Cash flow benefit from GST: is it realised by small businesses in Australia?

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Abstract

When introducing the GST the Federal Government expressed that there would be the potential for business operators to gain a cash flow benefit from holding the GST revenue collected before remittance. However, it is not clear whether this has been realisable by all business sizes especially small businesses. Considering that small businesses are a major contributor of employment in the private sector and recognised as being capable of having a significant influence on future economic stability of the nation, it is important to determine how the GST affects small business cash flow and assess whether a benefit is in fact obtained.

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This paper was accepted for publication on 3 June 2014.
This article reports a multiple case study of small (including micro) businesses with annual turnover of less than $10 million and a full time work force of less than 20 employees. The research explored whether small business participants perceived that there was a cash flow benefit from holding the GST liability for a period of time before it was due to be paid to the Australian Taxation Office. Findings suggest that the realisation of cash flow benefit for businesses trading with other businesses appears to be restricted, particularly as a result of terms of trade with other businesses.

**Keywords:** Small business; GST; cash flow, compliance.
Section One

1 Introduction

On the 1st July 2000 the goods and services tax (‘GST’) was introduced in Australia by the Federal Government. It was endorsed by the Government as bringing the tax system up to date and allowing the Australian economy to be more competitive internationally. Part of an overall reform of taxation saw the GST replace the Wholesale Sales Tax (‘WST’) and various other state taxes. One consequence was that the GST effectively increased registration requirements of 1.6 million businesses compared to 70,000 that were required to report under the WST.

Due to the broad application of GST it has the capacity to apply to all businesses including small businesses which can have potential positive and negative consequences. One of the touted positive consequences is that the GST may improve businesses’ cash flow, as businesses are able to hold onto the GST collected on supplies for a period before having to remit this to the Australian Taxation Office (‘ATO’).

Due to the importance of small business to the Australian economy, many authors have studied the effect that the GST has on small business entities in Australia. A large portion of this research was conducted within the first five years of the GST introduction and related to compliance costs of the new tax system. Likely benefits that can be received from GST have been discussed in these studies, however apart from Reynolds this research has rarely been extended to attempt to measure these benefits. While Reynolds did conduct cash flow benefit analysis on the retail grocery

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1 A New Tax System (Goods and Services Tax) Act 1999 (Cth).
6 Reynolds, above n 5.
sector in 2001, the results of this study related to the industry norms of that particular sector and are unlikely to be a representation of small businesses as a whole.\(^7\)

The study by Glover and Tran-Nam identified the compliance costs and benefits of the GST for small businesses in the rural sector of Australia from 1999 to 2002.\(^8\) It was suggested by Glover and Tran-Nam that the cost and benefit calculations presented in the findings may be distorted by some element of transitional costs and further studies in the future may obtain a more accurate measure of costs and benefits.\(^9\) Their empirical findings did not focus on receipt of any related cash flow benefit by participants and the theoretic conclusions were calculated on assumptions similar to those of Sandford et al.\(^10\) Consequently, there is an absence of literature examining recognition of cash flow benefit received from the GST by small business entities in Australia. To address this paucity of research, a multiple case study was undertaken to examine this.

Section Two of this article will provide a broad summary of the characteristics of small businesses and their importance. The third section will then provide an outline of the issue of cash flow for small businesses and how this can be influenced by taxes (including GST), followed by managerial benefits, cash flow benefits, short term investments possibilities and industry influences. Section Four will provide the research methodology undertaken and the demographics of the participants, which will be followed by the results. Through the analysis of the results recommendations will be proposed, with future research being outlined in the fifth section of the article before concluding.

**Section Two**

2 Importance of small businesses

Small businesses can be defined by their quantitative characteristics such as an annual turnover of $10 million or less and a full time workforce of 20 or less employees as defined by the ATO and the Australian Bureau of Statistics.\(^11\) The importance of small business is recognised internationally, and they are known to be responsible for a significant portion of the world economy.\(^12\) In Australia small businesses employ

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7 Reynolds, above n 5.
8 Glover and Tran-Nam, above n 5.
9 Glover and Tran-Nam, above n 5, at p 255.
43.3% of the Australian private sector workforce (approximately 4.6 million people) and account for 95.9% of all Australian private sector businesses.\textsuperscript{13}

Small businesses are also important to Australia’s economy with their contribution to private sector Gross Domestic Product (‘GDP’)\textsuperscript{14} being 34.4% in 2011/12, while large businesses contributed 42.7%.\textsuperscript{15} Despite the marginal difference in GDP that large and small businesses contribute to the economy caution should be had in evaluating or treating them similarly. Small businesses are not simply a downsized version of large businesses, as they can differ in taxability, ownership, flexibility, economies of scale, level of information asymmetry and capital availability.\textsuperscript{16} These varying characteristics can make it difficult for small businesses especially where policy, legislation and regulations are designed to apply to all businesses regardless of size and/or characteristics.\textsuperscript{17} This can be exacerbated as a consequence of small businesses being normally owned, managed and financed by a single or small number of individuals.\textsuperscript{18} Generally this means that owners are solely responsible for decision making and the investment of working capital for the business.

It should be noted that small businesses themselves are heterogeneous, in terms of structure, industry sector, employee capabilities and position in the market.\textsuperscript{19} This diversity further extends to owners of small businesses as they can vary considerably in age, nationality, education and experience.\textsuperscript{20} In comparison to large businesses their capabilities, control and practices may differ. Broadly, small businesses are generally funded with private equity not public, they are internally controlled (other than the market), the owner is normally the majority equity holder, assets are short

\begin{enumeratum}
\item Australian Bureau of Statistics, above n 11: count includes non-employing and businesses employing 1<20 employees.
\item GDP is also known as industry value added.
\item Ness, above n 12: at p 7.
\item Glover and Tran-Nam, above n 5; Freudenberg, B. (2009). Tax Transparent Companies: Striving for tax neutrality? A legal international comparative study of tax transparent companies and their potential application for Australian closely held businesses. PhD Griffith University.
\end{enumeratum}
term in nature and debt is secured by private assets.\textsuperscript{21} However, small businesses have the advantage of being more flexible than large business as the absence of bureaucracy allows them the ability to make rapid changes to requirements of the customer.\textsuperscript{22}

Research regarding the effect that taxation has on small businesses has been a popular research topic in Australia over the last two decades, which may reflect the importance of small businesses to the economy. Of particular importance to this research project is the study completed by Wallschutzky and Gibson.\textsuperscript{23} Not only does the study relate to small business and taxation, it also implemented a similar research methodology to the current research.

The Wallschutzky and Gibson\textsuperscript{24} study was conducted prior to the introduction of the GST and evaluates various tax systems affecting small business at that time. Among the systems researched were Fringe Benefits, Capital Gains, Pay As You Earn (PAYE), Prescribed Payments System and WST. The purpose of the study was to identify which tax systems created the most significant problems for small business. Two important findings from the Wallschutzky and Gibson\textsuperscript{25} study are relevant to this project. Firstly the authors anticipated that taxation was a critical issue for small businesses. In order to investigate this assumption, Wallschutzky and Gibson\textsuperscript{26} queried small business participants about what they perceived were the three biggest issues facing their business. Taxation did not score highly on participant responses, a list of the main issues are presented in Table 1.

\begin{thebibliography}{9}
\bibitem{24} Wallschutzky and Gibson, above n 23.
\bibitem{25} Wallschutzky and Gibson, above n 23.
\bibitem{26} Wallschutzky and Gibson, above n 23.
\end{thebibliography}
Table 1: Major issues of concern for small businesses

<table>
<thead>
<tr>
<th>Issues for small businesses</th>
<th>Lack of suitable staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty concerning revenue</td>
<td></td>
</tr>
<tr>
<td>Cash flows</td>
<td></td>
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<tr>
<td>The depressed economy</td>
<td>Changing the company’s image</td>
</tr>
<tr>
<td>Low profit margins</td>
<td>Maintaining market share</td>
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<td>Difficulty obtaining finance</td>
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<td>Bad Debts</td>
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<tr>
<td>Restructuring</td>
<td></td>
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<tr>
<td>Design and development of new products</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
</tr>
</tbody>
</table>


Wallschutzky and Gibson summarised these issues and found that major concerns were related to cash flow including low turnover, low profits and higher costs for small business than large. The absence of tax being listed is consistent to a more recent study by McKerchar, Hodgson and Walpole to the Board of Taxation.

Secondly due to identification that cash flow was a major concern for small business, Wallschutzky and Gibson investigated whether taxation was a mere aggravation to small business cash flow or whether payment of taxation caused cash flow problems. Of all the tax systems that were involved in the study the only tax system that was identified as being a continued problem to cash flow was the WST. Small business owners reported that the problem presented as a result of the timing of the tax payment not falling in line with receipt of funds from sales. Payment of the tax liability was often due before trade debtors had paid for the goods in question. Wallschutzky and Gibson also reported that those small businesses trading in cash did not report that the WST presented a problem for their cash flow. This may be due to differences of cash flow restrictions imposed as a result of industry trading practices and the effects of reporting under cash or accruals.

27 Wallschutzky and Gibson, above n 23.
29 Wallschutzky and Gibson, above n 23, at p 528-530.
30 Wallschutzky and Gibson, above n 23, at p 529 and 535. The difference in timing of the tax payment and receipt of funds from sales is similar to that of the GST.
31 Wallschutzky and Gibson, above n 23, at p 535.
32 Wallschutzky and Gibson, above n 23, at p 535.
Consequently, the research by Wallschutzky and Gibson identified that an important issue for small businesses is their cash flow. Cash flow of small business and the possible impact that may be imposed as a result of the GST is explored in the next section.

Section Three

3 Cash flow for small businesses

An issue facing small businesses is their cash flow, with liquidity strongly related to the strength of their cash flow. Cash flow is the extent of cash or near cash assets available for use, along with any inflow or outflow of cash related to those assets. Cash flow is therefore any business activity that alters the balance of the cash accounts. Business operations are the most significant source of cash inflow and outflow for businesses. Given the importance of small businesses to the health and stability of the economy it is crucial to understand how they maintain a stable cash flow and in turn ongoing liquidity.

Cash flow and taxes

Cash flow stability has been identified in previous research to have a negative relationship with tax liabilities. The potential cash flow benefit that was touted as being realisable for Australian businesses with the introduction of the GST would appear advantageous for small business cash flow. Cash flow benefit is the benefit which accrues to a third party in the process of collecting tax from the final taxpayer and withholding the money until the due date on which it becomes payable to the authorities, or the benefit to a taxpayer who is legally permitted to withhold tax for a period after the completion of the economic transaction giving rise to the tax liability. Factors that impact with the recognition of a cash flow benefit are debtor

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39 Costello, above n 2.

and creditor trading arrangements, the attribution rules relevant to the registered entity and the length of time the business holds onto the tax liability.\textsuperscript{41}

GST registration is mandatory for enterprises with a turnover\textsuperscript{42} of $75,000\textsuperscript{43} or more, although voluntary registration is available to enterprises below this threshold.\textsuperscript{44} Accounting for GST can be on a cash or non-cash basis.\textsuperscript{45} Pursuant to cash basis, GST is attributed to the period of payment for goods or services supplied or remittance date of payment for inputs obtained from other traders (and only to the extent of payment).\textsuperscript{46} GST for non-cash accounting (also known as accruals) is recognised in the period where the earliest of either an invoice is generated or payment is received.\textsuperscript{47} The two forms of reporting systems discussed are not available to all entities within the economy. Cash accounting is only available to micro businesses with an annual turnover of less than $2 million or who use a cash basis for income tax reporting.\textsuperscript{48} Non-cash accounting is available to all registered entities, even those eligible to report on the cash method can elect to use non-cash.\textsuperscript{49}

The GST is a multi-staged broad based consumption tax with tax collected at multiple stages of the production and distribution chain.\textsuperscript{50} Broadly, in Australia each stage of the supply of goods and services has GST liability imposed. Determining the net amount of GST liability in a reporting period is calculated using total GST liability minus input tax credits.\textsuperscript{51} Therefore, GST is the sum of all GST liability on taxable supplies\textsuperscript{52} and taxable importations\textsuperscript{53} attributable to the tax period less the input tax credits on creditable acquisitions\textsuperscript{54} and creditable importations\textsuperscript{55} that are attributable to the tax period. The tax period that a business adheres to is determined predominantly by aggregate turnover.\textsuperscript{56}
The possibility of a business holding onto extra cash in order to realise a cash flow benefit is reliant on timing of tax periods and remittance of the GST collected, which could vary from 51 to 120 days depending on the registration requirements for the complying entity. Monthly tax periods are required for businesses meeting the tax period turnover threshold of $20 million.\(^{57}\) Payment is due within 21 days of the following month\(^ {58}\) allowing these entities to hold the GST for up to 51 days.\(^ {59}\) For entities with turnover of less than $20 million a quarterly payment of GST is possible.\(^ {60}\) Those enterprises with turnover above $2 million are required to calculate their net GST liability quarterly.\(^ {61}\) Those earning below $2 million however can pay a quarterly instalment\(^ {62}\) amount based on previous annual turnover.\(^ {63}\) Quarterly payments are due within 28 days of the month following the end of the quarter;\(^ {64}\) effectively this allows businesses to hold ATO payments for up to 120 days\(^ {65}\) before the liability is due.

Determining the value or figure of cash flow benefit received is difficult because of the different circumstances of businesses.\(^ {66}\) Debtor and creditor trading arrangements have a large influence over whether any benefit is received.\(^ {67}\) Where a business secures payment for goods or services sold before liability is due to the tax authority a benefit maybe realisable. However for those that are not receiving funds in time to pay the GST liability there is in fact a dis-benefit.\(^ {68}\) The size of the benefit is further increased where businesses make sales in cash and buy their stock on credit. In this situation the business not only holds the portion of GST revenue owed to the tax authority for a longer period than those trading their sales on credit, they also hold the revenue from

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58 A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 31-10 (1).
59 Where an invoice is generated on the first day of the reporting period.
60 A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 31-8 and s 195-1.
61 A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 31-8 and s 195-1.
62 Exception is given to Primary Producers and special professionals who are only required to pay to installments annually.
63 A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 162-15. Except for those that are not required to be registered. Those entities are able to make an annual tax period election see A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 151-5.
64 Except in the December quarter where payment is due 8 weeks later (28th February).
65 Where an invoice is generated on the first day of the reporting period; Liability could be held for 151 days in the December quarter.
68 D’Ascenzo, above n 67.
the sale of the stock for up to 90 days\textsuperscript{69} before forwarding onto their suppliers.\textsuperscript{70} Not only is cash flow benefit reliant on the length of time businesses are able to hold the tax liability, it is also influenced by other factors including the value of the tax portion and the current rate of interest at that time.\textsuperscript{71}

\textit{Research into benefits from GST/VAT}

Identification of benefits available from consumption taxes were first identified by Sandford et al. in their study of compliance costs of the GST equivalent in the United Kingdom – the Value Added Tax (‘VAT’). The findings identified two possible benefits including managerial benefits and cash flow benefits.\textsuperscript{72}

The study was embarked upon to identify the strength of the complaints received about the burden that VAT had placed on traders, especially those recognised as small business entities since the VAT’s introduction in 1973.\textsuperscript{73} It was suggested by the authors that limited research existed prior to this study because VAT had replaced more complicated taxes.\textsuperscript{74} Results from the study suggested that VAT tax compliance impacted more substantially small businesses compared to large businesses. However, the Sandford et al. findings suggest that managerial or cash flow benefits may reduce or sometimes eliminate compliance costs.\textsuperscript{75}

The findings of Sandford et al. are supported by later research conducted in Australia.\textsuperscript{76} The introduction of the GST in Australia saw an interest by researchers in compliance costs to assess whether the GST would have similar results as other tax systems on the small business sector.\textsuperscript{77} Similar findings were reported suggesting that the GST escalated the tax burden already placed on small business entities.\textsuperscript{78} A minority of these studies attempted to determine in sufficient detail the possibility

\textsuperscript{69} Depending on credit arrangements.
\textsuperscript{70} Sandford, above n 66.
\textsuperscript{71} Sandford, Godwin, Hardwick and Butterworth, above n 10, at p84.
\textsuperscript{72} Since then tax deductibility has been identified further as a benefit of complying with taxation.
\textsuperscript{73} Sandford, Godwin, Hardwick and Butterworth, above n 10, at p xv.
\textsuperscript{74} Especially those in the European Union (EU).
\textsuperscript{75} Sandford, Godwin, Hardwick and Butterworth, above n 10, at p xv.
\textsuperscript{77} Studies include: Breen, Bergin-Seers, Roberts and Sims, above n 5; Evans, C., S. Carlon and D. Massey. (2005). Record keeping Practices and Tax Compliance of SMEs. \textit{eJournal of Tax Research} 3 (2) 288; Glover and Tran-Nam, above n 5; Pope and Rametse, above n 5; Reynolds, above n 5.
\textsuperscript{78} McKerchar, Hodgson and Walpole, above n 76; Lignier and Evans, above n 76; Warburton, RFE. (2007). Scoping study of small business tax compliance cost (A report to the Treasurer, December).
that gross compliance costs are reduced by any associated benefits achieved as a result of complying.\footnote{Glover and Tran-Nam, above n 5; Reynolds, above n 5.} In order to calculate net compliance costs, attempts have been made to assess managerial and cash flow benefit.\footnote{Lignier and Evans, above n 76.} The concept of managerial and cash flow benefits are presented below along with a discussion of the existing research into realisation of these benefits.

**Managerial benefits**

Managerial benefits may influence cash flow through improved financial information available to the small business owner. Managerial benefits from GST arise in the form of improved decision making and control over the business as a consequence of the imposition of regular record-keeping for GST compliance.\footnote{Lignier, P. (2008). Identification and evaluation of the managerial benefits derived by small businesses as a result of complying with the Australian tax system. PhD University of New South Wales: 25; Sandford, Godwin, Hardwick and Butterworth, above n 10, at p xi.} Managerial benefit studies have been conducted by Lignier\footnote{Lignier, above n 81.} and Lignier and Evans.\footnote{Lignier and Evans, above n 76.} Perception of small business operators was used to measure the realisation of the benefit for small business taxpayers from a conglomerate of taxes. GST was one of the taxes that was an included in both studies. Results suggest that managerial benefits have been significant for small businesses as a result of the GST as its introduction resulted in a high level of adoption of computerised accounting systems (CAS). Small business owners perceived that implementation of a CAS aided a reduction of both internal and external compliance costs as more activities are completed internally.\footnote{Lignier and Evans, above n 76.} Effectively this reduces the burden on operators and allows for production of more accurate reports for use by external advisers.\footnote{Lignier and Evans, above n 76.} Results of the Lignier and Evans\footnote{Lignier and Evans, above n 76.} study suggest that approximately 40% of respondents perceived that keeping tax records for GST improved the quality and accuracy of their financial affairs. In this way managerial benefits of having to comply with GST may improve a small businesses’ cash flow as they have a more accurate understanding of the cash position of their business.
Cash flow benefits

In the research conducted by Sandford et al.\(^87\) it was determined that the value of the cash flow benefit is equal either to the interest a taxpayer could gain by lending the money or alternatively the cost of borrowing the equivalent amount from a financial institution.\(^88\) Calculation of aggregate cash flow benefit received was determined using an assumptions based equation. It was assumed that payment for goods and services were received on specific days in the reporting period and remittance of the liability to the tax authority was made by all business entities on the due date.\(^89\)

Previous Australian cash flow benefit studies are incomprehensive; studies including Breen et al.\(^90\) and Evans, Carlon and Massey\(^91\) have acknowledged problems with cash flow as a result of the GST. However the purpose of these studies was not specific to cash flow benefit of the GST and only gave minimal attention to this issue.

Reynolds\(^92\) conducted cash flow benefit analysis on the GST collected and held for a period of time before remittance to the ATO by small businesses in the retail grocery sector. To measure cash flow benefit, Reynolds adopted a similar method to Sandford et al. The use of equation based assumptions for Reynolds were based on grocery industry norms including average gross margin, average annual turnover, number of days the liability was held and remittance of the tax liability was made on the due date. Reynolds results indicate that compliance costs equate to 1.25% of annual turnover, whereas the realisable cash flow benefit was only 0.0113% of annual turnover.\(^93\) Therefore, the cash flow benefit received falls well short of eliminating the costs of compliance which as a result requires the small business to finance these costs from cash flow held from working capital. However the study by Reynolds only examined and calculated the benefit for the retail grocers sector. Limitations of calculating only retail businesses is that when accounting for GST using non-cash accounting they generally have an advantage of collecting payments at point of sale, not all businesses benefit from such immediate payment terms.

Glover and Tran-Nam calculated cash flow benefit for small businesses with an annual turnover of $1,000,000 or less using an equation based on an average cash flow benefit period and an assumed interest of 7% per annum.\(^94\) Even after subtracting tax deductible expenses, the result of this calculation indicates that small business operators still incurred an annual average cost of $1,244 as a result of complying with the GST. This was despite the fact that the majority of participants accounted for GST on cash basis and only attributed the GST liability once payment was collected.

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87 Sandford, Godwin, Hardwick and Butterworth, above n 10.
88 Sandford, Godwin, Hardwick and Butterworth, above n 10, at p 75.
89 Sandford, Godwin, Hardwick and Butterworth, above n 10, at p 84.
90 Breen, Bergin-Seers, Roberts and Sims, above n 5.
91 Evans Carlon and Massey, above n 77.
92 Reynolds, above n 5.
93 Reynolds, above n 5, at p 10 and 18.
94 Glover and Tran-Nam, above n 5.
Comparing the results of Reynolds and Glover and Tran-Nam it appears that irrespective of accounting basis (cash or non-cash) the realisable value of cash flow benefit is not substantial enough to eliminate compliance costs from GST and as a result there is a negative impact on small business cash flow. However, it should not be ignored that both the Reynolds and Glover and Tran-Nam studies calculated cash flow benefit using industry assumptions, not actual figures. Use of assumption based equations is justified as calculation of the benefit for each transaction of a business would be highly complex. However considering that small businesses are heterogeneous, calculation of cash flow benefit using predetermined equations may not accurately portray the experiences of small businesses in realising the benefit.

In the event that a cash flow benefit is received by registered entities, it was proposed by Cleary that the benefit could be maximised using short-term investments.

**Short term investments**

Short term investments are included as a form of near cash assets because they are easily converted to cash due to their short period of investment. Maximising cash flow benefit is achieved by investing the portion of GST liability in a short-term investment and the resultant interest earned increases the cash flow of the business when it matures.

To demonstrate the likely value of extra cash flow benefit that would be achievable from short term investments as proposed by Cleary, analysis of short-term investment of the GST portion is illustrated in Table 2. For the purpose of the analysis, turnover assumptions are made and are determined to be equal for each reporting period and the tax liability will be determined using a gross margin of 25%. These assumptions are comparable to those used by Reynolds and discussed by Sandford.

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95 Glover and Tran-Nam, above n 5; Reynolds, above n 5.
96 Reynolds, above n 5.
97 Glover and Tran-Nam, above n 5.
98 Cleary, above n 4.
100 Cleary, above n 4.
101 Reynolds, above n 5.
CASH FLOW BENEFIT FROM GST: IS IT REALISED BY SMALL BUSINESSES IN AUSTRALIA?

Table 2: Illustration of short term investment possibilities using GST collected

<table>
<thead>
<tr>
<th>Entity Size</th>
<th>Turnover for Period¹</th>
<th>Gross Margin as per Reynolds</th>
<th>Amount to Invest²</th>
<th>Days invested</th>
<th>Interest Rate³</th>
<th>Amount gained</th>
<th>Gain per year</th>
<th>% of annual turnover ⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small – $2m</td>
<td>$500,000</td>
<td>25%</td>
<td>$12500</td>
<td>120⁵</td>
<td>3.25%</td>
<td>$136</td>
<td>$544</td>
<td>0.000272</td>
</tr>
<tr>
<td>Small – $10m</td>
<td>$2,500,000</td>
<td>25%</td>
<td>$62,500</td>
<td>120⁶</td>
<td>3.25%</td>
<td>$668</td>
<td>$2672</td>
<td>0.0002672</td>
</tr>
<tr>
<td>Large – $100m</td>
<td>$8,333,333</td>
<td>25%</td>
<td>$208,333</td>
<td>51⁷</td>
<td>3.25%</td>
<td>$1130</td>
<td>$13560</td>
<td>0.0001356</td>
</tr>
<tr>
<td>Large – $100m</td>
<td>$25,000,000</td>
<td>25%</td>
<td>$625,000</td>
<td>120⁸</td>
<td>3.25%</td>
<td>$6678</td>
<td>$26712</td>
<td>0.0002671</td>
</tr>
</tbody>
</table>

Notes:
1. Period as determined by entity size. $20 million or less, the period is calculated quarterly. Above $20 million the period is calculated monthly.
2. 10% of gross margin for the period. Gross margin determined by 25% of turnover for the period.
4. Gain per year/annual turnover.
5. Quarterly payments are due on the 28th of month following the end of the quarter, effectively this allows businesses to hold Tax Office payments for 120 days before the liability is due.
6. Quarterly payments are due on the 28th of month following the end of the quarter, effectively this allows businesses to hold Tax Office payments for 120 days before the liability is due.
7. Payment is due on the 21st day of the following month, allowing these entities to hold the GST for up to 51 days.
8. For comparison if remitting dates for all businesses was quarterly.

The results of this analysis support the findings of Reynolds that benefits gained from holding GST liability is minimal for all business entity sizes.¹⁰³ Of course, there are limitations in assuming that the GST portion is invested for the full reporting period, as it is improbable that all business sales occur on the first day of the reporting period.¹⁰⁴ However it does demonstrate the maximum portion of GST liability that would be held (when there is 25% profit margin on sales) over the reporting period. The results illustrate that without taking into consideration any trading practices associated to business size, the gain as a percentage of annual turnover would be higher for small businesses than that achieved by large businesses. This is primarily due to the requirement for large businesses to account for GST monthly. The analysis shows that if all businesses accounted on a quarterly basis the difference in the annual benefit gain as a percentage is only fractionally different because of rounding.

However, the issue that is not evident from the analysis is whether small businesses accounting for GST on a non-cash basis would hold an adequate amount of GST

¹⁰³ Reynolds, above n 5.
¹⁰⁴ Annual business turnover of $100 million is calculated on both a monthly and quarterly basis to emphasize the different value of benefit available on longer payment periods.
liability for a long enough period to make use of short-term investment opportunities. Small business operators have reported that it is in fact unusual to hold any GST before remittance in the reporting period because debtor payments were being received late. Generally payments to the ATO were due before collection of GST on relevant sales. From this discussion about small business operators it appears that industry and trade practices may have an effect on the realisation of cash flow benefit. The effects of industry on cash flow and potential cash flow benefit are discussed below.

Industry effect

Gadenne identified that the cash flow of businesses can be significantly influenced by the industry sector in which the business trades. For instance the wholesale trade sector is reported as having the greatest issues with internal finance, cash flow and debt management and the service sector requires a lower level of capital investment and generally as a result can retain a greater portion of retained profits. Whereas the retail and manufacturing sectors should follow management practices that price their products lower than their competitors. This suggests that the profit margin is much lower in these industry sectors.

The industry in which a business trades can also influence whether businesses trade in cash or on credit. For example cash trading is predominantly linked to those businesses that are involved in the retail industry whereas providing credit to customers is generally found in industries of wholesale trade, construction and manufacturing. Trade credit is issued to customers to cover the period of time it takes to sell goods once received. Effectively this delay in payment for goods or services received is a form of short term finance available for business customers. For those businesses trading in credit rather than cash, trade debtors would represent the

106 Breen, Bergin-Seers, Roberts and Sims, above n 5; Evans Carlon and Massey, above n 77; Rametse and Yong, above n 113.
108 Gadenne, above n 115.
110 Huang, and Brown, above n 117, at p 80.
112 An important component of the Construction classification is the majority of services related to construction are included within this Division, see: Appendix E.
113 Chittenden and Bragg, above n 119.
114 Chittenden and Bragg, above n 119.
majority of businesses’ incoming cash flow.\textsuperscript{115} For small business, who predominantly have a narrow customer base this can mean that the majority of their income is tied up with a limited amount of debtors.\textsuperscript{116} This may have adverse effects on keeping a stable cash flow, especially in the event of failure of the debtors business. In terms of GST, trading in credit along with reporting GST on a non-cash basis may affect the ability for businesses to recognise a cash flow benefit. GST liability is attributable for businesses using non-cash accounting on invoice date and not on payment date.\textsuperscript{117} Therefore those businesses providing trading terms to their customers are required to collect payment of the GST liability from sales within trading terms in order to realise any benefit in the reporting period.\textsuperscript{118} From the discussion presented above it appears that trade terms are regularly violated by small business customers. Small business operators suggested that debtor payments are rarely received before GST liability is due for payment to the ATO.\textsuperscript{119} Accordingly, consideration of industry and trade practices on cash flow and realisation of cash flow benefit is worthwhile.

Overall, it is argued that previous research concerning cash flow benefits of GST for the small business sector since its introduction into Australia in 2000 is limited, which in part may be a result of the difficulty involved in measurement. Previous studies, particularly those conducted by Reynolds (2001)\textsuperscript{120} and Glover and Tran-Nam\textsuperscript{121} used assumptions (similar to those illustrated in Table 2) to calculate cash flow benefit due to the calculation complexity. These assumptions were based on industry norms in Reynolds and a fixed interest rate and an assumed number of weeks the GST liability is held in Glover and Tran-Nam. Unfortunately assuming that all small businesses fit within the same parameters is not an accurate representation of the heterogeneity of the small business sector.

While there has been research that has attempted to measure benefits received without inference equations, these studies include Lignier\textsuperscript{122} and Wallschutzky and Gibson\textsuperscript{123} and were not specific to GST,\textsuperscript{124} and in fact they covered all Australian tax systems that effect small businesses. However, the importance of these studies is that they investigated the perceived benefits received by small business owners from

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{115} Chittenden and Bragg, above n 119.
\item \textsuperscript{117} A New Tax System (Goods and Services Tax) Act 1999 (Cth) s 29-5 (1) and s 29-10 (1); Sandford, above n 102.
\item \textsuperscript{118} Sandford, above n 102.
\item \textsuperscript{119} Breen, Bergin-Seers, Roberts and Sims, above n 5; Evans Carlon and Massey, above n 77; Rametse and Yong, above n 113.
\item \textsuperscript{120} Reynolds, above n 5.
\item \textsuperscript{121} Glover and Tran-Nam, above n 5.
\item \textsuperscript{122} Lignier, above n 36.
\item \textsuperscript{123} Wallschutzky and Gibson, above n 23.
\item \textsuperscript{124} The Wallschutzky and Gibson study didn’t include any research on GST because it was before its introduction in 2000. However, there was investigation on the Wholesale Sales Tax.
\end{itemize}
\end{footnotesize}
compliance to taxation. The findings of Wallschutzky and Gibson\(^{125}\) are particularly relevant to the current research. Their findings indicate that small business owners perceive that out of all the tax systems researched, the WST was the only system that caused problems for their cash flow. It should be recalled that it was the WST that the GST in particular replaced. All other taxes were just considered to aggravate the cash flow problem. The purpose of this research project is to address the literature gap by extending perception research of taxation to the influence of the GST on small business cash flow.

Section Four

4 Research methodology

This research project is exploratory in nature. Given the paucity of academic research about the cash flow benefit realisation by Australian small businesses from GST, employing a method that allows examination and analysis of the phenomenon was determined to be most appropriate for the research project.\(^{126}\) The exploratory design is supported by the use of a multiple case study methodology. That is pertinent cases have been selected to illustrate the research issue and procedures undertaken for data collection are replicated for all selected cases.\(^{127}\) The justification for using a multiple case study is the heterogeneity of small businesses. The multiple case study design complements the diversity present in the structure, behaviour and operational patterns of the small business sector\(^{128}\) and is considered more convincing and influential than the single case design when researching independent sites.\(^{129}\)

A major strength of using case study methodology is the ability to utilise evidence from multiple sources of data collection instruments.\(^{130}\) The use of a multitude of sources of data gives results more accuracy and credibility and allows for an increase in the data available for analysis than what would be achievable using a single source.\(^{131}\) For

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\(^{125}\) Wallschutzky and Gibson, above n 23.


\(^{128}\) Wallschutzky and Gibson, above n 23, at p 517.


\(^{131}\) Yin, above n 137, at p 114.
this project evidence was gained from data sources including interviews, participant demographics, activity journals and small scale surveys.

Twelve businesses participated in the research project. The data collection process began in the 1st GST quarter\(^{132}\) of the 2013/2014 financial year. Initially participants completed documentation relating to their business demographics. Following completion of this document participants recorded their weekly GST activities in a journal over a fourteen week period of the July to September 2013 GST quarter. Once completed, semi-structured interviews were conducted to enable the researcher greater flexibility to explore participant responses and comprehension of issues uncovered.\(^{133}\) A small structured survey was also completed by participants. The purpose of the survey was to capture participants’ perception on a number of issues relevant to the study including benefits received from GST, participant cash flow management practices, owner/staff capabilities and availability to finance.

Semi-structured interviews were also conducted with two small business accountants in order to identify if views and experiences of small business owners were congruent to those identified by small business accountants. These interviews had the benefit of proving insight into small business experiences from varied industries as the accountants engage with small businesses with diverse characteristics. Their inclusion was considered essential to the project as a means of validating findings of the small businesses participants within the project.

In order to assess cash flow benefit received by small businesses the study relied on the perception of small business owners as a form of measurement as an alternative to the use of equations based on assumptions to reach a final benefit figure. Wallschutzky and Gibson\(^{134}\) used perception in their research which included findings relating to the WST.

**Participants**

Participants for this project were small business entities in Australia. All participants selected had an annual turnover of $10 million or less and a full time workforce of 20 or less employees.\(^{135}\) Participants satisfied one of two groups in order to adhere to the two-tail replication design. The majority of participants (eight) accounted for GST on a non-cash basis and the second group (four) accounted for GST on a cash basis. This mix was to consider whether there was any differences between businesses operating on a cash and non-cash basis.

Securing volunteer participants for this research project was a difficult exercise. This is not an uncommon situation with small business qualitative research projects. It was

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132 July to September
133 Scapens, above n 134, at p 266.
134 Wallschutzky and Gibson, above n 23.
experienced in previous research studies conducted by Tran-Nam and Glover and Wallschutzky and Gibson.\textsuperscript{136} Due to the set criteria as detailed above and the difficulty in recruiting volunteers it was decided that the use of several purposive sampling techniques should be implemented for the research project.

An overview of annual turnover, creditor and debtor trading terms, number of employees, GST accounting basis, industry sector, GST reporting, years trading and business form for each participant business is presented in Table 3. The table demonstrates that the business form of participant businesses are companies (eight participants), trusts (two participants) and a combination company/trust registration (two participants). Separation of businesses into sector classification shows that service, wholesale, manufacturing and retail are represented by seven, two, two and one participant respectively. Eight participants report GST quarterly followed by three monthly and one annually. Accounting basis for GST is divided into four registered for cash and eight for non-cash accounting basis.

Participant selection was based on annual turnover and number of full time employees in line with the unit of analysis for this project. Figure 1 illustrates that there were no participating businesses that recognise an annual turnover of between $5,000,000 and $10,000,000. Two-thirds (8 businesses) fell within the $500,000-$2,000,000 annual turnover range, with the remaining four businesses apportioned equally to the less than $500,000, and the $2,000,000 - $5,000,000 annual turnover range. This means that the experiences of more sizeable small businesses ($5,000,000-$10,000,000) are outside the scope of this project.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{participants_turnover.png}
\caption{Participants categorised by Annual Turnover}
\end{figure}

Participant Annual Turnover

\begin{tabular}{|c|c|}
\hline
Annual Turnover Bracket & Number of Participant Businesses \\
\hline
$< 500,000$ & 2 \\
$500,000 <$2,000,000$ & 8 \\
$2,000,000 <$5,000,000$ & 2 \\
$5,000,000 <$10,000,000 & 0 \\
\hline
\end{tabular}

\textsuperscript{136} Tran-Nam and Glover, above n 5; Wallschutzky and Gibson, above n 142.
### Table 3: Demographics of small business participants

<table>
<thead>
<tr>
<th>Participant No.</th>
<th>Annual Turnover</th>
<th>Creditor Trading Terms</th>
<th>Debtor Trading Terms</th>
<th>No. of Employees</th>
<th>Reporting Basis</th>
<th>Sector</th>
<th>Timing of GST Reporting</th>
<th>Years Trading</th>
<th>Business Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,000,000&lt; $5,000,000</td>
<td>14 Days</td>
<td>30 Days</td>
<td>11-19</td>
<td>non-cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&gt;5&lt;10 years</td>
<td>Company</td>
</tr>
<tr>
<td>2</td>
<td>$500,000 &lt; $2,000,000</td>
<td>30 Days</td>
<td>30 Days</td>
<td>5-10</td>
<td>non-cash</td>
<td>Manufacturing</td>
<td>Quarterly</td>
<td>&gt;10&lt;20 years</td>
<td>Company</td>
</tr>
<tr>
<td>3</td>
<td>$500,000 &lt; $2,000,000</td>
<td>30 Days</td>
<td>30 Days</td>
<td>5-10</td>
<td>cash</td>
<td>Manufacturing</td>
<td>Quarterly</td>
<td>&gt;20 years</td>
<td>Company</td>
</tr>
<tr>
<td>4</td>
<td>$500,000 &lt; $2,000,000</td>
<td>14 Days</td>
<td>14 Days</td>
<td>1-4</td>
<td>non-cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&gt;20 years</td>
<td>Company Trust combination</td>
</tr>
<tr>
<td>5</td>
<td>$500,000 &lt; $2,000,000</td>
<td>30 Days</td>
<td>30 Days</td>
<td>1-4</td>
<td>non-cash</td>
<td>Wholesale</td>
<td>Monthly</td>
<td>&gt;5&lt;10 years</td>
<td>Company</td>
</tr>
<tr>
<td>6</td>
<td>&lt; $500,000</td>
<td>COD</td>
<td>COD</td>
<td>1-4</td>
<td>cash</td>
<td>Wholesale</td>
<td>Annually</td>
<td>&lt;5 years</td>
<td>Company</td>
</tr>
<tr>
<td>7</td>
<td>$500,000 &lt; $2,000,000</td>
<td>14 Days</td>
<td>COD</td>
<td>5-10</td>
<td>non-cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&gt;10&lt;20 years</td>
<td>Company</td>
</tr>
<tr>
<td>8</td>
<td>$500,000 &lt; $2,000,000</td>
<td>30 Days</td>
<td>30 Days</td>
<td>1-4</td>
<td>non-cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&gt;5&lt;10 years</td>
<td>Company</td>
</tr>
<tr>
<td>9</td>
<td>$500,000 &lt; $2,000,000</td>
<td>14 Days</td>
<td>COD</td>
<td>11-19</td>
<td>non-cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&gt;10&lt;20 years</td>
<td>Company</td>
</tr>
<tr>
<td>10</td>
<td>$2,000,000&lt; $5,000,000</td>
<td>30 Days</td>
<td>COD</td>
<td>5-10</td>
<td>cash</td>
<td>Retail</td>
<td>Monthly</td>
<td>&gt;20 years</td>
<td>Trust</td>
</tr>
<tr>
<td>11</td>
<td>$500,000 &lt; $2,000,000</td>
<td>30 Days</td>
<td>30 Days</td>
<td>1-4</td>
<td>non-cash</td>
<td>Service</td>
<td>Monthly</td>
<td>&lt;5 years</td>
<td>Trust</td>
</tr>
<tr>
<td>12</td>
<td>&lt; $500,000</td>
<td>COD</td>
<td>14 Days</td>
<td>1-4</td>
<td>cash</td>
<td>Service</td>
<td>Quarterly</td>
<td>&lt;5 years</td>
<td>Company Trust combination</td>
</tr>
</tbody>
</table>
Table 4 separates participant businesses by full time employees within each small business workforce. Half of the participating businesses are responsible for employing 4 or less employees. The remaining businesses fall within the 5<20 bracket. In order to understand the structure of the small businesses within the study in greater depth the researcher has separated this group into 5 to 10 and 11 to 19 employment groups. In consideration that a high proportion of businesses in Australia employee less than 5 employees, it was not surprising that half of the participating businesses would have this characteristic.

Table 4: Participants grouped by number of employees

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Participant responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non employing</td>
<td>0</td>
</tr>
<tr>
<td>1-4 employees</td>
<td>6</td>
</tr>
<tr>
<td>5-10 employees</td>
<td>4</td>
</tr>
<tr>
<td>11-19 employees</td>
<td>2</td>
</tr>
</tbody>
</table>

Results: Benefits from GST

5 Managerial benefit

Managerial benefit from GST has previously been measured in Australia by Lignier in 2008 followed by Lignier and Evans in 2012. Results suggested that managerial benefits have been significant for small businesses as a result of the GST, as its introduction resulted in a high level of adoption of CAS. In order to evaluate whether the same emphasis is placed on managerial benefits from GST by small business owners in the current study the demographics survey, structured survey and interview components of the data collection included items to assess managerial benefits.

Initially participants were asked in the demographics document to confirm whether they operated a CAS in their business, all participants confirmed that they do use a CAS. All programs in operation were purchased off the shelf, with no accounting software packages tailored/produced specifically for the participant businesses. These findings support Lignier and Evans, that there is high adoption of CAS within the small business sector. Whether participant firms had been operating for 30 years or less than one year it appears that all business owners identify the importance of having their financial information in an electronic format. The demographics however did

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137 Australian Bureau of Statistics, above n 11.
138 In Australian Bureau of Statistics, above n 11, businesses are grouped as non-employing, 1-4 employees and 5-19 employees for micro and small business. To present a more in depth account of the participating businesses the researcher has divided the 5-19 bracket to 5-10 and 11-19 groups.
139 Lignier, above n 81.
140 Lignier and Evans, above n 76.
141 Lignier and Evans, above n 76.
not identify the rationale behind the adoption of a CAS; therefore this was explored further in the interview and survey.

The survey asked participants a number of questions relating to management practices that compliance with GST may assist with: Table 5. Overall, the outcome of perceived benefits was low. A number of the results are inconsistent to those found in studies completed by Lignier and Lignier and Evans. This may be due to the fact that both of these previous studies utilised a large scale survey and were not focused solely on GST.

**Table 5: Potential managerial benefits recognised from complying with GST**

<table>
<thead>
<tr>
<th>Benefits of complying with GST</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>A GST improves my business record keeping systems.</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>B My recording for GST assists with my income tax commitments.</td>
<td></td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>C GST improves my cash flow monitoring.</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>D GST improves my business credit management.</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E GST improves my knowledge of my business financial affairs.</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F GST improves my decision making in my business.</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Of all the statements put forward to participants only two management areas were clearly recognised as being of benefit from the obligation to comply with GST. These were that complying with GST helped participants maintain their record keeping systems and it assisted with their income tax obligations. This is broadly consistent with the Lignier and Lignier and Evans. Other areas considered in the survey primarily concerned financial and cash flow management. From Table 5 (items c to f) it is apparent that compliance with GST is not perceived to be beneficial in these areas.

The data from the interviews support the responses in the survey. Participants including both of the small business accountants were asked to discuss whether any

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142 Lignier, above n 36.
143 Lignier and Evans, above n 7615.
144 Lignier, above n 36.
145 Lignier and Evans, above n 7615.
managerial benefits were recognised from GST and whether a CAS was introduced as a result of the requirement to comply with GST obligations. Some of the business representatives asked for more information in relation to the question. The researcher explained further that managerial benefit may be in the form of advanced recording of transactions for other forms of tax, up-to-date information for financial management and time management in the long run. The responses from participants were varied. Half of the participants and only one accountant supported the findings of Lignier\textsuperscript{146} and Lignier and Evans\textsuperscript{147} suggesting that the GST assists with record keeping and knowledge of their financial affairs. Comments from some of those participants were:

The monthly deadline to complete the BAS ensures that we do it on a monthly basis. Whereas if there was not that deadline, there is a chance that our accounting would not be as up-to-date as it should be (Participant 5).

General business paperwork is the impost and I guess I would probably be more likely to make excuses to not do it and be out selling, whereas because there is an overarching responsibility to do it from a GST and tax perspective then I enter it on time (Participant 6).

Yes definitely. Even though I know it’s a pain having to do a BAS every quarter it would be ten times worse if it was annual. If the business owner used that opportunity to quickly run a profit and loss they could see how they went for the past quarter and could see how the last quarter compares to the same quarter the year before. They could use that time to analyse their business (Accountant 1).

One respondent identified that the requirement to adhere to taxation whether in the form of GST or income tax means that their recording of accounting information is at a higher standard. They confirm however that the GST was not instrumental in the adoption of a CAS as it was already in place prior to the GST:

I think that GST and BAS obligation is a benefit for our business. Although we still maintained a computer based accounting system before the GST was introduced and we were required to pay Wholesale Sales Tax on some of our goods. I think that whether it is GST or some other form of tax we keep our records better because of taxation in general (Participant 4).

The remaining participants implied that the GST was not the driving force behind the use of a CAS and regardless of the GST they would have implemented these systems to assist with their business management requirements:

Recording in a computerised system is something we would have done anyway, I wouldn’t say that it is of benefit or assistance in that way (Participant 10).

No, I don’t really think there is a managerial benefit because I think all the systems that I have in place I would do anyway, just to manage the business (Participant 2).

\textsuperscript{146} Lignier, above n 36.
\textsuperscript{147} Lignier and Evans, above n 76.
Finally the second small business accountant believed that with the introduction of GST small businesses would keep up-to-date accounting information which would result in an increase in financial management, however he suggests that this is not fully realised and smaller businesses still have difficulty maintaining control of their accounts:

When it first came out I thought it would force small business to manage better. Before the GST, financials were only being done annually and I thought it would be able to give more information. It would force small business to organise themselves and their accounts better but that hasn’t happened. This is because the information is being used for the purpose of GST only and not for management accounting (Accountant 2).

In summary from the findings there is conflicting views of whether GST creates a managerial benefit for the small business participants. It appears that GST was not the reason for the adoption of a CAS for the participant businesses. Use of a CAS for all participant businesses may simply be a result of the increase in use of information technology products in today's society. However, more than half of the participants confirmed that they did realise benefits in the form of improvements in record keeping and assistance with other tax obligations. In terms of other benefits such as those that support financial and cash flow management, participants did not perceive that the GST obligation benefited these business functions.

**Cash flow benefit**

In order to explore whether small business owners perceived that their business received a cash flow benefit from GST for this research project the use of both semi-structured interviews and survey questions were data sources.

Through the survey, participants were asked to indicate whether the GST provides them with useful extra cash during each GST collection cycle, eight of the participating businesses agreed with the statement. This means that two thirds of participants perceived that there was some benefit from having the GST component in their business cash flow. In order to investigate further the receipt of cash flow benefit, participants were asked in the interview ‘Do you perceive that there is a cash flow benefit from holding onto GST from sales before paying it to the Australian Taxation Office (ATO)?’ Two common responses were given.

Firstly, most participants identified that having the GST portion of sales in their possession should create a benefit. In reality however participants using the non-cash basis suggested that they were unlikely to collect and hold the GST for a substantial period of time before it became due for payment to the ATO. Some indicated that the liability was often due before it was received from their customers. Participants commented that:

GST affects cash flow because we regularly have to pay the GST liability before we receive it from our debtors. This means we are financing the tax liability from our own funds. This is a result of debtors extending their
payment terms past those that are acceptable by our business (Participant 4).

Some customers don't pay us for 95 days from end of month. With big international companies you can't do anything about that. So we have to pay the GST but we don't get it back from the customer until three or four months later (Participant 2).

Statements by participants were supported by both of the small business accountants that were included in the interview process of the project. They commented that:

At least with cash basis you're handing over money that you have actually collected. Whereas accruals you're handing over money that you have not collected yet. With accruals it's not just GST. The business owner is issuing an invoice but then having to pay his staff and all his expenses today and might not receive that for 30 or 60 days. So if that gets caught up with BAS as well he's handing over money for GST before he's received that cash (Accountant 1).

I don't think the cash flow benefit is dramatic, I think there are some advantages particularly if you're registered on a quarterly basis. But again you have to make sure you collect the money and that you're actually holding it and if you are then it will probably improve your cash flow (Accountant 2).

Considering that realising the benefit is dependent on the length of time that the GST liability is held by the registered business and that the liability is not recognised until it is received for cash basis; it was considered more likely that cash flow benefit would be easier achieved by business accounting under cash basis. Comments from participating cash basis participants suggest otherwise:

Sometimes our debtors take a long, long time to pay and we are on a cash basis but it can be very difficult for us sometimes especially if we have got a big amount owing and we have had all the material costs to pay upfront. It is really a balancing act. Overall I don't really fell that there is a benefit (Participant 3).

At the moment the GST actually impacts my cash flow because the business is not cash flow positive so effectively the tax office owes me money and I report annually so we are unable to get a refund for 12 months (Participant 6).

These participants appear not to recognise cash flow benefit as a result of other impacting issues including late payment of debtors and the effects of market conditions on their financial position.

Two of the participants did suggest that they have had some cash flow benefit from GST. The source of the benefit however was not related to the time that the GST liability was held before it was remitted to the ATO. The first of the two participants' account for GST on a cash basis and their benefit is realised through trading Small Scale Technology Certificates which are issued with each solar system:

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148 Sandford, above n 66, at p 13; Sandford, Godwin, Hardwick and Butterworth, above n 10, at p 84.
There's one particular part of our business which is actually an incentive in the industry – they’re called Small Scale Technology Certificates or STCs. On every single solar system there’s a certain amount of these certificates and each certificate is worth something. It’s a commodity, it’s traded. So we take these certificates off the purchase price to the customer and then we trade them on. We take it off as negative income free so it’s GST exempt because it’s not a good or service. You know it’s actually GST exempt. But then we trade them, I get paid GST on them because it’s a business to business trade. The GST on that I find improves cash flow ever so slightly, it’s not a large amount (Participant 10).

Participant 4 also recognised a benefit, accounts for GST on a non-cash basis and the perceived benefit is detailed below:

I have recently used the GST claimed on purchases to minimise the amount of GST liability that I pay by purchasing capital equipment that was required for the business. However if we weren’t in a high cash holding period we wouldn’t be able to purchase these capital goods unless we used financial products like equipment finance (Participant 4).

It appears from the responses of Participant 4 and 10 that there may be other avenues to recognise some benefit to cash flow as a result of compliance with GST. Those identified by this project include resale of Technology Certificates that attract no GST when purchased but incur GST when traded with other businesses and the purchase of capital equipment in order to reduce the GST liability. Both of these alternate benefits are identified by the researcher as not being readily available to all small business and are reliant on the individual circumstances of each business.

Overall it appears from the sample that regardless of whether small businesses trade in cash or credit, or are registered for GST on a cash or non-cash basis, there is either minimal or no cash flow benefit recognised from holding the GST liability owed to the ATO before it is due for payment. Despite the differences in research methodology and measurement of cash flow benefits these findings are consistent to both the Reynolds149 and Glover and Tran-Nam150 studies. However from the responses from Participant 4 and 10, it appears that some small businesses are motivated to identify other possible ways that they are able to obtain a cash flow benefit from complying with GST.

**Short term investment**

It was proposed by Cleary151 that cash flow benefit could be maximised using short-term investments. Short term investments are included as a form of near cash assets because they are easily converted to cash due to the short period of investment.152 The idea being that the portion of GST is invested using short-term investments and the

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149 Reynolds, above n 5.
150 Glover and Tran-Nam, above n 5.
151 Cleary, above n 4.
152 Lowell, Stockstill, Dietz and Maurer, above n 99.
resultant interest earned increases the cash flow of the business when it matures. As discussed by both Reynolds\textsuperscript{153} and Sandford\textsuperscript{154} the use of short term investments is dependent on turnover size, grace periods, the current interest rate and the portion of the tax liability held. In an attempt to explore whether claims by small business owners that cash flow benefit was not achievable, the survey and interview instruments were used to verify if the GST had been placed in short-term investment products in order to maximise the benefit.

Participants were asked: “I have placed GST owed to the ATO in a short term investment in order to gain a return on the money.” All participants except one (who gave a neutral response) who has not lodged their first BAS (they report annually) either disagreed or strongly disagreed with this statement. This was discussed in more depth in the semi-structured interviews.

Participants indicated that the value of the GST liability in each reporting period would not be large enough to satisfy the entry conditions of short term investment products. Three participants expressed this in their responses:

Talking about bank accounts, it’s never been a high enough value to use short term investments maybe if I did yearly BAS that might be an option (Participant 7).

Short term investments wouldn’t be worth the hassle, the amount of GST isn’t large enough (Participant 9).

I’m not a big corporation and I can’t take 10% from $500,000 that I have earned in three months and whack it in a term deposit for three months. I am not getting any interest benefit or if I am in my normal bank account it is minimal especially with interest rates so low at the moment (Participant 3).

Overall, the responses in the interview do not support the use of short-term investment products. It could be surmised that irrespective of whether the GST liability is held for the whole GST reporting period or not, the size of the GST liability would restrict the possibility of maximising any cash flow benefit.

\textit{Industry effect on cash flow benefit}

The industry in which a business trades in can influence the cash management practices and in turn the cash flow held by those businesses. Influence of industry norms extends to whether a business trades in cash or credit. Considering that cash flow benefit is reliant on the period of time that the GST portion is held by the complying business before it falls due to the ATO, it was viewed important to this research project to discuss the differences in trading terms as dictated by industry classification and/or sector. This is followed by how the relationship between these trading terms and reporting for GST purposes may influence the ability to obtain a cash flow benefit from GST liability held.

\textsuperscript{153} Reynolds, above n 5.
\textsuperscript{154} Sandford, above n 102.
Separating each of the 12 participating business by industry division\textsuperscript{155} (Table 6) it can be seen that there are 10 different industry divisions in which the businesses are classified within. This is another display of the heterogeneity of small firms in Australia. However when these businesses are sorted by industry level, groupings become much more cohesive (Table 7).

\textbf{Table 6: Participant Businesses classified by Industry Division}

<table>
<thead>
<tr>
<th>Division/Sub Division Code</th>
<th>Title</th>
<th>Participant Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>C24</td>
<td>Machinery and Equipment Manufacturing</td>
<td>2</td>
</tr>
<tr>
<td>C24</td>
<td>Machinery and Equipment Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>D26</td>
<td>Electricity Supply</td>
<td>10</td>
</tr>
<tr>
<td>E32</td>
<td>Construction Services</td>
<td>4</td>
</tr>
<tr>
<td>E32</td>
<td>Construction Services</td>
<td>8</td>
</tr>
<tr>
<td>F35</td>
<td>Motor Vehicle and Motor Vehicle Parts Wholesaling</td>
<td>6</td>
</tr>
<tr>
<td>F35</td>
<td>Motor Vehicle and Motor Vehicle Parts Wholesaling</td>
<td>6</td>
</tr>
<tr>
<td>H44</td>
<td>Accommodation</td>
<td>11</td>
</tr>
<tr>
<td>H45</td>
<td>Food and Beverage Services</td>
<td>7</td>
</tr>
<tr>
<td>M69</td>
<td>Professional, Scientific and Professional Services</td>
<td>12</td>
</tr>
<tr>
<td>M70</td>
<td>Computer System Design and Related Services</td>
<td>1</td>
</tr>
<tr>
<td>R91</td>
<td>Sports and Recreation Activities</td>
<td>9</td>
</tr>
</tbody>
</table>

Adapted from Australian Bureau of Statistics. 2006. Australian and New Zealand Standard Industrial (ANZSIC). Cat No 1292.0. Canberra: ABS.

\textbf{Table 7: Participant Businesses by Industry Level}

<table>
<thead>
<tr>
<th>Level</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>2</td>
</tr>
<tr>
<td>Wholesale</td>
<td>2</td>
</tr>
<tr>
<td>Retail</td>
<td>1</td>
</tr>
<tr>
<td>Service</td>
<td>7</td>
</tr>
</tbody>
</table>

In order to analyse the relationship between industry and trading terms it is essential to look at the trading practices of each participant business. From the results in Figure

\textsuperscript{155} Industry division codes can be found in Australian Bureau of Statistics. (2006). Cat No 1292.0. Canberra: ABS.
it can be seen that debtor trading terms are varied within each industry level with the exception of the manufacturing industry. However, what was discovered is that those businesses trading on cash-on-delivery (COD) terms were involved primarily in business-to-consumer transactions apart from Participant 9 whose business provides event management services. All the remaining business participants were involved in business-to-business transactions and offered some form of trading terms to their customers.156

Figure 2: Participant debtor trading terms in relation to industry level

Analysis of creditor trading terms in Figure 3 demonstrates that all industry level participants have availability to trade credit. Participant 6 however has creditor trading terms of COD and 60 days. The COD goods are imported from an overseas provider and are required to be paid prior to shipping. The residual of the supplies used are from locally based suppliers and are provided on 60 day terms. From these results it can be seen that all participants are able to rely on trade credit as a source of finance for their business.

156 Even Participant 7 whose primary business was business-to-consumer offered 30 day terms to the minor amount of business customers that they trade with.
As discussed by Chittenden and Bragg\textsuperscript{157} trade credit provides businesses with a period of time to on sell goods once received. From Table 8 it can be seen that half of the participants’ debtor and creditor trading terms match or are similar, therefore they should not be disadvantaged by differences in debtor and creditor trading terms provided that the goods turnover cycle matches the supply cycle. Looking purely at the difference in trading terms between debtors and creditors, it would appear of the remaining six participants the majority of businesses (five) are realising an immediate cash advantage as they trade on cash and pay for their supplies on credit. The only participant disadvantaged by comparison of debtor/creditor trading terms is Participant 1 whose creditors are required to be settled earlier than payment is received from debtors. However from the interview data collected Participant 1 suggested the following in terms of their suppliers:

Staff are our biggest overhead. Our creditors are our staff, so we have to pay. We can’t hold off on paying them (Participant 1).

\textsuperscript{157} Chittenden and Bragg, above n 119.
Table 8: Comparison between debtor and creditor trading terms

<table>
<thead>
<tr>
<th>Participant</th>
<th>Debtor Terms</th>
<th>Creditor Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30 days</td>
<td>14 days</td>
</tr>
<tr>
<td>2</td>
<td>30 days</td>
<td>30 days</td>
</tr>
<tr>
<td>3</td>
<td>30 days</td>
<td>30 days</td>
</tr>
<tr>
<td>4</td>
<td>14 days</td>
<td>14 days</td>
</tr>
<tr>
<td>5</td>
<td>30 days</td>
<td>30 days</td>
</tr>
<tr>
<td>6</td>
<td>COD</td>
<td>Imports – prepaid, Local - 60 days</td>
</tr>
<tr>
<td>7</td>
<td>COD &amp; 30 days</td>
<td>14 days</td>
</tr>
<tr>
<td>8</td>
<td>30 days</td>
<td>30 days</td>
</tr>
<tr>
<td>9</td>
<td>COD</td>
<td>14 days</td>
</tr>
<tr>
<td>10</td>
<td>COD</td>
<td>30 days</td>
</tr>
<tr>
<td>11</td>
<td>COD</td>
<td>30 days</td>
</tr>
<tr>
<td>12</td>
<td>14 days</td>
<td>14 days</td>
</tr>
</tbody>
</table>

Taking the statement of Participant 1 into account it could be surmised that all of the participant debtor and creditor trading terms either duplicate each other or for those with terms that are varied, advantages are realised due to extended creditor terms in comparison to debtor. This indicates that payments from debtors should be received before payment is due to creditors. However in reality are these creditor and debtor trading terms adhered to? That is, are customers paying for their purchases when they fall due? As discussed by Besser and Miller\(^\text{158}\) small businesses have a narrow customer base. When customers delay payment passed terms of trade the resultant impact can be late receipt of significant amounts of income. It appears that from the data collected via interviews that trading terms are often not adhered to:

We run into strife with our cash flow because a lot of our customers are Government departments and they can be really slack paying. We have a girl in our Canberra office that pretty much spends all her time chasing up invoices and sales (Participant 1).

Some take 30 days in line with our trading terms but I would say the majority take 60 days (Participant 3).

Our terms are 50% deposit and then the rest is due on the day of the event. However what’s happening is we are so busy getting the event organised for them we don’t really push them for payment. Our focus is on doing a great job in the short period of time we have to do so. We expect that the customers will make the same effort after the event to make the payment but it just doesn’t work like that (Participant 9).

It appears from the participant statements that it is common practice to receive customer payments later than the trading terms offered. It was considered important to understand how that affects the ability to settle payments outstanding to creditors including the GST liability. The relationship of debtor and creditor payments is discussed first followed by GST liability:

\(^{158}\) Besser and Miller, above n 124, at p 4.
We’re on accrual system, so some customers don’t pay us for 95 days-end of month. I can’t afford to pay my creditors late. I have to stay in good stead with my suppliers because otherwise they will say no you can’t have an account anymore and you have to pay up front (Participant 2).

We have set up an overdraft account because we weren’t getting paid on time by our clients but we need to keep our supplier payments up to date because otherwise they get annoyed with us and we can’t afford to have our supplies restricted. The overdraft covers the cash shortfall while we are waiting on customers to pay (Participant 8).

Payment delay of debtors is evident for those participants trading with other businesses. Participants trading with consumers do not appear to experience these issues due to the fact that they trade mainly COD; this was also confirmed in the Reynolds study. Participants in Reynolds were all trading with consumers and received immediate payment for goods sold.

Regardless of the analysis of trading terms that has already been presented, it was important to explore further how payment of GST liability affects cash flow. Analysing whether the relationship between trading terms and registration on a cash or non-cash basis has any impact on cash flow is important to this study. During the interview small business owners were therefore asked whether their trading terms with debtors and creditors affect their ability to pay GST:

Sometimes our debtors take a long, long time to pay and we are on a cash basis but it can still be difficult for us especially if we have got a big amount of GST owing and we have had all the material costs up front. It’s a real balancing act about where am I going to get the GST from (Participant 3).

Debtors have a large effect on our ability to pay GST if we are cash restricted. If they’re paying way past our payment terms, we are having to use working capital to pay the GST liability. Or alternatively we will pay our creditors and forgo the requirement to pay the GST until some later time. If we don’t keep our trade creditors up to date we will be placed on stop credit and not be able to trade out of the cash shortfall (Participant 4).

It’s a problem when clients aren’t paying until over 90 days and because we are on accruals we are paying GST for money that they haven’t even paid us yet (Participant 9).

Absolutely, that’s why a lot of small businesses are moving towards a cash basis GST because if you have an invoice and you’re not being paid on 30 day terms, it can extended to 60, 90 or even 120 days. So if you’re on accruals you have to disclose the GST collected but you haven’t been paid for it (Accountant 2).

Similar to the research findings of the Wallschutzky and Gibson[159] credit sales appear to be the issue of the cash flow problems. The data suggests that late debtor payments cause a great deal of conflict to the cash flow of small business participants and as a result affects their ability to pay their GST liability. From the comments conveyed by

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[159] Wallschutzky and Gibson, above n 23, at p 536.
Participant 3 it appears that in spite of the fact they are registered on a cash basis, late paying customers still affect their ability to pay creditors and GST liability. This broadly supports the study of Glover and Tran-Nam\textsuperscript{160} whose respondents predominantly reported on a cash basis and still reported that cash flow was impacted by GST.

**Table 9: Participant GST accounting basis and debtor trading terms**

<table>
<thead>
<tr>
<th>Participant</th>
<th>Cash</th>
<th>Non Cash</th>
<th>Debtor Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Yes</td>
<td></td>
<td>30 days</td>
</tr>
<tr>
<td>2</td>
<td>Yes</td>
<td></td>
<td>30 days</td>
</tr>
<tr>
<td>3</td>
<td>Yes</td>
<td></td>
<td>30 days</td>
</tr>
<tr>
<td>4</td>
<td>Yes</td>
<td></td>
<td>14 days</td>
</tr>
<tr>
<td>5</td>
<td>Yes</td>
<td></td>
<td>30 days</td>
</tr>
<tr>
<td>6</td>
<td>Yes</td>
<td></td>
<td>COD</td>
</tr>
<tr>
<td>7</td>
<td>Yes</td>
<td></td>
<td>COD and 30 days</td>
</tr>
<tr>
<td>8</td>
<td>Yes</td>
<td></td>
<td>30 days</td>
</tr>
<tr>
<td>9</td>
<td>Yes</td>
<td></td>
<td>COD</td>
</tr>
<tr>
<td>10</td>
<td>Yes</td>
<td></td>
<td>COD</td>
</tr>
<tr>
<td>11</td>
<td>Yes</td>
<td></td>
<td>COD</td>
</tr>
<tr>
<td>12</td>
<td>Yes</td>
<td></td>
<td>14 days</td>
</tr>
</tbody>
</table>

Examining cash and non-cash accounting further Table 9 illustrates an overview of GST accounting basis and debtor trading terms of participant small businesses. The survey question ‘the GST provides my business with useful extra cash during each GST collection cycle’ has importance to analysis of terms of trade, cash concerns and GST registration. Results from individual participants are analysed to give further understanding of this issue. One of the four participants (Participant 5 that disagreed with the statement), provides goods that are GST free and therefore doesn’t hold any GST from sales and is always in a GST refund situation. Two of the three remaining businesses (Participant 7 and 11) receive payment for goods and/or services at the time of transaction, meaning that they hold the GST for a longer period than those that are not trading on a COD basis and they are also registered to report as non-cash. Consequently they should recognise a cash flow benefit. However, in spite of having the portion of GST available at time of sale these businesses still did not recognise that there is any useful cash from the GST they hold. Whereas others (Participants 1, 2 and 8) that are registered non-cash and offer trade terms of 30 days all agreed that they do have useful extra cash in each GST reporting cycle.

Of further interest is that four of the businesses discussed are within the services sector (Participant 1, 7, 8 and 11). Participant 7 and 11 are trading directly with consumers and although not classified as retail by Australian Bureau of Statistics Cat no 1292.0, they have similar trading practices as those in retail. With reference

\textsuperscript{160} Glover and Tran-Nam, above n 5.
back to the literature, Gadenne suggests that low profit margins are related to retail businesses. This may suggest that the amount of GST associated to cash transactions is of small value.

Overall, despite initial analysis of trading practices of participating businesses suggesting that they are not disadvantaged by the difference in the timing of their debtor and creditor payment cycle, further investigation suggests that payment terms are not always adhered to. The majority of participants conducting trade with other businesses report that they have difficulty securing payment from debtors before their creditor payments are due. Late debtor payment problems also affect their ability to pay GST on time. The GST portion appears not to be held for a long enough period to realise a cash flow benefit before it becomes due for payment to the ATO. Those participants who deal directly with consumers however don’t experience these same issues.

In order to satisfy the two-tail design of this project investigation continued to understand if GST payment issues as a result of trade terms where recognised by both cash and non-cash registered participants. One participant registered on cash basis suggests they still experience some difficulty if they have had to pay for their inputs sometime before production of their outputs. This suggests that regardless of registration type, trade terms can still cause conflict with cash flow and as a result the ability to pay GST.

To understand the relationship of cash and non-cash registration further the survey question ‘the GST provides useful extra cash in each reporting period’ was analysed. The emerging results however shed more light on industry and cash and credit trading. Two of the participants who trade with consumers in cash and two that trade with businesses in credit who are classified in the services industry had conflicting results. Those trading in cash did not believe that the GST provided any useful cash in each reporting period whereas those trading in credit did recognise useful cash. These results conflict with previous cash flow benefit research. However taking into consideration that the businesses trading in cash provided services to consumers, the researcher proposes that the cause of the conflict may be explained by propositions of Gadenne that low profit margins are experienced in businesses of this type. This would suggest that amount of GST held would be minimal and recognition that a cash flow benefit is available may not be perceived by these small business owners because cash flow is extremely restricted.

161 Gadenne, above n 115.
162 Sandford, above n 66, at p 13.
163 Gadenne, above n 115.
Section Five

6 Recommendations

The findings suggested that the GST portion of sales is regularly not received before the GST liability is due, for businesses issuing trade terms and accounting for GST on a non-cash basis. As a result participants indicated that their cash flow is impacted as they are paying the ATO from working capital. Should this be the case for small businesses on a larger scale then the researcher suggests that there should be a review into an increase of the threshold for accounting on a cash basis. A change to attribution rules by moving to cash basis may alleviate cash flow issues as the portion of GST would be received before being remitted to the ATO.

In order to support small business cash flow, the Australian Government and its relevant departments need to also be more involved in providing services to assist cash flow management for small businesses. Activities could include increased marketing to promote services including those provided on the ATO website that assist businesses in managing cash flow. These services include a business viability tool\(^\text{164}\) and a cash flow budget sample template\(^\text{165}\), as well as basic information on the importance of using the budget. These tools are readily available at no cost to business owners (other than time). Time restrictions may restrict small business owners from finding these resources themselves.

Lastly, GST attribution rules in conjunction with trading terms of small businesses appear to affect cash flow and limit realisation of cash flow benefit. Should this be confirmed in future research to be a general finding of small businesses in Australia then some policy action should be taken to rectify this issue. The researcher suggests that Australia should take advice from countries including Germany and the Netherlands who attempt to support small business cash flow by allowing them to retain a portion of VAT collected.\(^\text{166}\) This can be achieved based on a percentage of turnover as is the case in Germany or a percentage of the tax liability due as used in the Netherlands. The small business is allowed to withhold the percentage of VAT/GST liability (as per the calculation that their country adopts) and only remit the balance of the liability to the Tax Authority. A consequence of implementing a policy change of this type however may be that there would be an increase in compliance complexity, and potential resistance from Treasury.


\(^{166}\) Sandford, above n 102.
Limitations of research and future research

A limitation of this study is the small number of participants; however, the purpose of the study was to present an accurate representation of the experiences that small business owner/managers have encountered in terms of cash flow benefits or restraints as a result of the GST payment delay. The use of the exploratory case study design was employed in an attempt to uncover findings that are crucial to the research project. The design choice is expected to complement the need to extend the limited existing theory on how the GST affects cash flow of smaller businesses by uncovering findings not previously established. It is expected that these new findings will form a foundation for future research to build upon. Also since the study occurred after the global financial crisis this may influence the results when compared to a more positive economic climate.

Given the findings of this study, there are a number of relationships that could be explored in future research. Considering that previous research has proposed that small business are influenced to follow the trading terms and practices associated with the industry within which they trade, it would beneficial to explore on a larger scale the effect that industry trade practices has on cash flow stability and in turn the realisation of cash flow benefit. This research project has highlighted that there are some likely differences in these relationships for those businesses involved in trade with consumers in comparison to those involved in business-to-business transactions. For example it appears that there is a relationship between the ability to recognise a cash flow benefit from GST and low profit margins for businesses trading in cash and receiving payment at point of sale. Whereas violation of terms of trade by debtors appears to be the restricting factor in realisation of cash flow benefit for small businesses involved in business to business trade.

Section Six

7 Conclusion

In order to determine whether there is a cash flow benefit obtained from the delay in payment of GST liability for small business using non-cash recognition for reporting, data was examined from the demographics, survey and interview instruments.

Examination of the survey data suggests that two thirds of participants believe that GST provides them with useful cash in each reporting cycle, and the majority of participants support this by indicating that they believed that the GST should create a benefit to their business. However for those businesses reporting on a non-cash basis five of the eight participants confirmed that they are unlikely to collect and hold the
GST portion of sales for an extended period before it is due to be paid to the ATO.\textsuperscript{167} In fact at least one participant suggests that they have paid the liability to the ATO before the GST portion was received from sales, effectively creating a dis-benefit.\textsuperscript{168}

In order to satisfy the two-tail case study design, inclusion of a smaller number of participants that report on a cash basis were included in the project. The research findings suggest that those registered for cash basis still don’t perceive that there is any cash flow benefit as a result of holding the GST liability before it falls due.

To investigate further whether participants hold the GST liability for an extended period of time, the use of short-term investment products were examined. The survey and interview responses confirmed that use of investment products of this type were not used by participants. Participants conveyed that regardless of whether they were able to hold the GST liability, the size of GST portion would not satisfy entry conditions of investments of this type.

Examination of managerial benefits was included in the research to determine whether participant businesses recognised similar findings to those reported in previous research.\textsuperscript{169} The findings suggest that GST assists businesses with reporting for other tax obligations and keeping their records up-to-date. However GST was not considered to be influential in the implementation of CAS. A CAS was also not considered to be of any benefit to the financial management of the participant small businesses.

Overall it appears that the small business participants in this research recognise minimal benefits as a result of compliance with GST. Further investigation is required to understand whether the perception of the participant businesses, that it is not feasible to hold the GST portion of sales in order to recognise any cash flow benefit is supported by other small businesses in Australia.

Given that small business is of such importance to income, employment and business structures in Australia it is important to understand relationships in the small business environment that effect their ability to remain viable. Recognising that all small businesses are not the same and identifying areas that are of concern may be beneficial in assisting their liquidity in the future. This project identified areas of concern for both those participants trading with consumers and those trading with businesses. It is important that more research occurs as small businesses are an important but diversified sector of the Australian economy.

\textsuperscript{167} It is also important to mention the circumstance surrounding the three remaining non-cash participants, one participant supplies goods GST Free and the two remaining participants receive payment for goods and services at point of sale. Taking these circumstances into account these three participants would not face issues relating to late collection of the GST portion of sales.

\textsuperscript{168} D’Ascenzo, above n 67, at p 356.

\textsuperscript{169} Lignier, above n 36; Lignier and Evans, above n 76.