



SMALL BUSINESS

May 2015

The Australian Government is committed to reducing the red tape burden on small businesses.

Small businesses often operate in a fundamentally different way to large or medium businesses. When a policy proposal is judged to have a significant impact on small business, this should be considered in a Regulation Impact Statement (RIS). Decision makers can take these impacts into account in a final decision when policy analysis goes beyond the overall efficiency of a proposal and examines its distributional impacts, including those on small businesses.

This guidance note explains factors unique to small businesses that may need to be taken into account in addressing the seven RIS questions listed in the *Australian Government Guide to Regulation*. It also includes the *Small Business Engagement Principles* (see Attachment), which were adopted as part of the release of the Industry Innovation and Competitiveness Agenda in 2014. The Small Business Engagement Principles are designed to assist government agencies to engage effectively with small business to identify opportunities to reduce red tape and to develop initiatives to enable small business to thrive.

What is a small business?

There are over 2 million small businesses in Australia¹ and there is no single definition of a ‘small business’. However, there are two frequently used definitions that may assist when completing a Regulation Impact Statement:

- Australian Bureau of Statistics: a business that employs fewer than 20 people; and/or
- Australian Taxation Office: a business that has an aggregated turnover (excluding GST) of less than \$2 million.

Why are they unique?

- Small businesses are diverse – they cover all industry sectors and operate in all urban, regional and rural communities across Australia.
- It is estimated small businesses spend, on average, around five hours a week complying with government regulatory requirements.²
- Roughly 60 percent of small businesses function with the owner as the sole operator and are known as ‘non-employing’ businesses. A further 25 percent have less than five employees.³
- Small businesses may be more likely to need to seek external advice – such as legal, financial or management – to understand and meet their regulation obligations. This means the compliance costs of regulation are likely to be relatively higher compared to larger businesses operating in the same field.

¹ Australian Bureau of Statistics, Catalogue 8165.0 – Counts of Australian Business, including Entries and Exits, June 2009-2013

² Productivity Commission, 2013, ‘Regulator Engagement with Small Business’

³ Australian Bureau of Statistics, Catalogue 8165.0 – Counts of Australian Business, including Entries and Exits, June 2009-2013

- Small businesses are often frustrated by the cumulative effect of the numerous regulations and compliance requirements imposed by different levels of government. Adding new requirements may result in non-compliance, not because small businesses cannot be bothered, but because they have limited visibility of changes and hence capacity to comply.

How do I consider small business impacts in preparing a RIS?

Measuring the net benefit of a policy option goes beyond costing the regulatory burden using the Regulatory Burden Measurement framework. Broader costs and benefits to the community, including opportunity costs, and indirect costs and benefits, should also be examined as part of the wider cost-benefit analysis in the RIS.

After first considering whether regulation is necessary at all, you should also consider whether a mix of policy options and methods for administering the regulation based on business size would be more effective and efficient.

Alternatives could include:

- flexible compliance options;
- differentiated regulatory requirements, and ways of administering them, based on turnover or number of employees;
- simpler, lighter touch compliance options for small businesses or risk-based enforcement;
- principles-based approaches augmented with minimum compliance standards; or
- use of existing data sources and coordination among regulators to minimise reporting requirements.

For further information on compliance costs and the Regulatory Burden Measurement tool, please see the Regulatory Burden Measurement Framework Guidance Note.

A key component of the costing process will be estimating the number of businesses likely to be affected by the proposed measure. Data sources such as ABS Catalogues 8165.0, 8175.0, 6306.0 and ATO Taxation Statistics can significantly help in this regard.

What about consultation?

Engaging with small business before a regulation is designed provides an opportunity to get an insight into the real world workings of a regulation and its impacts on small businesses. If you decide to engage directly with small business, information should be easily accessible, simple, and in plain English. Alternatively, industry and professional associations, or business intermediaries (such as accountants and tax agents) may be useful contact points. However, remember that many of the people you may wish to consult have full time jobs or business commitments so have limited amounts of time to devote to the consultation process. Some useful questions to ask of, or about, small businesses include:

- How difficult would it be to obtain the information needed to register/comply?
- Would the proposal require your business to undertake additional record-keeping or incur additional costs?
- Is the information already provided to another source?
- Would the proposal require your business to notify a regulatory authority when certain events take place?

Further information on consultation for a RIS can be found in the 'Best Practice Consultation' Guidance Note.

ATTACHMENT: SMALL BUSINESS ENGAGEMENT PRINCIPLES

In October 2014 the Abbott Government adopted a set of Small Business Engagement Principles, as part of the release of the Industry Innovation and Competitiveness Agenda,⁴ to assist government agencies to engage effectively with small business to identify opportunities to reduce red tape and to develop initiatives to enable small business to thrive.

Australia's more than two million small businesses are everywhere—in every industry sector and every town and city across Australia. They make a vital contribution to the Australian economy by innovating, investing and employing 4.8 million people.

By engaging effectively and early with small business, we can deliver policies and programmes that minimise red tape and provide the right tools and information to help them overcome challenges, survive tough times, grow and prosper. To achieve this, the Australian Government has developed five overarching principles to improve our engagement with the small business community.

Better engagement will help us understand the small business experience so we can eliminate unnecessary red tape and design and promote policies and programmes that contribute to innovation, investment and growth. In doing so, we can help small businesses shape their own destinies and reach their full potential.

Principle 1 – Australian Government agencies will actively identify ways to eliminate unnecessary red tape in all policies, programmes and initiatives that affect small business.

By talking and listening to small business about the challenges they face and the conditions in which they operate, we can better understand how to improve policies and ease the regulatory burden. To achieve this, agencies will:

- regularly analyse information from interactions with small business to identify ways to simplify compliance, reduce red tape and improve policy outcomes
- provide opportunities and mechanisms for small business to raise concerns and suggest ways to cut red tape, and
- regularly engage with a diverse range of small businesses.

Principle 2 – Australian Government agencies will consult and collaborate with small business early and throughout the policymaking and programme design process.

By listening and talking to small business early and throughout the policymaking and programme design process, we can better understand how a new policy, regulation, programme or initiative will affect their day-to-day operations. Effective engagement can help to reduce red and green tape in the first instance and ensure Government information is relevant and accessible to small business.

⁴ Australian Government, 2014, Industry Innovation and Competitiveness Agenda

Principle 3 - Australian Government agencies will make information targeted to small business available through the Government's primary small business communication channels.

Small business operators get their business information from people, places and websites they trust. That's why we need to make it easy for small business and their influencers to access all relevant Government information.

The Single Business Service initiative will streamline the way businesses access government information and services, putting their needs first and reducing complexity. The initiative includes a streamlined and consolidated 'one-stop shop' web presence and a call centre incorporating the previous Small Business Support line. The Single Business Service initiative will also be seamlessly integrated with the work of the Small Business and Family Enterprise Ombudsman.

Agencies will only need to submit information through a single point at business.gov.au to make it available to a small business operator online, by telephone or face-to-face through programmes such as the Small Business Advisory Services Programme and Small Business Australia.

Principle 4 - Australian Government agencies will strive to adopt whole-of-government small business solutions to simplify the way business interacts with Government online.

The Australian Government has developed small business solutions, which together, empower small business to transact with government quickly, easily, securely, and when it suits them. The solutions include:

- Australian Business Account - an online account that helps small business manage ongoing business interactions with government
- Standard Business Reporting - using business software to report to government online
- VANguard - provides whole-of-government authentication solutions, and
- AUSKey - the Australian Government's preferred digital credential for business to government transactions.

Where it delivers net benefits to Government and small business, Australian Government agencies will adopt the full range of online small business solutions. This will help to provide small business with a consistent user experience, streamlined interactions and secure communication with government. Agencies will explore options for simplifying the application processes and integrating with existing processes.

Principle 5 - Australian Government agencies will communicate with small business in clear, simple language and present information in an accessible format.

Small businesses owners are time poor and need to absorb information quickly and easily. Simplifying our communication by using plain language presented in an appealing format will be accessible to a broad range of small business operators with varying needs. Where possible, Australian Government agencies will test their communication resources with a small business audience before release. This will make it easier for small business operators to access our information, comply with relevant regulations and apply for government programmes.