



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

GRIEVANCE DEBATE

Goods and Services Tax: Small Business

SPEECH

Monday, 6 March 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Monday, 6 March 2000
Page 13968
Questioner
Speaker Cox, David, MP

Source House
Proof No
Responder
Question No.

Mr COX (Kingston) (5.55 pm)—A few months before Christmas, I started receiving telephone calls from small business people in my electorate. Those telephone calls were about the GST, and they fitted what quickly became a familiar pattern. The callers would say, 'I am a small businessman. I voted for the GST. I thought it was a good idea. But I've just been to see my accountant, and now I hate the GST.' The simple concept, the promise of tax cuts and the assumption that the GST would be good for the country had been replaced. After a briefing about the detail of the GST from their accountant, they realised that the GST is not simple and that the tax cuts will evaporate and will be replaced by significant set-up costs and a very large ongoing administrative burden. Their reality is that, whatever economic advantages they had been told the GST would offer the country, their business certainly is not going to be a beneficiary. Here I am talking about small and very small businesses: an individual, a husband and wife partnership or a small business with a handful of employees. Overseas experience of the introduction of GSTs shows that it will cause many businesses in Australia to fail. The majority of those failures will come from the ranks of very small businesses.

I was discussing the GST at a community meeting last week. One of the people present was a young woman in her 20s who had migrated from New Zealand. Her parents had been in small business. She had been quite young when New Zealand introduced the GST. For that reason, she could not remember much of the detail. She remembered her parents' business failing. She says she carries with her the impression of everything falling in around her—the human tragedy that accompanies a business failure. The first reality is that, because of the compliance costs, this tax does not create a level playing field for small business, either relative to big business or even between small businesses. Big business has the scale and the technology to cope with the set-up and compliance costs. Though they are substantial in absolute terms, they will be marginal in relative terms. But, for the very small firm, the costs will be a burden. Compliance will be a much higher proportion of total operating costs. It does not take much imagination to realise the implications for a husband and wife partnership, where one of them is doing the books as a part-time job, justifying a part-time wage with a tax-free threshold. If the family finds the compliance burdens too much and has to use an accountant, they lose the part-time wage, the second tax-free threshold and have to pay the accountant. That is a big blow to a family business that just makes wages.

If you have built up your business past that stage, probably by employing several people, you face a different problem. You have a turnover of more than \$50,000, so you have to register to pay the GST. But the very small business turning over less than \$50,000 does not have to. It therefore has a potential price advantage it can exploit. This particularly applies to businesses providing personal services with few inputs. They can advertise a GST-free price. People who have built up a business and are employing people will find demand for their services falling off. They will be eaten alive on price by individuals operating from home who keep their turnover below \$50,000. Certainly it will give some people a choice, but it is not a level playing field.

I have already had three different businesses come and see me about this problem: a driving school, a TV repair business and a martial arts academy. If you think this isn't going to be an issue, think of the number of accountants, hairdressers and motor mechanics who can get a tax advantage by operating on a sub-\$50,000 scale from home. I predict it will cause problems in some neighbourhoods, with commercial activities moving into suburban streets and quite a few headaches for local planning authorities. The logic of the situation tells them they will have to tell their employees, 'Sorry, there's no work coming in, I can't keep all or perhaps any of you.' The only solution they can offer is to raise the threshold before a business is forced to register. But how far? Even if it were a practical solution for them, it would move the problem to a different group.

Then there is the question of the relationship between big business and their small business suppliers. A cleaning contractor rang me last week. He and his wife work in partnership. They have a contract with one of the major banks, though for obvious reasons he does not want me to nominate which one. The bank had said to him that his contract was up for renewal. They could not pass on the costs of the GST to their customers so he would have to absorb it. It is a very unequal power relationship, a major bank and a husband and wife cleaning contractor. He has not got too many choices if he wants to keep his livelihood. He has decided to absorb the GST cost, but to do it he and his wife will have to keep their turnover below \$50,000. This is going to be the

glass ceiling on a great many small business incomes. What was the term the Prime Minister coined a couple of incarnations ago as opposition leader?

Ms Kernot—Incentivation.

Mr COX—Incentivation, indeed. The member for Dickson is absolutely right. It is something that the Prime Minister believes should be very heavily qualified now if you are a small small business. Most big companies will be taking this opportunity to redefine their commercial relationships with their small business suppliers. The bigger they are, the more effectively they will be able to do this. I have obtained a copy of a standard letter sent by one major company to its suppliers. The letter is informative, giving the supplier the details of the Australian Taxation Office's tax reform web site and explaining that any cost reductions made as a result of the GST must be passed through the supply chain. It then includes this perhaps not so friendly reminder:

The ACCC has been given extensive powers for price monitoring and imposing penalties on businesses that exploit prices by not passing the cost reductions through the value train, thereby increasing their profit margins.

Fortunately for the supplier, the company is able to help them avoid these penalties. It:

... has a GST team looking at these issues and the team will be approaching you soon to discuss price reductions resulting from abolition of embedded taxes and the introduction of the GST. We will also be reviewing our existing contractual arrangements to ascertain whether any of the supply that you make is exempt or GST free.

It all sounds terribly reasonable until you think about the level of detail in which the company's GST team would have to understand your business to be able to identify the level of embedded taxes. That would be information that would be very useful to the purchasing company in future price negotiations, and therefore something which you might quite reasonably want to keep confidential; that is, if you did not want the company you were supplying to be playing you off against the next supplier. Again I am talking about an unequal power relationship between small suppliers and a very large company. What protection is the ACCC going to offer if big companies take this opportunity to cut not just the cost of embedded taxes but also the small suppliers' margins by using unscrupulous or overbearing commercial tactics? Not much protection at all, I expect.

The final matter that I wish to raise is the operation of the GST Start-Up Assistance Office. The availability of \$200 vouchers to businesses with a turnover of less than \$10 million who register for the GST to assist them with start-up costs has been fairly widely publicised. What is not as widely known is that these direct assistance vouchers can be used only at suppliers who are registered with the GST Start-Up Assistance Office. Many small businesses, like one printer and stationer who rang me last week, were unaware that they needed to register to get a share of this lucrative trade. They were more annoyed to discover that their big business competitors had been made aware of this requirement and would therefore have a very significant advantage, particularly in terms of government funded advertising in the Registered Suppliers Booklet which is sent out with the voucher. Once again, the Liberal government that claims to be the party for small business demonstrates by its every action that it does not care about them at all.