



Kingsley's Chicken Pty Ltd
ACN 008 597 877

PO Box 882
Woden ACT 2606
Tel (612) 6285 4711
Fax (612) 6285 4075

Directors:
Kingsley Varr (F.C.C.A.)
Jennifer Stead (B.A.) (M.B.A.)

Submission No. 34

18 November, 1999

Ms Helen Donaldson
Secretary
Senate Finance and Public Administration
References Committee, SG60
Parliament House
CANBERRA ACT 2600



Dear Ms Donaldson

**Senate Finance and Public Administration Reference Committee
Inquiry into Business Taxation Reform**

I am writing to bring to the Committee's attention the serious consequences of the proposal to set the threshold for small business at \$1 million of turnover. Turnover is not an equitable measure of the size of any business.

ABS research (Small Business in Australia 1997) has shown that small business has been creating a disproportionate share of new jobs since the 1990-91 recession. Policy changes that adversely affect small business will without question have an adverse effect on future job creation, reducing the Nation's capacity to reduce unemployment further.

For example, a business where the revenue is from rent of \$990,000 most certainly has a high turnover. The value of the assets at 10% return is \$9.9 million. The expenses of such a business in relation to revenue will be low, and the net profits high. This business, using the proposed definition, would be a "small" business.

As a comparison, a business that sells personal services may have a turnover of \$1.1 million but be paying \$1.2 million in wages and making a loss of \$100,000. This business would under the proposed definition be a "big" business.

Many small trading businesses operate on a net margin as low as 3%. An example would be a local corner store competing with Woolworths. A corner store turning over \$1 million will be making a net profit of just \$30,000. Turnover has to increase only marginally, and the business may suddenly find itself reclassified as "big" business!

Much more thought needs to go into the definition of "small business". There are currently several different definitions as set out below:

- Under the Corporations Law, a proprietary company is a small proprietary company if it satisfies two of the following conditions:
 - The consolidated gross operating revenue (ie turnover) is less than \$10 million
 - The value of gross assets is less than \$5 million
 - The company has fewer than 50 employees. (My view is that the definition should say 50 full-time employees or the equivalent thereof in terms of hours worked.)
- The ATO defines a small business as an unincorporated business or a private company with a total business income of less than \$10 million.
- The ABS defines as “small”, businesses and entities with less than 20 staff or less than 100 staff in manufacturing.
- In the State jurisdictions, businesses paying less than around \$700,000 in payroll are exempted from payroll tax on account of size.

The use of the definition proposed is particularly onerous to many small businesses least able to cope with additional tax burdens, and should not be retained.

The most equitable measure of the size of a business is that used regularly in valuing a business – the EBIT (Earnings before Interest and Taxation). For the purpose of determining the taxation regime to be applied, the EBIT would need to be adjusted for owner’s earnings as well as interest and taxation.

I also believe that there should be a basis for stepping the effect by incrementally increasing the measure used and increasing the effect of the change. This would mean that a business is not a “small” business one day and a “big” business the next.

Yours sincerely,



Kingsley Varr
Managing Director