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13 September 2022

Dear Sir or Madam,

Proposed exclusions from shorter period of review for small and medium entities

CPA Australia is Australia's leading professional accounting body and one of the largest in the world. We represent the diverse interests of more than 170,000 members in over 100 countries and regions. We make this submission on behalf of our members and in the broader public interest.

The Treasury's **exposure draft regulations** propose to exclude small and medium entities from shorter periods of review where those entities have "particularly complex tax affairs or significant international tax dealings". The proposed amendments to the **Income Tax Assessment (1936 Act) Amendment (Period of Review) Regulations 2022** (the Exposure Draft Regulations) are made in the context of the increase to the small business entity turnover threshold from $10 million to $50 million annual aggregated turnover.

We are supportive of the changes that increased access to certain small business concessions by increasing the aggregated turnover threshold for small business entities from $10 million to $50 million. These changes enabled a greater number of Australian enterprises to benefit from access to certain tax concessions and at the same time reduced some compliance costs.

We also recognise that as businesses grow larger, the likelihood of their structures and tax affairs becoming increasingly complex increases, especially where they restructure, diversify and/or expand internationally. As such, the proposal to exclude certain entities from the two-year period of review for small businesses is reasonable.

We note, however, that the Exposure Draft Regulations do not constrain the amendments to medium business entities (i.e., entities between $10 million and $50 million turnover) who benefited from the increased access to certain small business concessions. This means that some small business entities under the $10 million threshold and entities that do not carry on a business will become subject to a four-year period of review when, absent the changes introduced during COVID, they would have been able to continue to be subject to the two-year period of review.

Combined with the relatively low proposed thresholds for related party dealings (Item 1) and foreign entities (Item 3), we anticipate that a greater number of entities will lose access to the two-year period of review than simply a subset of the estimated 20,000 medium businesses who were expected to benefit from the concessions[1].

To assist taxpayers, it would be helpful for the ATO to determine and inform entities of the applicable period of review based on information collected on returns[2] and its knowledge of private group structures. This may require refining or modifying the current reporting requirements.

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[1] Pp. 16-17, Increase the small business entity turnover threshold, **Budget Measures Budget Paper No. 2 2020-21**, Budget 2020-21, The Commonwealth of Australia, 2021

[2] For example, disclosures of foreign source income, payments to associates and the application of a CGT rollover or exemption. See 2021 ATO **company** and **trust** tax return instructions, and **Guide to capital gains tax 2022**

If you have any queries about this submission, contact Elinor Kasapidis, Senior Manager Tax Policy on +61 3 9606 9666 or **elinor.kasapidis@cpaaustralia.com.au**.

Yours sincerely,

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