

The small business hit list...

Is the Tax Office targeting your business?

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Last month, the Tax Office released a raft of new benchmarks for small business. Under the gentle guise of 'helping small business with their tax compliance', the benchmarks are, in reality, one of the key indicators used to identify who is likely to come under Tax Office scrutiny.

The industries benchmarked are high on the 'likely offenders' list for the cash economy and the Tax Office make it clear that "businesses reporting outside of these benchmarks are likely to attract attention."

The small business benchmarks provide an indication of likely costs relative to turnover for different industries. Up to five ratios are used:

Cost of goods sold to turnover	$(\text{Cost of goods sold} \div \text{turnover}) \times 100 = \text{cost of goods ratio (\%)}$
Labour to turnover	$(\text{Labour costs} \div \text{turnover}) \times 100 = \text{labour/turnover ratio (\%)}$
Rent to turnover	$(\text{Rent} \div \text{turnover}) \times 100 = \text{rent/turnover ratio (\%)}$
GST-free sales to turnover	$(\text{GST-free sales} \div \text{turnover}) \times 100 = \text{GST free sales/turnover ratio (\%)}$
Motor vehicle expenses to turnover	$(\text{Motor vehicle expenses} \div \text{turnover}) \times 100 = \text{motor vehicle expense/turnover ratio (\%)}$

So, for a pub with sales between \$250,000 and \$750,000, the expected cost of goods sold to turnover ratio is 36%-50%. In this same example, the expected labour to sales ratio is 15% - 23%. If the pub falls outside of this benchmark, the Tax Office will take a closer look at their records and determine if an audit is required.

The danger is that if your business falls outside of the benchmark for legitimate reasons, you still need to ensure that you can justify the reasons for the variations. This will be a common problem where businesses do not neatly fit into an industry definition.

If you want to know more about reducing your tax risks, contact us today.



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The small business hit list...

Continued...

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The Tax Office small business benchmark hit list

Accommodation and food services

- Chicken shops
- Coffee shops
- Fish and chips shops
- Kebab shops
- Pubs, taverns and bars
- Restaurants
- Sandwich shops
- Sushi takeaways
- Takeaway food services
- Takeaway pizza shops

Administrative and support services

- Building and other industrial cleaning services
- Pest control services

Construction

- Air conditioning, refrigeration and heating services
- Bricklaying
- Blocklaying
- Concreting services
- Electrical services
- Fence construction
- Painting services
- Plasterboard installers
- Plastering and ceiling services
- Plumbing services
- Roof guttering installation
- Roof painting and repair
- Roofing services - includes roof tiling and metal roofing services
- Tiling and carpeting services
- Tiling - floor and wall
- Timber floor installation
- Timber floor sanding

Manufacturing

- Bakeries and hot bread shops
- Cake shops and patisseries

Rental, hiring and real estate services

- Video and other electronic media rental and hiring

Retail trade

- Clothing retailing
- Computer retailing
- Floor covering retail
- Florists
- Footwear retail
- Fresh fish and seafood retailing
- Fresh poultry retailing
- Fruit and vegetable retailing
- Furniture retail
- Grocery retailers and general stores
- House ware retailing
- Liquor retailing
- Meat retailing and butchers
- Newsagents
- Tyre retail

Transport, postal and warehousing

- Courier services
- Delivery services
- Furniture removalists
- Road freight transport services
- Taxi drivers and operators
- Towing services

Other services

- Barber and men's hairdressing
- Beauty services
- Hairdressers
- Laundry and dry-cleaning services
- Nail salons



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