



Australian Government

The Treasury

9 June, 2015

Mr Jason McNamara
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Dear Mr McNamara

REGULATION IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS

I am writing in relation to the attached draft Regulation Impact Statement (RIS) prepared for the unincorporated tax discount for small business.

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers.

In particular, I note that the RIS addresses the seven RIS questions:

- What is the problem? - While small companies play a significant role in the Australian economy, they also face a unique set of operational challenges, and as a consequence typically have higher failure rates than larger companies.
- Why is government action needed? - Providing a tax discount for unincorporated small businesses, which broadly mirrors the small company tax cut, will help to improve the cash flow of small businesses by reducing the amount of tax payable in the financial year, and help alleviate the problem of higher regulatory costs.
- What policy options are you considering? – Three options have been considered, including: no policy change; a 5 per cent tax discount for small business capped at \$1,000; and an uncapped 5 per cent tax discount for small business.
- What is the likely net benefit of each option? – The no policy option has no impact and leaves the existing problem unresolved. The capped and uncapped tax discount options have a low regulatory impact on businesses of \$15.6 million per year, but provide cash flow to unincorporated small businesses in a manner which broadly mirrors the incorporated tax rate cut. A regulatory save has been identified to offset the regulatory cost of the preferred option.
- Who will you consult and how will you consult them? - The tax proposals have been informed by targeted consultation with tax specialists outside government, including the Board of Taxation on a confidential basis. Targeted consultation on the draft legislation will occur before introduction to Parliament.

- What is the best option from those you have considered? – The best option is the capped unincorporated tax discount for small business, which strikes a balance between improving cash flow for small business and ongoing Commonwealth budget repair.
- How will you implement and evaluate your chosen option - Legislation is required to implement the proposal. As the Government has set the 2015-16 income year as the start date, a 5 per cent tax discount for small business, capped at \$1,000, is scheduled to be introduced to the Parliament during the Winter 2015 sittings. The benefit of this proposal should not be assessed in isolation, but considered as part of the small business package.

I am satisfied that the RIS addresses the concerns raised in your letter of 2 June 2015.

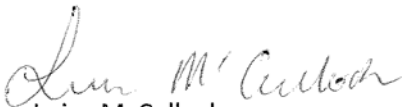
Changes made to the RIS as a result of your letter include a better explanation of the status quo tax treatment of business income and an example of how the tax offset (discount) would be calculated under options 2 and 3. Discussion of why businesses might choose not to incorporate has been added as well as discussion of how the design of the measure targets the discount at small business income, as opposed to all types of income for a small business owner.

Treasury has re-submitted the regulatory costings for option 2 and 3 and these have been agreed with the Office of Best Practice Regulation.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

Yours sincerely



Luise McCulloch
A/g Deputy Secretary
Revenue Group
9 June 2015