TAX LITERACY OF AUSTRALIAN SMALL BUSINESSES

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ABSTRACT

Small businesses are a critical component of economies, although they face a myriad of issues, including their literacy in relation to a number of key business issues. In recent years tax literacy has been argued as an important part of financial literacy. Research has demonstrated that a person’s tax literacy is likely to be greater when they are self-employed and operate their own businesses. However, whether this increased tax literacy is sufficient to address the labyrinth of issues faced when running a business is questionable. This article reports further evidence about the tax literacy of Australians who have conducted a business in relation to GST, deductions and their compliance attitude. These findings can build the foundation for future work to explore how tax literacy is an important component of financial literacy for small businesses.

Keywords: tax literacy; financial literacy; Australia, small business, compliance, deterrence, gst, cash flow.

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I. INTRODUCTION

Small businesses are a critical component of economies around the world and Australia is no exception. Small businesses are an integral part of the Australian economy accounting for 95.9% of all Australian private sector businesses,\(^1\) contributing some 34% of total gross value added to the economy.\(^2\) There are over 1,062,000 individuals as sole traders conducting ‘micro’ sized businesses, and another 3,000 individuals conducting ‘small’ sized businesses.\(^3\) Furthermore, there are another 1,290,000 micro and small sized businesses conducted through corporations, partnerships and trusts.\(^4\) It is estimated that small businesses employ 4.8 million people, representing 45.7% of all private sector employees.\(^5\) Of course these figures do not include those in business like activities or those informal businesses in the shadow economy.

Small businesses face a myriad of issues, including their literacy in relation to a number of key business issues. In recent years tax literacy has been argued as an important part of financial literacy.\(^6\) This is based on the idea that tax can influence financial investment returns, as well as being able to access government benefits that are delivered through the tax system.\(^7\) Preliminary Australian research into tax literacy and its relationship to financial literacy has demonstrated that there are various demographics (similar to financial literacy) that are at risk for low levels of tax literacy, such as women, those with low income and the young.\(^8\) This research also demonstrated that a person’s tax literacy is likely to be greater when they have more connection to the workforce. In particular, people who were self-employed and operated their own businesses generally had the highest level of tax literacy.\(^9\) However, whether this increased level of tax literacy is sufficient to address the labyrinth of issues faced when running a business is questionable. Prior research has regularly demonstrated that small businesses can have issues when running their businesses, which can include financial management, owner capabilities and taxation.\(^10\) This, in part, can be

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4. Ibid.
8. Ibid.
9. Ibid.
related to the large role of the owner in the day-to-day management of the business and the multiple roles the owner may have.

Furthermore, a greater understanding of tax literacy is important as it could be related to tax compliance behaviour of taxpayers.\(^1\) In a financial literacy context, the tax literacy of small business operators can be seen to be of greater importance given that the wealth tied up in a business can account for a large proportion of the retirement savings for the business operator. This has been recognised by the Australian government through generous tax concessions on the sale of business assets by small businesses.\(^2\) This article reports further evidence about the tax literacy of Australians who have conducted a business in relation to GST, deductions and their compliance attitude. These findings can build the foundation for future work to explore how tax literacy is an important component of financial literacy for small businesses.

The remainder of this article is constructed as follows. Section 2 will outline the notion of financial and tax literacy, and how it can relate to business operations. Section 3 will provide a detailed literature review about the issues confronting small businesses, particularly in relation to tax compliance and its cost. Section 4 will outline the research methodology, prior to the results being collated in Section 5. Possible avenues for future research will be outlined in Section 6, before the article concludes.

II. FINANCIAL LITERACY

Financial literacy is the ability to make informed judgements and effective decisions in a financial situation especially in relation to saving, investing and debt control.\(^3\) Financial literacy can also be referred to as ‘financial capability’ which is a broader concept encompassing an individuals’ personal characteristics, financial skills, attitudes; which can be influenced by various factors in his/her micro and macro environment.\(^4\) For the purpose of this article the term ‘financial literacy’ will be used to encompass capability as well. Financial literacy should not be confused or interchanged with financial knowledge.\(^5\)


Division 152 ITAA 1997 (Cth).


Toni Brackin, Taxation as a Component of Financial Literacy: How Literate are Australians in Relation to Taxation, (PhD Griffith University 2014), 22.

Huston, above n 13, 296-307.
Financial knowledge is recognising what is required in order to be financially stable, whereas financial literacy is having the capacity and confidence to apply that knowledge to financial decisions.\textsuperscript{16} Having financial literacy skills is an essential basis for both avoiding and solving financial problems.\textsuperscript{17}

Limitations in financial literacy can have immediate and long term effects on an individual’s economic well-being.\textsuperscript{18} Low levels of financial literacy are associated with poor financial decision making. International and Australian research suggests that individuals from certain demographics can have limited financial literacy. These at risk demographics include those aged less than 25 years, with low numeracy skills, no tertiary education, a level of income of less than $25000, minimal savings and investments, blue collar occupation, female and being of an ethnic minority.\textsuperscript{19} Higher levels of financial literacy have been associated with demand for financial services, provision of incentives to open savings accounts and education in basic financial concepts.\textsuperscript{20} This is broadly supported by recent research in Australia. Individuals identified as having the highest levels of financial literacy possessed one or more of the following characteristics: a tertiary education, professional occupation, a business owner or a member of a couple with no children.\textsuperscript{21} What this could indicate that there could be ‘transition’ issues for those first time business operators, especially if they are from a demographic background seen as ‘at risk’. Once running business they may develop greater financial literacy skills; however what occurs in the initial start-up phase? It has also been proposed that personal financial skills and knowledge is acquired through trial and error.\textsuperscript{22} Australian research suggests that individuals aged between 45 and 49 years are the age group with the highest levels of financial literacy.\textsuperscript{23} This may be attributed to having been exposed to various financial products and services throughout their adult life, and still being actively employed in the workforce prior to retirement age.

\textsuperscript{16} Ibid, 296-310; Worthington, above n 13, 6.
\textsuperscript{20} Drexler, Fischer and Schoar, above n 19, 5.
\textsuperscript{21} The Social Research Centre, above n 19.
\textsuperscript{22} Marcolin and Abraham, above n 17, 7.
\textsuperscript{23} Ibid, 3.
Business owners have been identified as having a higher level of financial awareness in comparison to other individuals. However, the financial literacy required for individual success is not as comprehensive as what is required to operate a small business. Previous research suggests that owners of small businesses lack the required level of financial literacy to make important financial decisions for their business.

The level of financial literacy required can depend upon someone’s role. The solvency of small business is a critical part of small business management and is dependent on the level of professional financial literacy that the business owner possesses. Solvency is achieved through careful cash planning and control which requires the owner to understand the financial position and activities of the organisation. Financial literacy of small business owners can impact firm growth and productivity and those with higher levels of financial literacy have been known to be more effective when using financial products and are more engaged in using and offering trade credit.

Regardless of the abundance of research that suggests that use of financial statements is valuable to the ongoing success of small business, it appears that small businesses in Australia and overseas make limited use of financial statements to assist them in managing their business. DeThomas and Fredenberger suggested the limited use in Australia to be a result of owners’ lack of understanding of how to analyse the figures within the statements and their reluctance to seek help to do so from their accountant. A notion that can influence a businesses’ financial position is its tax obligations.

A. Tax Literacy

Chardon has argued that the notion of financial literacy needs to be expanded to include tax literacy. The basis of this argument is that an understanding of tax systems is beneficial to

25 Drexler, Fischer and Schoar, above n 19, 1-2.
26 Brown, Saunders and Beresford, above n 24, 179-80.
30 DeThomas and Fredenberger, above n 27, 20; Halabi, Barrett and Dyt, above n 29, 171-74.
31 Chardon, n 6.
a person’s overall financial position. This is based on the idea that tax can influence financial investment returns, as well as being able to access government benefits that are delivered through the tax system. The level of knowledge that an individual possess of tax systems is posited to have a relationship with their ability to budget, communicate with advisors, make decisions and appropriate choices and understand their rights and obligations. In this sense, it argued that there is a base level of taxation and superannuation literacy or knowledge required in order to be financial literate.

It appears that the demographical relationship with taxation literacy can be similar to those for financial literacy. While Australians are found to be broadly tax literate, they appear less literate when it comes to specific tax and superannuation issues in comparison to financial issues. It has been found that the financial literacy of individuals has a positive relationship with increase in age, education, income; as well as occupation. While Chardon et al. found similar characteristics for tax literacy; it was found that employment hours and employment category have a stronger relationship with taxation literacy of individuals than age and education. In particular, individuals that are involved in business appear to be more literate in regard to individual taxation requirements than those who are not. These findings are consistent with previous research by McKerchar in relation to tax knowledge of small business owners. McKerchar found that an increase in the age of small business owners did not seem to influence the level of tax knowledge of the business owner, and those with higher levels of education did not necessarily have better tax knowledge. Research suggests instead that business turnover and length of time in business has a strong connection to the level of tax knowledge of small business owners. However, it is not clear the direction of causality here, as there is scant empirical research in this area.

While small business owners may have higher tax literacy than the general public, McKerchar argues that the level of tax literacy in relation to business tax systems does not appear to be adequate for management of their tax requirements. As far back as the 1990’s, research suggested small business owners needed to spend more time improving their level of tax knowledge. In that research, McKerchar suggested small business owners experience

32 Chardon, Freudenberg and Brimble, above n 7.
33 Chardon, n 6.
34 Chardon, Freudenberg and Brimble, above n 7.
35 Ibid.
36 The Social Research Centre, above n 19.
37 Chardon, Freudenberg and Brimble, above n 7.
38 Brackin, above n 14, 223.
39 McKerchar, above n 11.
40 Ibid, 37 and 40.
41 Ibid, 40.
difficulty with understanding superannuation guarantee, Income Tax, Provisional Tax\textsuperscript{42} and Fringe Benefits Tax\textsuperscript{43} McKerchar found there was difficulty when determining what deductions are allowable, which benefits are classified as a fringe benefit, and which employees attracted superannuation guarantee.\textsuperscript{44} Complexity was also experienced in determining the correct dates for lodgement and payment of the tax liability.\textsuperscript{45}

While research found that more than 90\% of small business owners suggested that they pursued tax information from various sources including advisors and the ATO, this rarely occurred on a regular basis.\textsuperscript{46} Evidence suggests that small business owners are not proactive in improving their tax knowledge. This was substantiated during prior studies when researchers provided information of taxes that were identified as being complex to the respondents. The participants within the research did not make use of the information during the time that the research was conducted.\textsuperscript{47} It was suggested that lack of uptake of the tax information was primarily related to two reasons. Firstly, tax obligations were a low priority for small business owners, with greater importance placed on income earning activities.\textsuperscript{48} An opposing argument by McKerchar is that small business owners perceived that they were knowledgeable about business tax matters.\textsuperscript{49} Once business owners believed that they were knowledgeable about a specific tax matter they did not review or revise their tax management practices at a later date. As a result small business owners were oblivious to any changes to legislation or misrepresentations of tax law that occurred at a later time.\textsuperscript{50}

Further reasoning for limited tax knowledge was determined to relate to expert advisors. Small business owners placed great reliance on their accountant to carry out and understand all tax matters relevant to their business.\textsuperscript{51} McKerchar indicated that there was a need to improve tax knowledge of small business owners, however if they themselves did not believe there was any shortfall in the tax information they possessed then any attempt at educating them would be futile.\textsuperscript{52}

\textsuperscript{42} The forerunner to the current PAYG system.
\textsuperscript{43} McKerchar, above n 11, 32-35.
\textsuperscript{44} Ibid, 34.
\textsuperscript{45} Ibid.
\textsuperscript{46} Ibid, 30.
\textsuperscript{47} Ibid, 32; Ian G. Wallschutzky and Brian Gibson, ‘Small business cost of tax compliance’ (1993) 10(4) \textit{Australian Tax Forum} 511, 528.
\textsuperscript{48} McKerchar, above n 11; Wallschutzky and Gibson, above n 47, 528.
\textsuperscript{49} McKerchar, above n 11.
\textsuperscript{50} Ibid, 35.
\textsuperscript{51} Ibid, 36.
\textsuperscript{52} Ibid, 40.
In terms of trustees of self-managed superannuation funds (SMSFs), self-reported legal literacy has been found to have a positive correlation to knowledge scores. Similarly, the level of legal training can also have had a positive correlation to knowledge scores. Participants’ level of interest was negatively correlated to knowledge scores (i.e. those who know least were most interested in knowing more). Again this could relate to the inertia referred to by McKerchar in the sense of small business owners’ reluctance to up-date their tax knowledge.

B. **Tax Confidence**

Models of financial literacy are not just about knowledge but also confidence. Confidence relates to attitudes, behaviours, decision making, and the likelihood to seek advice; all of which are aspects of financial literacy. Financial literacy research has demonstrated that there can be over-confidence particularly in relation to basic financial concepts and investment decisions. In contrast, with tax literacy there appears to be greater alignment between knowledge and confidence; and at times under-confidence. That is, if a person is confident about his/her tax knowledge then this is likely to be aligned with the person’s knowledge, or that their knowledge is greater.

Chardon *et al.* found that over-confidence is less common in relation to tax and superannuation law than has been found in other financial literacy components. Generally, participants were mostly under-confident. There were almost no instances of low self-assessed confidence and high tax literacy scores, and a very small number who had very high confidence and low tax literacy scores. Part of the reason for this greater alignment of knowledge and confidence could be an awareness of penalties for incorrect application of tax law, and therefore people are more cognitive of their actual knowledge.

Research has found that the demographic with the greatest tax confidence were the self-employed running a business, which was consistent with their greater tax literacy. In contrast, lower tax confidence was more likely to be found in females, younger age groups

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53 Mihaylov, Tretola, Yawson and Zurbruegg, above n 11.
54 Ibid.
55 Ibid.
57 Toni Chardon, Brett Freudenberg and Mark Brimble, ‘Are Australians under or over confident when it comes to tax literacy, and why does it matter?’ (2016) 14(3) eJournal of Tax Research 650.
58 Ibid.
59 Ibid.
and those on lower incomes.\textsuperscript{60} Also, lower confidence in relation to taxation and superannuation law issues is likely to be found in those with less participation in the paid workforce (such as full-time students or those not in paid work) and those with lower education levels.\textsuperscript{61}

Overall it is argued that tax literacy in relation to business operations is important as it allows people to know their rights and obligations, and thus allows business people to be proactive in minimising their tax problems. In terms of tax law, evidence suggests that business obligations lead to greater tax law literacy when compared to others in the population. However, the adequacy of this literacy may be questionable, especially given the many issues faced by small businesses.

III. SMALL BUSINESSES ISSUES

While small businesses can be numerous and contribute substantially to the national economy, they can face a number of issues, such as financial constraints, compliance costs, and restricted management capacity.\textsuperscript{62} These issues can arise due to the characteristics of small businesses, and their operators. Through analysis of prior literature, MacGregor and Vrazalic\textsuperscript{63} have identified a list of characteristics that are unique to small and medium sized enterprises (‘SMEs’) in Australia. It is argued that this SME characteristic are pertinent to small businesses as well. Generally SMEs are internally controlled, funded with private equity not public, the owner is normally the majority equity holder and often the only individual deriving an income from the business activity and debts are secured by the owners’ private assets or the assets of an individual closely connected to the owner.\textsuperscript{64} Additionally, they found that SMEs can have inadequate record keeping with the owners having a strong influence in the decision making process.\textsuperscript{65}

Skill strengths of small business owners at commencement of their business revolve around the technical skill set that the owner possesses.\textsuperscript{66} Research suggests that small businesses

\textsuperscript{60} Ibid.
\textsuperscript{61} Ibid.
\textsuperscript{62} Belle Isle and Freudenberg, above n 10.
\textsuperscript{65} MacGregor and Vrazalic, above n 63, 30-31.
\textsuperscript{66} DeThomas and Fredenberger, above n 27.
are lacking financial management skills at the start-up of their business (with the exception of businesses related to finance or accounting).\textsuperscript{67} The skills of SMEs in relation to meeting tax obligations will be explored in the following section.

A. Tax Compliance Issues

There are a number of issues that can influence a small businesses' capacity to meet their tax law compliance obligations. For example, an issue for small businesses is staying up-to-date with their tax law obligations, as it has been found that the frequency of tax law changes can increase the compliance cost for businesses.\textsuperscript{68} The owner-manager may have a central role in managing the businesses' tax obligations, and thereby the skill and knowledge of the owner can be critical.\textsuperscript{69} While the role of advisors can be important to assist small businesses, due to various reasons, including financial constraints and attitude, there can be a reluctance to utilise them.\textsuperscript{70} However, meeting tax obligations appears to be a reason why a majority of Australian small businesses do seek an accountant's assistance.\textsuperscript{71}

An aspect that could be influence a taxpayer's compliance behaviour is their attitude towards the tax system. McKerchar's research suggested that non-compliant behaviour by taxpayers was not necessarily intentional, and that their lack of tax law knowledge (‘literacy’) meant that they were most likely to be unintentionally non-compliant.\textsuperscript{72} McKerchar found ‘evidence of a high commitment to compliance’ but a lack of tax law literacy impeded a full realisation of this.\textsuperscript{73}

Research has demonstrated that education and tax law literacy may have a positive impact on compliance.\textsuperscript{74} It appears that taxpayers consider that if they had improved tax law literacy their compliance would improve.\textsuperscript{75} Increased tax law literacy may improve taxpayers' attitude toward the tax system,\textsuperscript{76} and thereby may have a positive influence on the

\textsuperscript{67} Peel, Wilson and Howorth, above n 29, 19.
\textsuperscript{68} Phil Lignier, Chris Evans and Binh Tran-Nam, ‘Tangled up in tape: the continuing tax compliance plight of the small and medium enterprise business sector’ (2014) 29(2) Australian Tax Forum 217.
\textsuperscript{69} DeThomas and Fredenberger, above n 27.
\textsuperscript{70} McKerchar, above n 11, 32; Wallschutzky and Gibson, above n 47, 528.
\textsuperscript{71} Chris Evans, Shirley Carlon and Darren Massey, Record Keeping: Its Effect on Tax Compliance (CPA Australia, 2005).
\textsuperscript{72} Margaret McKerchar, The impact of complexity upon unintentional non-compliance for Australian personal income taxpayers, Doctoral Dissertation (University of New South Wales, 2002).
\textsuperscript{73} Ibid, 298.
willingness to be compliant. Of course whether their behaviour would change is questionable, but it could assist those who do want to comply as suggested by McKerchar’s findings.

More recently, Mihaylov et al. found that legal literacy in terms of SMSF regulation is likely to be significantly higher for those trustees of compliant SMSFs compared to non-compliant ones. Consequently, it may be that higher levels of tax law literacy may lead to improved compliance behaviour; although it could be compliance attitude driving the desire to be more legally literate.

Another aspect that can affect taxpayers’ behaviour is the deterrence effect due to fines and penalties for non-compliance. Allingham and Sandmo’s model of tax compliance predicts that if detection is likely and penalties are severe, people will be more compliant. While the evidence about the deterrence effect is mixed, studies have found that non-compliance decisions can be indirectly related to the threat of penalties; larger fines are a more effective deterrent than are frequent audits. Some studies even suggest that an increase of penalties can have unintended undesirable effects, resulting in more tax evasion. The mixed evidence about the deterrence effect has been attributed to such things as penalties for non-compliance being too low, or corruption undermining the enforcement system. Swistak argues for small businesses that penalties, while important, may not be the tool of ‘first-choice’ to improve compliance in this sector, and instead there needs to be a focus on the


78 McKerchar, above n 72.

79 Mihaylov, Tretola, Yawson and Zurbruegg, above n 11.


motivation that tax penalties can play a part in. Accordingly, the role of penalties and small businesses compliance is deserving of greater investigation.

Part of the non-compliance for small businesses can be that they struggle to have adequate record keeping practices. It should be acknowledged that smaller businesses are not likely to have mandatory reporting requirements, which can be due to their close ownership structure with little or no outside equity investment. This can mean that without tax obligations, small businesses may not have any mandatory requirement to report their financial position. Accordingly, a potential consequence of tax law obligations is that it makes small businesses maintain records. A derivative effect is that it may result in small businesses realising managerial benefits in the form of improved decision making and control over the business. These managerial benefits can be as a consequence of the imposition of regular record-keeping, especially for value added taxes, such as the goods and services tax (GST). Managerial benefits may include: improvements to the accounting information systems; improvement to controls; improved decision making based on better (and more accurate) records; advanced recording of transactions and time management.

There is some empirical evidence that small businesses perceive that the need to comply with GST and other tax legislation has brought managerial benefits that might not otherwise have occurred. This research found that those small businesses in a taxing jurisdiction were more likely to consider they had accounting records with reliable and useful information, compared to those businesses in a non-taxing jurisdiction. These findings would suggest that having tax obligations can improve the record keeping practices of small businesses.

Belle Isle et al. found that for Australian small businesses complying with the GST helped participants maintain their record keeping systems, and it assisted with their income tax

85 The exception to this is when small businesses seek finance from a bank, and then financial statements can be required: Belle Isle and Freudenberg, above n 10.
86 Tran-Nam noted managerial benefits are ‘brought about by the need to have more stringent record keeping in order to comply with requirements of tax law’: Binh Tran-Nam, ‘Tax compliance costs methodology – a research agenda for the future’ in Chris Evans, Jeffrey Pope and John Hasseldine (eds), Tax Compliance Costs: A Festschrift for Cedric Sandford (Prospect, 2001) 51, 55.
87 Phil Lignier, Identification and evaluation of the managerial benefits derived by small businesses as a result of complying with the Australian tax system (PhD University of New South Wales, 2008), 25.
obligations. Such benefits can reduce the overall tax compliance cost incurred by businesses, which is explored in the following paragraphs.

Tax compliance costs include three major components, namely monetary costs, time costs and psychological costs. Monetary costs include money spent on tax professionals and expenses relating to taxation guides, books, communication and other incidental costs. Time costs are incurred by the taxpayer mainly on record keeping for tax purposes, completing the tax return and preparing the tax details for the tax authorities or for tax professionals. Psychological cost can relate to the stress involved in tax compliance.

Concerns have been raised about the costs and the regressive nature of complying with tax obligations for small businesses. A significant portion of compliance costs consists of the time and effort required to comply with tax obligations. Compliance costs can reduce the economic efficiency of a business structure, especially if the compliance costs outweigh the benefit obtained. They are also regressive, as the burden disproportionately falls on smaller businesses.

Recently, Evans et al. reported that compliance costs for small business remain high and regressive. Research indicates that the estimated compliance costs for the small and medium enterprise sector in Australia are $18 billion, which accounts for 1.2% of GDP or 14% of tax revenue. Smaller businesses also have higher compliance costs per dollar of turnover than larger businesses: Table 1.

92 Faridy, Freudenberg, Sarker and Copp, above n 91.
93 Lignier and Evans, above n 88.
95 Board of Taxation, Scoping study of small business tax compliance costs: A report to the Treasurer (Attorney-General’s Department, 2007), 7; Cedric Sanford, Michael Godwin and Peter Hardwick, Administrative and Compliance Costs of Taxation (Fiscal Publications, 1989).
98 Ibid.
Table 1: Tax Compliance Cost

<table>
<thead>
<tr>
<th>Business turnover</th>
<th>Annual cost</th>
<th>Cost per $1,000 turnover</th>
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<tbody>
<tr>
<td>&lt;$75,000</td>
<td>$3,400</td>
<td>$90</td>
</tr>
<tr>
<td>$75,000 – $2 million</td>
<td>$12,000</td>
<td>$12</td>
</tr>
<tr>
<td>$2 million – $50 million</td>
<td>$55,000</td>
<td>$2</td>
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Lignier and Evans in their study found that the average cost of complying with all taxes was estimated at $32,389 for the 2009-10 tax year.99 This amount comprised of $20,129 for internal costs and $12,262 for external costs; compliance with GST accounting for around 50 per cent of internal costs.

The ability to keep appropriate records can be part of the complexity of the GST system. Compliance complexity relates to the difficulty of maintaining sufficient records to satisfy the law, such as preparing and filing tax returns and responding to the tax authority’s notices and audits.100 Record keeping appears to be a large component of GST compliance cost.101 While this may be inevitable, it is important to appreciate that such record keeping may assist businesses in making more informed decisions about their operations. Technically the tax compliance costs should be reduced by these benefits. Indeed, net tax compliance costs are defined as the gross tax compliance costs minus the tax compliance benefits.102

Another issue for small businesses is cash flow management.103 Previous research in Australia and the United Kingdom (UK) suggests that small business owners are not actively involved in systematic liquidity management practices.104 Few studies have investigated the interplay of small business cash flow and taxation.105 Research suggests that cash flow of small businesses is influenced by tax systems both in Australia and throughout the world.106

99 Lignier and Evans, above n 88.
100 Michael J. Graetz, The Decline (and Fall?) of the income tax (W.W. Norton & Company, 1997).
101 Lignier, Evans and Tran-Nam, above n 68.
102 Lignier, above n 89.
104 Belle Isle and Freudenberg, above n 10; Peel, Wilson and Howorth, above n 29, 19.
106 Ahmed and Braithwaite, above n 105; Belle Isle, Freudenberg and Copp, above n 90; Evans, Carlon and Massey, above n 105; Lignier and Evans, above n 88; Michel Messina and Peter Walton, ‘The impact of government on company cash flows
Researchers propose that cash flow stability has a negative relationship with tax liabilities.\footnote{Margaret Drever and Patrick Hutchinson, ‘Industry Differences in the Determinants of the Liquidity of Australian Small and Medium Sized Enterprises’ (2007) 15(1) Small Enterprise Research 60, 64, 65 and 74; Karen Ness, ‘Small Business Success Factors in Regional Queensland’ (2004) 12(2) Small Enterprise Research 1; Mervi Niskanen and Jyrki Niskanen, ‘Small business borrowing and the owner–manager agency costs: Evidence on Finnish data’ (2010) 48(1) Journal of Small Business Management 16, 17.} In the UK the largest reported reason for small business failure was an inability to settle outstanding tax debts.\footnote{Belle Isle, Freudenberg and Copp, above n 90;} This could be because businesses use their outstanding tax obligations as an easy source of finance to finance other aspects of their operations (i.e. use of the GST to pay off other creditors).\footnote{Ahmed and Braithwaite, above n 105, 554; Evans, Carlon and Massey, above n 105, 290.} Findings in France and the UK suggest that the cash flow is negatively impacted by tax systems that are paid in advance, whereas taxes that are held and paid at a later date can be beneficial to cash flow.\footnote{Belle Isle, Freudenberg and Copp, above n 90, 424; Evans, Carlon and Massey, above n 105, 310.}

In Australia, the research findings are conflicting about the effect that taxation has on small business cash flow. While some research suggests that Australian small businesses are not unduly suffering from the impact of various forms of taxation, opposing arguments suggest that cash flow is constantly impinged upon particularly where small business are responsible to pay their own taxes and collect tax on behalf of others.\footnote{Belle Isle, Freudenberg and Copp, above n 90, 424; Evans, Carlon and Massey, above n 105, 310.} Research suggests that other business factors can be a contributing force on whether cash flow is influenced by taxation. Factors identified include terms of trade, industry, cash flow management and low profit margins.\footnote{Ahmed and Braithwaite, above n 105, 554; Evans, Carlon and Massey, above n 105, 290.}

Overall, findings suggest that while small business owners may have improved literacy compared to the broader public, it is questionable as to whether it is sufficient to operate a business. In particular, the understanding of tax literacy of small businesses and its interaction with such things as GST obligations, record keeping, deductions and attitudes towards tax compliance is deserving of further investigation. This research sought to add to our understanding about these areas.

IV. METHODOLOGY

This study was conducted in two stages. Stage 1 involved focus group discussions with both individuals and advisers to gather data around where individuals consider taxation to fit within a financial literacy framework, as well as which knowledge, skills and capabilities in...
relation to taxation should be included as a base for measuring taxation literacy. The outcomes from the focus groups were used to develop the survey questionnaire for stage 2.

Stage 2 involved a survey which gathered data that considered tax literacy, tax confidence, GST knowledge, deduction knowledge, as well as compliance attitude. The main body of the survey was designed around the results of the focus group analysis. Apart from the initial demographic questions, the remainder of the survey questions fell into one of three broad categories: confidence questions, knowledge questions and attitudinal questions.

The survey was conducted via an online platform (Qualtrics) with web-link invitations sent to participants via email or advertised via radio and Facebook. The sample was derived through convenience or ‘snowball’ sampling until a desired number of responses were achieved. The sample was achieved through a number of means. In the first instance, advertising was undertaken through university-wide email communication to students and staff at the University of Southern Queensland and Griffith University. Second, advertising of the survey website took place through a radio interview and newspaper articles. Third, advertising of the survey website took place via social media.\(^{113}\)

After data checking and validation was completed, the final analysis resulted in 604 useable responses.\(^{114}\) Of particular interest to this article are those participants that indicated some business operational experience, which fell into three categories:

- Currently self-employed \((n = 34)\) (referred to as ‘Current Business Operators’);
- Previous or current business operations which was GST registered \((n = 77)\) (referred to as ‘GST Registered Business’);\(^{115}\) and
- Previous or current business operations whether GST registered or not \((n = 124)\) (referred to as ‘Business Operators’).\(^{116}\)

A. **Demographics: Stage 2**

Below are the methodological issues and the demographics for participants for stage 2.\(^ {117}\) The demographic details for those 124 participants indicated that they either currently or previously operated a business: Business Operators: Table 2. This demographic detail is also compared to the total 604 participants who completed the survey.

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113 For an analysis and discussion of the strengths and weaknesses of using Facebook see: Christine Brickman-Bhatta, ‘Not by the Book: Facebook as Sampling Frame’ (2012) 41(1) Sociological Methods and Research 57.

114 For a more detailed discussion of the pilot testing and data checking process see Chardon, Freudenberg and Brimble, above n 7.

115 The GST Registered Businesses includes some of those participates identified as Current Business Operators.

116 The 124 Business Operators includes the 77 GST Registered Businesses.

117 For a more detailed discussion of the demographics for the Stage 1 Focus Group see: Chardon, Freudenberg and Brimble, above n 7.
When the Business Operators' (n = 124) demographics are compared to the total survey participants, the biggest difference appears to be age. Fewer younger people identified that they have been in business, compared with the total of survey respondents. Otherwise, the demographic details for Business Operators are similar to the total survey participants.

**Table 2: Survey Demographics: Business Operators**

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Characteristic</th>
<th>Business Operators</th>
<th>Full Survey participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>36</td>
<td>29.03%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>88</td>
<td>70.97%</td>
</tr>
<tr>
<td>Age bracket</td>
<td>18-29</td>
<td>22</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>30-44</td>
<td>48</td>
<td>39%</td>
</tr>
<tr>
<td></td>
<td>45-54</td>
<td>35</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Over 55</td>
<td>19</td>
<td>15%</td>
</tr>
<tr>
<td>Education level</td>
<td>Secondary Year 10 or less</td>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Secondary (to year 12)</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Trade, apprenticeship or other TAFE</td>
<td>22</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>Undergraduate degree (Bachelor)</td>
<td>39</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>Postgraduate degree (Masters, Doctorate, professional qualification)</td>
<td>49</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Other (coded system missing)</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Total income</td>
<td>$0 – $20,000</td>
<td>14</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>$20,000 – $49,000</td>
<td>34</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>$50,000 - $100,000</td>
<td>49</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>$100,000 - $150,000</td>
<td>15</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>&gt;$150,000</td>
<td>7</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Prefer not to say (coded system missing)</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Financial experience</td>
<td>Yes</td>
<td>29</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>95</td>
<td>77%</td>
</tr>
</tbody>
</table>
There was a higher proportion of females (70.97%) to males (29.03%). Though ABS data indicates that there are slightly more females than males in the adult population,\textsuperscript{118} the survey sample is higher again for females than the population as a whole. Similarly, in terms of small business operators, national data suggest that about one-third of small businesses are conducted by females.\textsuperscript{119} This higher proportion of females to males should be taken into account when interpreting the findings of the survey.

The education level of participants was also gathered. As can be seen, 71% of business operators have either a Bachelor or postgraduate qualification of some kind. ABS data reports that as of May 2016, the proportion of the adult population (15-64) with a non-school qualification was 59%.\textsuperscript{120} Consequently, the sample is slightly biased toward the more educated. Based on other surveys of adult financial literacy both in Australia and overseas, this would tend to indicate that levels of tax literacy might be overstated in the final results. Similarly, it is unlikely that any low levels of tax literacy found would be as a result of sample bias towards those with lower levels of general education.

Income levels of business operators reveal that 78% had taxable incomes in the previous year of less than $100,000. As the question asked for participants’ ‘taxable income’, it is preferable to compare the sample to taxation statistics for consistency. The Australian Tax Office (ATO) statistics for the relevant tax year that the survey was conducted demonstrate that the average taxable income for individuals was $51,342.\textsuperscript{121} This average is consistent with the total survey sample.

The final piece of demographic information gathered was in relation to whether or not the participant had any previous financial experience. This was defined as the participant having worked as an accountant, financial planner, investment adviser, or in the superannuation or finance field. It can be seen that there were 23% of survey participants identifying as having previous financial experience. This means that the vast majority (77%) of participants would be regarded as having no specific financial experience therefore, issues of sample bias are minimised.


\textsuperscript{119} Department of Industry, Innovation, Science, Research and Tertiary Education. \textit{Australian Small Business Key Statistics and Analysis}, (DIISRTE, 2012), 44.


V. RESULTS

A. Stage One: Focus Groups

While the Focus Group discussion considered the tax system broadly, there were a number of comments that related to those in business and the tax system. For example, in response to the question in the discussion guide of ‘how do you perceive you or your clients understanding of the taxation system?’ comments by advisors expressed some concern about the knowledge of persons with business experience and their heavy reliance on advisors:

Including clients who are experienced business people who’ve worked forever for themselves and have been dealing with the tax department for 50 years, they’ve got no idea how the tax system actually works, in my experience, other than the accountant tells them to pay that amount and that’s what they pay. (Male, aged 31, Financial Planner)

Such observations could support McKerchar’s findings about the high reliance that small businesses tend to have on their advisors. Also, when discussing the important tax components for someone to be financially capable one of the frequent concepts raised was knowing the fundamentals of tax for small businesses. Also other important concepts identified for tax literacy were deductions and record keeping. In terms of deductions there was an important distinction, as participants thought it was important to understand what deductions someone might be entitled to, as well as an understanding what a deduction meant. That is, a deduction was not ‘getting all your money back’. Also, a common theme was about the importance of understanding what was deductible (or not). Here, comments ranged from the importance of generally understanding what one might be entitled to, through to understanding whether a specific item might be deductible or not:

Generally assessable income, what is a straight out deduction, what needs to be depreciated - general, you don’t need to know, you just need to know roughly, what it is. (Male, aged 23, Accounting)

Other themes that emerged were: the fundamentals of tax for small business (for example basic GST concepts as well as the difference between deductible and depreciable items), the importance of record keeping; and other state and federal tax obligations. Specific comments about the importance of small business operators understanding their basic tax obligations, particularly, the basics of GST included:

I also think there is a need to know how much tax you are going to pay. Particularly in business

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122 McKerchar, above n 11, 36.
123 Chardon, Freudenberg and Brimble, above n 7, 339.
124 Ibid, 341.
you need to know about the GST. And what is payable and you probably also need to know what is ordinary income is and what is a capital gain. (Male, aged 33, Accountant)

Knowledge of the GST I suppose, that made everyone have to come in. If they were in business before GST came in as [referring to other participant] was saying they understand GST. It would have been a big thing. (Female, aged 21, Accountant)

In relation to record keeping, the discussions centred on what type of records needed to be kept in order to substantiate claims for certain things:

A proper decent educational package will cover more than just that. It will cover entrepreneurial activities and how to go about running your own business, what records you need to keep...

(Male, aged 45, Accountant)

With the understanding developed from Stage One focus groups, a survey was developed to further explore taxpayers’ tax literacy and tax confidence.

B. Stage Two: Survey

Below is a discussion of the survey results for those three categories of business operators who completed the survey, being: Current Business Operators; GST Registered Businesses; and Business Operators.

1. Tax Literacy Score

The final version of the survey contained 65 questions, including ten demographic questions. In total, 31 questions counted toward a participant’s overall tax literacy score (TLS): Table 3.\(^{125}\) The other questions represented demographic, confidence or other questions. Mean TLS is therefore expressed as a score out of 31. For the purpose of categorical analysis, the TLS was also categorised from ‘poor’ through to ‘high’ tax literacy.\(^{126}\)

For reference, the mean TLS (maximum score 31) of the entire 604 sample was 16.21 (52%).\(^ {127}\) For those with either past or present business experience (Business Operators) the mean TLS was greater at 18.52 (n = 124), which was somewhat lower than those who were currently running a business of 18.56 (n = 34). This would tend to indicate that those with current or past business operational experience have higher tax literacy scores than other taxpayers.

It has previously been reported that the demographic with the highest TLS are Current Business Operators (mean score 18.56).\(^ {128}\) For those ‘working for an employer’ their TLS

\(^{125}\) Ibid.

\(^{126}\) Ibid.

\(^{127}\) Ibid.

\(^{128}\) Ibid, 343-344.
mean score was 16.3. This is consistent with financial literacy surveys. For example, the ANZ Survey found that those in paid work and those whose income came from salary, wages or businesses, had higher financial literacy scores than the overall mean.¹²⁹

Table 3: Tax Literacy Survey Correct Response Rates by Question

<table>
<thead>
<tr>
<th>Question</th>
<th>Number Correct (% Total Participants)</th>
<th>Number not answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applying the meaning of Taxable Income.</td>
<td>316 (52.3%)</td>
<td>0</td>
</tr>
<tr>
<td>Calculating Taxable Income.</td>
<td>302 (50%*)</td>
<td>0</td>
</tr>
<tr>
<td>Calculating Assessable Income.</td>
<td>321 (53.1%)</td>
<td>0</td>
</tr>
<tr>
<td>Calculating tax payable using marginal rates of tax</td>
<td>432 (71.5%)</td>
<td>19 n/a</td>
</tr>
<tr>
<td>Applying marginal tax rates to an extra $1 of income.</td>
<td>448 (74.2%)</td>
<td>19 n/a</td>
</tr>
<tr>
<td>Applying the effect of Deductions.</td>
<td>263 (43.5%*)</td>
<td>29 n/a</td>
</tr>
<tr>
<td>Determine Deductibility of Transaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Home – Work</td>
<td>474 (78.5%)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Travel – separate places employment</td>
<td>302 (50%*)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Clothing – retail worker</td>
<td>153 (25.3%*)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Clothing – corporate uniform</td>
<td>498 (82.5%)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Lunch – whilst at work</td>
<td>534 (88.4%)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Lunch – at offsite meeting</td>
<td>175 (29%*)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Newspaper – owns minimum shares</td>
<td>Y 220 (36.4%)</td>
<td>50 n/a</td>
</tr>
<tr>
<td></td>
<td>N 199 (32.9%)</td>
<td></td>
</tr>
<tr>
<td>Interest – loan on investment property</td>
<td>394 (65.2%)</td>
<td>50 n/a</td>
</tr>
<tr>
<td>Medical expenses out of pocket</td>
<td>256 (42.4%*)</td>
<td>50 n/a</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic</th>
<th>Correct Responses</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applying the effect of Offsets.</td>
<td>274 (45.4%*)</td>
<td>29 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Spouse Rebate – Offset/Deduction</td>
<td>342 (56.6%)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Rental Interest – Offset/Deduction</td>
<td>315 (52.2%)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Super Co-Cont – Offset/Deduction</td>
<td>138 (22.8%*)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Work Clothing – Offset/Deduction</td>
<td>500 (82.8%)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Ed’n Tax Refund – Offset/Deduction</td>
<td>190 (31.5%*)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Classify Travel expenses – Offset/Deduction</td>
<td>474 (78.5%)</td>
<td>33 n/a</td>
<td></td>
</tr>
<tr>
<td>Knowledge of current rate of compulsory employer superannuation.</td>
<td>344 (57%)</td>
<td>62 n/a</td>
<td></td>
</tr>
<tr>
<td>Awareness of superannuation being taxed at a lower rate than other investments.</td>
<td>346 (57.3%)</td>
<td>62 n/a</td>
<td></td>
</tr>
<tr>
<td>Understanding tax on Capital Gains (taxed at marginal rates with 50% discount sometimes applying)**</td>
<td>169 / 28% *tax rate</td>
<td>61 n/a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>160 / 26.5% *50% discount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding the meaning of negative gearing.</td>
<td>327 (54.1%)</td>
<td>61 n/a</td>
<td></td>
</tr>
<tr>
<td>Understanding the rate of Medicare Levy.</td>
<td>281 (46.5%*)</td>
<td>62 n/a</td>
<td></td>
</tr>
<tr>
<td>Understanding how Medicare Levy is calculated.</td>
<td>282 (46.7%*)</td>
<td>62 n/a</td>
<td></td>
</tr>
<tr>
<td>Awareness of ability to claim medical tax offsets.</td>
<td>319 (52.8%)</td>
<td>62 n/a</td>
<td></td>
</tr>
<tr>
<td>Understanding the threshold for medical tax offset.</td>
<td>147 (24.3%*)</td>
<td>285 n/a***</td>
<td></td>
</tr>
</tbody>
</table>

Notes: This table shows the number and % correct responses for each of the questions that counted toward the overall tax literacy score. The total number of questions counted toward the score was 31.

* Number of Correct Responses <50%.

** Two marks available for this question.

***Flow-on question, so some participants not asked.

It has been reported that there is an association between paid work and TLS and that it generally increases for those either in paid work or those who are self-employed: Table 4.130 This was also consistent with the ANZ survey findings. It is also possible to assert that TLS generally increases for those that are self-employed or operate small businesses.

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130 Chardon, Freudenberg and Brimble, above n 7, 343-348. While there is a relationship between employment category and confidence category; this is less significant than it was for employment hours where \( p = .003 \)
Table 4: Tax Literacy Score – Employment Category (Comparison of Mean Variances)

<table>
<thead>
<tr>
<th></th>
<th>Working for an Employer</th>
<th>Current Small Business Operator / Self employed / Contractor</th>
<th>Other</th>
<th>I am not in paid work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working for an Employer</td>
<td>-2.260*</td>
<td>2.398</td>
<td>1.689*</td>
<td></td>
</tr>
<tr>
<td>Current Small Business Operator / Self employed / Contractor</td>
<td>2.260*</td>
<td>4.659*</td>
<td>3.949**</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>-2.398</td>
<td>-4.659*</td>
<td>-0.709</td>
<td></td>
</tr>
<tr>
<td>I am not in paid work</td>
<td>-1.689*</td>
<td>-3.949**</td>
<td>0.709</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *= p < 0.10, **= p < 0.05, *** = p < 0.001. Where the test is a One-way ANOVA and the LSD results have been reported.

Table 5 details the areas of tax literacy that had the lowest rate of understanding separated by employment category. For Current Business Operators, those items of tax literacy that had the lowest level of correct responses were (with an understanding of 50% or lower):

- Capital Gains Tax (CGT) rate: 38.2%
- CGT discount: 44.1%
- Medicare rate: 47.1%
- Effect of offsets: 50%.

Other items of tax literacy with low rates of correct understanding for Current Business Operators were also:

- Effect of deduction: 55.8%
- Medicare calculation: 55.9%
- Calculate taxable income: 67.6%
Table 5: Low Scoring Question Results by Demographic

<table>
<thead>
<tr>
<th>Employment Category</th>
<th>Number and Percentage Correct for Question</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Calc Taxable Income</td>
<td>Effect Deduct</td>
</tr>
<tr>
<td>Working for an employer</td>
<td>249</td>
<td>218</td>
</tr>
<tr>
<td></td>
<td>50.2%</td>
<td>46.3%</td>
</tr>
<tr>
<td>Current Small Business Operator / Self employed / Contractor</td>
<td>23</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>67.6%</td>
<td>55.8%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>I am not in paid work</td>
<td>28</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>43.8%</td>
<td>29.7%</td>
</tr>
<tr>
<td></td>
<td>302</td>
<td>263</td>
</tr>
<tr>
<td></td>
<td>50%*</td>
<td>43.5%*</td>
</tr>
</tbody>
</table>

Notes: *= p < 0.10, **= p < 0.05, *** = p < 0.001 Where the test is a Pearson chi-squared.

1 Note that the totals for these categories are less than the overall participants as some were coded as system missing. However, all percentages in the table are of the total number of participants (604).

This highlights that despite their higher TLS there are areas that Current Business Operators could improve their tax literacy. In particular, it is of concern that CGT is an area of lowest tax literacy for Current Business Operators. This seems extremely unfortunate given that the government has provided a number of generous tax concessions through the CGT provisions, in particular in Division 152.131 It is suggested that it is these areas that should be focused on to improve tax literacy of Current Business Operators. However, it should be highlighted that the TLS questions were broad and not business focused, so there could be other business tax areas that Business Operators would need to know.

131 Income Tax Assessment Act 1997 (Cth).
2. **Tax Confidence Score**

In order to determine whether there is a link between participants’ perceived confidence in understanding taxation related concepts and their actual understanding, a detailed analysis of the overall confidence scores was undertaken.\(^\text{132}\) Table 6 presents the overall summary of confidence scores by employment category. The table shows the aggregate confidence scores for those questions in the survey that asked how confident participants were in understanding basic tax and superannuation concepts. Column 3 shows the raw mean of all confidence questions (on a 5 point scale where 1 is ‘very confident’ and 5 is ‘no idea’) for each dependant variable. This means participants whose mean confidence is closer to 1, are more confident and those whose mean confidence is closer to 5 are less confident. Columns 4 through 8 show the number and percentage of participants in the categories of overall confidence. Overall, it can be seen the mean confidence of the overall sample was 2.43; that is, somewhere between Slightly Confident and Neutral.

From Table 6 it can be seen that those who identified as ‘self-employed’ (Current Business Operators) were the most confident (mean score 1.9), followed by those who identified as ‘working for an employer’ (mean score 2.42). Whereas those who were ‘not in paid work’ and in the ‘other’ categories had the lowest overall confidence (mean scores 2.75 & 3.0 respectively).

Nearly, three quarters of Current Business Operators had some confidence in their level of tax knowledge, as 44% were very confident and 32.3% were slightly confident. In comparison, nearly two-thirds (57.5%) of employees had some tax confidence, whereas only 39% of those not in paid work had a level of confidence. There was a significant relationship between overall confidence category and employment category.\(^\text{133}\)

\(^{132}\) A full discussion of the results in terms of Australians’ tax confidence can be found in: Chardon, Freudenberg and Brimble, above n 57.

\(^{133}\) Ibid.
Table 6: Confidence Scores Aggregate

<table>
<thead>
<tr>
<th>Employment Category</th>
<th>Raw Mean</th>
<th>Very Confident (1)</th>
<th>Slightly Confident (2)</th>
<th>Neutral (3)</th>
<th>Uncertain (4)</th>
<th>No Idea (5)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working for an employer</td>
<td>2.4</td>
<td>111</td>
<td>175</td>
<td>142</td>
<td>62</td>
<td>6</td>
<td>1.2%</td>
</tr>
<tr>
<td>Current Small Business Operator / Self employed / Contractor</td>
<td>1.9</td>
<td>15</td>
<td>11</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Other</td>
<td>3.0</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>100%</td>
</tr>
<tr>
<td>I am not in paid work</td>
<td>2.7</td>
<td>10</td>
<td>15</td>
<td>22</td>
<td>17</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 7 presents the mean differences between employment categories and confidence and their statistical significance. The results show the largest mean difference is between those in the ‘self-employed’ category and those in the ‘other’ and ‘not in paid work’ categories. In both cases the significance is at 1% and the difference is around one full category of confidence. It can therefore be inferred that those that are ‘self-employed’ are likely to be more confident in relation to tax and superannuation matters than those in the ‘other’ or ‘not in paid work’ categories. When this test was performed with the ‘self-employed’ categories separated by number of employees, the results demonstrated an increase in confidence as the number of employees increased. Consequently, it could be that as the number of employees increase the level of tax confidence of the Current Business Operators increases. This could be due to the additional complexity that must be mastered as the number of employees increases. Alternatively it may be that such increased confidence scores are related to personality traits of those that seek to expand their business. Table 7 also shows a relationship between those ‘not in paid work’ and those ‘working for an employer’, though the mean difference here is less than it was when compared to the ‘self-employed’ category. This may indicate that it is not just being ‘self-employed’ that is likely to lead to increased
confidence, but that it is connection to the paid working environment in some form that is likely to lead to increase confidence. These results in relation to confidence in tax and superannuation matters appear to be in line with the results of overall tax literacy where it was reported earlier that those ‘working for an employer’ or ‘self-employed’ were more likely to have a higher TLS.

Table 7: Confidence Score – Employment Category (Comparison of Mean Variances)

<table>
<thead>
<tr>
<th></th>
<th>Working for an Employer</th>
<th>Current Small Business Operator / Self employed / Contractor</th>
<th>Other</th>
<th>I am not in paid work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working for an Employer</td>
<td>0.52192**</td>
<td>-0.57892*</td>
<td>-0.33673**</td>
<td></td>
</tr>
<tr>
<td>Current Small Business Operator / Self employed / Contractor</td>
<td>0.52192**</td>
<td>-1.10084***</td>
<td>-0.85865***</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0.57892*</td>
<td>1.10084***</td>
<td>0.24219</td>
<td></td>
</tr>
<tr>
<td>I am not in paid work</td>
<td>0.33673**</td>
<td>0.85865***</td>
<td>-0.24219</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *= p < 0.10, **= p < 0.05, *** = p < 0.001 Where the test is a One-way ANOVA and the LSD results have been reported

As previously reported, in general, a larger percentage of participants were under-confident (60.4%). That is, a larger percentage of participants had a higher TLS percentage when compared to their self-assessed confidence score.\textsuperscript{134} However, for those Current Business Operators Table 10 demonstrates that nearly 59% where under-confident, with only 41% over confident. Overall, it appears if anything they are under-confident rather than over-confident when it comes to their tax literacy. This research seeks to further explore in more detail some of the issues of tax literacy and business operations.

Overall this would suggest that Current Business Operators have a better tax literacy then the general public, they are more confident in their tax knowledge, and there is little evidence of over-confidence.

\textsuperscript{134} Ibid.
Table 8: Over Confidence and Under Confidence by Demographic

<table>
<thead>
<tr>
<th>Employment Category</th>
<th>Total</th>
<th>Over Confident</th>
<th>Under Confident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working for an employer</td>
<td>496</td>
<td>197</td>
<td>299</td>
</tr>
<tr>
<td></td>
<td></td>
<td>39.7%</td>
<td>60.3%</td>
</tr>
<tr>
<td>Current Small Business Operator /</td>
<td>34</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Self employed / Contractor</td>
<td></td>
<td>41.2%</td>
<td>58.8%</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>I am not in paid work</td>
<td>64</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>39.1%</td>
<td>60.9%</td>
</tr>
<tr>
<td></td>
<td>239</td>
<td>365</td>
<td>604</td>
</tr>
<tr>
<td></td>
<td>39.6%</td>
<td>60.4%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: * = p < 0.10, ** = p < 0.05, *** = p < 0.001 Where the test is a Pearson chi-squared.

3. **GST Business Operators**

Given that the focus groups raised the importance of understanding GST for those in business, the survey asked those with current or previous business experience, whether that business was GST registered or not. Of the 604 participants, 77 had been involved with a business that was or had been GST registered. These 77 participants (referred to as ‘GST Business Operators’) were then asked a series of questions about their experience with the GST.

The first question asked whether the GST Business Operators were confident in understanding their business’ GST obligations. Responses to this question demonstrates a high level of confidence with meeting GST obligations, as 71% of respondents either strongly or slightly agreed they had confidence in meeting their GST business obligations. Only 22% expressed either strong or slight disagreement with their confidence about this. Overall, this would tend to indicate that GST Business Operators were confident about meeting their GST obligations, which if correct would be re-assuring for revenue authorities.

The earlier research presented indicated mixed evidence about GST’s impact on cash flow, with some evidence that the obligation to pay GST can be adverse to cash flow, particularly in certain industries, or trading terms. With the surveyed GST Business Operators there seemed limited concern about cash flow difficulties due to their GST obligations. A small majority (55%) strongly or slightly disagreed that they had difficulty in paying their GST bill at the end of the month/quarter/year. However, there were 31% of respondents that did indicate some difficulty in meeting these obligations. This could indicate that for about one-third of the GST Business Operators the GST could have an adverse effect on cash flow. Although as indicated earlier, the
cause of this cash flow difficulty could be due to poor management skills, record keeping, or industry conditions beyond the GST.

One way the compliance cost of GST can be mitigated is through the realisation of management benefits due to improved record keeping to aid business decision making. In terms of whether there were any potential managerial benefits through improved record keeping as a result of meeting GST obligations, 55% of the GST Business Operators either strongly or slightly agree that their records were improved. However, there was some ambiguity, as nearly one-quarter (27%) neither agreed or disagreed with the statement: ‘improved recording keeping due to having to lodge a Business Activity Statement (BAS)’.135 Again this could indicate concern about the record keeping practices of the GST Businesses Operators. It should be recalled that approximately one-third noted difficulty in paying their GST obligations. However, of the 24 participants that had strong or slight agreement with difficulties of paying GST only eight (33%) were neutral or lower in terms of recording keeping improving due to lodging the BAS. This would indicate that the connection between cash flow and record keeping due to the BAS is not strong; however there is not sufficient data for a definitive answer about this possible relationship. Of course improved record keeping will not automatically lead to better management decisions, as these records need to be used for that purpose. On the data collected it is not clear whether this is the case or not, and is an area for future research.

Advisors can be important in assisting small businesses to meet their tax obligations, as asserted by comments made in the Focus Group. Over one-third (35%) of GST Business Operators did strongly or slightly agree that they rely on their accountant or tax agent to assist with meeting BAS or GST obligations. However, a majority of GST Business Operators (57%) either strongly or slightly disagreed with the statement that they rely on their tax agent/accountant to ensure that they are meeting their BAS or GST obligations. This could indicate that many business owners rely on their own knowledge and skills to meet their GST obligations. It should be noted that in terms of their overall tax compliance (not just GST), there was a strong reliance on the use of a tax agent/accountant to manage their tax obligations, with 64% currently having a tax agent/accountant or 11% having one in the past. This meant approximately one-quarter (25%) did not have a tax agent/accountant to manage their tax obligations (n = 123). This use of tax agents/accountants is similar to the Australian population.136 Overall, these results could suggest that reliance on tax agents and accountants could be more for non-GST tax issues, such as income tax. This could reflect the

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135 A business activity statement (BAS) is a universal business form that is lodged with the Australian Taxation Office (ATO) by Australian registered businesses. The BAS is used to report a number of tax obligations of the business, including the GST, as well as instalments of income tax (known as pay as you go instalments (PAYGi)), fringe benefits tax (FBT), and tax withheld from employees’ wages (known as pay as you go withholding (PAYGW)). Depending upon the size of the business, and the relevant tax the BAS is generally lodged monthly or quarterly, and will provide an overall ‘net’ position of the business’ tax obligations to the ATO for the reporting period – which could be payment owing or a refund (especially in relation to GST input tax credits).

fact that GST is transactional, and once a basic understanding is obtained about the GST treatment of a transaction and provided a businesses’ transactions remain similar then little advice or assistance is required. This result is consistent to the research by Rutley et al. which found that the main reason for small businesses to engage a tax professional was annual tax returns (68%); whereas BAS related issues was only 39% and GST management was 9%.137 This may raise concerns about GST compliance, but note there are lower educational requirements for BAS agents, which could reflect overall less complexity in this area.138 Of course, there could be a preference for greater utilisation of tax agents or accountants for GST, but due to constraints, such as cost, this may not occur.

Table 9: GST Obligations

<table>
<thead>
<tr>
<th>Question</th>
<th>Strongly Disagree</th>
<th>Slightly disagree</th>
<th>Neither Agree or disagree</th>
<th>Slightly Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am confident I understand/understood all of my GST obligations for my business</td>
<td>10 (13%)</td>
<td>7 (9%)</td>
<td>5 (6%)</td>
<td>28 (36%)</td>
<td>27 (35%)</td>
</tr>
<tr>
<td>I often have/had difficulties paying my GST bill at the end of the month/quarter/year.</td>
<td>35 (45%)</td>
<td>8 (10%)</td>
<td>10 (13%)</td>
<td>17 (22%)</td>
<td>7 (9%)</td>
</tr>
<tr>
<td>My record keeping has improved as a result of having to lodge a Business Activity Statement (BAS)</td>
<td>8 (10%)</td>
<td>6 (8%)</td>
<td>21 (27%)</td>
<td>20 (26%)</td>
<td>22 (29%)</td>
</tr>
<tr>
<td>I rely on my tax agent/accountant to ensure I am meeting my BAS or GST obligations</td>
<td>29 (38%)</td>
<td>15 (19%)</td>
<td>6 (8%)</td>
<td>13 (17%)</td>
<td>14 (18%)</td>
</tr>
<tr>
<td>The number of changes in the tax law adversely affects my confidence in how the tax system applies to my business.</td>
<td>9 (12%)</td>
<td>5 (6%)</td>
<td>18 (23%)</td>
<td>26 (34%)</td>
<td>19 (25%)</td>
</tr>
<tr>
<td>I am confident I understand the difference between a business purchase which is deductible (ie in full in one tax year) and one which is depreciated (claimed over a number of years)</td>
<td>9 (12%)</td>
<td>5 (6%)</td>
<td>10 (13%)</td>
<td>27 (35%)</td>
<td>26 (34%)</td>
</tr>
</tbody>
</table>

There is a concern that small businesses may struggle to stay up-to-date with tax changes, as while they may initially undertake learning they may be reluctant to maintain their knowledge.139 The frequency of changes in the tax laws has been identified as one of the

138 For the educational requirements of BAS agents in Australia see: https://www.tpb.gov.au/register-bas-agent
139 McKerchar, above n 11, 36.
major reasons for increasing complexity for small business advisors. As seen in Table 11, a majority (59%) of the GST Business Operators in this research either strongly or slightly agreed that changes in the tax law adversely affects their confidence in how the tax system applies to their business. There was only a very small disagreement (either strongly or slightly) with this statement (18%). Overall this could suggest that tax changes do affect the confidence of businesses in understanding their tax obligations. In some ways this could be positive, in the sense that at least GST Business Operators acknowledge their confidence is undermined by changes in the tax law, so with this acknowledgement hopefully they would seek advice or resources to determine what the current status quo is. However, business operators need to be aware of the ‘changes’ to seek help, and this is where pro-active advisors can be important in educating business operators about relevant changes that could affect their operations.

4. Deductions

Given the Focus Groups expressed concerns about businesses deductions, all participants with business experience – Business Operators (n = 123) were asked a knowledge question about what factors are relevant in determining whether a business purchase is deductible or depreciated. Participants were able to select all the factors that they thought applied. 33% (40 out of 123) of participants chose one or both of the correct factors (being ‘whether the cost is over or under $1,000’; or ‘whether the item will last more than one year’). Another 24% (29 out of 123) expressed that they would rely on their accountant to advise them of the correct treatment. Overall this would suggest that the majority (56%) of Business Operators either had correct knowledge about how to determine whether a business purchase was potentially depreciable or not; or would rely on their accountant’s advice. Of course, it does mean that approximately 44% of respondents got the business purchase question incorrect or were unsure about the relevant factors. This 56% correct response rate is similar to the ‘effect of deduction’ response rate in the overall tax literacy score for those current business operators: Table 5.

GST Business Operators (n = 77) were asked an additional confidence question about deductions. GST Business Operators expressed a strong confidence in understanding the difference between immediately deductible business purchase compared to one that is depreciated over time, as over two-thirds (69%) either strongly or slightly agreed with the statement. In considering whether this confidence was aligned with their tax literacy in

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141 The factors to choose from: (a) whether the cost is over or under $300; (b) whether the cost is over or under $1,000; (c) whether the item will last more than one year; (d) whether the item will last more than five years; (e) what my accountant advises me; (f) I am not sure.

142 Given the survey was conducted in 2012 these were the factors relevant for a business operator at that time.
terms of whether a business purchase is deductible or depreciated, there would appear some alignment. For GST Business Operators who indicated strong or slight depreciation confidence, approximately 34% (18 out 53) got the business depreciation question correct. Also, another 30% (16 out 53) indicated that they would rely on their accountant’s advice to determine the question of deducting or depreciating. Together this means that 64% of those that expressed confidence knew the correct answer or would rely on their accountant to determine the correct tax treatment. The remaining 36% while confident, got the later depreciation question incorrect. In comparison, those GST Business Operators that had low depreciation confidence (either strongly or slightly disagreeing), only 28% (4 out 14) got the later knowledge question correct, with 21% (3 out 14) relying on their accountant’s advice to assist. Overall this means only 49% of GST Business Operators with low depreciation confidence knew the correct answer or would rely on their accountant. This can be contrasted to the 64% for those who were strongly or slightly confident. Also, 50% (7 out 14) with low depreciation confidence got the depreciation knowledge question incorrect, which is a larger incorrect percentage compared to those with higher confidence (36%). Overall, this would tend to suggest that there is some alignment with tax confidence and tax knowledge, and is consistent with the prior confidence work by Chardon et al. which reported that under and over confidence is less common in relation to tax and superannuation than other financial concepts.143

A technique used to encourage expenditure is the offer of business tax deductions, which has been used by retail marketers,144 as well as governments. For example, after the global financial crisis the government offered small business incentives to purchase business equipment to try to simulate the economy.145 A question in the survey asked ‘What impact does whether a business purchase is deductible or depreciable have on whether I make the purchase for my business?’

Of the 124 Business Operators answering this question, 21% indicated that such a tax effect does have a large effect on their business purchasing decisions, with 23% indicating that it had a slight effect. The biggest grouping was at 32% indicating that it had possibly some effect, with 23% indicating that it had no effect at all. While this would suggest that there is some incentive for small business to purchase due to the tax effect, it does not appear especially strong as other factors could be playing a role, such as the availability of finance to purchase such capital items.

143 Chardon, Freudenberg and Brimble, above n 57.
144 For an example of stationery retailer Officeworks campaign to encourage small businesses to purchase prior to the end of financial year see: https://www.officeworks.com.au/campaigns/happy-tax-place#/ 
However, when considering those motivated to purchase due to the deduction (large or slight effect; n = 55), nearly 70% (n = 38) of these Business Operators got the technical deduction/depreciation question incorrect. While 15 of these would rely on their accountant’s advice in making the final decision to deduct or depreciate, it is suggested that this is of concern as a large majority could be making purchasing decisions without knowing whether the item is immediately deductible or instead depreciated. This lack of tax literacy could have an adverse consequence on cash flow if the after-tax cost is greater than originally appreciated. For those not motivated by the tax deduction (no effect at all, n = 28), only 50% of those Business Operators got the technical deduction/depreciation question incorrect, with other 50% either correct (n = 9) or relying on their accountant’s advice (n = 5).

5. Compliance attitude

Given the importance of record keeping raised in the Focus Group discussions, a number of questions considered business taxpayers’ attitude towards their compliance requirements, including recording keeping. Overall, the response (n = 123) would indicate a strong positive attitude towards complying, as 91% of the Business Operators indicated that it was very important (61%) or important (30%) for them personally to ensure that they comply with their tax obligations (i.e. lodging tax returns on time and paying on time). Only 2% thought it was insignificant, 1% slightly unimportant, with 7% neutral in their consideration.

Another question explored to what extent it was important for Business Operators to ensure that they comply with their recording keeping obligations for tax (i.e. keeping records of claims that you have made). Again there was similar strong compliance response, with 61% indicating that it was very important and 34% specifying that it was important: meaning that 95% thought it was important. This meant that only 3% were neutral and 2% thought it was insignificant. This result is similar to McKerchar’s prior research, and would tend to indicate overall a strong compliance attitude of business taxpayers towards their tax obligations.

In exploring the potential consequences should a business taxpayer fail to comply with their record keeping obligations (i.e. failing to keep a record of an item that you claimed as a deduction), Business Operators were asked to select what they considered the potential consequences were (with them being able to choose multiple consequences). In descending order, the perceived consequences of failing to comply with their record keeping obligations were identified as:

146 Given the time value of money, the after-tax cost would be lower if a purchased item has to be depreciated rather than immediately deductible.

147 McKerchar, above n 72.
108: Paying a fine/penalty;
68: Paying interest on late payments;
20: Increased bills from tax advisor/accountant;
19: Financial difficulty;
14: Going to jail;
11: Loss or sale of assets; and
4: Having a bad credit rating.

This would suggest that Australia’s fine and penalty structure, as well as interest on late payments, plays heavily on the minds of business taxpayers in terms of the reasons why they must keep records. This would support the notion of the deterrent effect in promoting taxpayer compliance behaviour. Although as McKerchar noted that even with a positive compliance attitude there can be unintentional non-compliance.  

While there was a strong suggestion of compliance with tax obligations, including record keeping, participants were then asked about the period of time that they were required to keep records. Of the 122 Business Operators answering this question, only 24% chose the correct response of five years; although 5% did choose the alternative correct response of ‘depends on the circumstances’. The majority of participants (58%) thought three years was the required time period to keep records, with 2% thinking two years, and 11% thinking it was longer than five years. Interesting no Business Operators choose ‘not sure’ which may suggest some confidence in their responses, even though over two-thirds were incorrect. This raises some concerns about knowledge about maintaining tax records.

6. Overall comments

Overall, the results demonstrated that business operators, including those with past experience, had greater TLS than other demographics. However, areas of lower tax literacy for these business operators related to the CGT rate, CGT discount, Medicare rate and effect of offsets. Also business operators had higher levels of tax confidence, that appeared to be increase with the number of employees. While there was confidence with meeting GST obligations, there was mixed evidence about GST’s impact of cash flow, as well as the realisation of management benefits. In terms of business deductions, a majority of business operators had the correct understanding, which appeared to be consistent with their confidence in this area. While there was a strong positive compliance attitude, there is still the potential for unintentional non-compliance due to insufficient (or not up-to-date) knowledge which was illustrated in terms of knowledge about retention of tax records.

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148 Ibid.
VI. LIMITATIONS AND FUTURE RESEARCH

This study has a number of limitations that should be considered when evaluating the findings of the research. The conclusions drawn from the survey conducted are limited by the sample size and the characteristics of those participants in the survey. Also, it is not certain to what extent these Australian findings could be generalised to other jurisdictions. However, these results could form the basis for future research.

Future research could consider what precise areas of tax literacy is required for business operators, and then test what are the areas that are the weakest. Also research could look at the compliance attitude of small businesses and consider whether it does align with taxpayers’ actions. Research could analyse more deeply whether there is a relationship with tax literacy and the tax compliance behaviour of taxpayers. This could include analysis to test the relationship between tax knowledge and tax confidence, and whether this influences compliance behaviour. The role of tax and small business cash flow is deserving of greater attention, especially the potential relationship with tax literacy and confidence. This could investigate further the motivation to enter into transactions for the potential tax effect and actually tax literacy.

Also future research could try to assess the direction of causality between that business turnover and length of time in business and the level of tax knowledge of small business owners.

Given that one-third of GST Business Operators indicated problems with GST compliance future research could explore this in more detail, including what is the psychological cost of complexity with tax, and how does this compare to the other components of tax compliance. Additionally, it could be investigated what is it about GST that can be adverse to cash flow? Is it inherent weakness in business practises, trading relationships, tax law design, tax law administration or something else?

Additionally, the recording keeping due to tax obligations, including the BAS, could be investigated further especially in relation to whether there is the potential for managerial benefits to be realised. This could consider whether the current format of and timing tax reporting, such as the BAS and income tax return, aid or hinder the realisation of these managerial benefits.

However, of the 24 participants that had strong or slight agreement with difficulties of paying GST only eight (33%) were neutral or lower in terms of recording keeping improving due to lodging the BAS. This would tend indicate that the connection between cash flow and record keeping due to the BAS is not strong; however there is not sufficient data for a definitive answer about this possible relationship.

Research could also consider how best to address changes in the tax system, as this appears to decrease taxpayers’ tax confidence. This is particularly important as there may be a reluctance by small business to up-date their tax knowledge.
The role of advisors appears to be important to assist small businesses with these changes, and so research could consider the role of advisors to assist the tax law literacy of small businesses. This includes understanding and measuring advisors own legal literacy, as it appears non-lawyers can play an important part as an initial source of advice when people are faced with a legal, such as tax law, issue. 

VII. CONCLUSIONS

Small businesses are acknowledged as an important part of the economy, but they face various challenges in managing their success. Some of these challenges can be due to inherent characteristics, or economies of scale in dealing with regulatory requirements. The opportunity to participate in business can lead to financial opportunities for those operators. Financial literacy surveys have found that those operating a business can have greater financial literacy. It has been argued that financial literacy should be broadened to include tax law literacy. Initial research has found that Australian small business operators appear to have a higher tax literacy, and tax confidence. To enhance our understanding, this article reported further data on the tax literacy of Australian small businesses.

Firstly the article summarised the literature in terms of financial literacy and how tax law can be a part of it. Then the literature in relation to small businesses was canvassed, including in relation to tax compliance, tax literacy, tax confidence, and tax complexity. It was found that tax literacy was an important part of overall financial literacy of small business operators particularly because of their exposure to many aspects of business operation including day-to-day management, financial decisions, compliance obligations and cash-flow managements. It was observed that previous studies indicate a potential gap in tax knowledge by small business operators but that this research was either historical or not empirical. The paper then outlined the methodology of the current study involving focus groups and a survey.

The results illustrated the strong tax literacy and tax confidence of small business operators, but noted areas of weaknesses. This was compared to previously reported findings of tax literacy and tax confidence in the whole survey sample. Also specific aspects of complying with the GST were explored, as well as tax depreciation knowledge and confidence. There was strong evidence that changes in tax law adversely affects small business owner’s confidence in how the tax system applies to their business which further supports the earlier research presented in the literature. The results supported a strong compliance attitude, although the study did illustrate how there could be unintentional non-compliance due to incorrect tax law knowledge about record requirements.

The greater our understanding of small businesses and their tax law literacy, the greater is our potential to assist this important sector of the economy. With this understanding we can build upon their strong tax law literacy, including how they can best source advice to meet their obligations; as well as to realise the benefits that can materialise through tax compliance, especially GST record keeping and managerial benefits.

With enhanced tax literacy, small businesses should be able to ensure that they meet their obligations which should decrease the potential for financial penalties, as well as ensure that they claim all of their entitled deductions and offsets. If this can be realised then this is better for all stakeholders.
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