



19 May 2015

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

Email: helpdesk@obpr.gov.au

Dear Mr McNamara 

REGULATION IMPACT STATEMENT – SMALL INCORPORATED BUSINESS TAX CUT.

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the introduction of a 28.5 per cent small incorporated business tax rate.

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 those for larger companies.
- Why is government action needed? - A reduction by the Government of the company tax for small companies will permit them to retain more earnings for investment.
- What policy options are you considering? – The small company tax measure is part of a small business package. The options were to either not have a tax cut component to the package or have a 1.5 per cent tax cut for small companies consistent with the Prime Minister’s announcement at the National Press Club, that ‘at the heart of our small business jobs package will be a small business company tax cut on July 1 — at least as big as the 1.5 per cent already flagged’.
- What is the likely net benefit of each option? – Not introducing small company tax rate will involve no compliance costs for businesses but not address the small business challenges. Providing small businesses with a reduced rate of company tax will improve their cash flow, assist them to grow and to compete more effectively with larger businesses.
- 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 an in-confidence basis.
- What is the best option from those you have considered? – Although there is a moderate transitional compliance cost, providing small businesses with a reduced rate of company tax will best support the Government’s small business initiative.
- How will you implement and evaluate your chosen option? - Legislation is required to implement the proposed two-tier company tax system. As the Government has set the start date as 1 July 2015, the small business company tax cut is going in a Winter T Bill to be enacted by 30 June 2015. The benefit of this measure should not be assessed in isolation but considered as part of the small business package.

Noting the OBPR comments on the first-pass final assessment, the RIS explains that a 'franking cap', is the maximum amount of franking credits a company can attach to its dividends in a year; which is usually set by a company's tax rate but in the case of small companies will be set by the 30 per cent tax rate of large companies.

The RIS also provides more information of the outcome of the Board of Tax consultation on the measure; their expectation that the measure would send a positive message that the Government is doing something for small business and noting how the main issues raised by the Board were taken into account. The RIS also notes the peak industry body, the Council of Small Business Australia (COSBOA) has expressed its support for the package saying the 'budget inclusions for small business have been designed to boost confidence, boost cash flow and boost the economy'.

Finally the RIS notes that monitoring the implementation of the measure should not be done in isolation but considered as part of the small business package and currently existing small business tax concessions. The small business definitional issues already apply to other benefits received by small businesses and the question is what impact there is on business decisions in aggregate. The ATO monitors compliance of small businesses and unintended behavioural changes can be assessed, and if appropriate, remedial actions could be considered.

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

Yours sincerely



Rob Heferen
Deputy Secretary
Revenue Group