

Regulation Taskforce Submission

November 2005

State Chamber of Commerce (NSW)

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Introduction

The State Chamber of Commerce (New South Wales) is the peak employer organisation in New South Wales representing a wide range of businesses from small proprietors to multinational corporations.

The Chamber is the umbrella organisation for the chamber movement in New South Wales representing over 250 metropolitan and regional chambers of commerce throughout the State. Through direct membership and through these chambers of commerce, the State Chamber represents over 50,000 New South Wales businesses.

Established in 1825, the Chamber is a foundation member of the Australian Chamber of Commerce and Industry and also a member of the International Chamber of Commerce, which was established in 1599.

The State Chamber of Commerce (NSW) and its members appreciate the opportunity to make a submission to the Regulation Taskforce's inquiry into Reducing the Regulatory Burden on Business.

State Chamber's Red Tape Register

In 2003, the Chamber launched its first Red Tape Register which attempted to quantify the cost of red tape and compliance for businesses across the state. We found that the average business spent up to 400 hours a year or nearly \$10 000 in time lost complying with regulations or meeting their legal obligations. While some of this time was due to State Government requirements – specifically dealing with payroll tax – a significant proportion was due to Commonwealth requirements, regulations and taxes. As part of our submission, we are including copies of the three Red Tape Registers but the following is a summary of each year's findings.

2003 Register

- An average small business of 10-15 employees in NSW spent as much as 200 hours a year on tax paperwork which is effectively a 'silent tax' representing the equivalent of thousands of dollars in lost productivity.
- The most time consuming tax for all small businesses was the quarterly GST return and BAS Statement – a third of businesses spending up to 60 hours a year or the equivalent of at least \$1300 on GST compliance.
- Faced with this level of red-tape, but strapped for resources, owners of the smallest businesses, with 5 employees and under, are mostly doing this paperwork themselves.
- Once a business grows above 20 employees, more than half of the sample group of business owners must hire staff especially to deal with managing compliance. Out-sourcing is most common for non-payroll taxation issues, and around 1 in 5 businesses, regardless of size, out-source this paperwork to external accountants and other providers.

2004 Register

- More than a third of respondents would be happy to forgo business tax cuts in return for lower compliance costs.
- Compared to the 2003 Register, the big improvement was in time taken to complete the quarterly BAS. In 2004, 54 percent of respondents were able to complete the statement in less than five hours, compared to 44 percent in 2003. However there was no less paperwork, businesses had just become used to the task.
- Two thirds of businesses would support the sharing of information across departments and between state and federal agencies to reduce compliance time.

2005 Register

- There have been no major improvements in reducing the compliance burden since the 2004 register - an average business is still devoting around 200 hours a year to filling out paperwork required by Government departments to comply with Industrial Relations and taxation laws.
- Much of the Red Tape burden is borne by the business owners themselves, with 72% managing all human resource issues and 51% undertaking all payroll work.
- The introduction of Superchoice has added even more time to compliance especially for small businesses

After three years of surveying members across NSW, the State Chamber has a well informed understanding of just how big a burden red tape can be for business. We agree with the comments made at the launch of the Regulation Taskforce - *“Over-regulation or inappropriate regulation acts to impede economic growth. It limits the scope for innovation, undermines entrepreneurial drive and reduces productivity and competition.”*

Duplication

Over-regulation is also a major problem in terms of duplication of laws and regulations between federal and state jurisdictions and between different states. The regional community of Albury Wodonga which spans both Victoria and NSW is a case in point.

One of the biggest issues is the paperwork required for all professionals and trades people living on the border and working both sides. They require two sets of driver's licenses, builder's licenses, trades certificates etc merely because they come under the jurisdiction of two different state governments. Licenses issued by Workcover in NSW are not recognized by Worksafe in Victoria and vice versa

These issues don't just affect businesses working near state borders, they affect all businesses which operate in more than one state. Indeed some companies are forced to employ at least one full-time worker just to keep track of all the different licenses each one of their employees is required to have.

Recommendations

As a business member organisation, the State Chamber is best placed to make general recommendations about reducing the compliance burden rather than addressing specific regulations. We believe there are a range of options the Taskforce could consider to lower the compliance cost for business.

Sharing of information across departments and jurisdictions

Creating the lowest possible compliance burden means streamlining paperwork and processes for tasks such as tax reporting or licence and registration renewals. There has been some progress in this area – such as electronic tax lodgement or online applications – but more needs to be done to lower the compliance burden of operating a business.

One measure would be to allow businesses to report and register for taxes under a single identifying characteristic such as an ACN, ABN or customer numbers. This would avoid the unnecessary duplication of information when a business registers for a new licence or tax and would also lower data storage requirements for Government departments. Measures such as this would require different departments sharing private company information. The Chamber understands this raises privacy concerns and creates the potential for inappropriate data use. However, in the 2004 Red Tape Register survey (noted above), almost two-thirds of respondents said they would support government agencies and their departments – both state and federal – sharing their details if it means lower compliance costs.

National standards for licensing and registration

The adoption of national standards across a range of industries and bodies would greatly reduce the need for duplicate licences, registration certificates, permits etc. States and territories would need to agree to bring their relevant laws into line – this could be done through agreed standards which would be administered by each state and territory.

One-in, One-out Approach

Apart from complying with existing laws and regulations, businesses constantly have to research and understand new ones as they are introduced. For many businesses, this constant up-dating of information and awareness can equate to several days a year and this is before they put in place any new systems required to comply with these new laws and regulations. (The recent introduction of Superchoice is a case in point).

The Chamber recommends the Regulation Taskforce considers the work being done in Britain to address regulation 'over-load'. Eight years ago, the British Government established the Better Regulation Task Force which is an independent advisory group that reports to the Cabinet Office.

This Task Force has a range of members including business representatives, citizen and consumer groups, union organisers, not-for-profit groups and those responsible for enforcing regulations. In March 2005, the Task Force published a report entitled *Regulation – Less is More*. The key recommendation was the adoption of a 'one-in, one-out' approach.

Under this rule, government departments could not introduce a new regulation without removing an existing one. It's a simple approach but it effectively forces departments to prioritise between new regulations and to simplify or remove those that are inappropriate or unnecessary.

Small Business a special case

One of the re-curing themes across the three Red Tape Registers is the disproportionate burden of compliance for small businesses – specifically GST related paperwork.

Businesses with fewer than 20 employees consistently spend the same amount of time on this paperwork as their larger counterparts. Indeed they sometimes spend more time because bigger businesses typically use an accountant or contract out this work while small business people do it themselves. This requirement for a business owner to be a 'tax collector' for the Government diverts them away from serving customers and providing goods and services and this costs both time and money.

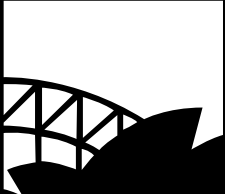
There is an argument for very small businesses to be treated as a 'special case' when it comes to tax and other financial regulations. The creation of a special unit within the tax Office to deal specifically with the needs of these businesses would help to stream-line their tax obligations and reduce their compliance costs.

Conclusion

After the Chamber's 2003 Red Tape Register, the Federal Government announced a Small Business Council to look at the issues raised but we have seen few results and that has been the consistent pattern over the years.

Government's both State and Federal announce reviews or inquiries but overall, little changes for those dealing with the day to day requirements of laws and regulations. The State Chamber of Commerce (NSW) hopes that this time it will be different and the Regulation Taskforce will drive genuine reform of the regulatory burden on business in Australia.

We thank you for the opportunity to make this submission and if you have any questions relating to our comments or recommendations, please contact the Chamber's Manager of Policy, Research and Government Affairs, Kerrie Douglass on 02 9350 8149 or email kerrie.douglass@thechamber.com.au



State Chamber of
Commerce

A Study by the State Chamber of Commerce (NSW)

RED TAPE REGISTER **THE TAX BURDEN**





A Message from Margy Osmond

State Chamber of Commerce (NSW) CEO

WHY RED TAPE?

In the past, much of the State Chamber's taxation lobbying effort has focused on lowering the tax bills of the business community. This paper, however, highlights the hidden cost of tax for business – red tape. It essentially measures the cost to business of being a tax collector and legislative enforcer for various levels of government.

There is a perception that collecting tax is costless. But our findings show that the business community is being burdened with a significant amount of extra taxation costs, via their administrative compliance with tax liabilities. This diverts time away from serving customers, providing services and producing goods and so costs businesses money – at times significant amounts of money.

As part of the Chamber's partnership with Australia Post, we have undertaken a survey of the NSW business community to quantify the level of red tape and compliance costs that business faces. During July 2003 we surveyed thousands of business across the state, through the regional Chamber network, and asked about a range of compliance issues – from tax to industrial relations. This paper summarises the taxation-related responses to the over 500 responses we received.

Our survey highlights that the cost of compliance to a business is too high, especially when the hours spent filling in paperwork are converted to a dollar value. In addition, the burden on small businesses is disproportionate to the size of the business – in many cases tax paperwork takes almost as long for a small business to deal with as a medium business. These costs, in both time and dollars, must then be borne by a smaller pool of employees.

The members of the State Chamber of Commerce, and its regional Chamber affiliates, have a clear message for policy makers at both the NSW and Federal levels. All levels of government must work with business to lower these costs and regulators need to consider the heavy burden placed on business when it is asked to be the Government's tax collector.

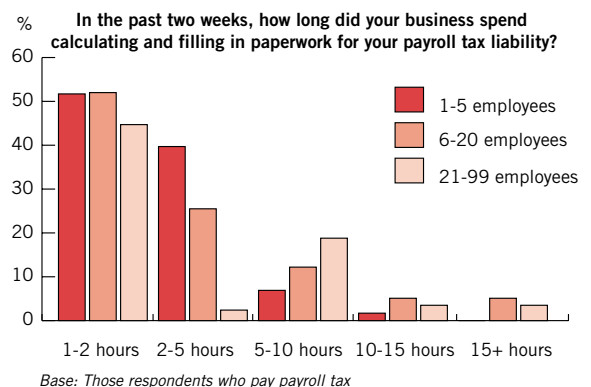
TAX PAPERWORK BURDEN HEAVY ON MICRO AND SMALL BUSINESSES

Small business bears a disproportionate amount of the burden of tax-related paperwork. That is, a halving in employee numbers does not result in a halving in paperwork. This can be highlighted by looking at two taxes – one NSW and one Commonwealth.

Once a business has to pay payroll tax, it takes micro and small businesses broadly the same amount of time to fill in the paperwork as a medium size business. That is, the burden of paperwork/employee is greater in smaller businesses than medium size ones. Around 30% of businesses with 1 to 5 employees and 40% of businesses with 6 to 20 employees pay payroll tax. This compares to about 90% of businesses with 21 to 99 employees that pay payroll tax. In all three business size categories, around half the people paying payroll tax took 1 to 2 hours to do so and around a third took 2 to 5 hours (see left chart). That is, there was very little relationship between the number of employees and the time the business spent calculating its payroll tax liability.

A similar conclusion can be drawn for the quarterly BAS returns for GST. A slightly higher percentage of micro businesses were able to get away with only 1 to 2 hours on their BAS. Nevertheless, for many of the other time categories, there is not a marked difference between micro firms and medium firms in terms of time taken to complete the BAS. Smaller businesses again bear a disproportionate burden of paperwork (see below).

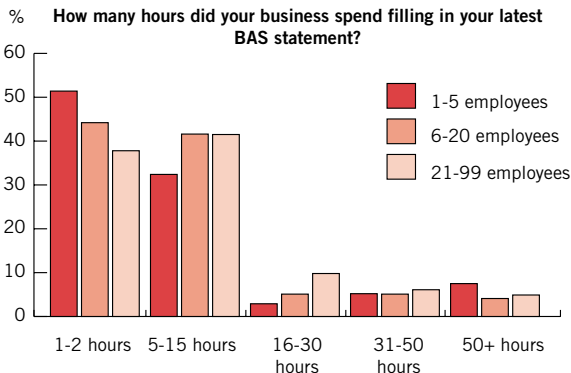
Translating these findings into dollar-costs to business. It is clear that compliance is a highly regressive 'tax' on micro and small business. They still have to spend around the same amount of time doing tax related paperwork as a business with up to 99 employees, despite having fewer resources.



Survey Details

This survey was conducted through the State Chamber of Commerce (NSW)'s regional Chamber network during July 2003. We received 536 responses.

RED TAPE REGISTER – THE TAX BURDEN



THE GOOD, THE BAD AND THE UGLY

The most time consuming tax for business is the quarterly GST returns and associated Business Activity Statement (BAS). This took the median business 5 to 15 hours to do each quarter – or up to 60 hours over the year.

Payroll tax also has a high compliance cost. The median business took 1 to 2 hours a fortnight to comply with this tax – or 26 to 52 hours per year. This result, however, was shifted lower because half of the businesses in the survey were payroll tax exempt. If you look at just those businesses that pay payroll tax, then the median time taken per fortnight is 2 to 5 hours – or up to 130 hours per year.

BUSINESS OWNERS – PAPERWORK OVERLOAD

Much of the burden of business-related paperwork falls on the business owner themselves, especially for firms that employ 20 or fewer staff. This means that instead of focusing on the running of a business, owners of small businesses are tied-up with forms and documents.

The three charts opposite show the breakdown of how the respondents deal with payroll, HR and general taxation issues by company size.

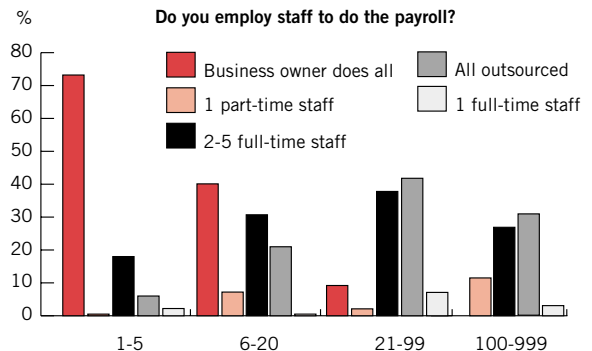
These responses highlight several points:

- Businesses with 5 employees and under overwhelmingly do all of the paperwork associated with the running of the business.
- Once a business grows above 20 employees, the number of business owners able to do all the paperwork more than halves for each of the three areas.
- Business owners are more likely to continue to do their own HR administration as they grow, rather than their own tax or payroll.
- The size of the business does not seem to effect the level of out-sourcing a business undertakes.
- Most of the out-sourcing is done for taxation purposes, for example accountants.

A third of businesses surveyed have all three of these tasks done by the business owner. All the time spent doing this paperwork by owners, is less time they can spend focusing on and growing their business. This time, when converted to dollars, represents a significant hidden tax for many companies.

For these businesses:

- Around a third pay payroll tax.
- Almost 40% have to spend time dealing with paperwork for state taxes.
- 30% had to spend 5-15 hours (up to 2 days) on their annual workers compensation renewal.
- Over 60% had to spend time in the previous year dealing with a NSW award issue.
- Nearly 12% had to deal with a potential or actual NSW unfair dismissal case in 2002/03.
- The most common time for BAS statement completion was 1-2 hours (50%) but a third took 5-15 hours (that is 1-2 days a quarter).
- In the two weeks before the survey, 28% spent 5-15 hours dealing with superannuation related issues.

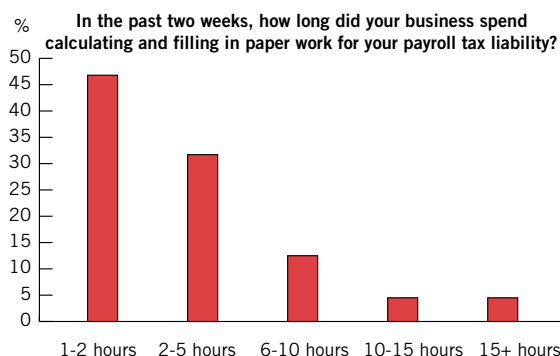
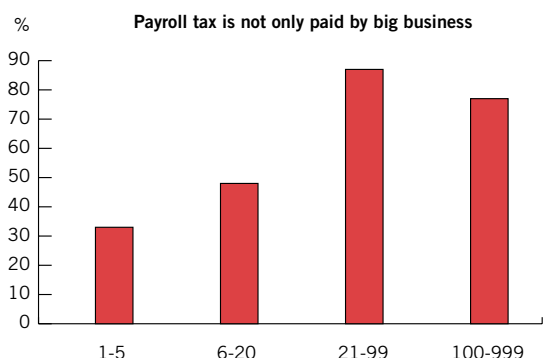


RED TAPE REGISTER – THE TAX BURDEN

PAYROLL TAX – NOT JUST BIG BUSINESS BURDEN

Payroll tax can no longer be classified as a 'big business' tax. Indeed, 40% of businesses with 20 or less employees said they pay payroll tax.

Of all the businesses that pay this state tax, 47% spend 1 to 2 hours a fortnight on related paperwork and 32% spend 2 to 5 hours per fortnight. That is, around a third of those paying payroll tax have to spend up to half a day each pay period just on calculating their payroll tax liabilities.



Base: Those respondents who pay payroll tax

TAXING TIMES

Other state taxes are also a significant drain on businesses time. About 60% of respondents said they had spent some time in 2002/03 disputing or filling in paperwork for NSW tax assessments.

Of the businesses that pay state taxes, there was a large range in the time spent paying and disputing assessments during 2002/03. Around 38% spent 1-2 hours per year meeting their liabilities, 28% spent 5-15 hours, 13% spent 16 to 30 hours, 9% spent 31 to 50 hours and 12% spent over 50 hours.

For almost two-thirds of businesses paying these taxes, they have to spend over a day collecting taxes for the state government. In 12% of cases, the time spent was over a week.

Spending one day a year dealing with state tax related paperwork may sound insignificant, but converted to the dollar cost of this time¹, this would average around \$174. For those businesses that spent over 50 hours dealing with these state taxes – that represents over \$868 in costs just to meet their tax obligations. This cost is in addition to the actual tax the business must pay.

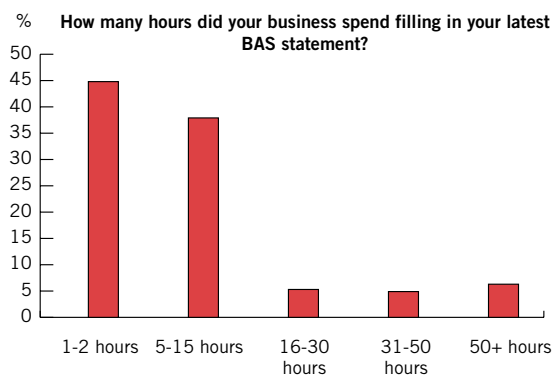
BAS STATEMENT COMPLIANCE HIGH

There are three main taxes that businesses pay to the Federal Government; company tax, fringe benefits tax and the quarterly GST returns.

Just under half (44%) of respondents completed their BAS in 1 to 2 hours. But a further 38% took 5 to 15 hours to complete this. As a quarterly tax statement, this means that a third of businesses spend up to 60 hours a year completing BAS – making it much more time consuming to do than company tax and fringe benefits tax. Translating these costs into a dollar value, using average weekly earnings, shows a third of companies 'pay' over \$1300 each year in compliance costs for GST. This is in addition to the actual tax paid.

The company tax experience across businesses was very varied. About 20% managed to do the annual return in 1 to 2 hours. But a further 20% had to spend over 50 hours completing it. The most popular category was 5 to 15 hours, with 33%.

Fringe benefits tax liabilities were calculated much quicker, with about 60% completing them in 1 to 2 hours. A further quarter took 5 to 15 hours.



1 Using full-time adult ordinary time earnings of \$868.50/week, as of May 2002.

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RED TAPE REGISTER **THE INDUSTRIAL** **RELATIONS SYSTEM**





A Message from Margy Osmond

State Chamber of Commerce (NSW) CEO

RED TAPE OVERLOAD

One of the major time costs of running a business is staff management. This paper highlights the hidden cost of industrial relations for business – red tape. It essentially measures the cost to business of operating within the many rules and regulatory regimes around industrial relations.

Our findings show that all businesses, no matter what the state of industrial harmony, have to spend time understanding and complying with industrial relations requirements. This diverts time away from serving customers, providing services and producing goods and so costs businesses money – at times significant amounts of money.

As part of the Chamber's partnership with Australia Post, we have undertaken a survey of the NSW business community to quantify the level of red tape and compliance costs that business faces. During July 2003 we surveyed thousands of business across the state, through the regional Chamber network, and asked about a range of compliance issues – from tax to industrial relations. This paper summarises the over 500 responses we received regarding compliance with the industrial relations system.

Our survey highlights that the cost of compliance to a business is too high, especially when the hours spent filling in paperwork and understanding complex rules are converted to a dollar value. In addition, the burden on small businesses is disproportionate to the size of the business – in many cases industrial relations paperwork takes longer per employee for a small business to deal with than a medium business.

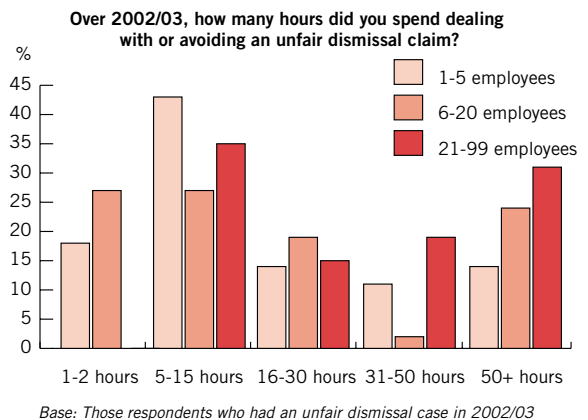
The members of the State Chamber of Commerce, and its regional Chamber affiliates, have a clear message for policy makers at both the NSW and Federal levels. All levels of government must work with business to lower these costs and regulators need to consider the heavy burden placed on business that are trying to operate within an often complex industrial relations system.

Survey Details

This survey was conducted through the State Chamber of Commerce (NSW)'s regional Chamber network during July 2003. We received 536 responses.

INDUSTRIAL RELATIONS CRIMPING GROWTH?

One of the most time consuming aspects of running a business is managing human resources. Of course, people make a business and their contributions are crucial to the performance and profitability of the organisation. Nevertheless, it is a fact that managing these valuable resources is time consuming for business.



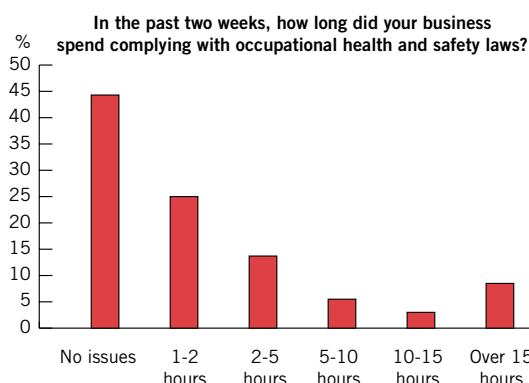
As company size increases it becomes increasingly difficult for businesses to avoid being weighed down by industrial relations compliance costs. For example, for those companies with 1 to 5 employees, 90% did not have to address NSW unfair dismissal issues in 2002/03 and 95% avoided Federal unfair dismissal problems. But as the company size increased to 6 to 20, these figures dropped to 78% and 91% respectively. For firms with 21 to 99 employees only 55% managed to avoid having to spend time dealing with or trying to avoid a NSW unfair dismissal claim (80% for Federal). This suggests that if a business grows above 21 employees, there is only around a 50/50 chance that it will be able to operate without having to cope with unfair dismissal issues. Given the complicated, time consuming and expensive nature of dealing with unfair dismissal cases – 6% of total respondents had to spend over 50 hours addressing it – this risk could potentially deter businesses from making the jump from small business to medium business.

OH & S SIGNIFICANT COST

Complying with occupational health and safety requirements is a significant area that business owners had to devote time towards. In fact, our survey identified it as the most time consuming regulation for business (tied with superannuation). The median business took 26 to 52 hours per year to comply with its OH & S requirements. Of course, safety is important. But a lot of time is devoted to this area and the requirements go beyond providing a safe workplace. In the two weeks before the survey, 56% of respondents said they had to spend some time dealing with OH & S issues.

A quarter spent 1-2 hours, 14% spent 2-5 hours, 9% spent over 15 hours. This means that almost 10% of our sample spent over \$350 (two days) in just one fortnight dealing with OH & S issues.

RED TAPE REGISTER – THE INDUSTRIAL RELATIONS SYSTEM



Given that our week was randomly selected, this could imply that 10% of firms have to pay over \$9000 a year to meet their OH & S requirements. This cost is in addition to the cost of actually implementing OH & S issues, such as buying new equipment.

AWARDS ARE NOT A TIME SAVING SOLUTION

Businesses must also spend time dealing with paperwork associated with employment awards. The fluid nature of these instruments means that employers must constantly make sure they are up-to-date with the award relevant to their staff. Over 70% of respondents had staff that were on a NSW Award. Of these, 40% took 1 to 2 hours a year to keep up-to-date with NSW Award changes, and 36% took 5 to 15 hours. Another 10% took 16 to 30 hours, 5% took 31 to 50 hours – leaving 8% taking over 50 hours.

Around a third of businesses operate under a Federal Award system. The breakdown in each time category was broadly similar to the NSW system.

The two-system structure of the Award system means that over a quarter of businesses have to deal with both Federal and NSW systems. Clearly operating under one system would be preferable, such as businesses can in Victoria.

Apart from dealing with awards, some businesses also have staff on NSW enterprise bargaining agreements (12% of total respondents) or on Federal Australian Workplace Agreements (7% of total respondents).



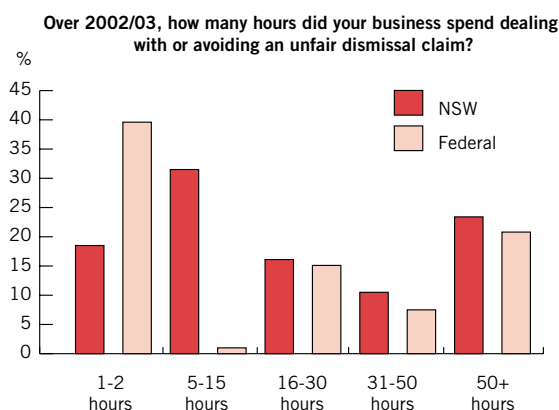
Base: Those respondents who negotiated a NSW enterprise agreement

This form of wage arrangement allows employers flexibility to match conditions to their workplace. But there is a perception that these agreements take a long time to negotiate. Our survey, however, suggests the time difference may not actually be that great. For those that had a NSW enterprise bargaining agreement, around 60% took less than 15 hours to complete one. This compares to dealing with the NSW Award system, where 75% of respondents managed to address their issues in under 15 hours. So the NSW Award system seems to be only marginally less time consuming than developing a more flexible, workplace specific agreement.

We also asked about the Federal-administered Australian Workplace Agreement. Of those who had done an agreement in 2002/03, the time breakdown for these agreements was similar to the NSW agreements. About 60% took up to 15 hours, 20% took 16 to 35 hours, 3% took 36 to 70 hours and 17% took over 70 hours. Again, these agreements are clearly time consuming for businesses to develop.

THE UNFAIR COST OF FIGHTING DISMISSAL CLAIMS

Another human resource related compliance cost that business must bear is addressing the issue of unfair dismissal claims. We asked businesses about the time that they had spent dealing with or avoiding both a NSW and Federal unfair dismissal claim. This includes matters such as issuing official warnings and getting legal advice through to actually appearing at a tribunal.



Over 2002/03, 1 in 4 businesses had to spend time avoiding or dealing with a NSW unfair dismissal issue. Of these, just under 20% spent 1-2 hours, around a third spent 5 to 15 hours and 23% of these had to spend a week on the issue. That is, without knowing about the validity of the claim, this last group of businesses had to spend over \$800 worth of time dealing with NSW unfair dismissal issues.

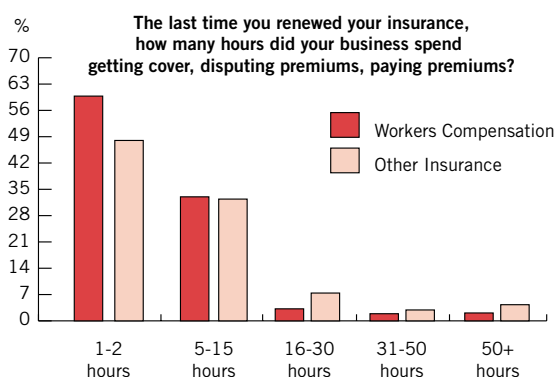
Looking at the Federal system, 10% of respondents had to deal with unfair dismissal issues (reflected the lower % of those on Federal Awards and with AWA). The survey suggests that when an issue of Federal unfair dismissals arose, it was dealt with more quickly than NSW cases. About 40% of those with a Federal unfair dismissal resolved it in a couple of hours. But there were still about 20% of firms that took over 50 hours (or \$800 worth of time) to resolve the matter.

RED TAPE REGISTER – THE INDUSTRIAL RELATIONS SYSTEM

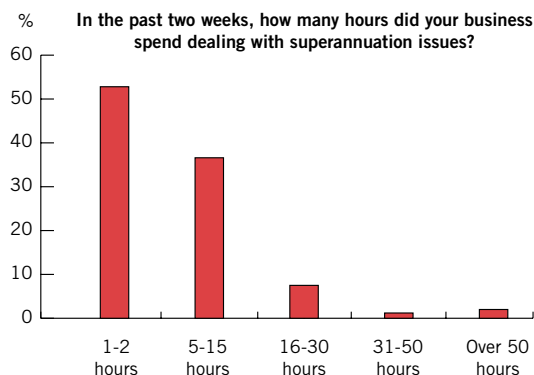
INSURANCE AND SUPERANNUATION

All businesses have to annually renew their workers compensation insurance. For many companies this process is much more involved than simply sending payment to the insurer. Businesses often have to spend time estimating various aspects of their business for the year ahead or addressing which business risk category is the appropriate one for them. Most businesses managed to deal with these issues in less than 2 hours (60%). However, a third said they took 5 to 15 hours, that is up to two days. Looking at the 'time cost' of this process, this implies a third of companies paid an additional 'tax' of up to \$350 dollars on top of their usual insurance premium. For 2% of people, they spent over 50 hours on their workers compensation premium, that is over \$870 in 'red tape tax'.

Another area of business operations that has increased in complexity in recent years, is superannuation. Business owners must spend time choosing a fund manager, dealing with the related paperwork for that manager and calculating and transferring compulsory employee contributions. Around half of respondents spent 1-2 hours in the fortnight before the survey dealing with superannuation related issues. But over a third (36%) spent 5 to 15 hours (or up to one day per week) dealing with superannuation. For 2% of respondents, they spent over 50 hours in just two weeks addressing superannuation problems. That is, they spent over half of the previous fortnight dealing with superannuation specific issues. Our survey found that superannuation (along with OH & S) was the most time consuming regulation for business. The median business took 26 to 52 hours over the year to comply with superannuation regulations.



Note: 5% of firms did not have any other insurance



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Red Tape Register

2004



Red Tape - The Battle Continues...

A Message from Margy Osmond, CEO of the State Chamber of Commerce (NSW)

In 2003 the State Chamber released the first Red Tape Register. The research highlighted the hidden cost of taxation and Industrial Relations (IR) issues for business – red tape. The survey of businesses throughout NSW was the first to quantify these hidden costs and the results were disappointing, to say the least.

It found that an average business that paid payroll tax, GST, company tax, workers compensation, dealt with superannuation and workers compensation for employees and spent time managing a difficult employee spent up to 400 hours a year or nearly \$10,000 in time lost meeting their legal obligations. This time could have been better spent serving customers, providing services and producing goods.

The 2004 Red Tape Register brings with it both good and bad news. The good news is that over the past twelve months there has been a significant improvement in the amount of time businesses are spending completing their Business Activity Statements (BAS) and the paperwork associated with payroll tax. The bad news is that it is taking business longer to deal with occupational health and safety regulations and the NSW industrial relations system.

But overall the same business that was spending 400 hours on compliance in 2003 is now spending 220 hours due to a reduction in BAS and payroll tax paperwork.

While the improvement is welcome news one constant theme to emerge from the research over the past two years is that small businesses still face a disproportionate amount of red tape. In other words, 'red tape' per employee is not constant as the business grows. The smaller the business, the higher the 'red tape' per employee faced.

It is also important not to ignore the regulatory burden facing large business. This study is mainly focused on small business and deals with basic requirements that must be addressed by most businesses. But large business has to deal with much more complex taxation and workplace relations issues. This means that while the 'red tape' per employee is lower in big businesses, the overall burden is significantly higher the larger the business. Most large corporations employ significant numbers of staff to meet their regulatory obligations.

How do we tackle Red Tape? This question was a prime consideration when we were putting together the survey questions for this year's Register. We wanted to come up with some constructive suggestions that we could put to Government on behalf of our members to help reduce the Red Tape burden.

With that in mind we asked businesses taking part in the survey about their experiences with various government agencies and about their attitudes towards different ways of reducing red tape. This section highlighted how serious the compliance burden is for many businesses with more than a third of almost 600 respondents saying they would be willing to forgo a reduction in business taxes in return for lower compliance costs.

The idea of lowering the compliance burden by sharing information across government departments and between state and federal governments also appealed to almost two thirds of businesses.

These results contain a clear message for policy makers at both State and Federal levels. Business wants further reductions in Red Tape and all levels of Government must work more closely with the business community to deliver lower compliance costs.

Business owner - Jack of all trades

Much of the red tape burden falls to the business owner, especially for small businesses with less than 20 employees.

This is particularly true for human resource (HR) issues where 74% of the businesses we surveyed said the owner dealt with HR issues (similar to last year). Slightly more business owners did the payroll themselves in 2004, in comparison to last year's survey (48% versus 45%).

But it seems more business owners are getting help from an accountant to deal with taxation issues. This year 36% of owners did their company tax, GST etc compared to 40% in 2003. And 26% out-sourced it to an accountant compared to 22% last year.

This shift is only slight but it could be a contributing factor to the reduction in time spent on Business Activity Statement (BAS). As more and more businesses decide to get someone else to complete the quarterly BAS, then the time spent by the business owners on GST compliance is expected to decrease further.

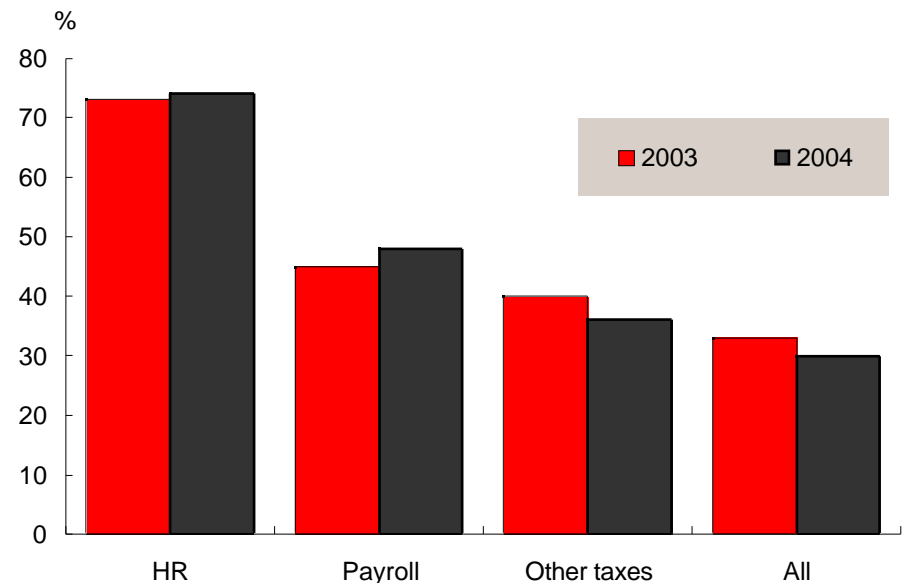
Of those businesses that completed all three major tasks themselves:

- 56% have 1-5 staff and 32% have 6 to 20 staff.
- 64% pay payroll tax and 55% pay other state taxes.
- 80% have at least one NSW Award in their workplace and 43% have at least one NSW based enterprise agreement.
- 64% got their BAS done in less than 4 hours but 19% took 5 to 15

hours per quarter.

- 54% disagreed with an ATO assessment and 34% had to wait for an overdue tax refund to be paid.
- 66% of respondents said they supported the idea of Federal and State Governments and their Departments sharing information.
- 37% of respondents said they would prefer to see a lower compliance burden than lower tax rates (only 21% said they preferred tax cuts to lower red tape – the rest were unsure).

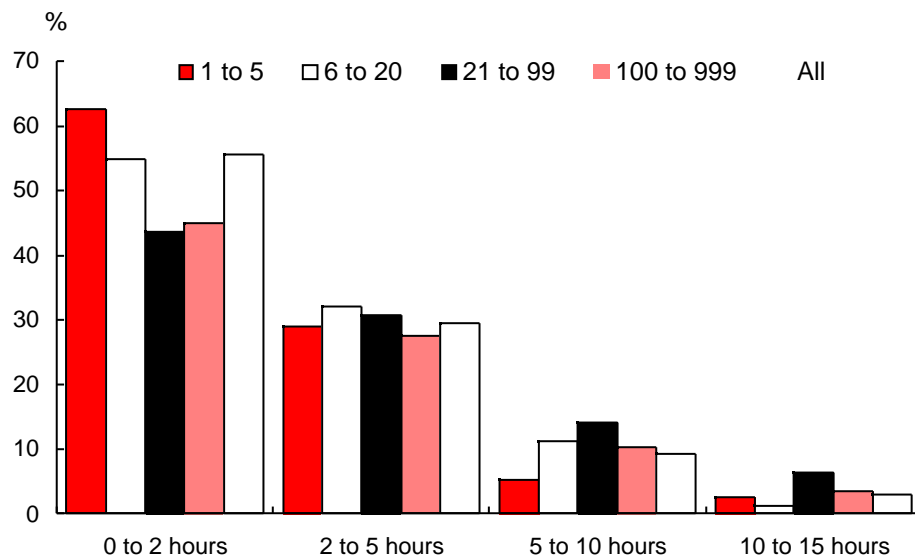
Business Owners Dealing with HR, Payroll and Other Taxation



Payroll Tax - The net widens

Payroll tax was one of the major improvers in terms of a reduced red tape burden. Of those that pay the tax, over half (56%) spent up to 52 hours a year completing the required paperwork. A further 29% spent up to 130 hours a year.

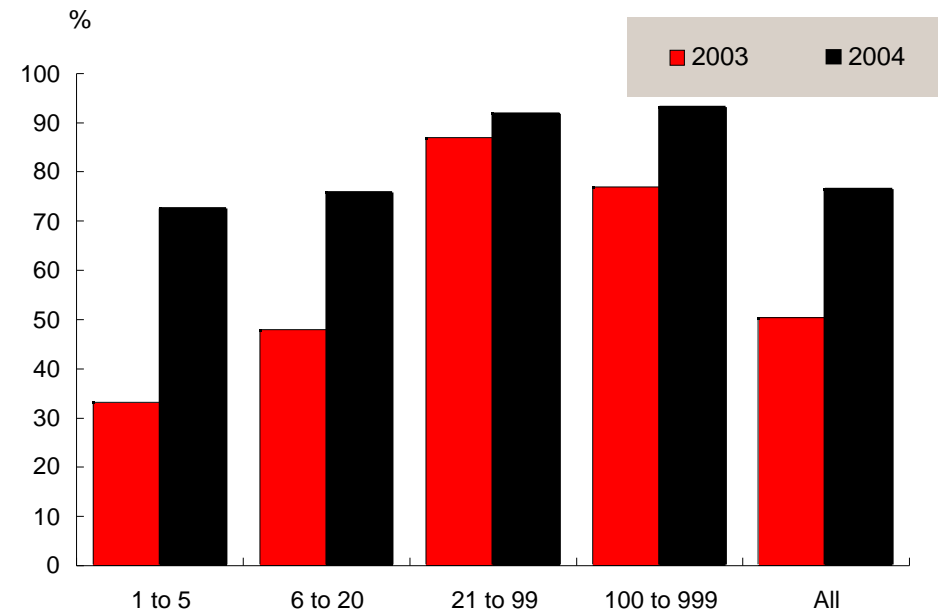
Time Spent on Payroll Tax in the Past Two weeks



Base: Businesses that paid payroll tax.

But despite this improvement in terms of red tape, the number of small businesses caught in the payroll tax net has increased significantly. Last year's survey showed 40% of businesses with less than 20 employees paid payroll tax. This year that figure has increased to 74%. This dramatic increase highlights the significant problems associated with a low tax threshold that is not indexed – small businesses are quickly caught in the net.

Businesses Paying Payroll Tax by Employee Size



Only 30% of businesses were not affected by other state taxes such as land tax, conveyance duty, parking levies, lease duty, hiring duty and non-marketable securities duty.

Of those that paid these taxes, most (68%) got these done in less than four hours during the year. This suggests the bulk of these taxes involve companies being issued with a bill to pay rather than the self-assessment element that is present with many of the other taxes featured in the survey.

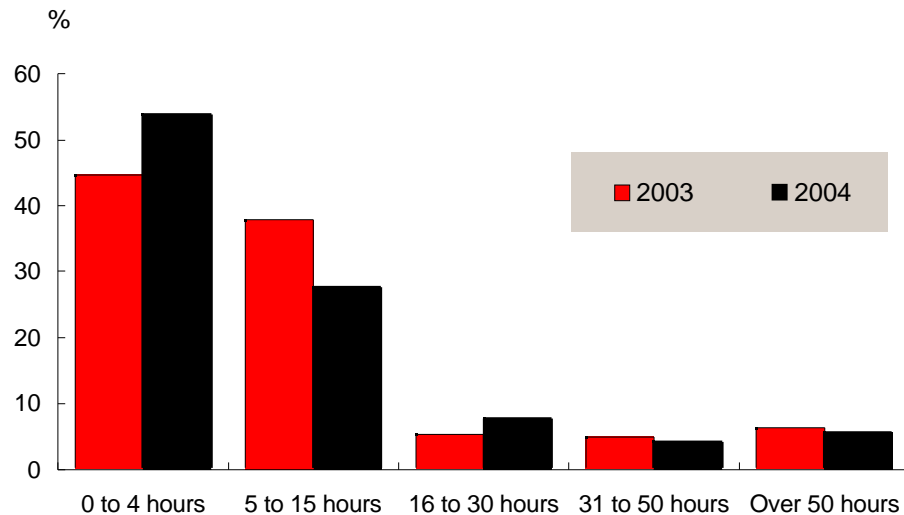
The Commonwealth Burden

The three Commonwealth taxes we looked at were company tax, GST and Fringe Benefits tax.

The big improver in the survey was the quarterly BAS. In 2003, only 44% of respondents had been able to complete this in under 5 hours.

This increased to 54% in 2004. This shift largely reflected people moving down from the 5 to 15 hour per quarter bracket.

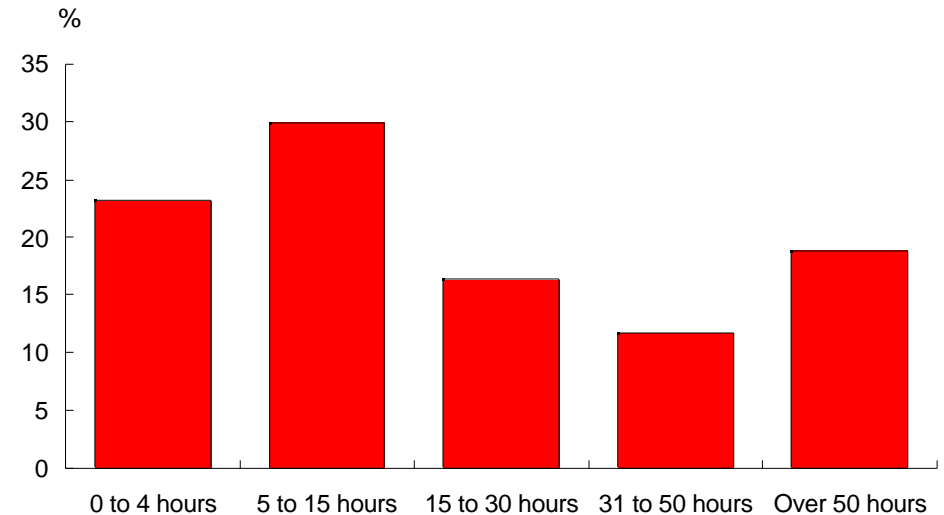
Time Taken to Complete Latest BAS



This may indicate that business is getting more comfortable with the process and that internal systems within businesses are improving.

The most commonly selected timeframe for company tax was 5 to 15 hours (30%) closely followed by up to 4 hours (23%).

Time Spent on Company Tax Return in 2003/04



As discussed earlier, about 2/3 of respondents got help in this area, mainly from out sourcing to an accountant. The percentage breakdowns in each bracket were broadly similar from 2003 to 2004.

Fringe benefits tax only affected 68% of respondents and once again did not appear to be a significant burden to businesses with most completing it within 4 hours.

Navigating the Awards maze

The 2004 survey showed that many businesses have a mix of awards and agreements in operation within their workplace, some even use workplace management tools from both the state and federal system.

The most common wage and conditions setting instrument remains the NSW Award system, with only 13% saying they didn't use it. But this is not the 'set and forget' mechanism it is often portrayed to be as 25% of users spent 1 to 2 days in 2003/04 deciphering rules and conditions within the Awards.

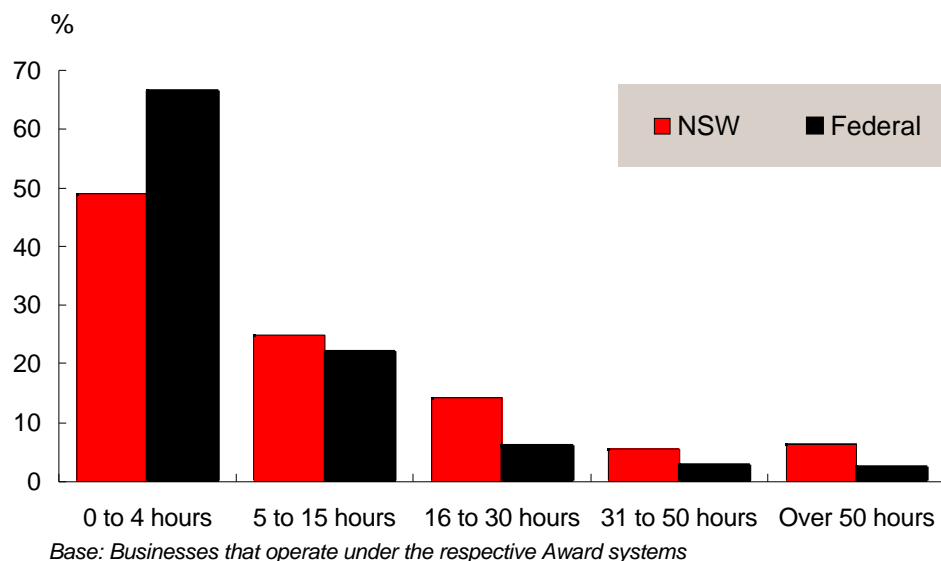
About a third of respondents said they didn't use the Federal Award system. Those that did, found it easier to operate under than the NSW system.

A large 66% needed to spend up to 4 hours on Federal Awards, compared to only 49% getting away with less than four hours in the NSW Award system.

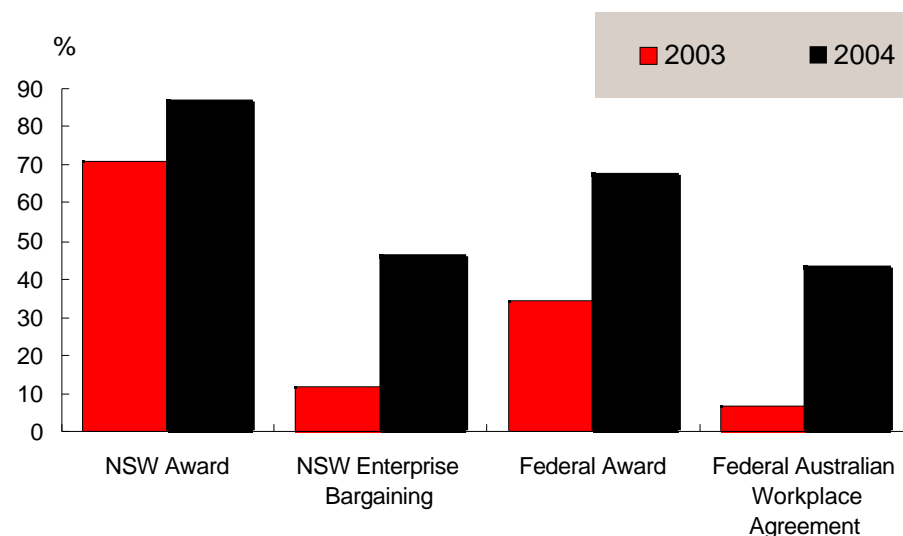
Non-award instruments have become more popular in the past 12 months. Only 52% said they didn't use a NSW enterprise agreement and only 57% said they didn't use an Australian Workplace Agreement.

The time profiles for those dealing with these two options were broadly similar, with most taking less than 15 hours to complete them.

Time Spent Complying with Award Systems in 2003/04



Use of Awards and Non-award Instruments

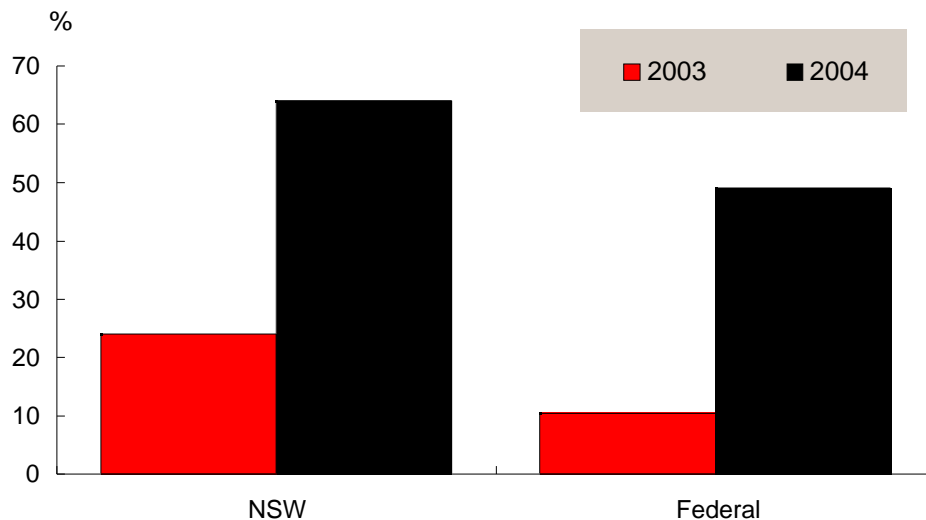


Making it hard for small business

Management of underperforming staff was an issue for 63% of those surveyed. This is up from just 24% in 2003.

In 2004, around 60% of these businesses addressed these issues within four hours, most likely through performance meetings and official warnings. However, once an issue took hold it risked escalating and becoming a more time consuming and costly problem.

Businesses Dealing with or Avoiding Unfair Dismissal Proceedings



Within our supplementary questions in 2004 we asked if the business had accepted liability for an unfair dismissal or workplace safety case during the year because they could not afford to defend the claim. Almost 1 in 10 respondents said they had – this represents over 50 businesses! It may seem like a small number, but it is unacceptable that the system is such that 50 businesses within our sample thought they had no choice but to pay up rather than put their case forward.

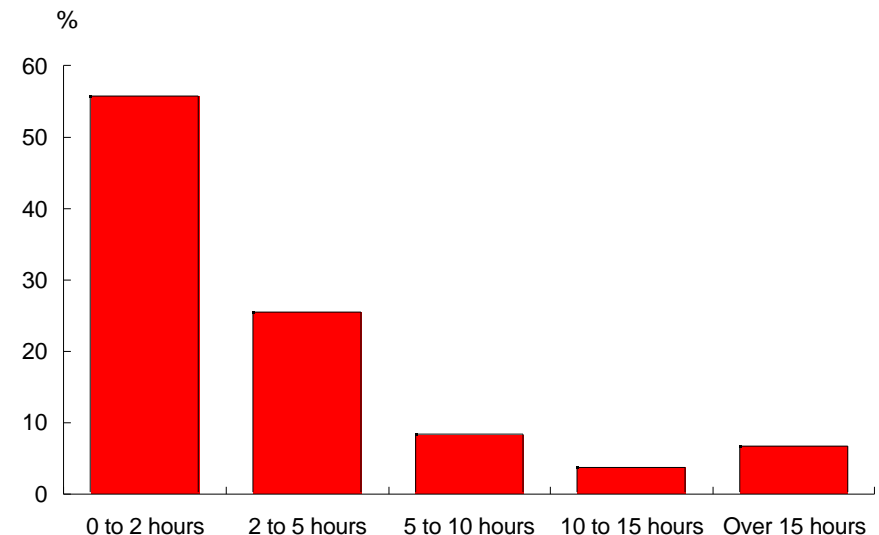
Occupational Health and Safety – Hindering performance

Since September 2003 the compliance burden for small business with respect to occupational health and safety has increased through new legislative requirements.

Our 2003 survey showed that 44% of firms had not done anything about occupational health and safety in the two week period preceding the survey. But this is no longer an option for small businesses as they must continually be looking at safety in the workplace issues.

Most businesses managed to meet their requirements within a couple of hours per fortnight (56%). But in the 5-15 hour bracket a significant increase occurred between 2003 and 2004. A quarter of respondents to the question picked the 5-15 hour category, up from just 13% in 2003. This represents up to one day per week that they are spending on safety issues.

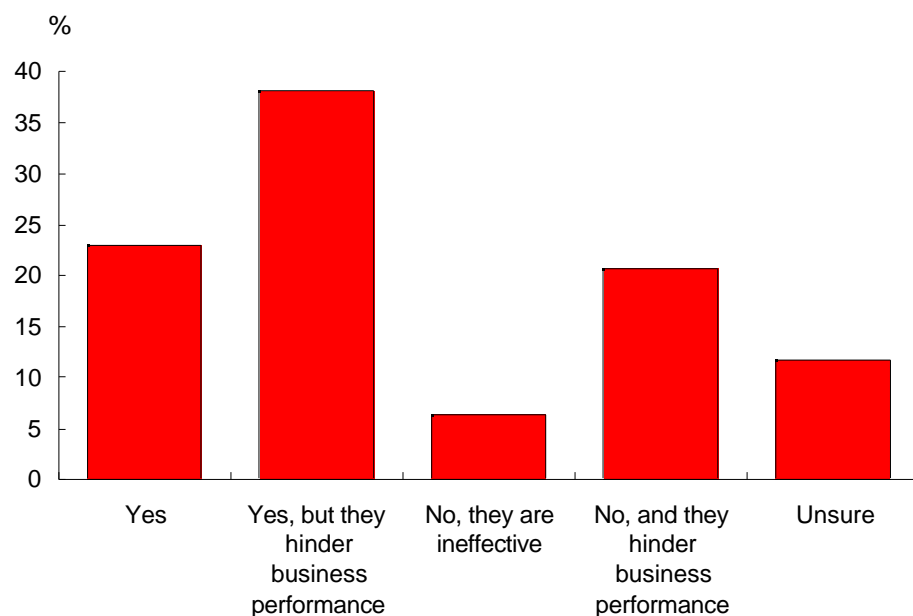
Time Spent Complying with OH&S Laws in the Past Two Weeks



We also included a question about people's views on the effectiveness of the occupational health and safety regulations in NSW.

About a quarter (23%) of the question's respondents thought the rules were effective but 38% thought that while they were effective they hindered the business' performance. In addition, 21% thought they were ineffective and hindered the business' performance. Only 6% said they thought they were ineffective but didn't think they damaged the business. These responses suggest that there needs to be more attention focused on finding workable solutions to safety that are also practical from the business owner's perspective.

Do You Believe Current OH&S Regulations are a Practical and Efficient Way of Protecting the Health and Safety of Employees?

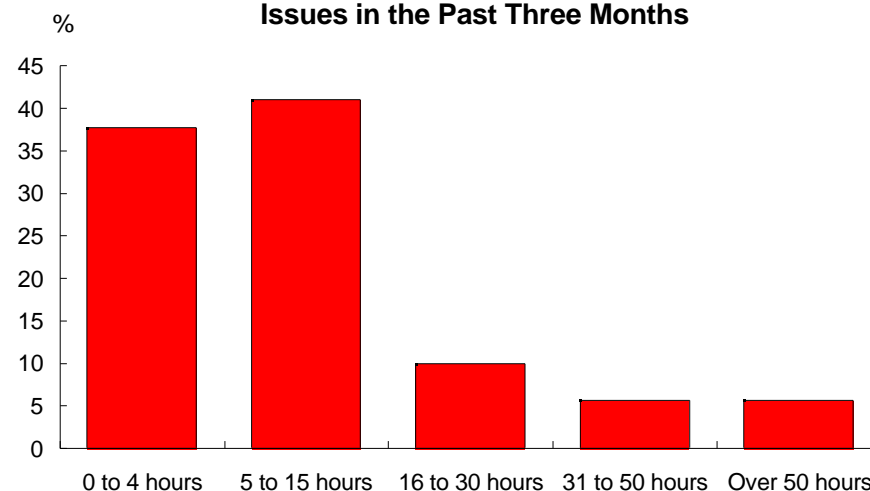


Superannuation and Insurance – Compliance on the rise

Another area where the compliance burden has risen in recent years is superannuation, especially with the introduction of mandatory reporting of employee contributions from the September quarter 2003.

Our survey shows that the burden in this area has increased, with the most common response being 5 to 15 hours per quarter in 2004, compared to just a few hours in 2003. 10% of respondents spent 2 to 4 days on the issue during the past quarter.

Time Spent Complying with Superannuation Issues in the Past Three Months



There was little change in the data relating to workers compensation insurance, with most businesses continuing to take less than five hours to sort this out each year.

With respect to other insurance, there were a few more businesses taking 5-15 hours than last year. They seem to have moved up from a lower category, suggesting a slight increase in the length of time to sort out other business related insurances.

Slashing Red Tape

The 2003 survey pointed to several ways that compliance could be reduced. In 2004 these, and other issues, were explored in ten supplementary questions.

Information Sharing

One possibility is to use ACN's or ABN's to track business details and experiences through the whole tax system. The upside to this information sharing would be lower compliance costs. For example, when dealing with the Office of State Revenue (OSR) a business would quote a number and the OSR contact would instantly know which state taxes they are registered for and their past dealings with the department.

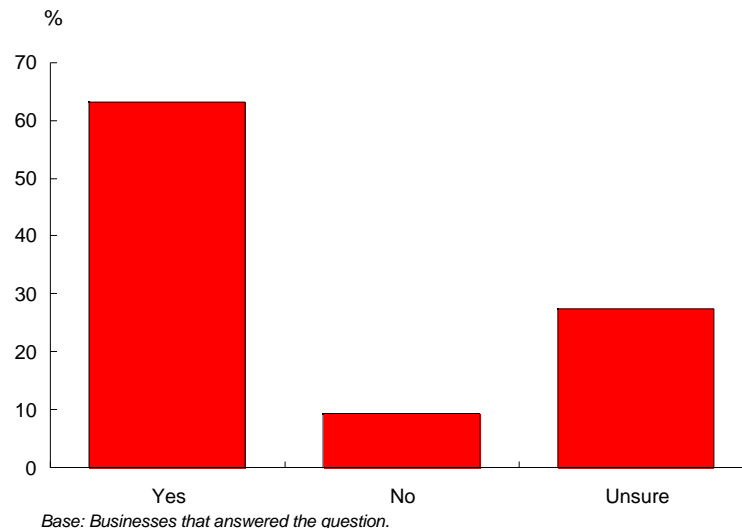
Currently, every time a business wants to register with the OSR for a different tax they must complete several pages of documents, many of which contain duplicate information that the OSR must already have. Or perhaps if liability bases for some state taxes are the same as those for federal taxes then information sharing between different levels of government could cut down on red tape.

This would, however, involve an increase in the amount of information shared between government departments and levels of government, raising questions about privacy and how comfortable business would be with this information sharing arrangement.

The response to this idea, at least the principal, is that business is not strongly apposed to it. Only 9% of those that answered this question said they opposed the idea and 63% of respondents said they supported it. The remainder were unsure and a further 14% declined to answer the question.

This suggests that there is at least some in-principal support for this idea that may be worth exploring further.

Would You Support Federal and State Governments and their Different Departments Sharing Your Company's Details if it Meant Reduced Compliance Costs?



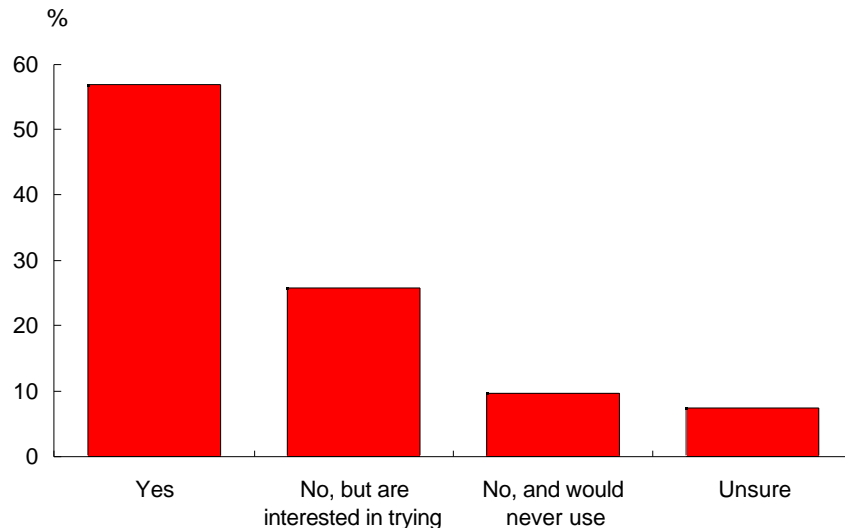
Using Technology

One way to try to lower the red tape burden may be increased use of technology. But we thought it was important to try and gauge the business community's attitude to new technologies, especially given the potential security concerns.

We asked about the prevalence for electronic lodgement or applications in relation to taxes, licences etc. 57% of respondents said they had already used some form of electronic lodgement or application process before and 26% said they hadn't but were interested in trying it. Only 10% said they hadn't used electronic lodgement and never would.

This suggests that this method of reducing time delays and red tape may be worth exploring further. (See Graph next page)

Do You Use Electronic Lodgement or Applications for Business?



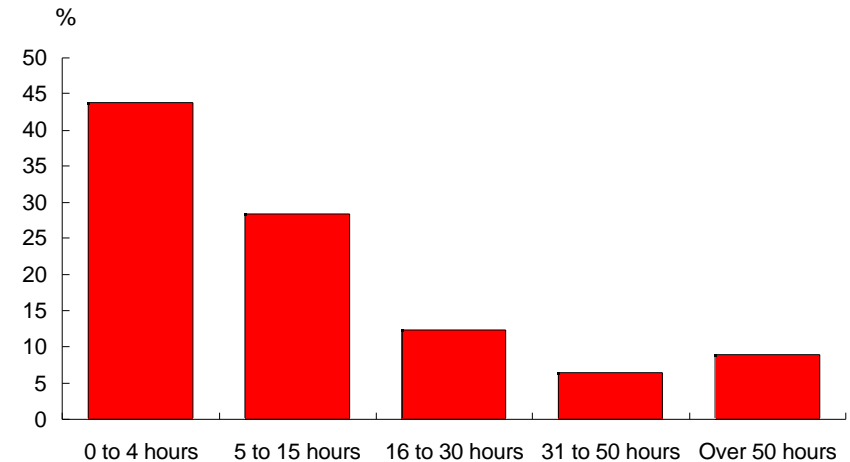
Lower Red Tape Favoured Over Lower Taxes

We also asked businesses if they would be willing to forgo lower business taxes in return for a lower compliance burden. Only 20% of those that answered the question said they weren't and 31% said they would. But 41% were unsure and 16% did not answer the question.

Impact of Legal Changes

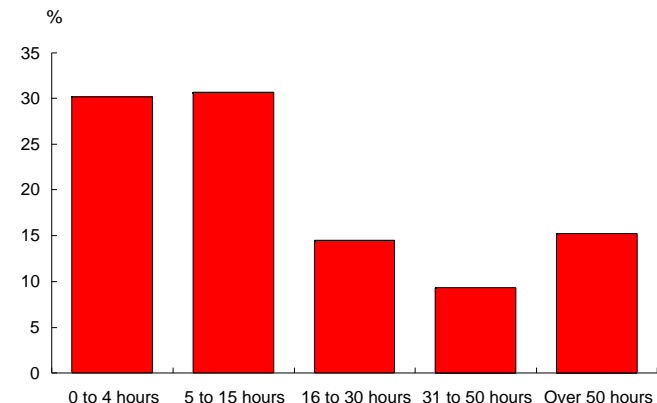
One cautionary point to bear in mind when trying to improve a tax or IR system is that change brings with it other compliance issues. 76% of respondents had to spend some time over the past year upgrading their computer and filing systems because of new government requirements. Of those 44% spent up to four hours, 28% spent 5 to 15 hours and 12% spent 16 to 30 hours completing this task.

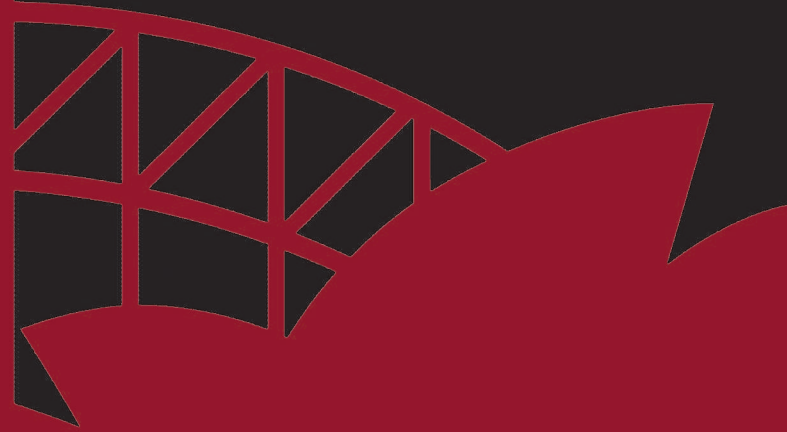
Time Spent Upgrading Computer and Filing Systems in 2003/04 Because of New Government Information Requirements



Businesses also need to research new laws to make sure they comply with them. Only 13% said they didn't spend time on this. Of those that said they did, 31% spent 5 to 15 hours, followed by 30% taking up to 4 hours. Interestingly, the next most popular category was over 50 hours (15%).

Time Spent Researching How New Laws Would Effect the Business in 2003/04





State Chamber of Commerce

RED TAPE REGISTER

**A Study by the State
Chamber of Commerce (NSW)
September 2005.**



A message from Margy Osmond CEO, State Chamber of Commerce (NSW)

The State Chamber first released the Red Tape Register in 2003 in a bid to quantify the hidden cost for business of complying with State and Federal taxation and industrial relations laws.

Until that time there had been plenty of debate about red tape and its impact, particularly on small business, but no concrete evidence to support the arguments.

The news that emerged, however, wasn't good. Our 2003 register found that an average business — paying payroll tax, GST, company tax, workers compensation, dealing with superannuation and workers compensation for employees and spending time managing a difficult employee — spent up to 400 hours a year or nearly \$10,000 in time lost or meeting their legal obligations. This time could have been better spent serving customers, providing services and producing goods.

While last year's survey revealed some improvements, little has changed over the last 12 months. Since the 2004 Red Tape Register was published, the Federal Government has introduced further regulation in the form of the Superchoice legislation, the full impact of which is yet to be felt by business.

Employees have been slow to take up the right to choose their own superannuation fund, but by next year we should have a

much clearer picture of how the superannuation changes will impact on business.

This year's survey also confirms the Chamber's already well-publicised fears that more and more NSW businesses are getting caught up in the payroll tax net. This strengthens our calls for the threshold at which the tax cuts in (currently \$600,000) to be indexed to inflation to prevent this bracket creep.

Overall, I believe, the results send a strong message to Governments at both State and Federal level: They need to adopt a more creative approach to tackling the red tape burden. They might be well advised to have a look at the work being done in other countries - like Britain's innovative approach to reducing compliance costs through a 'one-in, one-out' rule, where an existing regulation must be abolished before a new one can be introduced.

This type of initiative could work in Australia and would force Governments to give a lot more thought to the impact of any new regulations on business.

In any case, the message for our policy makers at both State and Federal hasn't changed. Business is tired of wasting its valuable time and wants some real solutions to the Red Tape dilemma.

The Red Tape squeeze continues...

This third annual Red Tape Register showed that over the past 12 months, little has been achieved in the way of lower compliance costs for business. This is disappointing and suggests that while all levels of Government might be talking about reducing red tape, the business community is yet to see any genuine significant improvement.

In the past two surveys we have looked at an average business in the state that paid payroll tax, GST, company tax, workers compensation; dealt with superannuation and workers compensation for employees and spent time managing a difficult employee. The 2005 results were similar at around 200 hours per year. A lack of significant improvement in compliance costs suggests Australian governments need to become bolder in their approach to reducing red tape.

Dealing with constant change

As well as complying with existing regulations and laws, businesses must also be constantly finding out about new laws and regulations as they are introduced. The latest Red Tape Register shows that over a third of businesses are spending more than a couple of days a year researching newly introduced laws and how they will impact on their business. This is before they even start putting in place the new systems that might be

needed to comply with these regulations. The Chamber is encouraging all levels of Government to look at the work being done in Britain to address compliance costs. The British Government has established the Better Regulation Task Force, an independent advisory group established in 1997 that reports to the Cabinet Office.

One-in, One-out Approach needed

The Task Force is made up of 19 members from a range of backgrounds including large and small businesses, citizen and consumer groups, unions, the public sector, not-for-profit groups and those responsible for enforcing regulations. The Chairman of the Task Force, David Arculus, is also part of the Panel of Regulatory Accountability which is a cabinet committee that meets regularly to discuss regulatory issues with all Ministers. In March 2005 the Task Force published its latest report *Regulation – Less is More*. A key recommendation of this report was that a 'one-in, one-out' approach should be adopted.

Under this approach, no new regulation could be introduced by a department unless an existing regulation is removed. It would force departments to prioritise between new regulations and to simplify and remove existing regulations.

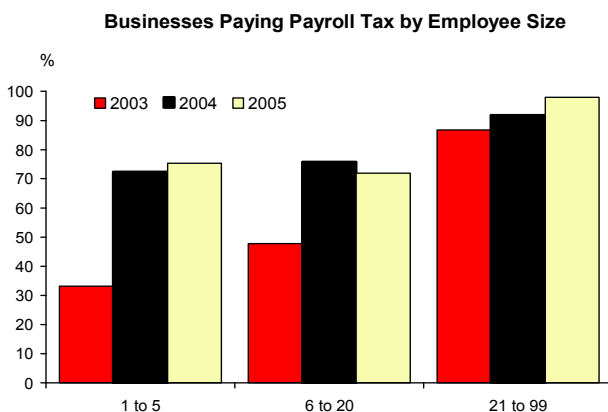
RED TAPE REGISTER

The 'one-in, one-out' approach would help to emphasise the need for choices to be made by regulators. They could not regulate everything - priorities would need to be set.

More small business caught by payroll tax

The 2005 Red Tape Register Survey showed there was little change in the individual compliance burden of payroll tax for companies. Like the 2004 survey, the median business that paid payroll tax took up to 2 hours a fortnight to complete their return. Of more concern, however, is that small business is increasingly getting caught in the payroll tax net. In the first Red Tape Register, published in 2003, 59% of employers with less than 100 staff paid payroll tax. In 2005, the figure has risen to 72%.

The chart below gives the breakdown of businesses in different employment categories that are paying payroll tax and clearly shows that payroll tax is no longer exclusively a big business tax.



Small business is increasingly getting caught in the payroll tax net because the threshold at which payroll tax begins is not indexed to inflation. Any business with a payroll over \$600,000 pays payroll tax in NSW. For the purposes of this tax, the definition of a payroll is much broader than just wages. It also includes superannuation contributions, grossed up fringe benefits and Directors' fees.

All of the contributors to calculating the payroll are clearly increasing – mainly via higher wages. However, the threshold is not. Looking at the business community as a whole, the compliance burden of payroll tax has increased significantly in the three years of our survey.

Current OH&S review timely

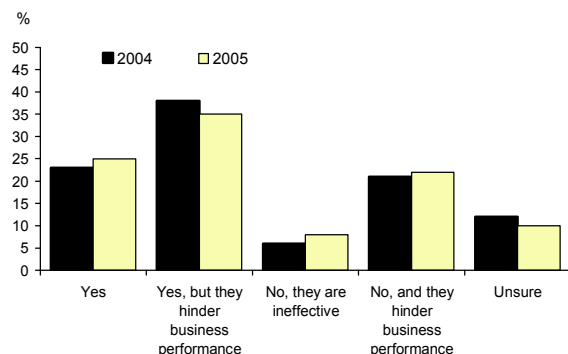
Since the Red Tape Register was first published, there have been a number of changes to Occupational Health and Safety laws affecting small businesses in NSW – the most recent being the amendment covering workplace fatalities.

In the last three years, the number of businesses spending a couple of hours a fortnight on OH&S issues has remained fairly consistent

at around 56 percent, with just under a quarter spending two to five hours. However, for about 1 in 5 businesses, OH&S compliance is taking more than five hours in any two week period - a heavy burden for a small company.

There is also a continuing concern that OH&S laws are hindering business performance. Only a quarter of respondents were satisfied that the current laws are a practical and efficient way of protecting the health and safety of employees. More than half the businesses surveyed (57%) felt the laws hindered their business performance.

Do you believe the current OH & S regulations are a practical and efficient way of protecting the health and safety of employees?



We know from other recent surveys that our members place a strong emphasis on providing a safe working environment for their employees but businesses also need to know that they can operate efficiently in a competitive market. There is clearly a need to strike a fair balance between OH&S laws and the practical requirements of business.

We hope that the NSW Government will use the current review of the OH & S Act (2000) to rectify this imbalance and ensure that health and safety laws improve safety but in the context of the reality of operating a business and providing jobs.

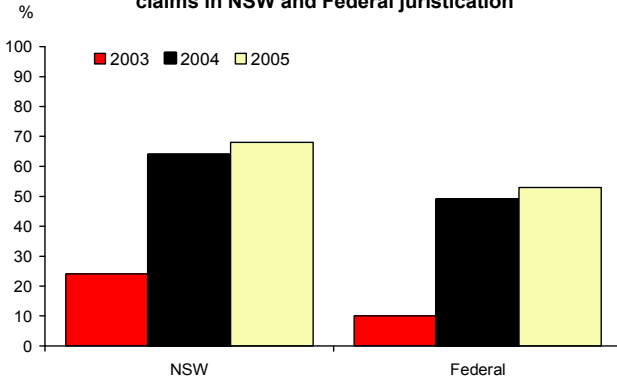
Dismissal changes should reduce costs

Dealing with or avoiding unfair dismissal claims continues to affect a significant proportion of businesses. Our findings suggest there will be widespread support among the small business community for the Federal Government's proposed plans to introduce an exemption from unfair dismissal laws for those companies with less than 100 employees.

We saw a big jump in this figure between 2003 and 2004 and this year's figures remain high. Of the businesses surveyed 68 percent dealt with claims under the NSW system and 53% dealt with claims under the Federal system in the past year. However, the majority of these claims were dealt with in under four hours.

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Business dealing with or working to avoid unfair dismissal claims in NSW and Federal jurisdiction



There has also been a slight reduction in the number of businesses opting to pay out on claims rather than attempt to defend them. Last year, about 1 in 10 businesses said they had accepted liability for an unfair dismissal or OH&S claim because they could not afford the defence. This year, that figure has dropped to 6%.

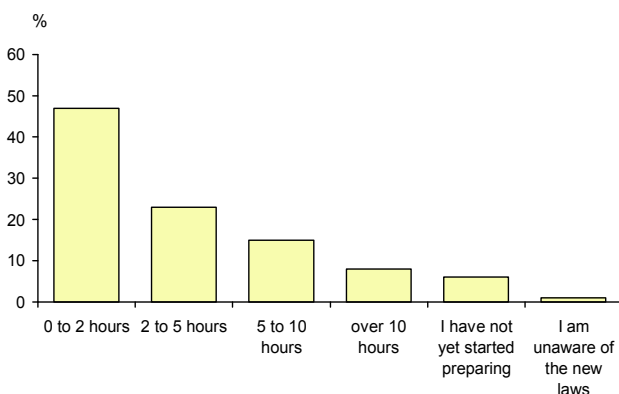
Super changes still to impact on business

Since last year's survey, there has been a major change in the law governing Superannuation with the Federal Government's introduction of SuperChoice on July 1.

This year's survey was conducted after this date and found that most businesses had spent time preparing for the new law, with just 7% saying they were unaware or not ready.

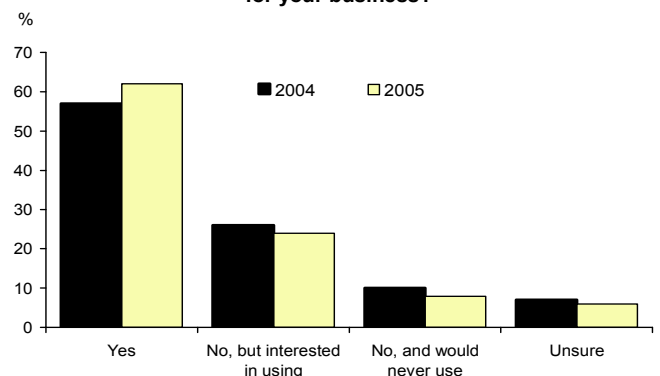
The new laws require businesses to satisfy a range of criteria including establishing just who among their employees are entitled to choose their own funds (some employees are not covered by the new regulations). It's not a simple process yet, surprisingly, just over half of the respondents who were prepared said it took them two hours or less. Most of the other prepared businesses spent between two and ten hours getting ready for SuperChoice.

How long did you spend getting your business compliant with the new SuperChoice laws that came into effect on July 1 2005?



It seems employees have not been in a hurry to exercise their choice – three quarters of respondents said that less than 10 percent of their employees had chosen their own fund. We will probably see more significant results in next year's survey when SuperChoice will have been in place for twelve months and a higher proportion of employees will probably be entitled to choose.

Do you use electronic lodgement/applications for your business?



Technophobes increasingly in the minority

There's a growing willingness among businesses to embrace technology when it comes to electronic lodgement or applications in relation to taxes, licences etc.

Last year, 57% of respondents said they had used some form of electronic lodgement or application process but this year, that figure rose to 62%. More respondents also expressed an interest in using this technology in the futuOnline lodgement is clearly one way for business to reduce the time they spend on compliance and other red tape.

The cost of compliance is also a major issue for business. We asked again this year if business would be willing to forgo a reduction in business taxes in return for lower compliance costs and just over a third of respondents (34%) said they would – a slight increase on last year's number (31%).

Business also continues to register interest in the principal of sharing information between federal and state agencies to reduce the cost and time spent on compliance. Sixty-five per cent of respondents agreed with the idea of their company details being shared across departments.

Only 11% said no to the idea. However a quarter of respondents were unsure which suggests the privacy issues involved in the sharing of information remains a concern despite the attraction of reduced costs.

DISCLAIMER: The information supplied herein is believed to be accurate and reliable, but no warranty to that effect is given and the State Chamber of Commerce (NSW), its employees or any other person accept liability to any claim which may arise from any person acting on the information therein