

Policy GRAB

LNP Queensland, June 2017

Edition 7, Volume 1

Small Business

From the Editor

Governments expect small business to invest, innovate, employ using complex IR awards, and pay tax, all the while meeting a plethora of regulations with their threat of penalty for non-compliance. A bureaucrat's high security, no-risk position, familiar with the rules, is likely to have difficulty understanding the position of the small business owner and operator who risks all and has little time to gain in depth appreciation of 'the rules', which forever change. Yet, as the cliché goes, we are indebted to small business for the contribution they make to the Queensland economy and honour them by promoting their issues and needs in this edition under the auspices of LNP's Small Business expert committee chaired by Paul Smith.

Paula Collins, Editor



Good news for small business!

1. The federal government is making \$300m available to the States as an incentive for them to cut red tape. Senator James McGrath, Assistant Minister for Regulatory Reform is in the process of gathering feedback from small businesses and stakeholders about where they see the greatest need for red tape reform. Ideas can be forwarded to.....Let's hope Queensland takes advantage of this important opportunity.
2. Those who read Graeme Haycroft's article in the latest edition of Dialogue magazine, or read the article in The Courier Mail (Monday 5 June 2017), would be familiar with his colleague, Penny Vickers' championing of due penalty rates. Penny is an employee of Coles, which, along with Woolworths cut a deal with the SDA (Shop Assistants' Union) that disadvantaged employees and small business, yet won the SDA members and \$. This case is proceeding through the courts. Those wishing to strike a blow for small business can contribute to Penny's campaign at www.colesworkers.com.au.

Ideas can be forwarded to senator.mcgrath@aph.gov.au

Enjoy the articles from Paul Smith

- *Government and Small Business*
- *The Key Stakeholder Conundrum*

Also find

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Remember Policy Grab provides policy substance developed between your resolutions, the expert committees and the relevant Shadow Minister. Use the substance provided to enrich your understanding of LNP's policy ideas and as material for discussions with others.

The Importance of Small Business to the Queensland Economy

Small business is the backbone of the Queensland economy, playing a vital role in driving jobs and opportunity in our communities.

Too often Governments can make the mistake of engaging with only the big end of town. This is almost understandable as meeting with Corporate Queensland offers Ministers a high return on their limited time and it is extremely difficult to engage with small businesses collectively to achieve scale. However the importance of small business to our State economy should not be underestimated.

- Queensland has a small business population of 414,680 businesses representing over 97 per cent of businesses State-wide.
- Small businesses contribute approximately \$100 billion to Queensland's Gross State Product.
- They operate in all industry sectors and across the length and breadth of our proud State.

Perhaps even more importantly they are the heart of each suburb and town and directly determine the vibrancy of their surrounding community. They do this by providing a job to nearly one million Queenslanders across the entire State. They influence an employee's capacity to have a family and leave a legacy to last generations.

Operating at end of 2015-2016 financial year				
Non Employing	1-19 Employees	20-199 Employees	200+ Employees	Total
261,313	153,371	10,251	611	425,576

Many small businesses are family owned and run and often operate with a small number of staff with personable relationships with their employees. The nature of small business means that many do not have access to the same level of resources as larger companies. Accordingly the owner is often responsible for doing the work, balancing the books, managing staff and meeting all the regulatory obligations which leads them to be extremely time poor working very long hours each week. They are likely to have completed secondary school or trade qualification but often have not undertaken formal management training and tend not to use a business plan. Yet there is an incredible knowledge and skill tied up in running small businesses. There is an enormous amount of expertise and specialist knowledge that thrives in this sector, the value of which is often underestimated.

Despite all of their wonderful attributes small businesses in Queensland have been doing it tough. Queensland business survival and exit rates are the worst of any State in Australia.

Survival of Operating Businesses by Main State: June 2012–June 2016									
	Operating in June 2012	Survived to June 2013	Survival rate	Survived to June 2014	Survival rate	Survived to June 2015	Survival rate	Survived to June 2016	Survival rate
	no.	no.	%	no.	%	no.	%	no.	%
New South Wales	709,840	608,984	85.8	538,495	75.9	484,883	68.3	440,787	62.1
Victoria	551,440	476,177	86.4	422,940	76.7	380,841	69.1	346,526	62.8
Queensland	429,844	366,097	85.2	320,973	74.7	286,468	66.6	258,880	60.2
South Australia	147,912	129,441	87.5	115,934	78.4	105,269	71.2	96,165	65.0
Western Australia	221,687	190,334	85.9	167,942	75.8	150,941	68.1	136,850	61.7
Tasmania	38,797	34,123	88.0	30,486	78.6	27,631	71.2	25,327	65.3
Northern Territory	14,595	12,328	84.5	10,698	73.3	9,567	65.5	8,661	59.3
Australian Capital Territory	25,580	21,660	84.7	18,980	74.2	16,895	66.0	15,125	59.1
Australia	2,141,280	1,840,437	86.0	1,627,554	76.0	1,463,413	68.3	1,329,077	62.1

Survival of Entries by Main State: June 2012–June 2016

	Entries in 2012-13	Survived to June 2014	Survival rate	Survived to June 2015	Survival rate	Survived to June 2016	Survival rate
	no.	no.	%	no.	%	no.	%
New South Wales	79,024	62,078	78.6	50,035	63.3	42,758	54.1
Victoria	62,840	49,669	79.0	40,326	64.2	34,531	55.0
Queensland	49,569	38,777	78.2	31,194	62.9	26,543	53.5
South Australia	13,785	11,027	80.0	9,115	66.1	7,879	57.2
Western Australia	25,297	20,019	79.1	16,148	63.8	13,735	54.3
Tasmania	3,520	2,843	80.8	2,338	66.4	1,978	56.2
Northern Territory	1,869	1,413	75.6	1,106	59.2	932	49.9
Australian Capital Territory	3,141	2,480	79.0	1,997	63.6	1,685	53.6
Australia	239,229	188,455	78.8	152,382	63.7	130,150	54.4

Source: ABS Catalogue 8165.0

The State Government has a vital role in supporting small business although owners will tell you in no uncertain terms that they predominantly see the responsibility of State Government as getting out of their way. They want Government to focus on creating an environment which is conducive to their economic growth in the areas of tax competitiveness, affordable energy costs, less red tape and world class infrastructure.

Queensland needs to have a business operating environment that is the absolute standout to do business in. The reality is that if the general business environment is right, the marketplace will determine their success and how our economy evolves. This is the core and most important role for any Government.



Government and Small Business

Paul Smith

Governments laud small business as the engine room of the economy and the country's best prospect for increasing employment and training, providing conditions are favourable.

Local, state and federal governments promote policies intended to support business that show they are getting behind business. The 2017 federal budget extended for one year the instant asset write off of \$20K for firms of less than \$10 million turnover which invest in new equipment. Most firms welcomed the break, costing \$830 million. In a further measure, the rate of tax has been reduced from 30% to 27.5% on the way to 25%. These two measures were welcome supports.

Yet questions remain as to whether government truly gets behind small business, away from business or just gets in the way. Is government doing enough or too much to help? What can be changed? Several policy areas need to be explored for suitable modification to government's role:

1. **Economic participant** (as a supplier or customer): Access to services need to be streamlined. Tendering and purchasing processes where small business could capture the third to half of the economy with government tend to be overly complex and beyond the scope of a small business. Reporting process are complex and payment tardy. Small business lucky enough to win work may end up subsidising bureaucratic incompetence and intransigence.
2. **Regulator:** As the protector of consumers or small businesses, lack of understanding of business realities can damage and destroy business just as readily as protect. Businesses can be harmed when government acts as the creator and defender of markets (think renewable energy, pink batts).
3. **Resource thief:** Red tape and compliance costs are the bane of many a small business, consuming as they do an inordinate amount of time, energy, personnel and costs. Taxation in all its various forms places additional burden on business: higher the taxes and charges limit profits, reinvestment and employment.



4. **Competitor:** It could hardly be called a level playing field when taxpayers' funds are used by government enterprises to compete with business services – e.g. Energex vs electrical contractors and the ABC vs media organisations. Government distorts the market as the monopoly owner of entertainment venues, raising questions of value for customers and service providers.
5. **Enabler:** Government has strength as an enabler – in planning and building infrastructure, providing incentives to business to innovate, train and employ and with its advisory and support functions.

Small business' relationship with government at every level has considerable room for improvement. Forward policies need to recognise the critical importance of small business in advancing the economy and demonstrate greater empathy with the effort and commitment of business operators.

The Key Stakeholder Conundrum

Paul Smith

“Key” stakeholders and the monopoly of policy input: How do we consult with the public but avoid the trap of unrepresentative stakeholders?

Of major concern to small business is the tendency of key stakeholders and industry leaders to act in their self-interest, which may not necessarily represent their community or constituents. In dealing with sectoral interests, governments find it is much easier to negotiate with a single person/organisation which purportedly represents a larger group as a short-cut to policy determinations.

For small business greater discernment needs to be applied in defining just who “industry leaders” are. Of necessity, industry bodies and peak organisations will represent their own interest, often doing so without presenting sound evidence to back up their claims.

Actions of key stakeholders, Master Builders Association and the Housing Industry Association, in de-regulating electrical contracting, were not representative of the industry. Larger firms get more attention as key stakeholders and will act in their own interest, not that of smaller participants – something that

is difficult to change. Different industry groups tend to be more representative yet have at heart their self-interest.

The union movement is the most obvious example. There are other examples of such bodies, which (anecdotally) don't speak for all of their constituents and/or do not consider the community good:

- Bankers Association, Pharmacy Guild and the AMA
- Chartered Accountants / CPA's
- Large entities that purport to speak for whole industries, e.g. not-for-profits (Red Cross, World Vision etc.) when the needs are different when scale changes.

Often, it is a matter of scale. Bodies will have many members from large firms, who will be overrepresented on the boards and in advisory positions.

We need a policy goal to reduce influence of non-representative key stakeholders (unions, professional bodies and peak bodies) as they usually do not represent the entire segment of their market. Large “key stakeholders” will often abuse market power.

\$20,000 Instant Asset Write-Off Scheme Extended by 12 Months

The 2017-18 Federal Budget confirmed the widely anticipated extension of the \$20,000 instant asset write-off scheme. Small businesses with a turnover of less than \$10 million will have a further 12 months up until the 30 June 2018 to benefit from the instant asset write-off.

In announcing the extension Treasurer Scott Morrison said “Small business owners are out there fighting for growth in their businesses every day. They deserve our respect and support. “

“Backing up our recently legislated tax cuts, small businesses with a turnover up to \$10 million will continue to be able to immediately write off expenditure up to \$20,000 for a further year. “ Mr Morrison said.

First introduced for assets acquired after 7.30pm on 12 May 2015 the instant asset write-off has been very

popular with small businesses and now sees it not only extended by another 12 months but has the small business turnover threshold increased from \$2 million to \$10 million per annum.

The instant asset write-off allows small businesses to immediately deduct assets costing less than \$20,000 instead of claiming deductions over a number of years. It is on a per asset basis allowing several assets costing less than \$20,000 to be aggregated and deducted.

This announcement is recognition by the Federal Government that small business is the engine room of the economy, making up 99 per cent of all businesses and contributing \$380 billion to the economy.

The tax concession is designed to benefit small businesses by improving their cash flow and helping them to reinvest in their business and replace or upgrade their assets.

How tax reform helps small business

Government Example:

Justin owns and operates a carpentry company from three premises employing 10 people. His business has an annual turnover of \$7 million and taxable income of \$400,000 (excluding deductions for asset purchases). On 1 June 2017, Justin's company purchases a panel saw costing \$7,000, an edge bander for \$10,000 and a belt sander for \$14,000 (all exclusive of GST) for one of his three premises. On 1 January 2018, his company purchases another panel saw, edge bander and belt sander (at the same prices) for each of his remaining two premises.

Prior to the Ten Year Enterprise Tax Plan, Justin's company paid tax at the 30 per cent company tax rate and was not able to access a range of small business tax concessions.

2017-18 Budget - Extended \$20,000 instant asset write-off

With the \$20,000 instant asset write-off being extended for a further 12 months in the 2017-18 Budget, Justin's company can continue to immediately deduct assets for his carpentry business that are each valued at less than \$20,000 until 30 June 2018.

After passage of tax cuts as part of the Ten Year Enterprise Tax Plan

As a result of the Ten Year Enterprise Tax Plan announced in the 2016-17 Budget, Justin's company pays tax at the lower 27.5 per cent tax rate. Justin's company is now also an eligible small business as it has annual turnover below the increased \$10 million turnover threshold and his company can now access a range of small business tax concessions, including the instant asset write-off for assets costing less than \$20,000.

Impact of the Government's changes

Justin's company will receive an additional cash flow benefit of around \$18,300 in 2016-17 as a result of the lower company tax rate and access to the instant asset write-off. As a result of the 2017-18 Budget measure to extend the \$20,000 instant asset write-off, his company will also be around \$14,500 better off in 2017-18.

Justin can use the additional cash flow benefit in each of these years to reinvest in and grow his company.

For more information go to www.budget.gov.au



Cutting small business red tape

One thing that the LNP hates to see is small businesses tangled up in unnecessary red tape.

When we talk to small businesses we often hear complaints about the amount of red tape and the impact it has on the ability of business to grow.

Pleasingly the 2017-18 Federal Budget announced a strengthening of the Federal Government's regulatory reform agenda through reforms that increase competition, productivity and growth. The Federal Government as part of the Budget has recognised the vital need to remove barriers to businesses creating jobs and growing the economy.

However it notes that there is only so much it can do on its own and the Budget's small business statement writes "States and Territories continue to impose a wide range of regulatory restrictions that prevent small businesses from growing and innovating."

Accordingly the Federal Government has announced that it will provide up to \$300 million over two years to States and Territories that remove unnecessary regulatory barriers.

This initiative will be actioned through its National Partnership on Regulatory Reform.

Examples cited in the Budget Papers include small trucking businesses struggling to master all the different regimes they must comply with when they cross State borders and it taking up to 18 months to set up a café because of local council regulations.



The Federal Government is proposing that it will reward States for reducing unnecessary red tape and removing restrictions on competition as recommended in a 2015 Competition Policy Review.

The Government's efforts build on National Competition Policy reforms first introduced in the early 1990's that helped Australia transform its economy and sustain 26 years of continuous economic growth.

This is a very good announcement as we know as the party that truly

understands small business that red tape stifles creativity and the capacity for you to grow and employ. Quite simply the more Government can do to reduce red tape and get out of your way the more opportunities you will have for growth.

For more information go to www.budget.gov.au

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