Australian Government

The Treasury

COSTING MINUTE

Date: 14/12/2009
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To: **Shane Johnson, Australia's Future Tax System**

Cc: **James Kelly, Australia's Future Tax System**

TITLE **AFTS - Small business package**

SUMMARY OF PROPOSAL

Intent of the proposal

To simplify and provide more certainty over the taxation arrangements for small business entities in particular (and to provide a cash-flow benefit to such businesses) .

Current taxation treatment/problem

There are currently a wide range of tax concessions available for small businesses. These include simplified compliance requirements, tax deferrals, and tax exemptions.

The standard eligibility criterion, 'small business entity test' applies across all the small business tax concessions. An entity is a 'small business entity' if it:

• carries on a business; and

• satisfies the $2 million aggregated turnover test.

Concessions available to eligible small business entities include:

• simplified depreciation rules (expanded);

• simplified trading stock rules;

• annual apportionment of GST input credits for acquisitions and importations that are partly creditable;

• accounting for GST on a cash basis;

• paying GST by quarterly instalments;

• CGT 15 year asset exemption (abolished);

• CGT 50 per cent active asset reduction (abolished);

• CGT retirement exemption (increase contribution limit);

• CGT roll over(simplified entry provisions);

• FBT car parking exemption (abolished?);

• PAYG instalments based on GDP adjusted notional tax.

Proposed taxation treatment

Increase the small business entity turnover threshold from $2 million to $5 million, and consider adjustments to the $6 million net asset value test.

The capital allowance arrangements for small business should be streamlined and simplified, by:

(a) allowing depreciating assets costing less than $10,000 to be immediately written off; and

(b) allowing all other depreciating assets (except buildings) to be pooled together, with the value of the pool depreciated at a single declining balance rate.

(c) rationalising and streamlining the current small business capital gains tax concessions by:

– removing the active asset 50 per cent reduction and 15-year exemption concessions;

– increasing the lifetime limit of the retirement exemption by permanently aligning it with the capital gains tax cap for contributions to a superannuation fund; and

– allowing taxpayers who sell a share in a company or an interest in a trust to access the concessions via the $2 million turnover test.

ELEMENTS AND OPTIONS

Elements

Element ID	Description
A	See proposed taxation treatment

Options examined

Option ID	Option	Assumed start date	Was a Departmental Impact Assessment sought?	Was a Tax Regulation Impact (preliminary assessment) sought?
1	A	01/07/2010	No	No

FINANCIAL IMPLICATIONS

IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET ($m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2019-20	-	-1000	-1000	-1000	-1000

- Nil

IMPACT ON UNDERLYING CASH BALANCE ($m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2019-20	-	-1000	-1000	-1000	-1000

- Nil

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

Caution should be used when citing this costing. These results are highly reliant on assumptions and are generated from incomplete data. Please refer to the Assumptions section of this Costing Minute. Reliability is very low. The costing provides an indication of order of magnitude only.

COSTING DETAILS

Methodology

Simplified depreciation

The tax values of depreciation deductions allowable under the proposals were calculated and deducted from the tax values of depreciation deductions allowable under current rules.

CGT concessions

The value of taxable capital gains realised by entities who will be able to access the concessions under the proposal in respect of active assets was calculated based on tax return information. The tax value of these gains is assumed to be at risk under this proposal.

The other changes to the CGT concessions were previously costed and found to be broadly revenue neutral.

Data

- Investment in new machinery and equipment from DED
- tax return data

- National accounts data prepared by the ABS
- The effective life schedule prepared by the ATO

Assumptions

The following assumptions were used in the costing:

- The underlying level of investment for 2006-07 is determined from tax return data.
- Growth in the underlying level of investment until 2010-11 is equal to the growth in the parameter for new machinery and equipment. From 2011-12 growth is equal to the growth in the parameter for GDP.
- It is assumed that the proportion of depreciating assets purchased by businesses with a turnover of less than $5 million that cost less than $10,000 is 25% on average.
- The average effective life of assets costing less than $10,000 assumed for this costing is 5 years. The average effective life of assets costing more than $10,000 is assumed to be 10 years.
- For newly eligible taxpayers, 1% of investment in assets falls below the current $300 threshold for immediate write-off. For taxpayers already using the concessions, 6% of assets cost less than $1,000.
- 100% of assets are depreciated using the diminishing value method.
- For newly eligible taxpayers, assets costing less than $10,000 are currently allocated to the low-value pool after 5 years.

ADDITIONAL INFORMATION

Departmental impacts

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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