

## SMALL BUSINESS - COMPLIANCE BURDEN

### *Grievance*

**MR A.P. O'GORMAN (Joondalup)** [9.25 am]: My grievance this morning is to member for Girrawheen as the Minister for Small Business and the Minister Assisting the Minister for Federal-State Relations. This issue I raise this morning is a federal matter. In my capacity as the member for Joondalup, I have met many small business operators who are particularly time poor. They have told me that compliance, or red tape as it is better known, is stifling their ability to get on with their business. Recently I read the results from a MYOB survey that indicated that small businesses operators are struggling with compliance issues, particularly the goods and services tax. Sixty-eight per cent of respondents listed business activity reporting as the highest red-tape burden for small business, while 56 per cent listed daily GST transactions as the highest red-tape burden. This I know to be true through experience in my own business. I have also recently read the results of a survey that indicate that the small business sector is confused by the new round of amendments to the WorkChoices regulations, which come into force on 27 March. The amended regulations enshrine new timekeeping requirements for employers. Drake International surveyed 330 businesses and found that 58 per cent of businesses thought that the requirements would have a negative impact on their business, while 52 per cent thought that the changes would result in a negative effect on their workplace productivity. The federal government has claimed to be a friend of small business. I contend that that is not so. The federal government has wrapped small businesses up so tightly in red tape that they are worried that their productivity will be further affected.

Another matter of federal government red tape that is confusing the small business sector is the Australian Taxation Office's ruling on the valuation of stock. This ruling imposes an unnecessary compliance, or red-tape, burden on small to medium-sized enterprises, particularly those involved in the wholesale and retail industry. I have had a copy of the ruling for the past couple of weeks. I had to send it to my accountant because, quite frankly, I do not understand it. This ruling will quite possibly apply to not only to business, but also the businesses of those who have talked to me. The ruling reads -

Where a retailer or wholesaler elects under subsection 70-45(1) of the ITAA 1997 to value trading stock on hand at year end at cost, the cost of each item of trading stock includes all direct and indirect expenditure incurred in relation to the item in bringing the item to its present location and condition up to the time that the item is located in its final selling location.

That means that business operators have to account for everything that involves getting the stock item from the wholesaler to the retail outlet. If stock has to be written off because it has deteriorated, that must also be included. It continues -

The valuation methodology is generally known as absorption costing. Absorption costing requires that freight, insurance and other costs incurred in the normal course of operations in bringing items of trading stock to their point of sale be added to the invoice cost (net of GST input tax credits and any other recoverable taxes and duties) of the items to determine their costs.

I hope members are suitably confused, because I am! I am confused after reading it; I can only imagine how confusing it must be to implement this ruling. Over the past few years the contentious issue for businesses in the retail and wholesale industries has been the ATO's approach to the valuation of trading stock. However, the ATO's attempts to provide clarity on this matter through taxation ruling 2006/8 have added a new layer of red tape for small business. The new tax ruling requires that if a retailer or wholesaler chooses for taxation purposes to value trading stock on hand at year end at cost, the cost of each item of trading stock must include all direct and indirect expenditure incurred in relation to the item in bringing the item to its present location and condition up to the time that the item is located in its final selling location. The compliance requirements of this ruling are extremely onerous, particularly for small business operators. The ruling has broad ramifications on prior, current and future taxation returns for small business. It is of great concern that red tape such as this is being inflicted upon the small business sector. I will briefly explain the ramifications on prior, current and future taxation returns for small business. The ruling reads -

This Ruling applies to years of income both before and after the date of issue. However, there are three exceptions. The first exception is that the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling.

That is relatively simple to understand. It continues -

The second exception is for taxpayers who have applied to principles described in this Ruling in valuing their closing cost at cost for the year end of 30 June 2004 and subsequent years following the issue of Law Administration Practice Statement PS LA 2003/13. The Practice Statement indicated that these taxpayers were not required to make adjustments for earlier years of income. Accordingly, this Ruling only applies to these taxpayers for calculating the cost of closing stock at 30 June 2004 and for

subsequent years. The third exception for taxpayers and consolidated groups with an annual gross operating turnover of less than \$10 million. Provided their returns of income for the 2005 and earlier years evidence a reasonable and practical basis to correctly bring to account their trading stock.

Reference is made to another paragraph that is even more confusing.

**Mr A.D. McRae:** You can see why accounting conferences are so popular, can't you?

**Mr A.P. O'GORMAN:** They must spend the first four days trying to figure out what they are talking about. The ruling continues -

... this Ruling applies to them.

As the member for Joondalup, I want to see small business grow and prosper in my electorate and other electorates. Growth brings with it many positive economic benefits, including more local employment opportunities. However, further growth can be hamstrung when businesses must spend valuable time on confusing compliance issues such as the valuation of stock. I hope that the minister can explain it to me and take up this matter with the federal government.

**MS M.M. QUIRK (Girrawheen - Minister for Small Business)** [9.30 am]: I thank the member for raising this grievance today. I also share his sentiments on the problems small businesses face in complying with their goods and services tax, business activity statements and taxation obligations. Prior to today a number of members might not have heard of the problems associated with the valuation of stock ruling. Therefore, I will provide members with some background information. However, I will be modest and admit that I do not know whether I will be able to provide the necessary level of elucidation. This issue has been raised with me in discussions with the Chamber of Commerce and Industry of Western Australia's small to medium business enterprise forum. This matter affects a number of small businesses, particularly in the retail and wholesale sectors.

Although I appreciate that the Australian Taxation Office must make rulings that will create equitable outcomes in a complex environment, those outcomes must be balanced against the impact they have on the businesses that must comply with the regulations.

The ATO's finalised tax ruling "Income tax: the cost basis of valuing trading stock for taxpayers in the retail and wholesale industries", known as TR 2006/8, affects small to medium enterprises engaged in wholesaling and retailing activities. The ruling was introduced following a review conducted by the ATO into the manner in which stock valued to address the wide range of methods used when valuing stock in the retail industry when dealing with costing trading stock. TR 2006/8 requires a retailer or wholesaler who values stock at cost for tax purposes to include all direct and indirect costs incurred in bringing the item of stock to its present location and condition up to the time that the item is in its final selling location. Examples of the sorts of costs that are referred to in the ruling that are required to be absorbed into the value of stock for tax purposes are transportation, holding and storage costs. This includes inward transport and handling charges, insurance and assembly costs.

In addition to these costs, it is also necessary to absorb the costs incurred in storage areas such as employee remuneration, power, rent, telephone and lease costs. Taxpayers who elect to participate in the simplified tax system and taxpayers' consolidated groups with an annual gross operating turnover of less than \$10 million have a lesser compliance burden. Nevertheless, many wholesalers and retailers with an annual gross operating turnover of \$10 million or more will be required to cost trading stock on an absorption basis for tax purposes differently from how they calculate it for their accounts. This double accounting makes the ruling unnecessarily onerous.

It is for this reason that TR 2006/8 should be reviewed. I wrote to the federal Treasurer and the federal Minister for Small Business and Tourism to urge the federal government to take on board these concerns so that it can demonstrate its real commitment to reducing the red tape burden on business. I am still awaiting a response.

From my standpoint, there appears to be no significant loss to revenue. Therefore, one can only assume that this is yet another attempt by Canberra to mind everybody else's business. Maybe the federal government should look closer to home. If a mere 72 share transactions by Senator Santo Santoro is too hard to keep track of, surely the demand on small business owners by this ruling is beyond the pale.

The member for Joondalup referred to the recent findings of the MYOB survey that indicated a broad majority of small businesses surveyed are struggling with business activity statement and goods and services tax compliance requirements. I note that the small businesses surveyed by MYOB ranked BAS and GST as their most time consuming red tape concerns. BAS and GST are seen as taking time away from revenue making activities. In total, 83 per cent of the small businesses surveyed are spending up to five hours a week complying with red tape; five per cent of small businesses are spending more than 10 hours a week on compliance; 73 per cent of

businesses surveyed by MYOB indicated that time would be saved for their business if the red tape burden was resolved; a further seven per cent believe that solving the red tape burden would enable them to employ more people; and a further nine per cent believe that they would be able to substantially grow their businesses if the red tape burden were reduced.

The February 2007 Sensis survey further highlights the problem of regulatory compliance for small business. Each quarter, Sensis surveys small businesses about their key issues and concerns. The February survey indicates that the prime concerns for small business include paperwork, bureaucracy and time pressures.

I also note the member for Joondalup's comments on the imminent arrival of WorkChoices amendments that will be made on 27 March and earlier this month I read in *The Australian Financial Review* that meeting the record keeping requirements of the WorkChoices legislation is estimated to cost small and medium business enterprises some \$950 million in employee time. This is a conservative figure that did not take into account the additional costs to businesses of purchasing new computer software or lost profit due to redirecting resources to compliance. There are estimates that an average-sized business of 20 employees will be faced with costs of up to \$35 000 to implement the compliance systems of WorkChoices.

Small business can be sceptical of claims by the federal government that it is working hard to cut regulation. The Business Council of Australia recently expressed concerns that federal regulations were growing at 10 per cent per year. In 2006 alone 2 751 new laws were either introduced or amended at the federal level.

Red tape compliance is a particular challenge to the small business sector. To the extent that state laws are to blame, I am particularly keen to get stuck into slashing the red tape that so often holds back small business from maximising business opportunities.

I thank the member for Joondalup for raising this important issue. He works tirelessly for the people of Joondalup and is an extremely strong advocate for its growing community of small business operators.