Monthly commentary Demian McLean 5 min read

Xero budget panel: Tax cuts are nice, but where's the vision for Australia?

A panel of accountants, business owners and Xero employees convened the morning after the budget to discuss its implication for the economy and particularly small businesses. Joining us at Xero's Sydney office were:

- Paul Colgan, panel moderator — Editor in Chief and Publisher, Business Insider Australia
- Danny Normington — Co-Founder and Director, Firesoft Consulting
- Trent Innes — Managing Director AU, Xero
- Craig Harris — COO of Deputy
- Jane Tweedy — Managing Director and Lead Trainer, FAQ Business Training
- Dr. James Chin Moody — CEO, Sendle

- Kylie Parker — Business Development Director, Lotus Accountants
- Matthew Prouse — Head of Industry, Xero

“This seems to be a budget for people who spend things, not for people who build, create or design things,” said Xero’s Matthew Prouse. He cited the personal tax cuts and the extension of the $20,000 instant asset write-off, accompanied buy tighter restrictions on R&D tax breaks.

“What will the economy look like in 2024?” asked Matthew. “This budget doesn’t tell us. It just says what the tax rate will be.”

Dr. James Chin Moody, the CEO of Sendle, the delivery service for small businesses, echoed Matthew’s comments.

“This budget was not bold enough to make the kinds of structural changes we need, from the gig economy to developments overseas,” said James. “Five hundred dollars in everyone’s pocket from the tax cuts is fine. But imagine if it that money went into a massive job retraining program.”

In the U.S., it’s estimated some 300,000 truck drivers will need to be retrained over next five years as driverless trucks come online, said James.

“How are we preparing for a future like that in Australia, for industrial dislocation?” he asked. “We do need to encourage innovation. I don’t think Sendle would be here without the R&D tax concession.”

The Xero panel acknowledged the budget contains $24.5 billion in new infrastructure spending, but noted that many of those projects were already planned or underway.

“There may be a knock-on effect for small businesses to obtain new work on these projects, unless the projects were already in place,” said Danny Normington, cofounder and director of Firesoft Consulting. “Overall, this felt like a modest budget, a safe budget that was driven by election considerations.”

Several budget proposals seek to address what’s called the black economy, including businesses that take cash-only payments and fail to report them as revenue. New proposals will extend taxable payments reporting system (TPRS) to security providers and investigation services; road freight transport; and computer system design and related services.

Silver lining

While these sectors may grumble about the compliance burden, there will be a silver lining when they try to sell their business or obtain financing, said Jane Tweedy, managing director of FAQ Business Training.

“We see businesses that are getting ready to sell, and they’ve been doing cash sales only,” said Jane. “And they find their valuation is lower than their actual intake. The savings they’ve pocketed over the years actually hurts them in the end,” said Jane.

“Or they’ll try to get a loan. They’ll say, ‘Well, actually my real sales are much higher.’ And I’ll say ‘The banks aren’t going to give you anything on that.’ Their valuation is too small, and they can’t get the credit they need.”

Another area targeted in the budget was phoenixing. Phoenixing refers to fraudulently transferring assets of an indebted company into a new company to avoid paying creditors. The new company, usually operated by the same director, continues the business under a new structure.

“This is a real problem in construction,” says Jane. “We see a lot of hard-working small businesses that are owed massive debts by a construction company. Then suddenly the company disappears.”

Craig Harris, the COO of Deputy, welcomed the personal tax cuts, even if modest. They will help those who are working multiple jobs. A survey his company commissioned found 30% of workers have more than one job as part-time and casual employment becomes more common.

“For the worker, that means they’re paying a higher tax rate on second and third job,” said Craig. “And for employers, the increase in casual roles means taking on an ever greater number of employees to accomplish the same output.”

“The government needs to do more to to support businesses in taking on new employees and the associated compliance work,” said Craig. “If not, the government may see sectors like hospitality continue to make cash payments to employees.

“It’s much easier to just pay a casual employee $100 and be done with it than go through the rigors of onboarding them officially.”

Trent Innes, MD of Xero, agreed less red tape is needed.

“Paperwork is friction, and that’s one of the things we’re trying to solve with technology. Compliance work is time-consuming and also a bit scary given the consequences of doing it wrong,” said Innes.

“The ATO is definitely on the journey toward streamlined compliance, but there’s a clear objective of making businesses ‘pay their fair share.’

“The ATO needs to help themselves by making it easier. Compliance on small businesses is as heavy as it is on big businesses, which have more staff. Make it easier, and people will do the right thing,” said Innes.

Erin Smith

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07.05.2018

Budget 2018: What do small business owners care about?

With the federal budget just around the corner, we asked our Xero Small Business Insights panel about the business conditions that most affect them and the changes they hope to see for the future.

Superannuation

Paul Lyons, Partner at WLF Accounting & Advisory: In the last few years we've seen major changes to superannuation, which can undermine clients' and businesses' confidence in the system. Last year, for example, the government imposed a $1.6 million transfer balance cap which limits the amount of super that can be transferred into retirement.

This led many of my small business clients to question where they should continue to invest their money in super funds – and ask what will happen to the rules and regulations next. I'd like to see the government leave superannuation alone, if not make tweaks to improve it.

Hiring people

-0.92 %

change in the number of Australian small business employees from March 2018 to April 2018

▲ 0.66 p.p.

Year on year

Cash flow

52.02 %

of Australian small businesses were **cash flow positive** in April

▼ -3.00 p.p.

Month on month

▼ -2.97 p.p.

Year on year

I'm also hoping that the government extends the $20,000 instant asset write-off for small businesses in this year's budget. It's due to revert back to less than a thousand dollars on 30 June.

Cash flow

Simone Clark, founder of Butterbing: As a small business retailer, there are two things that impact my cash flow: the seasonality of our product (which I can forecast), and customers paying on time (which I can't). Recently I've been working with the biggest company I've ever dealt with. They insisted on a 60-day payment term, they exceeded those terms, and then they asked for a discount. I prefer to work with small businesses where I'm not loaning them money because at least I can retain control.

I'd welcome any measures that seek to alleviate that strain for small businesses.

Ben Dewson, founder of Holistic Security: I agree that cash flow is one of the biggest issues for a small business owner. Personally, we learned an expensive lesson when a client of ours went under, so we put very strict rules in place from that day on. We've been fortunate with prompt payments since, but when I joined the Xero Small Business Insights tour earlier this year, I saw that the many debtor days most small businesses face are ridiculous.

Paul: When I look at what the government can do to assist the cash flow issue for small businesses, I come back to tax.

We've seen an ongoing reductions in the company tax rate, with the aim to try to get that to 25 percent. That's really positive and something I'd like to see continue – if it can get through parliament. But individual marginal tax rates remain very high: in 2017, the top rate was 49 percent for example, and this year it's 47.

If the corporate rate is reduced but individual rates remain high, when dividends are passed to the individual the gap between the franking credit and the marginal tax rate is higher meaning higher taxation for the individual on the dividends they receive.Then the benefits of reduced rates for small business owners become nonexistent. I'd like to see the government reduce those tax rates so that no matter what structure you trade at as a business, your tax rates are comparable.

Hiring

Simone, role at/of firm: We've been growing quite fast as a business, so I feel like I'm eternally hiring people. When you bake, deliver, sell, and do your own books, it can be hard to find the ideal skill set. But that's not my biggest hiring issue. We'll soon hit the payroll tax threshold and *that's* the one thing I don't know how to deal with. It's likely to prevent me from growing the business because if I choose to hire more people, I'd have to sacrifice my own income.

Ben: I share the pain point of payroll tax. It just doesn't make sense to me. The government wants us to build business and employ people, but it taxes you if you do. I can add more money to my call-out costs to absorb the higher tax. But how does a small business owner like Simone, who is competing on narrow product price points, move past that threshold and into growth? It can be a very hard space to navigate.

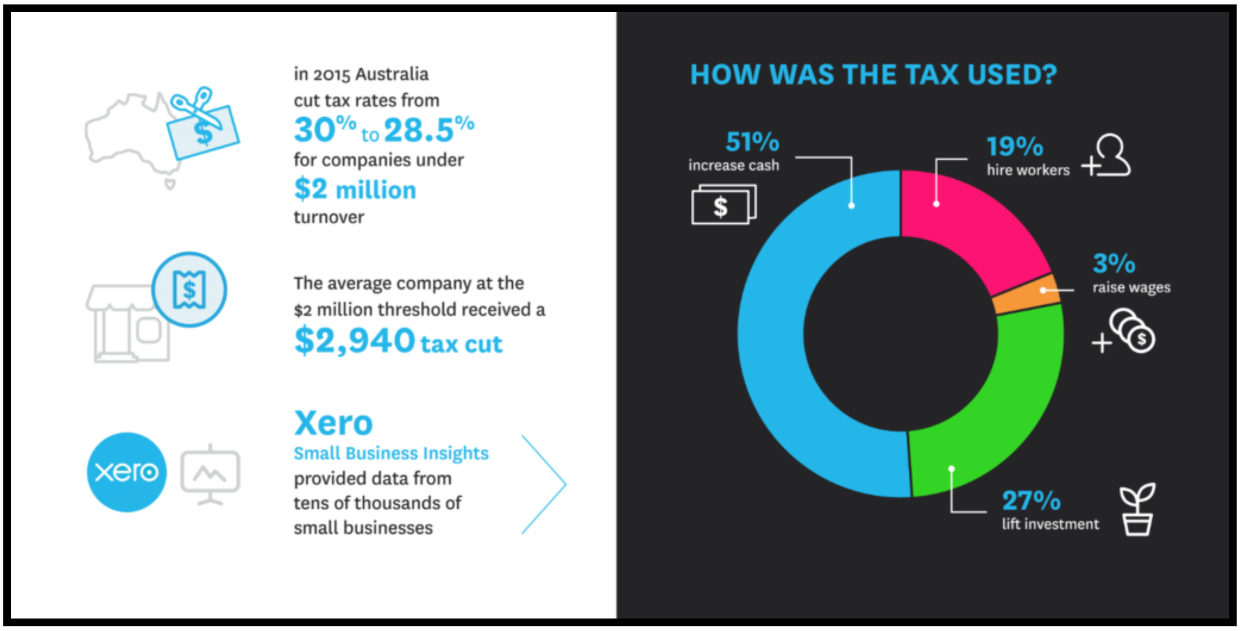
Paul: The hiring tax is different in each state – and we've certainly seen it hamper growth among our clients. Business owners typically say, "Why grow when I've just got to pay a percentage of my wage bill out to the government?"

Joanna Oakey, founder and director of Aspect Legal: We go through different periods in our practice, sometimes seeing a lot of hiring and a lot of firing. At the moment we're not seeing a lot of either, which is interesting. We work to help business owners understand their obligations, but my personal belief is that employment could – and should – be a lot simpler where regulations and taxes are concerned. There's so much red tape that a small business owner has to wade through simply to grow.

Trent Innes 3 min read

02 Do company tax cuts boost jobs, wages and investment?

03.05.2018



What's the impact of company tax cuts on Australian businesses? Do companies hire more workers, increase wages and boost investment after tax cuts? Despite the importance of these questions, economists and policy-makers often struggle to answer them precisely, in part because of a lack of quality firm-level data. Using aggregated, anonymised data from Xero, this report answers these questions by directly observing how Australian businesses responded to recent company tax cuts.

From 1 July 2015, the tax rate for Australian businesses with a turnover of less than $2 million was lowered from 30 percent to 28.5 percent. At the time, over 90 percent of incorporated businesses fell under that turnover threshold. This report investigates whether the businesses that received this tax cut went on to hire additional workers, pay higher wages or increase business investment.

This report uses data from Xero Small Business Insights. Xero is a global small business platform with over half a million subscribers in Australia who use it to conduct their bookkeeping, accounting, invoicing, taxes and payroll. Xero Small Business Insights provides a snapshot of the sector's health based on anonymised, aggregated data drawn from hundreds of thousands of Xero subscribers.

Download the full report here.