



Client population	36
Industry	37
Income	37
Expenses	37
Net tax	38
Profitability	39
SB market segment	40
Cash economy	40
Non-commercial sector	42
Detailed tables	42

Small business

Within the ATO, small business taxpayers are clients of the small business (SB) line. The purpose of the small business line is to ensure that small business participants and taxpayers with fringe benefits tax (FBT) and withholding tax responsibilities are complying with the tax laws at minimum cost to their businesses.

The small business sector is made up of four groups of taxpayers. The first group consists of unincorporated businesses—those operating as individuals, partnerships or trusts, that report total business income below \$10 million. The second group consists of private companies which report total income below \$10 million. The third category consists of superannuation funds which report less than \$50 million in investment income (almost all superannuation funds are small business clients). The final category is other taxpayers, who report distributions from either partnerships or trusts with business income, but report no separate business income (or loss) in their own income tax returns (see 'Definitions' on this page).

All public companies, irrespective of their total income, and all other taxpayers exceeding the \$10 million total business income threshold, are clients of the large business and international (LB&I) business line. These taxpayers are discussed in the 'Large business' chapter of this publication.

In addition to its general responsibility for the small business sector, the small business line also has responsibility for administration of FBT and withholding taxes including the pay-as-you-earn and prescribed payments collection systems, wool tax, non-resident interest, dividend and royalty tax, resident and mining withholding taxes, and the tobacco charge. These taxes are discussed in their relevant chapters.

More detailed information on specific types of small business taxpayers, and the tax rates applicable to them, are presented in the 'Companies', 'Funds' and 'Partnerships and trusts' chapters of this publication.

The statistics in this chapter are compiled from tax returns for the 1998–99 income year.

Definitions

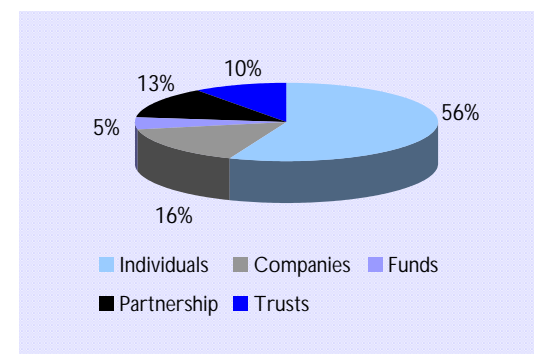
Other taxpayers: the tax returns of the fourth group of small business clients are lodged by the partners and beneficiaries of, respectively, partnerships and trusts. These tax returns are not business returns (unless the taxpayers receive business income from other sources). Within the ATO they are referred to as 'subsidiary' returns. In this publication, subsidiary returns are not separately identified. They are included as part of the entries for individuals with business related income.

The inclusion of subsidiary returns in the small business client population is the main reason why the number of small business taxpayers in this publication is more than three times the estimate of the number of small businesses published by the Australian Bureau of Statistics (ABS). Other major factors contributing to this difference include differences in the way ATO and ABS data are collected; size related differences in the ATO and ABS definitions of a small business; and inclusion in ATO data of those salary and wage earners reporting as little as \$1 of business income.

Client population

In 1998–99, a total of 3.5 million tax returns were lodged by small business clients. The majority (56%) were lodged by individuals. This was followed by partnerships and trusts (23%) and then companies (16%). Overall, small business clients accounted for 31% of all income tax returns lodged in the year.

Figure 4.1: Composition of the SB client population



A total of 297 313 small businesses reported having commenced business in 1998–99. Of these, individuals accounted for 50%, companies accounted for 16%, funds accounted for 14%, partnerships accounted for 13% and trusts accounted for 6%.



Table 4.1: SB clients by state¹ and type of taxpayer

State	Individuals	Companies	Funds	Partnerships	Trusts	Total
	no.	no.	no.	no.	no.	no.
NSW	605 593	240 476	57 438	139 670	66 605	1 109 782
Vic.	487 765	131 254	52 194	102 442	107 145	880 800
Qld	391 640	89 114	28 907	101 548	58 390	669 599
WA	235 024	44 099	14 137	55 150	50 889	399 299
SA	170 852	34 693	17 215	40 985	30 732	294 477
Tas.	47 481	7 682	2 532	12 850	6 299	76 844
NT	14 636	4 192	459	2 617	1 566	23 470
ACT	27 284	8 035	2 223	4 588	3 433	45 563
Not stated	516	1 459	5	1 295	8 230	11 501
Total²	1 980 791	561 004	175 106	461 145	333 289	3 511 335

1. Refers to the state in which SB clients lodged their returns, which may not be where all their business activities were conducted.

2. Components may not add up to totals as some cells containing a value of 5 can represent any number between 1 and 5.

Approximately 91% of new small business funds were excluded funds. The ability of fund members to choose, manage and control their own investments, and the reduced requirements on excluded funds under the *Superannuation Industry (Supervision) Act 1993*, are the main reasons for the continued growth in excluded funds.

The geographic distribution of small business clients generally reflects Australia's population profile and distribution of small businesses across Australia. The majority of small business clients (57%) lodged returns in NSW and Victoria (32% and 25% respectively). However, Victoria continued to have more trust returns than any other state (32%), reflecting a longstanding preference for the use of trusts for commercial activities in that state.

Industry

For those small business clients for which industry was known, the largest proportions were in the finance, insurance, real estate and business services industry and the primary production industry (26% and 20% respectively). A further 15% were in the construction industry.

A total of 46% of companies and 26% of individuals were in the finance, insurance, real estate and business services industry. In contrast, 56% of individuals and 15% of companies were in the construction industry.

A total of 63% of individuals, 29% of partnerships and only 3% of companies were in the primary production industry.

Nearly one-third (30%) of all small business clients did not identify their industry on their tax return.

Income

In 1998–99 small business returns represented just under one-third (31%) of all returns and accounted for 19% of total income, 18% of all taxable income and 22% of total net tax.

Individuals accounted for 67% of taxable income of all small business clients and 65% of net tax payable. Companies accounted for 23% of taxable income and 30% of net tax payable.

One reason for the difference in taxable income and net tax payable of these two entities, is due to the different tax rates applicable. For individuals, the amount of business income they receive is added to their non-business income, which forms the basis for the calculation of their taxable income. They then pay tax on this income at the applicable progressive rate commencing at 20% plus the Medicare levy after the allowance of the tax-free threshold. Net tax payable is then calculated after allowance for rebates and credits. For companies, tax is paid at a flat rate of 36%.

The source of income varied according to the type of taxpayer. Small business companies, for example, earned the majority of income (69%) from the sale of goods and services.

Expenses

Companies accounted for 47% of all small business expenses. Trusts accounted for 29%,



Taxation Statistics 1998–99

Table 4.2: SB clients¹ by entity and industry²

Industry	Individuals	Companies	Partnerships	Trusts	Total clients
	no.	no.	no.	no.	no.
Finance, insurance, real estate and business services	154 483	276 150	51 804	115 214	597 651
Primary production ³	296 761	15 169	134 600	23 800	470 330
Construction	192 369	52 892	77 384	20 336	342 981
Retail trade	69 352	45 787	64 971	25 473	205 583
Manufacturing	59 645	39 458	27 795	12 621	139 519
Transport and storage	45 697	21 705	24 383	7 609	99 394
Personal and other services	58 647	14 508	18 301	6 651	98 107
Health & community services	46 773	21 520	5 711	7 476	81 480
Property	12 508	0	5 740	52 168	70 416
Cultural & recreational services	45 133	10 283	7 841	3 008	66 265
Wholesale trade	14 667	26 849	12 136	8 614	62 266
Accommodation, cafes and restaurants	9 527	10 949	15 054	7 870	43 400
Communication	15 193	2 927	3 947	1 006	23 073
Education	15 782	2 424	1 917	723	20 846
Mining	3 642	2 201	926	609	7 378
Electricity, gas supply and water sewage and drainage	557	543	341	167	1 608
Total industry stated	1 040 736	543 365	452 851	293 345	2 330 297
Industry not stated ⁴	940 055	17 639	8 294	39 944	1 005 932
Total	1 980 791	561 004	461 145	333 289	3 336 229

1. Excludes superannuation funds.

2. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, it is not possible to do any long time series analyses for industry because the industry groups are not comparable.

3. Includes taxpayers who receive distributions from partnerships and trusts with primary production income.

4. Refers mainly to individual salary and wage earners in receipt of partnership and trust distributions of less than \$1 000 and to taxpayers with distributions from non-primary production partnerships or trusts. Usually a tax return does not indicate the type of business or industry which generated these distributions.

and partnerships for a further 17% of expenses claimed. Nearly half (45%) of all business expenses were incurred from cost of sales.

The second most common type of expense for companies and trusts was external labour. The second most common type of expense for partnerships was depreciation, while for individuals it was motor vehicle expenses.

A total of 36% of all expenses claimed were in the category of 'other'.

Net tax

Partnerships and trusts generally do not pay tax in their own right. Partnerships distribute their net income or loss to partners, who then include

Table 4.3: SB clients' income by entity

Entity	Total income ¹	Taxable income	Net tax
	\$ m	\$ m	\$ m
Individuals	61 110	55 871	13 106
Companies	221 314	18 910	5 923
Funds	9 848	8 246	1 009
Partnerships ²	10 631	n.a.	n.a.
Trusts ²	20 405	n.a.	n.a.
Total³	292 272	83 027	20 038

1. For Individuals, total income includes net business income (or loss), distributions from partnerships and trusts, and non-business income such as interest, dividends and salary and wages. For Partnerships and Trusts, total income includes net business income, primary and non-primary distributions, rent, interest, dividends, imputation credits, and other income.

2. Profits from Partnerships and Trusts are distributed to beneficiaries who pay tax on the income.

3. Total income does not include partnership and trust total income figures because their income is distributed to the other entities as taxable income.



Table 4.4: SB clients'¹ expenses by entity

	Individuals	Companies	Partnerships	Trusts	Total
	\$m	\$m	\$m	\$m	\$m
Cost of Sales	11 520	92 647	28 696	65 685	198 548
External labour	1 159	10 382	2 814	4 175	18 530
Rent	1 183	5 371	2 089	3 360	12 003
Depreciation	1 386	4 616	3 547	2 911	12 460
Interest	751	4 143	2 599	3 132	10 625
Motor Vehicles	2 132	3 608	2 144	1 486	9 370
Superannuation deductions	271	4 734	442	2 553	8 000
Repairs & maintenance	541	2 041	1 873	1 461	5 916
Lease Payments Amt	339	1 483	727	952	3 501
Bad debts Amt	26	395	98	164	683
Royalty	n.a.	271	78	154	503
Other	12 746	76 064	27 610	40 914	157 331
Total	32 054	205 755	72 717	126 947	437 473

1. Excludes superannuation funds.

this share in their income tax returns. Trust beneficiaries are entitled to trust income and are assessed on the basis of their entitlement. The trustee is liable to be assessed on any trust income to which no beneficiary is presently entitled and any trust income to which a beneficiary under a legal disability (for example, a minor) is presently entitled.

In 1998–99, small business clients were liable for \$20 billion in net tax. Nearly two thirds of this liability (65%) was incurred by individuals, with companies liable for a further 30%.

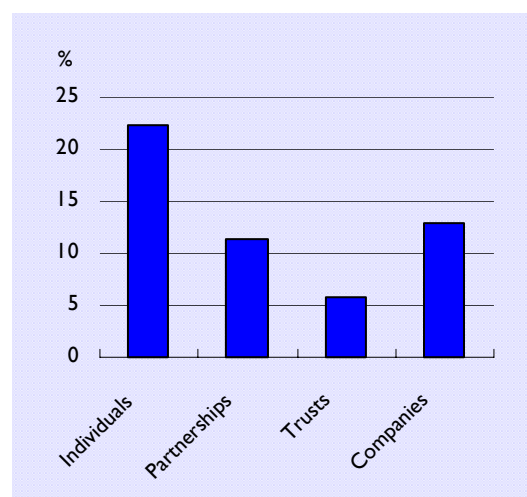
Profitability

For individuals, partnerships and trusts, 'profit margin' is the term used to describe the ratio of net business income to total business income. For companies, profit margin is defined as the ratio of net operating profit or loss, to total income.

In 1998–99, small business individuals had the highest profit margin (22%) within the small business sector, followed by companies (13%) and partnerships (11%). Trusts had the lowest reported level (6%).

The profit margins for small business varied considerably according to industry. In 1998–99, the highest profit margins were reported by the finance, insurance, real estate and business services industry (22%), followed by the health and community services and communication industries (both 20%). The industry with the highest annual turnover, the retail trade industry

(\$88 billion), reported a relatively low profit margin of 5%.

Figure 4.2: Profit margin by type of taxpayer¹

1. Excludes funds.

In analysing these figures it is important to note that profit margins are calculated differently depending on the type of taxpayer. Therefore, these industry comparisons may be affected by the types of taxpayers making up each industry.

In 1998–99, companies in the wholesale and manufacturing industries were the most profitable of taxable small businesses, with average profits of \$94 358 and \$92 406 respectively. These industries combined were liable for 16% of all small business company net tax and represented 12% of the taxable small business company population. The finance,



Taxation Statistics 1998–99

Table 4.5: Profit margin of SB clients¹ by industry²

Industry	Clients	Turnover ³	Profit margin
	no.	'000	%
Finance, insurance, real estate and business services	597 651	78 925 247	21.8
Communication	23 073	2 029 665	20.1
Health & community services	81 480	13 347 547	19.6
Education	20 846	868 195	18.5
Construction	342 981	46 967 565	16
Personal and other services	98 107	7 991 065	15.6
Transport and storage	99 394	16 443 495	11.9
Mining	7 378	1 624 772	8.5
Manufacturing	139 519	41 947 443	8.3
Cultural & recreational services	66 265	5 422 389	7.4
Primary production	470 330	31 132 277	6.9
Accommodation, cafes and restaurants	43 400	15 542 723	6.3
Wholesale trade	62 266	42 945 330	4.7
Retail trade	205 583	87 541 151	4.5
Property	70 416	101	2.6
Electricity, gas supply and water sewage and drainage	1 608	945 856	-45.9
Industry not stated ⁴	1 005 932	3 549 622	9.7
Total	3 336 229	397 224 444	11.1

1. Excludes funds.

2. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, it is not possible to do any long time series analyses for industry because the industry groups are not comparable.

3. Turnover refers to sale of goods and services for companies and total business income for all other entities.

4. Includes salary and wage earners and subsidiary returns.



insurance, real estate and business services industry was liable for the majority (56%) of all company net tax, and represented 53% of the taxable small business company population. The wholesale and manufacturing industries were liable for the highest average net tax, with \$33 208 and \$32 569 respectively.

While SMEs lodged only 9% of small business returns, they accounted for 67% of total business income. In contrast, the non-commercial segment lodged 25% of all small business returns but accounted for less than 1% of total business income.

SB market segment

Due to the large numbers and diversity of small business clients, those who lodge returns with business income have been categorised into five broad market segments for administrative purposes. The small business segments are: small medium enterprises (SMEs), micro businesses, self-employed, non-commercial and non-profit. Superannuation funds and subsidiary income tax returns have no business income and are therefore excluded from these categories.

In 1998–99 the self-employed market segment accounted for 52% of all small business entity returns. This was followed by non-commercial (25%), micro business (13%), SMEs (9%) and non-profit (less than 1%).

Cash economy

Cash plays an essential role in the Australian community, and will continue to do so in the future despite growth in the use of EFTPOS and other forms of electronic commerce. The nature and existence of cash, however, provides an opportunity for evading tax and is therefore a challenge to revenue administrations around the world.

The ATO set up a cash economy task force in 1996 with the aim of ensuring that recipients of cash income meet all of their tax obligations relating to that income, or that their omissions are detected and brought to account by the ATO. This will ultimately benefit small to medium-sized businesses by enabling them to compete on an equitable taxation basis.



Definitions

Small medium enterprises: clients with total business income between \$10 000 and \$1 million and salary and wage expenses of more than \$100 000. It also refers to those with a total business income greater than \$1 million.

Micro businesses: clients with total business income between \$10 000 and \$1 million, and salary and wage expenses between \$20 000 and \$100 000.

Self-employed: clients with total business income between \$10 000 and \$1 million, and salary and wage expenses below \$20 000.

Non-commercial: clients with total business income below \$10 000.

Non-profit: companies identified as cooperative, non-profit or registered organisations.

The task force includes ATO and other government officials, tax practitioners, small business operators and representatives of taxation and industry bodies.

During the 1998–99 financial year, the taskforce maintained high visibility in the following 'high-risk' industries: clothing manufacture, personal computer goods, fruit and vegetables, restaurants

and cafes, taxis and specific elements of building and construction.

The ATO endorsed national projects relating to the cash economy in these high-risk industries to achieve improved lodgement compliance, more accurate income tax returns with a higher disclosure of cash income included in tax returns and increased community support and public confidence in the ATO's administration of the tax system.

The combined direct and indirect impact of these initiatives was in the order of \$100 million in additional income tax per year over the last two years. Sales tax collections over the same period for personal computer goods increased by \$66 million, then by a further \$210 million after the introduction of a new regime developed to combat fraudulent activity in the industry.

Key results achieved over the last two years include:

- an above average growth rate of net tax payable. In cash industries, growth was 27% for companies and 44% for individuals. This compares with 18% growth, in both categories, in small business generally;



Table 4.6: Taxable SB companies by industry¹

Industry	Companies	Net tax	Operating profit/loss	Average net tax ²	Average profit ²
	no.	\$m	\$m	\$	\$
Wholesale trade	11 237	373	1 060	33 208	94 358
Manufacturing	17 098	557	1 580	32 569	92 406
Primary production	5 266	156	475	29 557	90 111
Accommodation, cafes & restaurants	4 026	114	328	28 281	81 478
Finance, insurance, real estate & business services	127 998	3 337	10 404	26 071	81 284
Mining	803	22	63	27 118	78 450
Cultural & recreational services	3 631	74	220	20 509	60 498
Electricity, gas & water	236	5	14	19 330	57 883
Retail trade	19 168	390	1 062	20 336	55 401
Education	853	16	45	18 806	53 242
Construction	23 494	423	1 223	18 001	52 036
Transport & storage	8 650	151	423	17 478	48 920
Communication	1 132	19	53	17 193	46 417
Health & community services	7 766	124	357	15 928	45 963
Personal & other services	5 703	85	254	14 880	44 465
Industry not stated	3 499	78	216	22 391	61 853
Total	240 560	5 924	17 776	24 625	73 894

1. The industry groups are coded using the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. Prior to 1995–96, the Australian Standard Industrial Classification (ASIC) system was used. Therefore, it is not possible to do any long time series analyses for industry because the industry groups are not comparable.

2. Calculations for averages are based on actual net tax and profit figures.

Taxation Statistics 1998–99

Table 4.7: SB clients¹ and total business income by segment and entity²

			Non- profit	Non- commercial	Self- employed	Micro business	SME	Total ³
Individuals	Number of clients	'000	0	324	473	25	6	828
	Total business income	\$m	0	1 178	26 487	5 638	7 943	41 245
Companies	Number of clients	'000	7	81	168	131	107	494
	Total business income ⁴	\$m	2 968	53	21 737	28 479	168 077	221 314
Partnerships	Number of clients	'000	0	61	302	50	19	431
	Total business income	\$m	0	254	33 573	14 635	34 299	82 761
Trusts	Number of clients	'000	0	18	76	52	47	193
	Total business income	\$ m	0	69	10 153	13 254	111 578	135 054
Total¹	Number of clients	'000	7	483	1 019	258	180	1 946
	Total business income	\$m	2 968	1 553	91 950	62 006	321 897	480 374

1. Clients with negative or nil total business income are excluded.

2. Excludes superannuation funds.

3. Includes unexpected values.

4. Refers to total income for companies.

- a 21% increase in income declared in targeted industries;
- a 9% increase in lodgments in the targeted industries;
- an above average increase in pay-as-you-earn remittances. Cash industry remittances increased by 22%, compared to 11% in small business generally;
- the detection of \$69 million in omitted income through audits in targeted industries; and
- a 54% increase (\$275 million) in net sales tax collections for personal computer goods.

particularly in the areas of multi-level marketers, doubtful primary producers and other non-commercial activities.

Results for 1998–99 (based on 1998 returns lodged) showed in a 7% drop in non-primary producers claiming losses; a 33% drop in the number of doubtful primary producers claiming losses; and a 56% drop in the number of hobby businesses claiming losses.

Detailed tables

The following detailed tables on small business taxpayers can be found on the CD-ROM attached to this publication.

- Table 1: Small business individuals: selected items by industry
- Table 2: Small business companies: selected items by industry
- Table 3: Small business funds: selected items
- Table 4: Small business partnerships: selected items by industry
- Table 5: Small business trusts: selected items by industry
- Table 6: Small business individuals: selected items by grade of net tax
- Table 7: Small business companies: selected items by grade of net tax
- Table 8: Small business individuals: selected items by state
- Table 9: Small business companies: selected items by state
- Table 10: Small business funds: selected items by state

Non-commercial sector

Under existing law, if an individual is considered to be 'carrying on a business' then losses from that business activity can be offset against other income, notably salary and wages. This is irrespective of whether the business activity is ever likely to make a profit or was undertaken with any significant commercial purpose.

Overall, the non-commercial segment (those entities with less than \$10 000 in business income) runs at a loss. This does not mean that every small business with income of less than \$10 000 makes a loss. In fact, non-commercial segment analysis has found that approximately 45% to 47% actually return a profit. However, there are still a large number of non-commercial businesses that make very large losses.

In 1998–99, the ATO focused on improving compliance within the non-commercial sector,





Table 11: Small business partnerships: selected items by state

Table 12: Small business trusts: selected items by state

Table 13: Small business individuals: selected items by grade of total income

Table 14: Small business companies: selected items by grade of total income

Table 15: Small business clients: by grade of total income and industry

Table 16: Small business clients: by grade of total income and state

