



**The Institute of
Chartered Accountants
in Australia**

21 May 2002

The Secretary
Senate Employment, Workplace Relations and Education References Committee
Suite S1.61
Parliament House
CANBERRA ACT 2600



Dear Sir/Madam,

Inquiry into Small Business Employment

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity of providing information to the Senate Employment, Workplace Relations and Education References Committee to assist in its inquiry into small business employment.

Background on the ICAA and our link to small business

The ICAA has in excess of 37,000 members in Australia and overseas. Of this number, more than 16,000 are in public practice firms in Australia. 55% of members in public practice are in small to medium practices.

Many studies over the years have highlighted that SME owners and operators seek external financial and managerial advice to complement their own skills at critical times in the life of the business. Such studies have also identified accountants as the professional group that SMEs are most likely to consult.

Chartered Accountants are the leading advisers to SMEs in Australia. We conservatively estimate that our members advise more than 500,000 SMEs. Chartered Accountants are a vital source of the additional business, managerial and financial skills and expertise frequently needed by SME owner/operators.

At the same time, many Chartered Accountants are themselves small business operators, either running their own chartered accountancy firm or operating in industry and commerce.

Hence Chartered Accountants are well placed to know what is happening to SMEs - the pressures they face, their concerns and the factors, both negative and positive, shaping the SME business environment.

Matters impacting on SME employment

The dynamism of the small business sector, its capacity for rapid growth and innovation and ability to create and capitalise on opportunities, has forced a recognition that SMEs have a crucial role to play in our community in wealth creation and in generating new employment opportunities.

Most new jobs created in Australia in recent years have been created by small business.

Small business is, however, far from homogenous. Not all small businesses have the capacity and/or the interest in creating jobs. Many sole trader operations and family businesses have no desire to expand by employing additional staff.

Leaving aside such attitudinal issues, the prime driver in influencing small business employment decisions is the economic well-being of the business.

Providing the economic fundamentals for a strong business sector generally (noting that there need not be any incompatibility between having a vital small business sector and a healthy large business sector) is the foremost manner in which government can assist employment growth.

However, government can also create obstacles to employment, especially for SMEs. As compliance costs are generally regressive, they impact disproportionately on small business. In other words, it costs small businesses proportionately more to comply with regulation than it does larger businesses.

As leading advisers to small businesses, Chartered Accountants see first hand the pressures that their clients operate under and understand the effect and sheer weight of regulation impacting on SMEs.

Employment on-costs, in all forms, clearly are perceived to be a significant disincentive to employment. This point does require elaboration, however, as it is not only the cost that is the problem, but also the effort and added complication involved in employing staff.

In a business, the cost of employing staff, including wages and other costs, is a matter that will be approached like any other business decision and weighed against the expected returns or benefits that the additional staff will bring. On-costs of course factor into this equation.

The compliance burden associated with employment is a different matter. Employing staff sets off a train of compliance activity that the SME owner must complete and frequently complete in their "own" time.

Major “on-costs” of employment for SMEs include those generated by:

- Workers compensation
- Compulsory superannuation
- Privacy issues
- Unfair dismissal laws
- Occupational health and safety issues
- PAYG withholding
- Payroll tax
- FBT
- Long service leave entitlements
- Annual Leave entitlements
- Sick Leave entitlements
- Redundancy entitlements

All of these issues ‘protect’ the employee but place a large burden on small business to not only be aware of their obligations, but also ensure they comply and meet the costs. The costs associated with the areas of workers compensation and occupational health and safety are constantly increasing and are significant overheads for small businesses.

In the past, the use of subcontractors by small businesses was an avenue that was used to reduce the compliance and legislative framework faced by small businesses. There is now a question mark over this approach given the “personal services income’ legislation introduced by the government.

Different definitions of “employee” in various state and federal laws and regulations also create confusion for small business and add to their compliance burden.

There is also the added problem that some legislation relating to employees is state-based (such as payroll tax and workers compensation) and different requirements in different states increases complexity for small businesses that operate in more than one state.

There is also the problem of cascading taxes (i.e. taxes on top of taxes). For example, some business insurance attracts a state fire levy and then GST is charged on both the insurance and fire levy.

The lack of available professional or trades people in rural and regional areas is another issue. The zone rebates in the current tax system have not been adjusted for many years and are clearly irrelevant as a compensation factor for people to work/relocate to remote areas. The issue of regional employment is one that needs to be looked at as part of a broader strategy to rejuvenate regional business. An issue that needs to be looked at is encouraging external or correspondence tertiary education to keep regional people in regional areas. Many people relocate to larger population areas to attend university and never return to the regional areas once qualified.

The introduction of paid maternity leave would likely have a negative impact on female employment if this were to be funded directly or indirectly by employers. The prospect of paid maternity leave would clearly be one factor taken into account by small business in employment decisions and moreover is likely to be a decisive factor in not selecting female applicants for positions. For example, given the choice of a male or female prospective employee, say both 20 years old with equal attributes, a small business owner will choose the candidate that doesn't come with a potential financial liability.

Many small businesses could not afford to bear the cost of having to pay a non-working employee. In the competitive environment of small business it would not be possible to pass the impost onto customers. If such a measure was introduced, it is likely that the small business operator will find a way to get the work done without employing the person in the first place (by the SME owner/operator working longer hours or other non-paid labour such as family will be utilised).

Whilst maternity leave is an important employee benefit that has many positive social benefits, it should be recognised that it does already present challenges to some small businesses. For example, the task of finding suitable temporary staff to replace workers on maternity leave is not always easy and whether an employee will return to work after maternity leave can be uncertain.

The "fear factor" associated with unfair dismissals legislation is another relevant factor. It is not surprising that many SME owners and operators decide that employing staff is just not worth the trouble.

Unfair dismissal laws need to be simplified. Undoubtedly in some cases small business owners who have adhered to procedures regarding giving clear warnings to non-performing staff before dismissal have actually found that employees' performance has improved. Prior to unfair dismissal laws small business owners may very well have just dismissed such staff. However, the ambiguity of the current scenario works in the favour of the employee. For employers, it simply becomes a choice as to whether to pay the legal costs or pay the employee. Stories abound of cases where the employee is paid not because of any wrongdoing by the employer but simply because it is the less expensive course of action.

There is a need to give small business owners easy and inexpensive advice on procedures for employing and dismissing staff. Standard clauses to be used by small business when employing staff and guidance for small business employers on procedures to be followed in dealing with non-performing staff and staff dismissals should be developed and promoted. Greater understanding by SMEs of procedural requirements should go some way to ensuring that any unfair dismissal claims will be judged on merit.

The sheer volume of regulation and potential legal liability surrounding the concept of employing staff is a disincentive to employment. SMEs are conscious of matters such as payroll tax thresholds and as far as possible organise their affairs to minimise their compliance and cost burdens.

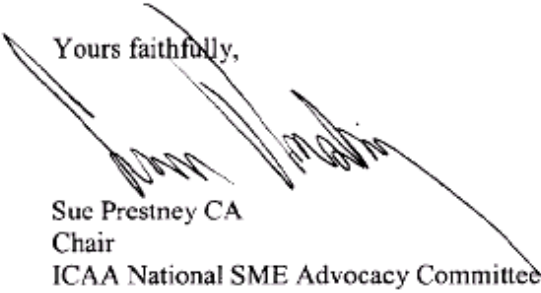
Whilst some progress has been made on regulatory simplification in recent years, additional imposts and new regulatory requirements are being imposed seemingly constantly.

It has to be appreciated that small business does and must make an assessment of the direct and indirect costs (including the SME owner's time) involved in employing staff. Government must make the same assessment (measured in terms of jobs foregone) when implementing policy that impacts on SMEs.

It is imperative that government recognises that the costs imposed on business by regulatory compliance also impacts on the ability of Australian business to compete with businesses in other (often less-regulated) countries. The need for Australian business to be cost-competitive is a factor that must be taken into account in assessing the costs and benefits of regulation.

The ICAA would be happy to provide further information in relation to the above matters to assist the Committee in its inquiry. Please direct inquiries in relation to this submission to Jim Malins, Manager Government Affairs (02 9290 5613)

Yours faithfully,



Sue Prestney CA
Chair
ICAA National SME Advocacy Committee