it commented that to extend income averaging to small business generally would raise problems with regard to the equitable tax treatment of other tax payers.

7.62 The Beddall Committee recommendations appeared to this Committee to be attempting to establish equity in regard to the income averaging provisions which were structurally deficient in this respect because of their inclusion of categories of taxpayers, regardless of whether each individual met the typical criteria. The rationale for income averaging is clearly and specifically designed to assist taxpayers who regularly experience widely fluctuating incomes. The Governments rejection of recommendations aimed specifically at achieving and refining its own objective is difficult to understand.

Recommendation 7.3:

The Committee recommends that the Government the Beddall Committee's recommendation to introduce an income averaging facility and an income equalisation deposit scheme of the type currently enjoyed by primary producers, to assist (on an individual basis) other small businesses which experience large income fluctuations across income years.

Training and Establishment Costs

7.63 The Beddall Committee had recommended that small business establishment costs should be allowable as deductions against income subsequently derived from a small business and that this entitlement be restricted to 'trading' businesses as defined in paragraph 5.139 (Recommendation 34) of its report. That Committee had acknowledged that establishment costs relating to a small business which are incurred prior to its establishment are viewed as capital rather than recurrent costs and are not therefore allowable deductions against income subsequently derived by that small business. The tax system also did not encourage people to undertake appropriate training to maximise the prospects of the success of a new small business. Nevertheless, it argued that allowing these costs as deductions would encourage rather than discourage potential new small business entrants.

7.64 The Government's response was to reject the recommendation on the grounds that its implementation would represent a significant policy shift because business establishment costs are considered to be capital in nature which are not deductible under current tax law. The Government also argued that it would lead to pressure from larger businesses for comparable deductions and create a precedent for other capital costs to be deducted.

7.65 The Committee appreciates the Government's difficulty in implementing such a measure. Notwithstanding these reasons, business establishment costs should be tax deductible to bring them into line with the same tax treatment as those incurred after a business has commenced operation. The Committee agrees with the submission by the MTAA that it is only the timing of the expenses which render them capital in nature.

7.66 The Committee therefore reiterates the Beddall Committee's recommendation.

Recommendation 7.4:

The Committee recommends that the Government implement recommendation 41 of the report by the Beddall committee that small business establishment costs be allowable as deduction from income subsequently derived from a small business.

Imputation Credits

Bates and Pickering, Chartered Accountants, submitted that the loss of unused imputation credits is inconsistent and inequitable as it is the equivalent of a policy of no refunds for excess tax paid by certain classes of income earners. This affects lower income earners who receive a high level of income in fully franked dividends.

The Committee suggests that the ATO review and, if necessary, move to enable amendment of the provision which purportedly results in loss of unused imputation credits.