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Tax Compliance Supporting Cash Flow Management for Australian Small Businesses

Small businesses are recognised as a major contributor to economies, and it is important to understand what can support their continued success. Viability of small business has been associated with the successful management of cash flow. This article reports the findings of a survey as to whether Australian small businesses in the service sector consider that their tax compliance activities support their business cash flow management. Findings suggest that compliance with business tax systems has advantages for cash flow management and that small business owners realise a greater benefit from taxes that have more regular compliance activities. However, it does not appear that literacy in relation business tax, financial statements and computerised accounting software is necessarily related to the cash flow management practices considered. These findings might be insightful to other jurisdictions in terms of how they might design their tax system to assist small business better manage their cash flow.

1.0 INTRODUCTION

A significant portion of the world economy is now attributable to small businesses, as a result of this sector's expansion.¹ In New Zealand small businesses play a large role in the economy, contributing to employment and economic activity.² Similarly, Australian small businesses contribute 33.2 per cent of the total private sector income of gross value added (GVA),³ and they make up 98.4 per cent of all private sector *203 businesses.⁴ Additionally, Australian small businesses employ 41.3 per cent (4.671 million of 11.29 million) of all private sector employees.⁵

In Australia a large portion of these small businesses are in the service sector.⁶ Businesses in the service sector provide more than 80 per cent of the economy's income (amounting to AUD1,088 billion),⁷ and employ more than 87 per cent of all Australian private sector employees.⁸ This dominance is likely to continue, as the service sector is growing faster than any other industry, and this includes foreign students in tertiary education, international tourism expenditure and Australian investment fund assets.⁹ Considering the significance of small businesses in the service sector to the economy, it is important to investigate the factors that may influence how they manage the critical issue of cash flow, and reflect how the business tax system could influence this.

The reason why it is important to consider small businesses is that their contribution is more than just these financial measures.¹⁰ Research in New Zealand, Australia, the United Kingdom and countries of the Organization for Economic Cooperation and Development (OECD) has suggested that small businesses are also vitally important to employment, innovation and social prosperity.¹¹ Small businesses are also acknowledged for their ability to improve the wellbeing and lifestyles of a large portion of the workforce, and to provide job training and skill improvement to many individuals.¹² Recent Australian research found that small businesses operating within small firm intensive industries have substantial job growth potential.¹³ In 2016, small

business employment growth was 148 per cent greater than that of large business, with small businesses employing an extra 160,000 people in 2016 in contrast to 77,000 people employed *204 by large businesses.¹⁴ Comparison of employment between medium and small businesses showed a fall in medium businesses by 118,000 employees.¹⁵

While there can be alternative characteristics used to determine a 'small business', for this research the term incorporates those businesses identified by their quantitative measures by the Australian Taxation Office (ATO) and Australian Bureau of Statistics (ABS) as being 'micro' and 'small'.¹⁶ This results in a small businesses being one with an annual turnover of \$10 million or less and a full-time workforce of 20 or fewer employees. In New Zealand, this number of employees would also encompass medium sized businesses.¹⁷

The complexity of tax systems for small businesses has been extensively examined in Australia and overseas.¹⁸ Investigators have concentrated primarily on measuring the costs of compliance, and a frequent outcome identified is that the burden of taxation falls disproportionately on small businesses in comparison to medium and large businesses.¹⁹ For small businesses, this creates another potential barrier to business success, especially for those whose cash flow is already vulnerable.²⁰

The few studies that explore the influence of taxation on small business cash flow have demonstrated mixed results as to whether taxation has a positive and/or negative impact on cash flow stability.²¹ One characteristic of tax that appears to influence cash flow is when small businesses are required to hold the tax liability and remit to the tax authority at some future time.²² In theory, holding taxes before they are *205 required to be paid to the relevant tax authority should assist cash flow by increasing the cash held by the business.²³ However, this may not always be the case, especially if a business uses the accrual methods²⁴ to recognise sales and debtors are yet to pay before the tax liability has to be paid.²⁵ This has been the prominent issue identified by researchers in terms wholesale sales tax (WST)²⁶ and goods and services tax (GST).²⁷ For small businesses, it appears that larger business can take advantage of their market power and not pay their invoices to small business creditors on time, adding to this cash flow constraint.²⁸ However, there is research to suggest that small business cash flow is adversely impacted by them being responsible for paying taxes and collecting tax on behalf of others.²⁹ Taxation combined with other pressures of running a business contributes to the concern for small business owners (SBOs) for cash flow. In a related small study of Australian service SBOs about when it came to cash flow stability for those who had issues meeting short-term payment commitments, tax was not raised as a reason.³⁰ Rather than tax itself, cash flow stability problems were due to late paying debtors, restrictions on time, business growth and shrinking profit margins.³¹

Cash flow might be aided if managerial benefits are realised from tax compliance, through the development of better business records. While research has established if not for taxation, small businesses would have only minimal records, or none,³² it is not clear whether these records are used to provide managerial insight to the business health, including monitoring cash flow. Previous research about small business GST compliance suggests that managerial benefits are not realised for cash flow management.³³ New Zealand research about small and medium enterprises (SMEs) found that many SMEs do not perceive any managerial benefits from tax compliance activities.³⁴ Part of this is that one of the most influential reasons for record keeping is the legal requirement for tax rather than actual management reporting. That is the records are just created to meet tax obligations not to create reports for management to consider business performance. Additionally, the interaction of taxes, such as GST, can be seen by business owners as 'messing up' their accounting records.³⁵ In a small study, owners of Australian small businesses proposed that compliance does not support cash flow monitoring, credit management and financial decision making.³⁶ Overall there are conflicting findings in terms of tax compliance providing better knowledge of financial affairs.³⁷ This is despite the apparent consensus that up-to-date record keeping as one part of managerial benefits might be realised from tax compliance for small businesses in Australia.³⁸ However, it is unclear *206 whether some tax systems provide greater or lesser benefits for cash flow management for Australian small businesses.

While term ‘business tax’ is used in broad sense, it can consist of several tax obligations and types. In the Australian context, most small businesses must comply with (but are not limited to) income tax,³⁹ and pay as you go (PAYG) withholding,⁴⁰ GST⁴¹ and fringe benefits tax⁴² (FBT). Furthermore, in respect of workers there can be a superannuation guarantee⁴³ (SG) which is not technically a tax system, however, due to the reliance of the calculation of SG based on PAYG withholding it is included in this research when considering business taxes. Generally, these tax systems can see that the tax liability is incurred and paid sometime in the future. Considering the findings of prior research,⁴⁴ it could be implied that negative effects on small business cash flow cannot solely be explained by the timing of the payment of the tax liability. It is important to determine whether SBOs recognise tax compliance with the common Federal tax systems as having a positive or negative influence on cash flow management.⁴⁵ This research seeks to expand a prior small study that involved interviews with service SBOs, which amongst other things, seemed to suggest that tax itself was not the problem but it was the number of tax systems and the different reporting and payment dates.⁴⁶ To strengthen the validity of this prior research, and provide the ability to triangulate data, this article takes this previous qualitative study one step further by testing the observed factors, with a quantitative survey. In particular, the aim of this research via a large-scale survey to gain a greater understanding of whether compliance with the five Federal tax systems considered provides any benefit to the cash flow management of Australian small businesses in the service sector.

Section Two of this article will provide a broad summary of what we understand about small business cash flow and how it interacts with taxation. The third section will then provide an outline of research methodology including the demographics of the participants. Section Four will present the results of the research followed by recommendations, limitations and future research before concluding in Section Five.

2.0 SMALL BUSINESS CASHFLOW MANAGEMENT

2.1 Introduction and Overview

Maintaining a stable cash flow is essential for small businesses, as liquidity and longevity of business survival is related to the strength of their cash flow.⁴⁷ Considering the importance of small business to the economy it is important to understand what areas of businesses activities and systems can aid or hinder cash flow. This section discusses small businesses and what we already know about the relationship between cash flow and taxation.

***207** The continued viability of small businesses is not easily attained. In fact small businesses have been identified as being more susceptible to failure than other businesses.⁴⁸ Failure rates in new businesses are particularly high in comparison to established firms, with many businesses in early stages ceasing to exist past five years.⁴⁹ The skill strengths of SBOs at the commencement of their business can revolve around the technical skills that the owner possesses.⁵⁰ Research suggests that SBOs with businesses outside of the finance and accounting sectors lack financial management skills at the start-up of their business.⁵¹ Such a lack of financial management skills is of a concern in being able to manage cash flow, as research has suggested that a major cause of failure can be explained by inadequate management skills of the SBO.⁵²

Viability can be influenced by internal and external barriers in the business environment, including the individual structure and characteristics of the small business and the requirement to comply with policy, legislation and regulations as determined by the governments (and their relevant departments).⁵³

Maintaining a consistent cash flow can be problematic for businesses regardless of their size and structure. However, when comparing the impact of failing to manage cash flow effectively for small businesses compared to that of larger businesses, the results can be drastic.⁵⁴ Inadequate SBO management skills can be especially concerning where SBOs struggle with the management of cash flow, as well as with the requirement to adhere to taxation and employer obligations. A critical issue for all

businesses, maintaining a consistent cash flow, can be especially acute for small businesses due to restricted access to finance, whether it be debt or equity finance. Cash flow is the extent of cash or near cash assets that are available for use, along with any inflow or outflow of cash related to these assets.⁵⁵ Therefore cash flow is any business activity that alters the balance of the cash accounts. Research has demonstrated that SBOs find cash flow management difficult,⁵⁶ even though its importance is recognised.⁵⁷

There have been a multitude of reasons identified as to why small business can struggle with managing their cash flow. Part of the reason can be poor business record keeping and low levels of literacy in terms of financial statements.⁵⁸ Also, this can relate to the central role that the SBO undertakes in managing the business,⁵⁹ particularly if there are low levels of staff or external advisors. Also, small businesses can have limited financial resources which can make it difficult to manage cash flow if there is a downturn in economic conditions. Owner equity can be central to the funding of a small businesses, especially as banks may be hesitant to provide credit.⁶⁰ Furthermore, the payment practices of their debtors can adversely affect *208 small business cash flow, particularly if debtors are not meeting their payment obligations on time.⁶¹ This can be made worse if the tax obligation arise on a sale even though payment is yet to be received by the small business.⁶²

A potential related issue to cash flow management is the business tax literacy and confidence of the SBO involved. Recent related research has sought to measure the business tax literacy of Australian SBOs in the service sector in terms of the five Federal taxes considered in this study.⁶³ The mean literacy score for each tax system, as well as the aggregated overall business tax literacy score is displayed in Table 1. In terms of all the business taxes considered the mean score is below 50 per cent at approximately 42 per cent. This means that on average SBOs are incorrect in their understanding about the business tax law over half the time. When considering each of the individual Federal taxes separately, GST has the highest literacy mean of 49.25 per cent, followed by that for income tax, FBT and SG; with PAYG-W literacy being the lowest. Such a low business tax literacy could suggest that SBOs might struggle to consider how the tax system might influence their business cash flow, such as the quantum and/or timing. This overall business tax literacy score will later be used to consider if there is any relationship between it and the cash flow management practices surveyed.

TABLE 1: BUSINESS TAX LITERACY: AUSTRALIAN SERVICE SBOS

Literacy score type	Total score available	Mean score	Mean as % of total
PAYG Withholding literacy scores	3	1.00	33.3%
SG literacy scores	4	1.57	39.25%
FBT literacy scores	4	1.64	41%
Income Tax literacy scores	11	4.71	42.82%
GST literacy scores	4	1.97	49.25%
Overall Business tax literacy scores	26	10.89	41.88%

Source: Melissa Belle Isle, Brett Freudenberg and Tapan Sarker “The Business Tax Literacy of Australian Small Businesses” (2022) 37(1) Australian Tax Forum 65 at 88.

Part of this related study considered whether there was a relationship with SBO's business tax literacy score and if the service small businesses had entered a payment arrangement with the ATO in the last 10 years. Analysis demonstrates that service small businesses' who entered into a tax debt arrangement on more than one occasion had the highest mean business tax literacy score.⁶⁴ Also, it has been reported about the literacy of SBOs in relation to financial statements and computerised accounting systems (CAS), which found that the mean score of these were higher than business tax literacy. The highest mean score was for financial statements literacy (67.14 per cent), followed by CAS literacy (55.20 per cent), with overall business tax literacy (41.88 per cent).⁶⁵

*209 Other related research reports how confident service SBOs were about their understanding of the business tax systems.⁶⁶ This relationship analysis was done as there is a potential relationship between a person's confidence and whether they fully utilise their literacy.⁶⁷ Of the five Federal taxes considered, service SBOs had a higher degree of confidence in their understanding of GST (4.07, on a 5 point scale with 5 being the highest), compared to the other tax systems: Table 2. The mean score of SBOs' confidence levels of the other taxes considered (in descending order) were PAYG withholding, income tax and SG; with FBT having the lowest score of 2.94. Also, it appeared that SBOs largely (just under 60 per cent) had confidence about how much tax liability is held in their bank account; although this level of confidence was below their level of confidence about the Federal taxes considered (except for FBT).⁶⁸

TABLE 2: MEAN SCORE OF SERVICE SBO CONFIDENCE IN UNDERSTANDING FEDERAL TAX SYSTEMS

Confidence in understanding tax systems	Mean
Confidence in understanding GST	4.07
Confidence in understanding PAYG withholding	3.92
Confidence in understanding income tax	3.86
Confidence in understanding SG	3.83
Confidence in understanding FBT	2.94
<i>(Scale 1 to 5, 5 strongly agree with confidence: Source: Melissa Belle Isle and Brett Freudenberg “I know it all? The relationship between small business tax and other literacies and their confidence” (forthcoming))</i>	

Analysis between SBOs' business tax literacy and their confidence in relation to each of the five Federal taxes demonstrates that service SBO confidence is significantly related to service SBO literacy for each of the five business tax systems considered.⁶⁹ This suggests that business tax literacy scores may reliably predict service SBO confidence. These results are consistent with other small business research,⁷⁰ and tax literacy research about Australian individuals,⁷¹ suggesting that confidence and tax knowledge are aligned. That is, high tax confidence is likely to be associated with higher tax literacy. Such alignment is

reassuring as it would tend to indicate strong confidence is based on higher tax literacy in the area. Overall, this would tend to suggest that service SBOs' confidence about their tax knowledge is consistent with their tax literacy in the area. However, it should be recalled that SBOs appear overall to have a low business tax literacy.

In respect of service SBOs' confidence about elements that contribute to implementing a cash flow management system, it appears that SBOs have higher confidence that their business has accurate revenue and expenses records (4.29 on a 5-point scale with 5 being the highest), followed by accurate debtor and creditor records (4.14).⁷² However, SBOs' confidence that their business had adequate cash management was lower (3.77). This suggests that the confidence in the accuracy of records may not necessarily equate to ***210** adequate cash flow management systems overall.⁷³ These prior results are important when considering the self-reported confidence in the tax and cash flow areas reported in this article.

2.2 Cash Flow and Taxation Obligations

The interaction of tax and business cash flow is multifaceted and can be more complex than initial considerations. Obviously, tax can be an outflow of money from the business to the relevant tax authority, although this may not always be the case. For example, if a business operates in an industry with mainly GST free supplies, then the business may be in receipt of GST refunds due to claiming back the GST in purchases.⁷⁴ Alternatively, business cash flow could be adversely affected due to the cost of complying with tax obligations,⁷⁵ which can extend beyond staff time, but also the SBO not being able to focus on the main business activity or being stressed about meeting compliance obligations.⁷⁶ Research has consistently demonstrated the regressive nature of the tax compliance cost for small businesses compared to larger businesses.⁷⁷ These costs are further exacerbated by the number of different tax systems that a business is required to comply with.⁷⁸ As previously discussed, while tax compliance costs place burdens on small businesses, there can be benefits that are realised as a result of compliance.⁷⁹ However it should be acknowledged that prior research suggests benefits fall well short of eliminating compliance costs.⁸⁰ The benefits available include both cash flow and managerial benefits (which since the introduction of the GST can include the adoption of computer accounting software [known as CAS]).⁸¹ Managerial benefits can be realised through regular recording of tax-related transactions.⁸² Complying with tax has previously been identified as potentially providing managerial benefits to small businesses in Australia, in terms of having up-to-date record keeping of business activities.⁸³ In essence, the potential benefit arises from the ability to make more informed decisions and from having up-to-the-minute data available as a consequence of compliance with tax obligations.⁸⁴ Of course having the data and whether one uses and/or understands it can be totally different. In effect, receipt of any benefit is posited as being capable of reducing the cost burden of compliance.⁸⁵ However, not all tax reporting is done contemporaneously, and instead may be done on a yearly basis well after the end of the relevant financial year. Such historical records may be of little use or be too late. Small business experts consider that recording keeping for tax purposes should assist SBOs in ***211** managing their cash flow,⁸⁶ although there can be concerns about whether there is enough planning for the payment of taxes.⁸⁷

While there can be conjecture that the cash flow of small businesses would be adversely affected by their tax obligations,⁸⁸ the research does not necessarily support this. For example, in a Board of Taxation study it was found that rather than income tax itself, it is often the application of other regulations (particularly around employment of staff) that most increases the overall compliance burden and costs for small businesses.⁸⁹ In an Australian study in the early 1990s, small businesses only identified the WST as a tax of particular concern with respect of their cash flow and not for example income tax.⁹⁰ Other research has also concluded that it appears taxation is not perceived as adverse to small business as one might initially consider.⁹¹

There is limited research that has considered in detail the interaction of cash flow for small businesses and taxation.⁹² The available research suggests that there can be both positive and negative influence by tax systems of small business cash flow.⁹³

One potential negative effect, is that the stability for the cash flow of a small business can be adversely affected by tax payments.⁹⁴

In terms of a small business' liquidity, it appears tax can feature predominately when businesses are struggling. In Australia, nearly two-thirds of the tax debt outstanding to the tax office relates to small businesses, which in aggregate is \$29.3 billion.⁹⁵ This inability to be able to pay tax authorities outstanding tax debts can be the deciding factor that leads to the failure of the small business.⁹⁶ However, it may not be the tax itself that has caused the business to be insolvent, instead it could be more attributable to a number of factors such as poor management practices, debtors not paying on time and downturns in the economy.⁹⁷ It has been proposed that given problems in sourcing finance from external bodies, that small businesses may use the tax they hold on-behalf of the tax authority as an 'unofficial line of credit'.⁹⁸ In this way, businesses facing financial difficulties can use the tax they hold to pay critical suppliers and staff. It could be the fact that the business has been insolvent for several years before the tax authority seeks to recover the unpaid taxes.

***212** A study in New Zealand suggested that small businesses incur late tax payment penalties in an attempt to improve their business cash flow.⁹⁹ Another New Zealand study found that 40 per cent of SMEs and their tax practitioners perceived tax compliance as an outgoing cost which had a negative effect on cash flow,¹⁰⁰ with tax conjuring up thoughts of 'bureaucracy, inefficiency and red tape'.¹⁰¹ Also, it appeared that New Zealand tax practitioners mostly failed to discuss any managerial benefits associated with the tax compliance activities of their SME clients.¹⁰² This can lead to concerns about whether practitioners themselves will be active in reflecting on the business performance when completing tax reporting requirements.

In a related prior qualitative study of Australia's service sector in-depth interviews were conducted with 17 SBOs to explore business cash flow and the implications of five major Australian Federal tax systems.¹⁰³ Similar to this study, the tax systems considered included GST, income tax, FBT, PAYG withholding and SG. While this related prior study highlights some interesting findings, given its small sample size it is hard for any generalisations to be made. It should be noted that in terms of these Federal tax systems a number of these tax systems require taxpayers to pre-pay amounts in advance in the form of instalments,¹⁰⁴ thus reducing the potential of a large tax liability at the end of the reporting period. Pre-instalments are required for income tax¹⁰⁵ and FBT¹⁰⁶ if a taxpayer has previously submitted a return for these tax systems. Also, a GST¹⁰⁷ instalment can be paid monthly or quarterly for complying entities. In determining such a pre-instalment amount, the value can be based on previous earnings or tax liabilities from prior tax periods.

In this prior study, when SBOs were probed in interviews about how tax broadly affects their business, concerns were raised about tax restricting business growth, but this appeared to be more associated with employee costs and the need to remit employment taxes (PAYG-W and SG) regularly, which can occur before receiving payment from debtors.¹⁰⁸ Many SBOs considered that tax was a normal factor of running a business. Indeed few SBOs interviewees (2 out of 17) suggested that it was tax itself causing the problem, and instead it was the number of tax systems and the different reporting and payments dates.¹⁰⁹ It has previously been calculated that in terms of the five Federal taxes considered in this research, payments can range from being due from 5 up to 26 times throughout each calendar year, dependent on whether businesses report annually, quarterly or monthly and whether the business is affected by all five tax systems.¹¹⁰ Of course, there could be other tax obligations beyond this which could increase the reporting and payment obligations.

***213** Concerns were raised about the first year of trading prior to being formally part of the PAYG-Instalment system.¹¹¹ Such concerns has been highlighted in prior research with small business experts.¹¹² Also, there was some suggestion that SBOs would prefer not to hold onto the tax liability amount for too long in their bank account but rather remit it to the tax authority more frequently.¹¹³ These comments were supported by later findings that by being a tax collector and holding tax in bank accounts it can give the SBOs a false impression of the cash flow levels.¹¹⁴ This is important as SBOs can use bank account

balances as a proxy to indicate business performance.¹¹⁵ Also, some SBOs suggested that PAYG-W for employees should be paid weekly or be in line with the payroll cycle.¹¹⁶

Another finding of this small study is that problems for cash flow were more likely due to reduced profit margins, decline in sales or the health of the overall economy and trade partners.¹¹⁷ However, when pressed about which of the five Federal taxes were more problematic for a service small business's cash flow, PAYG-W and GST were identified as having the greatest adverse impact on cash flow. It appeared the reasoning for PAYG-W was due to the magnitude of it (especially as employee numbers increased) and that it should be made more regularly.¹¹⁸ With the impact of GST there were concerns about low profit margins, absorbing GST in sales and not receiving payment for debtors before the liability to pay the GST to the tax office arose.¹¹⁹ The service SBOs interviewed raised little concern about the impact on cash flow due to FBT, income tax and PAYG-Instalment, with some suggestions that PAYG-Instalment was actually useful to aid cash flow management.¹²⁰ With SG, concerns centred more on the administration of the superannuation system, especially the precise timing requirements for the eligibility for a tax deduction.¹²¹

While this smaller related study provides some initial insights, it is important that these initial findings are tested by a larger scale survey. There is no known research into the effect that tax pre-instalments have on cash flow stability in Australia. This research sought to consider whether SBOs in the service sector thought their cashflow management was influenced by their tax obligations. Also, this study considers whether there appear to be any relationship between SBO literacy and cash flow management practices. In this way this study provides some unique insights and contributes to our understanding about cash flow management by small businesses.

3.0 RESEARCH METHODOLOGY

The central research question addressed in this research is:

How do Australian service SBOs perceive tax compliance to influence their business cashflow management?

*214 Given the research question, a survey methodology was considered appropriate to gain an understanding of the perception of SBOs. The survey constituted questions to consider the demographical features of participants, as well as a series of questions to elicit participants' perception of tax compliance about their cashflow management. Additionally, there were questions to ascertain the level of business tax literacy and confidence. The detailed results of these literacy and confidence scores are reported elsewhere but are referred to in this article where relevant to the concepts of cash flow management.¹²²

The survey was circulated in the form of self-administered questionnaires, where the method of participation was in electronic form as an alternative to traditional mail surveys. Previous research suggests that administering electronic surveys as opposed to mail surveys offers the advantage of a reduction in time from sending and receiving traditional mail.¹²³ This also allows for quicker and more accurate generation of data files, as the possibility of transcribing errors is eliminated at the data capture stage.¹²⁴

The survey was constructed using a web link to the Survey Monkey online survey platform and was to be completed by a person who was involved with the decision making of an Australian small business. This web link was used on multiple platforms to engage with service small businesses. The advantages of surveys conducted using a web link are that they are both time and cost effective, along with their ability to reach larger geographical areas more effectively.¹²⁵

The sample of service small businesses in Australia was achieved through three different sampling techniques: convenience, snowball and stratified sampling.¹²⁶ Convenience sampling was used to contact both professional and personal contacts of the research team using email, Facebook and LinkedIn. These contacts included participants of an earlier qualitative stage of the project, students (current and past) and small businesses known to the research team. Engagement with these contacts also resulted in snowball sampling techniques, as possible participants were encouraged to share the survey with their own networks. Participants were also sought using snowball sampling by contacting industry associations and representatives of professional bodies. These groups shared the web link for the survey with their networks or member listings using newsletters, mass email distribution and website blogs. Groups involved in distributing the survey, included Business South Australia, The Tax Institute, Australian Institute of Credit Management and a variety of groups within Griffith University including the Griffith Alumni, Entrepreneurship Seminar Series and the Griffith News Blog.¹²⁷

The final method of sampling used for the large-scale survey was a stratified sample of businesses registered for an ABN in Australia. Businesses were categorised by their geographical location and, as a result, the strata for the project were the States or Territories of Australia. Those chosen for stratified sampling included Tasmania, New South Wales, Victoria, Western Australia and the Australian Capital Territory. The Northern Territory was excluded due to time restrictions, as the random sample selection could not be concluded before the survey closing date. A conscious decision was made to exclude Queensland *215 from just the stratified sample method. This was because the research team are all based in Queensland, and that small business participants who were drawn from the other sampling methods (convenience and snowballing) were more likely to be in Queensland because the researcher's personal and professional networks were predominantly from Queensland.

As a result of the variety of sampling techniques employed for the large-scale survey, it is impossible to ascertain a specific response rate. An alternative in this situation is the identification of a completion rate. This is calculated by the number of participants who began the survey in comparison to those who completed the survey.¹²⁸ A total of 259 started the survey and a total of 116 completed it, giving a completion rate of 45 per cent. Due to the convenience sampling used for the survey, it is possible the findings are biased samples and can only be generalised to populations that share characteristics with the sample. To provide some level of comfort comparisons are made of the survey participants to the general population of small businesses in Australia.

Once the survey closed for data collection, the results were extracted from Survey Monkey and imported into Microsoft Excel (Excel), a preparatory tool for initial data cleaning.

3.1 Participants

The survey link was completed over the period between 1 October 2018 and 30 June 2019.¹²⁹ And a total of 116 SBOs from the service sector fully completed the survey. While 116 is slightly disappointing, engaging small businesses in research has been previously identified as problematic.¹³⁰ Nevertheless, the results are still useful to demonstrate insights into how tax may influence cash flow for SBOs and can be used as a foundation for future studies.

From Table 3 it is demonstrated that the survey sample included almost two-thirds of Australian-born service SBOs and slightly more than one-third of migrant service SBOs and is similar to the pattern of the percentage of ownership of Australian small businesses.¹³¹

TABLE 3. SUMMARY OF SBO PARTICIPANT CHARACTERISTICS			
Demographic	Categories	N = 116	Percentage
Residency	Less than 5 years	1	0.9%
	More than 5 years but less than 10 years	7	6.0%
	More than 10 years but less than 15 years	8	6.9%
	More than 15 years but less than 20 years	8	6.9%
	More than 20 years	17	14.7%
	I was born in Australia	75	64.7%
Education	Left school before completion of year 10	1	0.9%
	Year 10	1	0.9%
	Year 12	8	6.9%
	TAFE qualification	23	19.8%
	University undergraduate degree	36	31.0%
	University post-graduate degree	47	40.5%
Business Structure	Sole Trader	40	34.5%
	Partnership	6	5.2%
	Company	44	37.9%
	Trust	9	7.8%
	Combination of Company and Trust	16	13.8%
	I'm unsure of the business structure	1	0.9%
Business Age	Less than 2 years	22	19.0%
	More than 2 years but less than 5 years	19	16.4%
	More than 5 years but less than 10 years	28	24.1%
	More than 10 years	47	40.5%
Number of Employees (excluding the owner)	Zero	46	39.7%
	1 to 5	51	44.0%
	6 to 10	9	7.8%
	11 to 20	10	8.6%
Past Business Experience	Yes	62	53.4%
	No	54	46.6%
Annual Turnover	Under AUD50000	30	25.9%

	AUD50001-AUD200000	36	31.0%
	AUD200001-AUD2000000	44	37.9%
	AUD2000001-AUD5000000	4	3.4%
	AUD5000001-AUD10000000	2	1.7%
Federal Tax Obligations	GST	94	81%
	Income tax	88	76%
	PAYG-W	77	66%
	SG	60	52%
	FBT	20	17%
* Percentages may be affected by rounding			

In terms of education, more than 90 per cent of service SBOs held tertiary qualifications, including postgraduate, undergraduate and TAFE qualifications. These proportions of service SBO education levels in the sample differ from those previously reported for all business owner/managers in Australia.¹³² The results reported in the Census¹³³ suggest that post graduate study among Australian business owner/managers is as low as seven per cent, whereas those who have their highest level of education at a secondary school is 31 per cent. The Census results are almost the exact opposite of the findings in the survey. Therefore, the SBO participants involved in this research appear to have higher levels of education than the levels of the general population of small business owners/managers in Australia. This could mean that the education of SBO participants could be higher than the normal population, so this needs to be considered when determining the results.

***216** The most popular business structure, the company, was followed by sole traders, who collectively made up 72 per cent of the service small business participants. The sample in terms of business structure does not appear to precisely replicate the private sector population in terms of Australian business structures. The company structure is the most common type in Australia, with 38 per cent of all private sector businesses legally identified as companies.¹³⁴ Sole traders are the next largest form of business followed by trusts¹³⁵ and then partnerships.¹³⁶ The sole trader, as a business form, is over-represented in the survey, whereas trusts and partnerships appear to be under-represented, compared to the Australian population.

***217** The business age categories of the participants were all represented, with more than 40 per cent of businesses being in operation for more than 10 years, and with 19 per cent representing the youngest business category of fewer than two years. The participants primarily employed five or fewer employees, with 44 per cent employing between 1 and 5 employees and 40 per cent non-employing. The survey data indicates an under-representation of non-employing businesses compared to the Australian population.¹³⁷ In Australia, 64 per cent of all businesses employing between 0 to 20 employees are non-employing businesses.¹³⁸ In contrast, the employment brackets of 1 to 5 and 6 to 20 are over-represented in the survey when compared to the Australian small business population of business employing 0 to 20 employees. In Australia, businesses employing 1 to 5 employees are represented by 28 per cent of business, compared to 44 per cent in the survey, and 9 per cent are businesses employing 6 to 20 employees whereas 16 per cent of survey participants employed between 6 and 20 employees.¹³⁹ In terms of annual income, more than 95 per cent of the participants earned AUD2,000,000 or less. The survey responses differ only marginally in all three turnover groups, compared to the population.¹⁴⁰

The GST¹⁴¹ appears to be the tax system with the highest number of registrations, compared to the other systems, as just over 80 per cent of SBO participants have a GST obligation. Income tax¹⁴² follows GST,¹⁴³ with 88 SBOs suggesting that they have

an income tax obligation. This response could suggest that some *218 service SBOs within the survey are unaware of their income tax compliance requirements as it was thought this should be 100 per cent of participants.

The responses in the survey indicate that two-thirds of the SBO participants report for PAYG withholding. Just over half of the participating SBOs note that they have an SG¹⁴⁴ obligation. Only 20 participants indicated that they are required to report for FBT, having the lowest tax obligation requirements of the five tax systems within the research.¹⁴⁵

Table 4 illustrates the relationship between the business size in terms of annual turnover and number of employees. This demonstrates that small businesses that predominantly are non-employing entities are earning up to AUD200,000, those employing between one and five employees, for the most part, have an annual turnover of between AUD50,001 and AUD2,000,000, with the majority earning between AUD200,001 and \$2,000,000. It should also be noted that the annual income of the non-employing and the 1 to 5 employee small businesses do not have income in either of the top two income brackets of above AUD2 million. For small businesses employing six or more full-time employees, the majority have an annual turnover of between AUD200,001 and AUD2,000,000; and only two small businesses earn an annual income greater than AUD5 million. The number of full-time employees for these two businesses is within the highest employment bracket of 11 to 20 employees.

Annual	Turnover Number of Employees (excluding the owner)			
	0	1 to 5	6 to 10	11 to 20
Under AUD50000	23	6	0	0
AUD50001-AUD200000	20	16	0	0
AUD200001-AUD2000000	3	29	8	4
AUD2000001-AUD5000000	0	0	2	2
AUD5000001-AUD10000000	0	0	0	2

4.0 RESULTS: CASH FLOW MANAGEMENT AND TAXATION

Service SBOs were asked several different questions relating to the relationship between cash flow management and taxation, these related to accurate business records, tax reporting due dates, separating tax liabilities, impact of PAYG-Instalment, number of taxes and various due dates. Each of these are discussed in detail below, as well as the findings relationship to other related research.

4.1 Tax Administration Obligations and Cash Flow

To determine whether managerial benefits were recognised questions explored whether service SBOs believed that recording transactions for the five Federal tax systems and preparation of the business activity statement (BAS) assisted them in maintaining accurate business records. Table 5 illustrates that most service SBOs appear to recognise that their business records are accurate as a result of their business tax compliance obligations. A considerable number of SBO participants appear to

realise greater accuracy of their business records from recording their transactions for GST, income tax, PAYG withholding, SG and the BAS. More *219 than 80 per cent agreed or strongly agreed (excluding those who selected ‘not applicable’) that the accuracy of their business records can be attributed to the requirement to report for these business tax systems. PAYG withholding (93.4 per cent) appears to be the tax system that provides the largest benefit, followed by SG (88.5 per cent), GST (88.3 per cent), BAS (87.5 per cent) and income tax (83.2 per cent). This is likely to be attributed to the greater frequency of reporting for PAYG withholding, SG and GST, compared to reporting annually for income tax.¹⁴⁶ FBT was the weakest of the five Federal tax systems in contributing to accurate business records, but still strong at 71.4 per cent of the participants.¹⁴⁷ FBT could be the lowest as the FBT records may not translate (be relevant) to other aspects of the business operations, as it is a unique tax system with unique valuation calculations required. This could also highlight how tax records could be more beneficial if aligned to business and accounting practices, rather than ‘messing up’ accounting records.¹⁴⁸ This is an important finding and supports other research about the potential management benefits to small businesses due to the need to record transactions for tax purposes.

Business records are accurate as a result of recording transactions for these taxes .	Not Applicable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GST	22	6 (6.4%)	0 (0.0%)	5 (5.3%)	25 (26.6%)	58 (61.7%)
FBT	88	0 (0.0%)	2 (7.1%)	6 (21.4%)	6 (21.4%)	14 (50.0%)
Income Tax	27	6 (6.7%)	2 (2.2%)	7 (7.9%)	32 (36.0%)	42 (47.2%)
PAYG Withholding	40	2 (2.6%)	0 (0.0%)	3 (3.9%)	26 (34.2%)	45 (59.2%)
SG	46	2 (2.9%)	0 (0.0%)	6 (8.6%)	22 (31.4%)	40 (57.1%)
BAS	20	6 (6.3%)	0 (0.0%)	6 (6.3%)	29 (30.2%)	55 (57.3%)

These findings appear to support related research findings that SBOs are largely confident about the accuracy of their revenue and expenses records, as well as their debtor and records.¹⁴⁹ It appears that recording transactions because of these taxes does contribute to this confidence in overall business records. However, it should be acknowledged that accurate records by themselves will not ensure effective cash flow management, as related research found that ‘confidence in cash flow management’ of the business was lower than the confidence in accuracy of records.¹⁵⁰

*220 To examine the relationships of service SBO confidence in accuracy of business records due to tax compliance, simple linear regression was carried out comparing SBO confidence in each tax system and SBO literacy in business tax, financial

statements, and CAS (see Table 6). The outcome of the tests suggests that SBO confidence in the accuracy of debtor and creditor records due to tax compliance is not explained by SBO literacy. All test outcomes show statistical insignificance when tested as a significance level of .05. This outcome supports prior research that accuracy in record keeping does not always equate to SBO ability to use their knowledge to implement adequate cash flow management systems.¹⁵¹

TABLE 6. IS SBO PERCEPTION OF TAX COMPLIANCE AND ACCURACY OF BUSINESS RECORDS RELATED TO SBO LITERACY					
Business records are accurate as a result of recording transactions for these taxes (DV)	Sum of Squares	df	Mean Square	F	Sig.
Business tax literacy score					
GST	.557	1	.557	.495	.483 ^b
FBT	.910	1	.910	.892	.354 ^b
Income Tax	.222	1	.222	.178	.674 ^b
PAYG Withholding	1.185	1	1.185	1.836	.180 ^b
SG	.111	1	.111	.143	.706 ^b
BAS	.008	1	.008	.007	.932 ^b
Financial Statement literacy score					
GST	.368	1	.368	.327	.569 ^b
FBT	.446	1	.446	.430	.518 ^b
Income Tax	.188	1	.188	.151	.699 ^b
PAYG Withholding	.692	1	.692	1.061	.306 ^b
SG	.239	1	.239	.310	.580 ^b
BAS	.009	1	.009	.008	.930 ^b
CAS literacy score					
GST	.821	1	.821	.697	.406 ^b
FBT	.140	1	.140	.144	.708 ^b
Income Tax	.314	1	.314	.233	.631 ^b
PAYG Withholding	1.852	1	1.852	2.784	.100 ^b
SG	1.960	1	1.960	2.501	.119 ^b
BAS	.001	1	.001	.001	.972 ^b

[Where^b represents predictors (constant): the relevant literacy score.]

Service SBO perception was then explored as to whether they believed that reporting their tax obligations by the due date assisted with managing their business cash flow. The results are displayed in Table 7 demonstrating that service SBOs mostly identify that reporting and payment of tax obligations by the due date assists them in managing their cash flow. Although most participants still gave affirmative responses, *221 the collective number of those agreeing or strongly agreeing across the various tax systems was not as large as the benefit realised for the accuracy of business records (Table 5 vs Table 7). This is reinforced by the larger percentage of SBO participants selecting the ‘neutral’ response for reporting tax obligations (13.7 per cent to 33.3 per cent) compared with accurate business records (3.9 per cent to 21.4 per cent). This would also suggest that tax obligations have a larger potential benefit for cashflow management for accurate record keeping compared to the actual tax reporting. Also, it could highlight the difficulty that SBOs have with actual lodgement and payment for their tax obligations.

TABLE 7. REPORTING TAX OBLIGATIONS

Reporting tax liabilities by the due date assists with managing cash flow	Not Applicable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GST	24	8 (8.7%)	7 (7.6%)	14 (15.2%)	30 (32.6%)	33 (35.9%)
FBT	95	1 (4.8%)	1 (4.8%)	7 (33.3%)	5 (23.8%)	7 (33.3%)
Income Tax	30	7 (8.1%)	8 (9.3%)	17 (19.8%)	29 (33.7%)	25 (29.1%)
PAYGW	40	6 (7.9%)	6 (7.9%)	11 (14.5%)	28 (36.8%)	25 (32.9%)
SG	47	6 (8.7%)	6 (8.7%)	11 (15.9%)	25 (36.2%)	21 (30.4%)
BAS	21	7 (7.4%)	6 (6.3%)	13 (13.7%)	36 (37.9%)	33 (34.7%)

Lodging the BAS by the due date was identified as providing the greatest benefit when considering cash flow management (72.6 per cent in agreeance), followed by reporting for GST (68.5 per cent). This could very likely be a consequence of the regularity of the reporting requirements for GST, and that of BAS preparation for most SBOs, in contrast to some of the other business tax systems considered. A similar observation has been made about the New Zealand tax system in terms of GST and PAYE, compared to income tax.¹⁵² It may also relate to GST reporting that involves recording transactions of revenue and expenses, which would allow the service SBO to obtain some insight into the inflow and outflow of cash on a regular basis. For example, the reporting of income tax had the second lowest overall agree percentage (62.8 per cent), and this could be because income tax reporting largely occurs on an annual basis, and many months after the relevant year has ended, as the historical

data collated may have little benefit for managing cash flow. FBT could have the lowest agreement, given that it only requires annual reporting, has a different tax year (1 April to 31 March) and is a unique tax with particular valuation rules that may not relate to business operations or performance. These findings could provide additional support of the earlier interview findings that more frequent reporting and payment can be useful for SBOs in managing their cash flow.¹⁵³

*222 Linear regressions were carried out to determine whether SBO perception that benefits were realised by reporting taxes by the due date can be explained by SBO literacy (see Table 8). In all circumstances the results of the tests suggest that there is no linear relationship when tested at a significance level of .05. It could be likely that SBO perception of benefits in reporting on time is more aligned with the possibility of incurring penalties for late lodgement than the business tax, financial statement and CAS literacy of the SBO. As reported in previous research SBO have been known to incur tax related penalties to boost cash flow.¹⁵⁴ SBO in Australia may have recognised that these penalties just add further constraints to cash flow in the long term.

TABLE 8. SBO PERCEPTION OF TAX REPORTING ASSISTING CASH FLOW AND SBO LITERACY					
Reporting tax liabilities by the due date assists with managing cash flow (DV)	Sum of Squares	df	Mean Square	F	Sig.
Business tax literacy score					
GST	.095	1	.095	.060	.808 ^b
FBT	.264	1	.264	.196	.663 ^b
Income Tax	.060	1	.060	.040	.843 ^b
PAYG Withholding	.046	1	.046	.031	.862 ^b
SG	.375	1	.375	.242	.624 ^b
BAS	.066	1	.066	.047	.829 ^b
Financial Statement literacy score					
GST	.107	1	.107	.067	.796 ^b
FBT	.226	1	.226	.168	.687 ^b
Income Tax	.032	1	.032	.021	.886 ^b
PAYG Withholding	.090	1	.090	.060	.807 ^b
SG	.725	1	.725	.469	.496 ^b
BAS	.095	1	.095	.067	.796 ^b
CAS literacy score					
GST	.109	1	.109	.066	.798 ^b
FBT	.009	1	.009	.006	.938 ^b
Income Tax	.530	1	.530	.330	.567 ^b

PAYG Withholding	.022	1	.022	.014	.907 ^b
SG	.009	1	.009	.005	.942 ^b
BAS	.156	1	.156	.108	.744 ^b
[Where ^b represents predictors (constant): the relevant literacy score.]					

Prior research has demonstrated that experts are concerned that often SBOs are unable to differentiate between the portion of the cash that is available for trading and the amount that is owed as a tax liability.¹⁵⁵ To determine whether service SBOs place any importance on keeping their tax liabilities separate from *223 their business cash, the survey inquired as to whether they agreed with the statement that ‘Putting money aside for payment of the following taxes helps to manage business cash flow.’ There was acknowledgement that this proactive mechanism would assist cashflow management. Analysis of the data demonstrates that service SBOs perceive an advantage for cash flow management in separating GST, income tax, PAYG withholding and SG liabilities from the cash available for business trading. For GST, income tax and PAYG withholding, more than 70 per cent of SBO participants recognised this to be beneficial to cash flow, for SG, just over two-thirds of participants agreed or strongly agreed. It is interesting to see that putting tax aside for GST, PAYG-W and SG have an extremely high levels of ‘strongly agree’, as prior interview research noted that GST and PAYG-W were two taxes with the greatest impact on cash flow.¹⁵⁶ While the prior interview data just noted administration concerns with SG - it is suggested that separating funds to pay for these taxes is a particularly useful process for small businesses to manage their cash flow, particularly if they have large employee numbers. Note it is unclear from the survey whether SBOs in actual practice separated tax from cash to help with cash flow management. SBO participants that report for FBT indicated that FBT had the lowest benefit, as only 48 per cent believe that separating the FBT liability from day-to-day cash would be of benefit to cash flow management, with 40 per cent also neutral (see Table 9). This adds further evidence as to how FBT could be problematic for small businesses, including in managing their cash flow. FBT has been reported as having one of the lowest literacy levels for SBOs in the service sector.¹⁵⁷

TABLE 9. SEPARATING TAX LIABILITY

Separating the tax liability from income helps with managing cash flow	Not Applicable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GST	21	6 (6.3%)	11 (11.6%)	10 (10.5%)	24 (25.3%)	44 (46.3%)
FBT	91	1 (4.0%)	2 (8.0%)	10 (40.0%)	4 (16.0%)	8 (32.0%)
Income Tax	30	4 (3.4%)	7 (8.1%)	13 (15.1%)	30 (34.9%)	32 (37.2%)
PAYGW	40	3 (2.6%)	6 (7.9%)	9 (11.8%)	23 (30.3%)	35 (46.1%)
SG	45	2 (1.7%)	7 (9.9%)	13 (18.3%)	17 (23.9%)	32 (45.1%)

Simple linear regression was carried out at a significance level of .05 to understand whether a relationship exists with SBO literacy and perception that separating tax liabilities assists cash flow management. The outcome of all tests suggests that there

is no significant relationship with any of the literacy scores (see Table 10). The statistical insignificance could suggest that SBOs are not basing their decisions about separating tax liabilities from trading income on the knowledge they have of business tax, financial statements and CAS. Their perception could be based on real experience as an alternative to literacy or based on an assumed percentage. Prior research highlights that SBOs have used the tax held to satisfy critical payments to suppliers and staff which would result in outstanding tax obligations with the tax authority.¹⁵⁸ Also, SBOs are known to rely on the bank balance as an indicator of cash flow and from experience it could be likely that ensuring the tax held is moved to a separate account allows the SBO to rely on the trading bank account as an indicator of cash flow levels.¹⁵⁹

TABLE 10. SBO PERCEPTION ABOUT BENEFITS FOR CASH FLOW BY SEPARATING TAX LIABILITIES AND SBO LITERACY					
Separating the tax liability from income helps with managing cash flow (DV)	Sum of Squares	df	Mean Square	F	Sig.
Business tax literacy score					
GST	.683	1	.683	.421	.518 ^b
FBT	3.025	1	3.025	2.421	.133 ^b
Income Tax	.876	1	.079	1	.079 ^b
PAYGW	1.865	1	1.865	1.487	.227 ^b
SG	1.695	1	1.695	1.310	.256 ^b
Financial Statement literacy score					
GST	1.270	1	1.270	.786	.378 ^b
FBT	1.832	1	1.832	1.408	.248 ^b
Income Tax	1.433	1	1.433	1.125	.292 ^b
PAYGW	.244	1	.244	.191	.663 ^b
SG	.690	1	.690	.527	.470 ^b
CAS literacy score					
GST	.021	1	.021	.013	.911 ^b
FBT	.751	1	.751	.526	.477 ^b
Income Tax	2.855	1	2.855	2.244	.138 ^b
PAYGW	.107	1	.107	.084	.773 ^b
SG	.077	1	.077	.059	.809 ^b
[Where ^b represents predictors (constant): the relevant literacy score.]					

The prior interview data suggested that PAYG-Instalment assisted small businesses to manage their cash flow.¹⁶⁰ To explore whether this perception about the prepayments of income tax could be beneficial to cash flow management service SBOs were asked ‘*I think paying a PAYG instalment is a useful cash flow management tool for my business.*’ As displayed in Figure 1, overwhelmingly there was a positive sentiment towards PAYG-Instalment, as 58 per cent agreed that it was beneficial to cashflow management, compared to only 21 per cent disagreeing, or 20 per cent being neutral. This would suggest that this mechanism of pre-paying income tax via instalments is useful for small business to manage their cash flow. However, it is of concern that in the first year of operation small businesses are not mandatorily covered by the PAYG-Instalment system. The prior smaller study noted that some SBOs wished they were part of the PAYG-Instalment earlier. The findings from this survey would appear to re-enforce this sentiment.

***225 Figure 1. Usefulness of PAYG Instalment**

TABULAR OR GRAPHIC MATERIAL SET FORTH AT THIS POINT IS NOT DISPLAYABLE

Comparing perception of the importance of a PAYG-Instalment in managing cash flow and SBO literacy, simple linear regression at a significance level of .05 suggests that perception is not reliant on SBO literacy (see Table 11). It could be possible that SBO perception is based on previous learned experience from complying with income tax rather than specific literacy areas.

TABLE 11. SBO PERCEPTION OF BENEFITS TO CASH FLOW FROM PAYG INSTALMENTS AND SBO LITERACY					
Paying a PAYG instalment is beneficial to cash flow management	Sum of Squares	df	Mean Square	F	Sig.
Business tax literacy score	.112	1	.112	.104	.747 ^b
Financial statement literacy score	2.312	1	2.312	2.209	.141 ^b
CAS literacy score	.760	1	.760	.702	.405 ^b

[Where^b represents predictors (constant): the relevant literacy score.]

Given that small business account for the large proportion of outstanding tax debt to the ATO,¹⁶¹ SBO participants were asked whether they had entered into a payment arrangement with the ATO in the past 10 years in relation to an outstanding tax debt. Over half of participants (59 per cent) had not entered into such a payment arrangement: Figure 2. However, just over one-third of SBO participants confirmed that they had paid their debt off over time using this arrangement. This could indicate that one-third of SBO participants have had cash flow problems regarding their ability to pay their tax obligations on time. Thirty participants (26 per cent) indicated they had negotiated this payment contract on more than one occasion; while the remaining ten participants suggested that this had occurred only once in the past ten years. Seven participants (6 per cent) suggested that they were unaware that they could enter into such an agreement with the ATO.

***226 Figure 2. Payment arrangements with the ATO**

TABULAR OR GRAPHIC MATERIAL SET FORTH AT THIS POINT IS NOT DISPLAYABLE

Curiously, there appears to be a lineal relationship between entering into a payment arrangement and having higher levels of business tax literacy, as it has been reported that those service SBOs who have entered into an arrangement on more than one occasion had the highest mean business tax literacy score (11.83 out of possible 26): Table 12.¹⁶² Although, for those SBOs who had not entered into such a payment arrangement their mean score for business tax literacy was only marginally lower (11.28 out of possible 26). However, what is clear is that those SBOs totally unaware of the potential to enter into payment arrangements with the ATO had the lowest mean business tax literacy score of only 4. This suggests how low business tax literacy can mean that SBOs can be unaware of tax administration systems (including relief) that could aid cash flow management. This could indicate that business tax literacy is not only about tax rules (such as what is income and deductions), but also about the administrative rules that are part of the tax system. Given the financial constraints that small businesses may face it is important that they are aware of these important administration levers that the tax authority may provide to assist them. Awareness of such administrative concessions or avenues, might be just as important as the knowledge about the tax technical rules themselves.

TABLE 12. BUSINESS TAX LITERACY SCORE AND PAYMENT ARRANGEMENTS

Entered into a payment arrangement with the ATO in the past 10 years	Mean Business Tax Literacy Score (Out of possible 26)
Yes, only on one occasion	10
Yes, on more than one occasion	11.83
No, we've never entered into a payment arrangement with the ATO	11.28
No, I didn't know you could enter a payment arrangement with the ATO	4.00

Source: Melissa Bell Isle, Brett Freudenberg and Tapan Sakar “The Business Tax Literacy of Australian Small Businesses” (2022) 37(1) *Australian Tax Forum* 65 at 96.

***227 4.2 Cash Flow and Timing of Tax Reporting**

Some of the prior interview data suggested that various SBOs would prefer higher frequency in tax reporting to assist with their cash flow management.¹⁶³ To get a sense of whether participants used regular tax reporting to help manage their cashflow, they were asked about the frequency of their tax reporting: Table 13. Monthly reporting was the lowest, except for PAYG-W, with 28 per cent of participants doing it. Quarterly reporting was the most frequent used for GST, PAYG-W and SG. Annual reporting was most common with income tax and FBT. This finding would suggest that Quarterly reporting is the preferred reporting timeframe, as monthly may be too frequent for SBOs to handle the obligations. Of course, the less frequent the reporting could mean there are less management benefits possible given the age of the data gathered. However, the time constraints that confront SBOs need to be acknowledged and reporting monthly may be too burdensome.

TABLE 13. FREQUENCY OF TAX REPORTING

Frequency of reporting tax obligations	Not Applicable	Monthly	Quarterly	Yearly	Not Sure
GST	22	7 (7%)	79 (84%)	4 (4%)	4 (4%)
FBT	83	0 (0%)	5 (15%)	20 (61%)	8 (24%)
Income Tax	14	2 (2%)	18 (18%)	75 (74%)	7 (7%)
PAYGW	33	23 (28%)	45 (54%)	5 (6%)	10 (12%)
SG	43	10 (14%)	43 (59%)	6 (8%)	14 (19%)

(% excludes those participants choosing Not Applicable)

Of course, tax reporting is only part of the obligation, small businesses also need to pay their tax obligations. The survey explored whether dates of payment of business tax liabilities have a relationship with cash flow management of Australian SBOs. Figure 3 displays the responses of service SBOs to the statement ‘The date that tax liabilities are due has a negative effect on my business cash flow.’ The results are largely ambivalent, as the data demonstrates that 32 per cent of SBO participants gave a neutral response. Just under one-third of participants agreed that payment dates of business tax liabilities had a negative impact on cash flow. In contrast, 37 per cent of responses disagreed, suggesting that cash flow is not impeded by paying business tax liabilities across multiple compliance dates. Of course, it might not be the date that is the problem but instead it may be more about having the available funds to pay the tax liability.

***228 Figure 3. Tax liabilities payment dates**

TABULAR OR GRAPHIC MATERIAL SET FORTH AT THIS POINT IS NOT DISPLAYABLE

Simple linear regression was carried out to determine if SBO literacy influences SBO perception about whether cash flow is negatively impacted by the payment dates of tax liabilities. As illustrated in Table 14, the test outcomes indicate that there is no statistical significance at level .05 between perception and SBO literacy with results of .287 for business tax, .592 for financial statement and .390 for CAS. This suggests that perception about the impact to cash flow is not related to SBO knowledge.

TABLE 14. SBO PERCEPTION OF THE IMPACT ON CASH FLOW FROM TAX PAYMENT DATES AND SBO LITERACY

Date for payment of tax liabilities negatively impacts cash flow (DV)	Sum of Squares	df	Mean Square	F	Sig
Business tax literacy score	1.414	1	1.414	1.144	.287 ^b

Financial statement literacy score	.361	1	.361	.289	.592 ^b
CAS literacy score	.959	1	.959	.745	.390 ^b
[Where ^b represents predictors (constant): the relevant literacy score.]					

Prior research has highlighted that it is the number of tax obligations that is more of concern to SBOs in managing their cash flow. To investigate the relationship between cash flow and taxation, questions posed to service SBOs explored their views about whether reporting their business tax obligations aids or hinders their ability to manage their cash flow. Service SBOs were asked to respond to the statement that ‘*The number of tax liabilities that my business has to pay makes it difficult to manage cash flow.*’ While 45 per cent were in agreeance, one-quarter were neutral and 30 per cent were in disagreement, see Figure 4. This implies that almost half of the SBOs in Australia recognise cash difficulties due to the requirement to report and pay multiple business tax obligations, although one might have considered that it would have been stronger. However, this finding does add support about whether the number of business taxes (and their various reporting dates) could be reduced/streamlined.

***229 Figure 4. Multiple tax obligations**

TABULAR OR GRAPHIC MATERIAL SET FORTH AT THIS POINT IS NOT DISPLAYABLE

The simple linear regression results from comparing perception of cash flow difficulties from compliance to a large number of taxes and SBO literacy illustrates an insignificant relationship with all literacy scores (see Table 15). This suggests that literacy does not influence SBO perception and the responses from SBO could be related to experience not their ability to understand their cash flow based on their business tax, financial statement and CAS literacy. Based on prior literature it could also be possible that SBO perception relates to the time cost of compliance rather literacy levels.¹⁶⁴

TABLE 15. SBO PERCEPTION OF THE IMPACT ON CASH FLOW FROM MULTIPLE TAX LIABILITIES AND SBO LITERACY

The number of tax liabilities makes cash flow management difficult (DV)	Sum of Squares	df	Mean Square	F	Sig.
Business tax literacy score	.445	1	.445	.295	.588 ^b
Financial statement literacy score	.132	1	.132	.087	.768 ^b
CAS literacy score	1.103	1	1.103	.665	.417 ^b
[Where ^b represents predictors (constant): the relevant literacy score.]					

The overall results suggest that the influence of business taxes on cash flow management is largely beneficial, as service SBOs realise greater awareness of cash flow when having to comply with business taxes. This is consistent with research by Lignier,¹⁶⁵ that, if not for taxation, small businesses would have only minimal records, or none. In this respect, having to comply with business taxes which require maintaining records can aid SBOs in managing their cash flow by having more accurate records. Of course, to what extent SBOs realise this potential managerial benefit by utilising the more accurate records is questionable.

However, an unfavourable tax administration requirement that is perceived to adversely impact cash flow is the multitude of business tax liabilities that must be reported and paid in each tax year. To overcome the difficulty of paying a variety of business tax liabilities, service SBOs confirm that separating the tax liability from income aids cash flow management. Interestingly there does not appear to be any relationship between the three literacy scores considered and the cash management practices surveyed.

*230 5.0 RECOMMENDATIONS

The findings of the research emphasised that SBOs recognised business practices related to tax compliance could be beneficial to their management of cash flow. SBOs identified favourable outcomes from paying a PAYG instalment for cash flow management. Prior research however recognises that newly established small businesses may not be registered in the PAYG instalment system, because a PAYG instalment is not activated until the first income tax return is completed.¹⁶⁶ Indeed, small business experts have advocated the benefits in PAYG instalments for cash flow management, and have suggested that the absence of a PAYG instalment in the first year of trade can have unfavourable outcomes to the cash flow of newly registered small businesses.¹⁶⁷ The absence of PAYG instalments for newly established businesses could result in the first PAYG instalment not being payable until at least 16 months after trading began. This means that new businesses may not be contributing towards their income tax liability until mid-way through the second year of earning income, as well as then having to start with their PAYG instalments for the second year of trading.¹⁶⁸

A previous recommendation put forward has been for the tax authority to contact businesses within their first six months of applying for an Australian Business Number (ABN) to start their PAYG-Instalment.¹⁶⁹ This recommendation was for new businesses to be able to opt *into* the voluntary payment before the first income tax return is processed. However, a concern is that new business owners may not realise the benefits to cash flow management of the PAYG Instalment at the time of registration and therefore will not select to opt into the obligation or due to the financial constraints of the starting a business prefer to have as much cash on hand as possible. It is therefore recommended that two policy changes could be enacted to assist small businesses. First, instead of having to opt in for voluntary PAYG instalment payments in the first year, new business owners should be made to make a conscious decision to *opt out* of being in the voluntary system. The voluntary rate could be set at 20 per cent of the difference between revenue and expenses in each quarter over the first year of trading. Setting the voluntary rate at 20 per cent is less likely to be controversial with SBOs, as the rate is lower than both the current company tax rate of 30 per cent and the small business entity company tax rate of 25 per cent.¹⁷⁰ This voluntary but with opt out option requires a positive action by the taxpayer, and if nothing else, means the taxpayer has to think about having to save up for the first tax bill. This change could be beneficial: opting out of voluntary payments is likely to aid SBO literacy, as they would need to have some understanding of why they are choosing not to be part of the PAYG Instalment system. This election could occur when they lodge their first BAS or when they register for an ABN. Should they also decide to remain in the voluntary PAYG Instalment system, they would then receive regular reporting alerts from the ATO, requiring them to ensure that their business records are up-to-date in order to report and pay the voluntary instalment, which in turn would assist with keeping their income tax liabilities manageable for their cash flow.

Reporting tax liabilities for GST, PAYG withholding and SG by the due date, along with preparing the BAS, was also perceived as providing a large managerial benefit for cash flow management, particularly when compared to income tax and FBT. This outcome could be related to the regularity of dealing with transactions related to GST, PAYG withholding and SG, which can be on a daily or weekly basis, and reporting *231 more regularly for these business tax systems, compared to income tax and FBT. This should consider how these taxes (including their reporting) are more aligned with the natural operation of the business and be more aligned with standard accounting procedures. An advantage for cash flow management for SBOs could be to carry out more regular compliance activities for all business tax systems. Consideration should be given for income tax and FBT reporting to be more in line with business trading and should occur at minimum, on a quarterly basis (recalling that quarterly was the most frequent reporting cycle used). For GST, tax reporting could be monthly, whereas for PAYG withholding and SG, the portion of the tax liability could be paid out at the same time as the processing of the employee wages.

The reporting for BAS appears to have the biggest potential to assist with cashflow management, which could be due to its frequency. This is important as research demonstrates that completion of tax returns is more about compliance than considering the health and/or performance of a business.¹⁷¹ To fully realise the potential managerial benefits, SBOs (and their advisors) need to be prompted. It is suggested that four key questions should be considered by the SBOs and/or their advisor about what the BAS tells them about the business operations. These questions are seen as important to prompt this discussion; otherwise SBOs and their advisors may be more focused on tax compliance rather than business performance.¹⁷² These four questions could be:

- (1) Is your revenue greater than your expenses for the period? (that is, is the business trading profitably?)

- (2) Has the business put enough money aside to meet its regular financial commitments? (that is, when does the business income/sales come in? And is that different to when the business pays its expenses and taxes?)

- (3) Has the business been able to pay the owner a wage (and superannuation/retirement savings)?

- (4) Has the business improved its financial position since the last time? (such as, profit margin; debt to equity ratio; and/or working capital).¹⁷³

SBOs in this research agreed to a large extent that keeping tax liabilities separate from trading income assists in cash flow management. Given this finding, this practice of separating tax liabilities should be considered for all small businesses. The separation of tax liabilities could occur automatically if businesses were using a CAS system, where the tax and SG liability are transferred into a tax-related bank account. It has been previously proposed as to whether such a tax bank account could be managed by the tax authority,¹⁷⁴ although this could meet with some resistance. Alternatively, for those not recording electronically the transfer could be actioned manually by the SBO or their advisor. To further assist small businesses in managing their tax obligations and their cash flow, this tax bank account could be used to hold a portion of income each week to satisfy other tax-related expenses, including income tax. A percentage of the income of approximately 15 per cent could be transferred from the business trading bank account each week, which would be held for tax compliance obligations due in the future. To prevent SBOs accessing this money for purposes other than paying a tax liability, an account condition could be that there are restrictions on which organisations are approved to receive a transfer of funds. This could be waived if the SBO was identified as being under financial hardship. An advantage of keeping the funds in a bank account owned by the business *232 is that the business may earn interest income on the funds, which would not be possible if the funds were held by the ATO.

6.0 LIMITATIONS AND FUTURE RESEARCH

There were several limitations in this study. Firstly, the research did not identify the financial stability of the participating businesses or the ability of the SBO to manage cash flow. This could result in responses that do not reflect successful management practices. Also, there was an underrepresentation of SBOs who had resided in Australia for less than five years, which could relate to the language barrier in completing the survey in English.

A further limitation of the research was the small sample size of those who completed the survey. A higher number of SBO participants would have resulted in a higher degree of validity when comparing the results to the Australian SBO population. Finally, this research is based on sensitive information related to small business cash flow management practices and their

engagement with Australian business taxes. It is possible that some service SBOs may select answers that do not reflect a true representation of their business cash flow experiences due to concerns about how their feedback portrays their own abilities to successfully operate their business.

There are several research opportunities, such as preparing the survey in other languages to suit the growth of SBOs with English as a second language in Australia. Also, future research could investigate the cash flow position of participating businesses as part of the demographic information collected so that business success could be compared to responses of SBOs. Given the advent of the COVID-19 pandemic, future research might consider the financial impacts that might have resulted in for SBOs and what cash flow management strategies were implemented.

7.0 CONCLUSION

This research is important because there is a dearth of empirical literature examining the influence of current business tax systems on the cash flow of Australian SBOs. Service SBO perception of the relationship between business tax and cash flow was examined to identify whether benefits or restraints to cash flow are realised from complying with business tax systems. The business tax systems explored included GST, FBT, income tax, PAYG-W and SG.

In terms of tax administration, service SBOs in the survey confirmed that the due date for paying tax liabilities does not cause unfavourable outcomes for cash flow, whereas the number of tax liabilities needing to be paid in each tax year has negative consequences for cash flow management. More than two-thirds of the service SBOs believe that this burden could be eased by separating the tax liability from trading income, as a worthy cash flow management tool especially for GST, income tax, PAYG withholding and SG.

Service SBOs were not overly concerned about the influence of business taxes on cash flow. Service SBOs in the survey also appeared to realise benefits to cash flow from business tax compliance. Managerial benefits were confirmed by SBOs in the form of maintaining business records, helping with the management of cash flow and improving cash flow awareness from recording transactions for business tax purposes. The GST and preparation of the BAS were viewed by service SBOs as providing a positive influence on cash flow management. Service SBOs considered that paying a PAYG Instalment was advantageous to cash flow management. It did not appear that literacy of SBOs in relation to business tax, financial statements or CAS had any relationship to the cash flow management practices considered in this study.

***233** Cash flow management is critical for all businesses, especially small businesses. The obligation to pay taxes, in particular, has the potential to adversely impact businesses' cash flow. However, the record keeping practices and reporting required for tax obligations can have the potential to aid cash flow management and provide critical insight into how the business is operating. Through the findings and recommendations of this research it is hoped that the promotion of tax compliance can start to better aid cash flow management of small businesses; particularly by encouraging a cash flow discussion during tax compliance activities by advisors and their clients. It is one thing to have more accurate business records due to tax compliance activities, it is another thing to use those records to monitor business performance.

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Footnotes

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- 106 Fringe Benefits Tax Assessment Act 1986 (Cth) ss 102 and 103. Note instalments for FBT are only payable if the entities previous years FBT liability was greater than \$3000.
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- 139 Australian Bureau of Statistics, above n 3.
- 140 Australian Bureau of Statistics, above n 3.
- 141 A New Tax System (Goods and Services Tax) Act 1999 (Cth).
- 142 Income Tax Assessment Act 1997 (Cth).
- 143 A New Tax System (Goods and Services Tax) Act 1999 (Cth).
- 144 Superannuation Guarantee (Administration) Act 1992 (Cth).
- 145 Fringe Benefits Tax Assessment Act 1986 (Cth).
- 146 Other research has also observed such circumstances: Yong and Freudenberg, above n 34, at 61.
- 147 Those that selected not applicable are not included in the calculation.
- 148 Yong and Freudenberg, above n 34, at 75.
- 149 Melissa Belle Isle and Brett Freudenberg, above n 66.
- 150 Melissa Belle Isle and Brett Freudenberg, above n 66.
- 151 Melissa Belle Isle and Brett Freudenberg, above n 66.

- 152 Yong and Freudenberg, above n 34, at 61.
- 153 See the earlier discussion: Belle Isle and Freudenberg, above n 30, at 21.
- 154 Poppelwell and others, above n 99, at 405.
- 155 Belle Isle and others, above n 86.
- 156 Belle Isle and Freudenberg, above n 30, at 25.
- 157 Belle Isle, Freudenberg and Sarker, above n 63, at 88.
- 158 Belle Isle and Freudenberg, above n 30, at 7.
- 159 Belle Isle and Freudenberg, above n 30, at 7.
- 160 Belle Isle and Freudenberg, above n 30, at 26.
- 161 Commissioner of Taxation, above n 95, Appendix 6.0.
- 162 Belle Isle, Freudenberg and Sarker, above n 63, at 96.
- 163 Belle Isle and Freudenberg, above n 30, at 21.
- 164 Lignier and others, above n 18, at 245.
- 165 Lignier, above n 82; Lignier, above n 32.
- 166 Belle Isle and others, above n 86.
- 167 Belle Isle and others, above n 86.
- 168 This is not a new issue, with similar issues reported over 40 years ago: Brian L Johns, WC Dunlop and WJ Sheehan *Small business in Australia: Problems and Prospects* (Allen & Unwin, Sydney, 1989).
- 169 Belle Isle and Freudenberg, above n 30, at 32.
- 170 The small business entity company tax rate reduces to 25% in 2020-21 for businesses with an aggregated turnover threshold of \$50 million.
- 171 Yong and Freudenberg, above n 34.

172 Yong and Freudenberg, above n 34.

173 It is acknowledged that these questions reflect some of those raised in the ATO's *Cash Flow Coaching Kit*. See <www.ato.gov.au/tax-professionals/support-and-communication/in-detail/cash-flow-coaching-kit/>.

174 Belle Isle and Freudenberg, above n 30, at 32.

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