



## Policy costing

### Give small businesses a tax deduction for employing more workers, and increase the goods and services tax (GST) registration threshold

Party: Australian Greens

#### Summary of proposal:

This proposal has two components.

- Component 1 – Increased salary and wage deductions for small companies
  - Component 1 of the proposal would allow companies with annual turnovers under \$2 million to claim tax deductions equal to 110 per cent of their total wage and salary expenses. The value of the additional deductions would be uncapped, but would not be carried forward.
- Component 2 – Increase the goods and services tax (GST) registration threshold
  - Component 2 of the proposal would increase the GST registration threshold from \$75,000 to \$150,000 for general companies, and from \$150,000 to \$300,000 for not-for-profit organisations. The GST registration threshold would be indexed annually with the consumer price index (CPI).

The proposal would have effect for income years starting from 1 July 2019.

## Costing overview

This proposal would be expected to decrease the fiscal balance by \$2,731 million and the underlying cash balance by \$2,541 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, this impact reflects a decrease in company tax revenue of \$2,560 million and a decrease in GST revenue of \$2,940 million, partially offset by a decrease in GST payments to states and territories of \$2,750 million and a decrease in departmental expenses for the Australian Taxation Office (ATO) of \$19 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications of the proposal over the period to 2029-30 is included at [Attachment A](#).

The fiscal and underlying cash balance impacts are different due to a timing difference between when GST revenue is recognised and when tax receipts are collected and are subsequently paid to states and territories.

Departmental expenses for the ATO would be expected to decrease by around \$5 million per year because the proposal would reduce the number of business activity statements submitted to the ATO and the costs associated with processing them.

This costing is subject to uncertainty, especially with respect to the forecasts of wage and salary expenses of eligible companies and the behavioural response of companies to the increased GST registration threshold.

This proposal could affect the overall level of employment in the economy, however the magnitude and timing of this impact is too uncertain to estimate and has not been included.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-175	-1,205	-675	-685	<b>-2,731</b>
Underlying cash balance	5	-1,195	-665	-675	<b>-2,541</b>

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

### Component 1 – Increased salary and wage deductions for small companies

- Total salary and wage expenses of companies with an annual turnover of less than \$2 million would grow in line with the historical trend between 2013-14 and 2016-17.
- The proportion of eligible companies with sufficient net taxable income to use the additional deduction in the current year would be around 50 per cent, based on an analysis of company tax return data from the ATO.
- Affected companies would not increase the number of workers they employ and they would not increase salary and wage rates in response to the proposal.
  - This is because the additional deduction is small in magnitude and affected companies may be uncertain as to whether the additional deduction could be fully used as it cannot be carried forward. It is also because a large proportion of eligible companies may not be taxable.
- The dividend payout ratio of affected companies would remain constant at 75 per cent.
  - The domestic shareholding rate of these companies would be 80 per cent.
- The average marginal tax rate of dividend recipients would remain constant at 32 per cent.

### Component 2 – Increase the GST registration threshold

- All eligible companies that receive a net refund of GST would remain registered.
- Around 80 per cent of eligible companies (by GST debt value) with a debit GST balance would remain registered for GST because of the benefits associated with GST registration, such as being able to claim input tax credits and ease of conducting business.
  - These companies already have systems in place for GST purposes.
  - The burden of the GST is borne by consumers instead of companies.
- Affected companies would lodge their business activity statement quarterly.
- The cost to the ATO for processing business activity statements is approximately \$30 per statement.

## Methodology

### **Component 1 – Increased salary and wage deductions for small companies**

The total wage and salary expenses of companies with annual turnovers of less than \$2 million was extracted from company tax return data provided by the ATO for the income years of 2013-14, 2014-15, 2015-16 and 2016-17. These numbers were then projected forward to 2029-30 using the historical trend growth rate over these four years.

The total amount of additional tax deductions was estimated by multiplying the total wage and salary expenses of each year by the proposed 10 per cent premium and then adjusting for the assumed utilisation rate. This estimate multiplied by the company tax rate gave the company tax revenue impact.

The flow-on income tax impact was estimated by multiplying the expected increase in dividend payments by the average marginal tax rate and then adjusting for imputation credits.

### **Component 2 – Increase the GST registration threshold**

Eligible companies' GST transactions were extracted from 2017-18 business activity statement data. The financial impact of the proposal in 2017-18 was calculated by comparing the total GST revenue under the current setting and the proposal using the extracted data and the assumptions listed above. This amount was then grown over time by the projected growth in GST revenue. A timing factor was also applied, to determine the revenue profile and payments to the states and territories.

Departmental expenses were estimated by multiplying the estimated cost to the ATO of processing a business activity statement by the expected reduction in lodgements.

### **General**

All estimates, except departmental expense estimates, have been rounded to the nearest \$10 million. Departmental expense estimates have been rounded to the nearest \$1 million.

### **Data sources**

The ATO provided company tax return data for the financial years 2013-14 to 2016-17, as well as the business activity statement data for the 2017-18 financial year.

## Attachment A – Give small businesses a tax deduction for employing more workers, and increase the goods and services tax (GST) registration threshold – financial implications

**Table A1: Give small businesses a tax deduction for employing more workers, and increase the goods and services tax (GST) registration threshold – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Revenue</b>													
<i>Company tax</i>	-	-1,200	-670	-680	-710	-730	-750	-770	-790	-810	-830	-2,560	-7,950
<i>GST</i>	-690	-720	-750	-790	-820	-870	-910	-960	-1,010	-1,060	-1,120	-2,940	-9,700
<b>Total – revenue</b>	<b>-690</b>	<b>-1,920</b>	<b>-1,420</b>	<b>-1,470</b>	<b>-1,530</b>	<b>-1,600</b>	<b>-1,660</b>	<b>-1,730</b>	<b>-1,800</b>	<b>-1,870</b>	<b>-1,950</b>	<b>-5,500</b>	<b>-17,650</b>
<b>Expenses</b>													
<i>GST payments to state and territories</i>	510	710	740	780	820	860	900	950	1,000	1,050	1,100	2,750	9,420
<i>Departmental expense – ATO</i>	5	5	5	5	5	5	5	5	5	5	5	19	53
<b>Total – expenses</b>	<b>515</b>	<b>715</b>	<b>745</b>	<b>785</b>	<b>825</b>	<b>865</b>	<b>905</b>	<b>955</b>	<b>1,005</b>	<b>1,055</b>	<b>1,105</b>	<b>2,769</b>	<b>9,473</b>
<b>Total</b>	<b>-175</b>	<b>-1,205</b>	<b>-675</b>	<b>-685</b>	<b>-705</b>	<b>-735</b>	<b>-755</b>	<b>-775</b>	<b>-795</b>	<b>-815</b>	<b>-845</b>	<b>-2,731</b>	<b>-8,177</b>

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A2: Give small businesses a tax deduction for employing more workers, and increase the goods and services tax (GST) registration threshold – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Receipts</b>													
<i>Company tax</i>	-	-1,200	-670	-680	-710	-730	-750	-770	-790	-810	-830	-2,560	-7,950
<i>GST</i>	-510	-710	-740	-780	-820	-860	-900	-950	-1,000	-1,050	-1,100	-2,750	-9,420
<b>Total – receipts</b>	<b>-510</b>	<b>-1,910</b>	<b>-1,410</b>	<b>-1,460</b>	<b>-1,530</b>	<b>-1,590</b>	<b>-1,650</b>	<b>-1,720</b>	<b>-1,790</b>	<b>-1,860</b>	<b>-1,930</b>	<b>-5,310</b>	<b>-17,370</b>
<b>Payments</b>													
<i>GST payments to state and territories</i>	510	710	740	780	820	860	900	950	1,000	1,050	1,100	2,750	9,420
<i>Departmental expense – ATO</i>	5	5	5	5	5	5	5	5	5	5	5	19	53
<b>Total – payments</b>	<b>515</b>	<b>715</b>	<b>745</b>	<b>785</b>	<b>825</b>	<b>865</b>	<b>905</b>	<b>955</b>	<b>1,005</b>	<b>1,055</b>	<b>1,105</b>	<b>2,769</b>	<b>9,473</b>
<b>Total</b>	<b>5</b>	<b>-1,195</b>	<b>-665</b>	<b>-675</b>	<b>-705</b>	<b>-725</b>	<b>-745</b>	<b>-765</b>	<b>-785</b>	<b>-805</b>	<b>-825</b>	<b>-2,541</b>	<b>-7,897</b>

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.