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Calm waters: GST and cash flow stability for small businesses in Australia

Melissa Belle Isle¹ and Dr Brett Freudenberg²

Abstract

Small businesses are seen as vital to the Australian economy. However one particular issue of concern is the stability of their cash flow which can be exacerbated by the unpredictability of the markets, management practices, availability of financing and taxes, such as the goods and services tax (GST).

This article reports a multiple case study of small (including micro) businesses which explored how the interaction with the GST affected small businesses' cash flow stability. Findings suggest that the cash flow stability of small businesses may be adversely affected when trading with retail consumers due to an inability to pass on the GST. Also, businesses trading with other businesses appear to face problems due to late payment by debtors. A common issue in supporting cash flow stability appears to be a lack of sophisticated cash management practices.

Keywords: *Small business, GST, cash flow, cash flow stability*

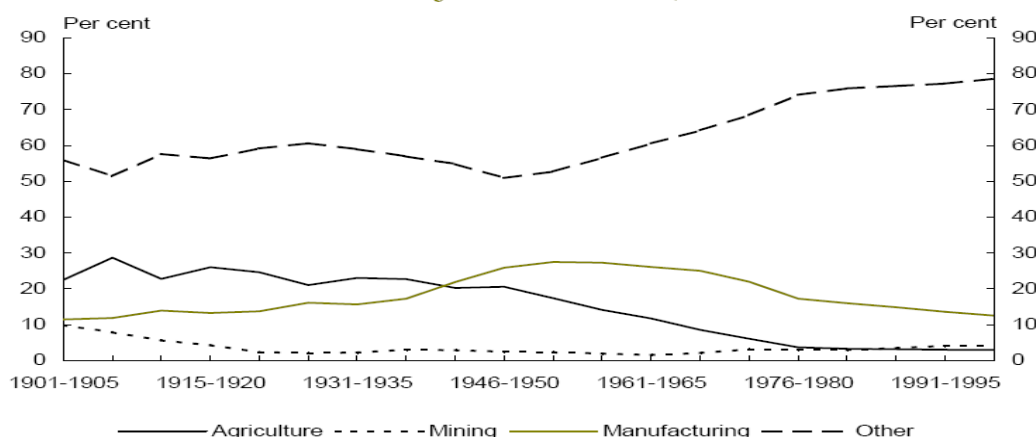
¹ Griffith University, Email: m.belleisle@griffith.edu.au

² Associate Professor, Griffith University, Email: b.freudenberg@griffith.edu.au; Phone: +61 7 3735 8071.

1. INTRODUCTION

On the 1st July 2000 the goods and services tax (GST) was introduced into Australia as part of an overall reform which saw the GST replace the Wholesale Sales Tax (WST) and various other state taxes. A principle reason for the GST to replace the WST was because while the WST was effective in collecting tax revenue early in the 20th Century when the Australian economy was focused on production of goods, over time this had diminished with services dominating.³ Since the service sector was excluded from the WST this resulted in a large decline in revenue collected as the service sector grew. Figure 1 illustrates that at the beginning of the 20th Century services accounted for approximately 56 per cent of the Gross Domestic Product (GDP) compared to 79 per cent in 2000.⁴ This growth has continued and in 2011 services accounted for 84 per cent of GDP.⁵ Consequently the GST is an important tax revenue source for the Government.

Figure 1: Industry shares of GDP 1901 – 2000



Source: Commonwealth Government of Australia, *Australia's Century Since Federation at a Glance*, (Canberra, 2001), <<http://archive.treasury.gov.au/contentitem.asp?NavId=016&ContentID=110>>. (Note: Other indicates the service sector)⁶

³ The goods proportion of the economy was one-third in 1998, just two years prior to the GST introduction quoted in P Costello, (1998), *Tax Reform: Not a New Tax, a New Tax System* Commonwealth Government of Australia, Canberra, 3.

⁴ Commonwealth Government of Australia, *Australia's Century Since Federation at a Glance*, Economic Roundup Centenary Edition (2001), <<http://archive.treasury.gov.au/contentitem.asp?NavId=016&ContentID=110>>.

⁵ Australian Bureau of Statistics, *Australian Industry*, 2011–12, cat no 8155.0 (Canberra, 2013).

⁶ Commonwealth Government of Australia, above, n 4.

Due to the broad application of the GST it has the capacity to apply to all businesses including small businesses which can have potential positive and negative consequences. This broader application of the GST is of concern as research by Wallschutzky and Gibson⁷ into the biggest issues confronting small businesses, found that of all the tax systems involved in their study the only tax system that was identified as being a continued problem to cash flow of small businesses was the WST.⁸ Small business owners reported that this cash flow problem was as a result of the timing of the WST payment not falling in line with receipt of funds from sales.⁹ Indeed, payment of the WST liability was often due before trade debtors had paid for the goods in question.¹⁰ Such findings could suggest that WST's replacement, the GST, may also now have the potential to have an adverse effect on small business cash flow stability if the GST is required to be remitted prior to receiving payment. Also, Allan questions who economically bears the liability for GST, even though in theory it should be the final consumer.¹¹

Cash flow is the extent of cash or near cash assets available for use, along with any inflow or outflow of cash related to those assets.¹² Cash flow is therefore any business activity that alters the balance of the cash accounts.¹³ Business operations are the most significant source of cash inflow and outflow for businesses.¹⁴ Stable cash flow is essential to support continued day-to-day operations of any business. For small business survival the importance of cash flow stability can be escalated by the unpredictability of the markets in which they operate, restrictions with internal management practices and limited availability to funding.

To date, there is a paucity of Australian research considering the effect of GST on cash flow stability for small businesses. While many authors have studied the effect of GST on small business entities in Australia,¹⁵ the majority of these studies have related to the cost of compliance and a large portion of this research was conducted within the first five years of the introduction of GST. Few studies consider cash flow

⁷ IG Wallschutzky and B Gibson, 'Small Business Cost of Tax Compliance' (1993) 10(4) *Australian Tax Forum* 511.

⁸ Ibid 528–530.

⁹ Ibid 529, 535.

¹⁰ Ibid 535.

¹¹ C Allan, *Theory of Taxation* (Penguin, Harmondsworth, 1971); C Sandford, 'Minimising the Compliance Costs of a GST' (1998) 14(2) *Australian Tax Reform* 125.

¹² I Ekanem, 'Liquidity management of small firms: a learning perspective' (2010) 17(1) *Journal of Small Business and Enterprise Development* 123.

¹³ L Stockstill, S Dietz and W Maurer, 'A Cash Flow Focus for Small Business' (1989) 1(2) *Journal of Business and Entrepreneurship* 45.

¹⁴ P Lignier, 'The Managerial Benefits of Tax Compliance: Perception by Small Business Taxpayers' (2009) 7(2) *eJournal of Tax Research* 106, 111.

¹⁵ J Breen, S Bergin-Seers, I Roberts and R Sims, 'The Impact of the Introduction of the GST on Small Business in Australia' (2002) 10 (1) *Asian Review of Accounting* 89; J Glover and B Tran-Nam, 'The GST Recurrent Compliance Costs/Benefits of Small Business in Australia: A Case Study Approach' (2005) 1(2) *Journal of the Australian Tax Teachers Association* 237; J Pope, 'Estimating and Alleviating the Goods and Services Tax Compliance Cost Burden upon Small Business' (2001) 11(1) *Revenue Law Journal* 6; J Pope and N Rametse, 'Small Business Start-Up Compliance Costs of the Goods and Services Tax: Estimates and Lessons from Tax Reform' (2002) 5(3) *Journal of Australian Taxation* 382; M Reynolds, 'Report on the GST Compliance Costs for Independent Grocers' (Prepared for the National Association of Retail Grocers of Australia Pty Ltd, April 2001); B Tran-Nam and J Glover, 'Estimating the Transitional Compliance Costs of the GST in Australia' (2002) 17(4) *Australian Tax Forum* 499.

implications in any detail. While Reynolds did conduct cash flow benefit analysis for the retail grocery sector in 2001, his results related to the industry norms of that particular sector and are unlikely to be a representation of small businesses as a whole,¹⁶ and did not consider the effect on cash flow stability. Similarly, while the study by Glover and Tran-Nam identified the compliance costs and benefits of the GST for small businesses in the rural sector of Australia from 1999 to 2002, their empirical findings did not focus on receipt of any related cash flow benefit by participants.¹⁷ In a related project, Belle Isle et al. established that small business perceived that there should be a cash flow benefit from GST but in reality (especially for non-cash GST registrants) this was not likely to be achieved.¹⁸

The aim of the research is to gain a greater understanding of the effect of GST on the stability of small business cash flow. Section Two of this article will provide a broad summary of the characteristics of small businesses and their importance. The third section will then provide an outline of the issue of cash flow stability for small businesses and how this can be influenced by a number of factors, including management, access to finance and competitive markets. Section Four will provide the research methodology undertaken and the demographics of the participants, which will be followed by the results. Through the analysis of the results recommendations will be proposed, with future research being outlined in the fifth section of the article before the conclusion.

2. IMPORTANCE OF SMALL BUSINESSES

The Australian Taxation Office (ATO) and the Australian Bureau of Statistics define small businesses by their quantitative characteristics such as an annual turnover of \$10 million or less and a full time workforce of 20 or less employees.¹⁹ Small businesses are important to Australia's economy with their contribution to private sector GDP being 34.4 per cent in 2011/12. It should be noted that small businesses themselves are heterogeneous, in terms of structure, industry sector, employee capabilities and position in the market.²⁰ This diversity further extends to owners of small businesses as they can vary considerably in age, nationality, education and experience.²¹ In comparison to large businesses their capabilities, control and practices may differ.

¹⁶ M Reynolds, "Report on the GST Compliance Costs for Independent Grocers" (Prepared for the National Association of Retail Grocers of Australia Pty Ltd, April 2001).

¹⁷ Glover and Tran Nam, above n 15.

¹⁸ M Belle Isle, B Freudenberg and R Copp, *Cash Flow Benefit from GST: Is it Realised By Small Businesses in Australia?* (Working Paper, Griffith University, 2014).

¹⁹ Australian Bureau of Statistics (2013), *Counts of Australian Businesses including Entries and Exits (Jun 2008 to Jun 2012)*, cat. no. 8165.0 39, <[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/4461C2EEC98E3A47CA257B7100149A76/\\$File/81650_jun%202008%20to%20jun%202012.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/4461C2EEC98E3A47CA257B7100149A76/$File/81650_jun%202008%20to%20jun%202012.pdf)>..

²⁰ J Freedman, "Small Business Taxation: Policy Issues and the UK", in N Warren, *Taxing Small Business: Developing Good Tax Policies*, (Australian Tax Research Foundation Conference Series, Sydney, Australia, 2003) 13–44; A Hansford, J Hasseldine and C Howorth "Factors Affecting the Costs of UK VAT Compliance for Small and Medium-sized Enterprises" (2003) 21(4) *Environment and Planning C: Government Policy* 479; K Ritchie, "The Tax Compliance Costs of Small Business in New Zealand" in C Evans, J Pope and J Hasseldine, *Tax Compliance Costs: A Festschrift for Cedric Sandford* (Prospect Media Pty Ltd, 2001) 297–316, 300.

²¹ Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, *Australian Small Business Key Statistics and Analysis*, (Canberra, 2010), 9.

Broadly, small businesses are generally funded with private equity not public, they are internally controlled, the owner is normally the majority equity holder, assets are short term in nature and debt is secured by private assets.²² However, small businesses have the advantage of being more flexible than large businesses as the absence of bureaucracy allows them the ability to make rapid changes to requirements of customers.²³

Research regarding the effect that taxation has on small businesses has been a popular research topic in Australia over the last two decades. Of particular importance to this research project is the study completed by Wallschutzky and Gibson.²⁴ Not only does the study relate to small business and taxation, it also implemented a similar research methodology to the current research.

The Wallschutzky and Gibson²⁵ study was conducted prior to the introduction of the GST and evaluates various tax systems affecting small business at that time. Among the tax systems researched were Fringe Benefits, Capital Gains, Pay As You Earn (PAYE), Prescribed Payments System and WST. The purpose of the study was to identify which tax systems created the most significant problems for small business. Two important findings from the Wallschutzky and Gibson²⁶ study are relevant to this project. Firstly the authors anticipated that taxation was a critical issue for small businesses. In order to investigate this assumption, Wallschutzky and Gibson²⁷ queried small business participants about what they perceived were the three biggest issues facing their business. Taxation did not score highly on participant responses. A list of the main issues is presented in Table 1.

²² S Basu, 'Problems of Small Business' (1986) 5(4) *A Journal of Applied Economics and Policy* 92; C Coleman and C Evans, 'Tax Compliance Issues for Small Business in Australia' in N Warren, *Taxing Small Business: Developing Good Tax Policies*, (Australian Tax Research Foundation Conference Series 23, Sydney NSW, Australia, 2003) 147–182; L Libermann-Yaconi, T Hopper and K Hutchings, 'Toward a Model of Understanding Strategic Decision-Making in Micro-Firms: Exploring the Australian Information Technology Sector' (2010) 48(1) *Journal of Small Business Management* 70, 72.

²³ P Hutchinson, 'How Much Does Growth Determine SME's Capital Structure?' (2004) 12(1) *Small Enterprise Research* 81, 88; Libermann-Yaconi et al., above n 22; S Perera and P Baker, 'Performance Measurement Practices in Small and Medium Size Manufacturing Enterprises in Australia' (2007) 15(2) *Small Enterprise Research* 10, 12.

²⁴ Wallschutzky and Gibson, above n 7.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

Table 1: Major issues of concern for small businesses

Issues for small businesses	
Uncertainty concerning revenue	Lack of suitable staff
Cash flows	Breaking into new markets
The depressed economy	Changing the company's image
Low profit margins	Maintaining market share
Difficulty obtaining finance	Big business dictating trading laws
Bad debts	Lack of capital
Restructuring	Changes in funding arrangements
Design and development of new products	Property transaction costs
Competition	Increasing costs

Adapted from IG Wallschutzky and Gibson B, 'Small Business Cost of Tax Compliance' (1993) 10(4) *Australian Tax Forum* 511.

Wallschutzky and Gibson²⁸ summarised these issues and found that major concerns were related to cash flow including low turnover, low profits and higher costs for small business than large. The absence of tax being listed is consistent with a more recent report by McKerchar, Hodgson and Walpole to the Board of Taxation.²⁹

Secondly due to identification that cash flow was a major concern for small business, Wallschutzky and Gibson investigated whether taxation was a mere aggravation to small business cash flow or whether payment of taxation caused cash flow problems. Of all the tax systems that were involved in the study the only tax system that was identified as being a continued problem to cash flow was the WST.³⁰ Small business owners reported that the problem presented as a result of the timing of the tax payment not falling in line with receipt of funds from sales.³¹ Payment of the tax liability was often due before trade debtors had paid for the goods in question.³² Wallschutzky and Gibson also reported that those small businesses trading in cash did not report that the WST presented a problem for their cash flow.³³

It is possible that the WST's replacement, the GST, could also impose issues for small businesses' cash flow. The GST is a multi-staged broad based consumption tax with tax collected at more than one stage of the production and distribution chain.³⁴ Broadly, in Australia each stage of the supply of goods and services has GST liability

²⁸ Ibid.

²⁹ M McKerchar, H Hodgson and M Walpole, 'Scoping Study of Small Business Compliance Costs', *Report to the Board of Taxation* (Board of Taxation, Sydney, 2006).

³⁰ Wallschutzky and Gibson, above n 7, 528–530.

³¹ Ibid 529, 535.

³² Ibid 535.

³³ Ibid.

³⁴ C Sandford, M Godwin, P Hardwick and I Butterworth, *Costs and Benefits of VAT* (Heinemann Educational Books Ltd, London, 1981).

imposed. A GST input tax credit is available for GST registered enterprises to offset the GST paid on inputs against GST received on outputs.³⁵

GST registration is mandatory for enterprises with a turnover³⁶ of \$75,000³⁷ or more, although voluntary registration is available to enterprises below this threshold.³⁸ Accounting for GST can be on a cash or non-cash basis.³⁹ Pursuant to the cash basis, GST is attributed to the period of payment for goods or services supplied or remittance date of payment for inputs obtained from other traders (and only to the extent of payment).⁴⁰ GST for non-cash accounting (also known as accruals) is recognised in the period where the earliest of either an invoice is generated or payment (or part thereof) is received.⁴¹ The two forms of reporting systems discussed are not available to all entities within the economy. Cash accounting is only available to micro businesses with an annual turnover of less than \$2 million or who use a cash basis for income tax reporting.⁴² Non-cash accounting is available to all registered entities, even those eligible to report on the cash method can elect to use non-cash.⁴³

Determining the net amount of GST liability in a reporting period is calculated using total GST liability minus input tax credits.⁴⁴ GST is the sum of all GST liability on taxable supplies⁴⁵ and taxable importations⁴⁶ attributable to the tax period less the input tax credits on creditable acquisitions⁴⁷ and creditable importations⁴⁸ that are attributable to the tax period. The tax period that a business adheres to is determined predominantly by its aggregate turnover, however businesses can apply to the Commissioner for election of an alternate tax period.⁴⁹

A touted potential benefit of the GST, is the possibility for businesses to hold onto extra cash due to the timing of tax periods and remittance of the GST collected, which could vary from up to 51 to 120 days. Monthly tax periods are required for businesses meeting the tax period turnover threshold of \$20 million.⁵⁰ Payment is due within 21 days of the following month⁵¹ allowing these entities to hold the GST for up to 51 days.⁵² For entities with turnover of less than \$20 million a quarterly payment of GST

³⁵ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) Div 17.

³⁶ GST turnover is determined by the current and projected year earnings. If earnings in the current year or preceding year are greater than \$75000, an entity will be required to register for GST. See *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 188-10 and section 195-1.

³⁷ Non-profit bodies registration is required for >\$150,000, see *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 23-15(2) item b.

³⁸ *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

³⁹ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) Div 29.

⁴⁰ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 29-5 (2) and section 29-10 (2).

⁴¹ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 29-5 (1) and section 29-10 (1).

⁴² *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 27-40 and section 195-1.

⁴³ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 27-5.

⁴⁴ See the formula in *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 17-5.

⁴⁵ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 9-5.

⁴⁶ *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

⁴⁷ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 11-5.

⁴⁸ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 15-5.

⁴⁹ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) Div 27.

⁵⁰ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 27-15 item 3(a).

⁵¹ *A New Tax System (Goods and Services Tax) Act 1999* (Cth) section 31-10 (1).

⁵² Where an invoice is generated on the first day of the reporting period.

is possible.⁵³ Those enterprises with turnover above \$2 million are required to calculate their net GST liability quarterly.⁵⁴ Those earning below \$2 million however can pay a quarterly instalment⁵⁵ amount based on previous annual turnover.⁵⁶ Quarterly payments are due within 28 days of the month following the end of the quarter;⁵⁷ effectively this allows businesses to hold GST payments for up to 120 days⁵⁸ before the liability is due.

There have been a number of studies into consumption taxes, such as the GST. For example, Sandford et al. conducted a study of compliance costs of the GST equivalent in the United Kingdom—the Value Added Tax (VAT). The study identified that compliance cost could be reduced by two possible benefits including managerial benefits and cash flow benefits.⁵⁹ The findings of Sandford et al. are supported by later research conducted in Australia.⁶⁰ In Australia there have been a number of GST compliance costs studies.⁶¹ Findings were reported suggesting that the GST escalated the tax burden already placed on small business entities.⁶² Previous Australian cash flow benefit studies are incomprehensive; studies including Breen et al.⁶³ and Evans, Carlon and Massey⁶⁴ have acknowledged problems with cash flow as a result of the GST. However the purposes of these studies were not specific to cash flow or cash flow stability from the GST and only gave minimal attention to these issues.

Reynolds did conduct cash flow benefit analysis for the retail grocery sector in 2001 in terms of GST. However, the results of this study related to the industry norms of that particular sector and are unlikely to be a representation of small businesses as a whole.⁶⁵ The study by Glover and Tran-Nam identified the compliance costs and benefits of the GST for small businesses in the rural sector of Australia from 1999 to

⁵³ *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 31-8 and section 195-1.

⁵⁴ *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

⁵⁵ Exception is given to Primary Producers and special professionals who are only required to pay to installments annually.

⁵⁶ *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 162-15. Except for those that are not required to be registered. Those entities are able to make an annual tax period election see *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 151-5.

⁵⁷ Except in the December quarter where payment is due 8 weeks later (28th February).

⁵⁸ Where an invoice is generated on the first day of the reporting period; Liability could be held for 151 days in the December quarter.

⁵⁹ Since then tax deductibility has been identified further as a benefit of complying with taxation.

⁶⁰ C Evans, K Ritchie, B Tran-Nam and M Walpole, *A Report into Taxpayer Costs of Compliance* (Australian Government Publishing Service, Canberra, 1997), 37–40; M McKerchar, H Hodgson and M Walpole, 'Understanding Australian Small Businesses and the Drivers of Compliance Costs' (2009) 24(2) *Australian Tax Forum* 151; P Lignier and C Evans, 'The Rise and Rise of Tax Compliance Costs for the Small Business Sector in Australia' (2012) 27(3) *Australian Tax Forum* 615; Wallschutzky and Gibson, above n 7.

⁶¹ Studies include: Breen, Bergin-Seers, Roberts and Sims, above n 15; C Evans, S Carlon and D Massey 'Record keeping Practices and Tax Compliance of SMEs' (2005) 3(2) *eJournal of Tax Research* 288; Glover and Tran-Nam, above n 15; Pope and Rametse, above n 15; Reynolds, above n 16.

⁶² McKerchar, Hodgson and Walpole, *Understanding Australian Small Businesses and the Drivers of Compliance Costs*, above n 60; Lignier and Evans, above n 60; RFE Warburton, *Scoping Study of Small Business Tax Compliance Cost* (A report to the Treasurer, December, 2007).

⁶³ Breen, Bergin-Seers, Roberts and Sims, above n 15.

⁶⁴ Evans, Carlon and Massey, above n 60.

⁶⁵ Reynolds, above n 16.

2002.⁶⁶ However, their empirical findings did not focus on receipt of any related cash flow benefit or stability by participants.⁶⁷

Consequently, the important issue of the effect of GST on the cash flow stability for small businesses has not been fully addressed in Australian research, with cash flow stability explored in the next section.

3. CASH FLOW STABILITY FOR SMALL BUSINESSES

An issue facing small businesses is their cash flow, with liquidity strongly related to the strength of their cash flow. Liquidity is the ability to meet short-term commitments as measured by working capital, being current assets minus current liabilities.⁶⁸ Cash flow stability refers to the extent of cash or near cash assets available for use, along with any inflow or outflow of cash related to those assets.⁶⁹ Cash flow stability therefore is affected by any business activity that alters the balance of the cash accounts.⁷⁰

Given the importance of small businesses to the health and stability of the economy it is crucial to understand how they maintain liquidity.⁷¹ Primarily the greatest challenges for small businesses are the management capabilities of the owner or manager, the market in which they operate and their availability to external finance.⁷²

However the continued success of small business is not always easily achieved, as they face numerous issues in the business environment as a consequence of their size and structure. These issues include market pressure, an absence of management procedures and finance restrictions (including cash flow issues). In particular cash flow can be pertinent due to limited availability to finance alternatives in the event there is a cash shortfall.

3.1 Cash flow management

Small business viability can be affected by the requirement to pay taxes.⁷³ One cause of this is that there is a delay in time between the tax liability being incurred and the obligation to remit it to the tax authority. The time delay can result in the tax liability portion being used as working capital in the short term, leaving a shortfall when the due date for payment arises. In order to minimise the likelihood of this occurring small businesses need to engage in strong cash flow management practices to alleviate

⁶⁶ Glover and Tran-Nam, above n 15.

⁶⁷ Sandford, Godwin, Hardwick and Butterworth, above n 34; C Sandford, M Godwin and P Hartwick, *Administrative and Compliance Costs of Taxation* (Fiscal Publications, Bath, 1989), 76.

⁶⁸ M Drever and P Hutchinson, 'Industry Differences in the Determinant of the Liquidity of Australian Small and Medium Enterprises' (2007) 15(1) *Small Enterprise Research* 60.

⁶⁹ Ekanem, above n 12.

⁷⁰ Stockstill, Dietz and Maurer, above n 13.

⁷¹ R Lussier and C Halabi, 'A Three-Country Comparison of the Business Success versus Failure Prediction Model' (2010) 48(3) *Journal of Small Business Management* 360.

⁷² K Ness, 'Small Business Success Factors in Regional Queensland' (2004) 12(2) *Small Enterprise Research* 1, 6.

⁷³ Hutchinson, above n 23, 89.

any short term cash restrictions. These restrictions can occur for a number of reasons, such as fluctuations in business cycles and trade credit to customers.

In Australia 85 per cent (or 1 820 952 businesses) have 4 or less employees.⁷⁴ Due to the high concentration of small firms with 4 or less employees, it is not unreasonable to suggest that the majority of Australian businesses are managed by their owners.⁷⁵ A consequence of this is that the ownership role is a multi-tasking exercise with owners often required to be the production, financial, marketing and operations manager.⁷⁶ Unfortunately their decision making as a result may not always be in the best interest of the business as they may be constricted by the owners' overemphasis of their own personal abilities.⁷⁷ Predominantly the skills of small business owners are refined to the goods and services that they provide and do not extend to these extra management tasks.⁷⁸ Owners are left to develop management practices on an as needed basis, which can lead to use of unstructured and inefficient practices.⁷⁹ A lack of formal systematic procedures can restrict the owners' ability to recognise a downturn with incoming cash flow and overall financial performance.⁸⁰

Fluctuations in sales can impact cash levels by providing high volumes of funds in the short term with limited cash inflow in the long term. Where stringent policies for cash flow management are not employed, small businesses may be in the predicament of being cash poor to satisfy longer term obligations when they are due. Taxation has been identified as a longer term obligation as although the liability arises as business activities are conducted the requirement to pay falls sometime in the future.⁸¹ Cash restrictions for small businesses are substantiated by the number of interest free loans issued by the ATO to small business clients.⁸²

For continued performance, success and business survival it is necessary to implement effective decision making and planning practices.⁸³ These practices enable management to identify areas that will give them a competitive advantage in the market place and assist with obtaining finance should it be needed to support long term growth. Unfortunately effective decision making and planning is something that may not be established in small businesses, as they are often impromptu and not influenced by activities that are external to the business.⁸⁴ Prior research indicates that planning of small businesses only extends to external information in the situation of

⁷⁴ Australian Bureau of Statistics, above n 19.

⁷⁵ B Freudenberg, *Tax Flow-Through Companies* (CCH, Sydney, 2011).

⁷⁶ Basu, above n 22, 108.

⁷⁷ G Cassar and B Gibson, 'Forecast Rationality in Small Firms' (2007) 45(3) *Journal of Small Business Management* 283, 286; B Kotey, 'Debt Financing and Factors Internal to the Business' (1999) 17(3) *International Small Business Journal* 11.

⁷⁸ Hansford, Hasseldine and Howorth, above n 20; N Opiela, 'Keeping Small Business Cash Flow on Track' (2006) 19(7) *Journal of Financial Planning* 26.

⁷⁹ Basu, above n 22, 108; Perera and Baker, above n 23, 13.

⁸⁰ Perera and Baker, above n 23, 15.

⁸¹ Hutchinson, above n 23, 89.

⁸² For example, 35,900 loans were recorded at 30 June 2012 indicating that small businesses were experiencing some form of short term cash flow difficulty: Australian Taxation Office, *Back to Business*, (Canberra, 2013), <<http://www.ato.gov.au/Business/Activity-statements/In-detail/Bulletins/2012-13/Back-to-business-bulletin---Quarter-3-2012-13/>>.

⁸³ Libermann-Yaconi et al., above n 22, 71.

⁸⁴ Cassar and Gibson, above n 77, 284.

considerable market or economic downturn.⁸⁵ Predominantly small businesses' forecasts are tainted by optimistic and over confident views of the market by owners and the use of previous projections and growth patterns to predict future business activity.⁸⁶ Unrealistic forecasting and planning affects rational commercial decision making, which in turn places pressure on the continued viability of the business.⁸⁷

Small businesses can face difficulty managing their cash flow when they do not have a well-established accounting and data management system.⁸⁸ Issues with liquidity have diminished with advances in technology and higher concentration of smaller firms implementing the use of a 'computerised accounting system' (CAS).⁸⁹ It has been argued that greater firm success is related to the use of a CAS for cash flow management purposes as well as taxation requirements.⁹⁰

3.2 Finance availability

Research has identified that the availability of finance is different for small business in comparison to large, with access to finance influencing cash flow stability. Important areas that will be discussed below include restrictions to finance, capital availability and alternate sources.

Research has demonstrated that small businesses are disadvantaged in comparison to large in relation to accessibility of loans from financial institutions.⁹¹ The difference is evident in terms and conditions, interest rates and available products. It has been demonstrated that small businesses pay higher interest rates, have more extensive terms and conditions that are probable subject to frequent changes over the life of the loan and have limited access to longer term finance options.⁹² In Australia from 2001-2008, the lending rate for small business was on average 1.5 per cent higher than for larger businesses.⁹³ This gap in lending rate increased to two per cent with the downturn in the economy as a result of a decline in the competitive banking market and tightening of bank lending standards.⁹⁴ This can make finance costly for small businesses and further impedes their ability to remain competitive in the marketplace.⁹⁵

⁸⁵ M Bumgardner, U Buehlmann, A Schuter and J Crissey, 'Competitive Actions of Small Firms in a Declining Market' (2001) 49(4) *Journal of Small Business Management* 578, 579.

⁸⁶ Cassar and Gibson, above n 77, 291; Libermann-Yaconi et al., above n 22, 76.

⁸⁷ Cassar and Gibson, above n 77, 284.

⁸⁸ C Wu and A Young, 'Factors Resulting in Success and Failures for Small Business in the Small Business Institute Program at Syracuse University' (2003) 17(2) *Economic Development Quarterly* 205.

⁸⁹ Ibid.

⁹⁰ Ness, above n 72.

⁹¹ Basu, above n 22, 92-110; S Basu, 'Deregulation: Small Business Access to the Capital Market – Theoretical Issues with Special Reference to Australian Bank Finance' (1989) 28(52) *Australian Economic Papers* 141; M Niskanen and J Niskanen, 'Small Business Borrowing and the Owner-Manager Agency Costs: Evidence on Finnish Data' (2010) 48(1) *Journal of Small Business Management* 16.

⁹² Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, *Australian Small Business Key Statistics and Analysis*, (Canberra, 2010), 61; Basu, above n 22, 104.

⁹³ Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, above n 92.

⁹⁴ Ibid.

⁹⁵ Hutchinson, above n 23, 89.

The difference in lending standards for smaller business is presumed justifiable by the lending institutions because small businesses face greater volatility in their revenue streams and have a higher debt-to-asset ratio than their larger competitors.⁹⁶ While this may be commercially valid, placing funding restrictions on small businesses can hinder growth and effectively place further pressure on their financial stability. Banks and financial institutions substantiate their differential treatment of smaller firms to be a result of the limited managerial ability of small firm owners, inadequate capital for debt security and high single owner concentration.⁹⁷

Part of this problem can be attributed to small business as they can have difficulty communicating their credibility and future prospects in finance applications.⁹⁸ The informal and impromptu management style that is preferred by small businesses affects their ability to convince banks of their capability to fulfil obligations under a loan contract.⁹⁹ This is due to factors including poor record keeping, limited information about current operations and absence of a business plan.

Financial institutions consequently impose tighter lending conditions on smaller firms including increased loan security. Due to smaller firms being privately owned and operated, the security increase requirement falls predominantly on the owners. Depending on the structure of the firm this can mean that lending institutions insist on personal guarantees from owners and/or a large portion of the owner's assets (including private residences) are exposed as collateral to secure the finance debt. Generally business owners are reluctant to engage in these requirements for fear that the assets offered as security will be vulnerable in the event of businesses failure. Consequently, to satisfy finance shortfalls small businesses pursue alternate sources of funding.

Alternate sources often include the business owners' personal savings. When the value of the savings is not sufficient to satisfy the cash shortfall, small business owners have been known to seek assistance from family members and friends for funding.¹⁰⁰ Secondary sources have been identified as household debt, such as credit cards and personal loans. For example, the household debt of individuals involved in small business in Australia is at a greater level of debt than those households which are not.¹⁰¹ This suggests that small business owners are relying on these alternative personal finance options to fund their business operations.

A third option for alternate funding is the use of vehicle and equipment financing.¹⁰² This type of short-term finance can suit security limitations of small businesses as the

⁹⁶ Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, *Australian Small Business Key Statistics and Analysis*, (Canberra, 2010), 56; Niskanen and Niskanen, above n 91, 24.

⁹⁷ Basu, above n 91, 141; Drever and Hutchinson, above n 68, 64; Niskanen and Niskanen, above n 91, 18–19.

⁹⁸ J Kennedy and B Tennent, 'Financial Management Practices in Small Businesses: Regional and Metropolitan' (2006) 14(1) *Small Enterprise Research* 55, 56–57.

⁹⁹ Basu, above n 91, 141–142.

¹⁰⁰ P Poutziouris and F Chittenden, 'Modelling the Tax Burden (Direct and Compliance Costs) on the UK Small Company Sector—A Simulation Model' in C Evans, J Pope and J Hasseldine, *Tax Compliance Costs: A Festschrift for Cedric Sandford*, (Prospect Media 2001) 409–417, 412.

¹⁰¹ Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education above n 96.

¹⁰² Ibid.

security of the loan lies with the equipment that is under the finance agreement. Finally, small business can use trade credit as a source of finance.¹⁰³ The use of trade credit allows businesses to operate more efficiently,¹⁰⁴ with the time separation between purchasing and payment allowing businesses to maximise the use of those goods or services obtained to produce profit within their own organisation.¹⁰⁵ Where cash flow is tight relying on the maximum amount of credit available from suppliers can be necessary in order to satisfy immediate cash commitments.¹⁰⁶ Trade credit has been identified as a popular alternative for businesses with limited access to finance from banks and lending institutions.¹⁰⁷

3.3 Competitive markets

Another issue confronting small businesses is that they may be disadvantaged when operating in open markets. Larger competitors may have the experience to build business relationships and quite successfully negotiate business contracts as a result.¹⁰⁸ In contrast, small businesses face considerable uncertainty due to their lack of influence over the markets in which they are engaged.¹⁰⁹ Any competitive advantage that smaller firms may have is influenced by many factors including supply chains, labour markets, inter-firm and institutional relationships, size of the market, population and their position in the market.¹¹⁰

Small businesses rarely hold the power in markets in which they operate, as the scale of their operations may cause detrimental effects on their costs of production.¹¹¹ The problem exists because the inputs used for production have varying costs for different sized businesses with purchase ratios of large businesses being much greater in comparison to small businesses. This can result in higher discount percentages being offered to large customers, with smaller businesses not able to take advantage of the same pricing. Considering that the production of goods or services requires the same inputs for both small and large businesses, the final product can be cheaper to produce for the larger firm due to greater economies of scale.¹¹² When pricing the product or service in the market the larger firm will be able to offer a lower price to customers than the small business. In order to retain market share the small business is likely to follow the sale prices set by their larger competitors.¹¹³ This can be detrimental to the cash flow of smaller firms, as it results in a reduction in the profit earned from each good or service sold. This could lead to the situation of the business having to absorb,

¹⁰³ P J Garcia-Teruel and P Martinez-Solano, 'Determinants of Trade Credit: A Comparative Study of European SME's' (2010) 28(3) *International Small Business Journal* 215, 217.

¹⁰⁴ Ibid 215.

¹⁰⁵ Ibid.

¹⁰⁶ F Chittenden and R Bragg, 'Trade Credit, Cash-flow and SME's in the UK, Germany and France' (1997) 16(1) *International Small Business Journal* 22.

¹⁰⁷ Niskanen and Niskanen, above n 91, 24.

¹⁰⁸ I Diez-Vial, 'Firm Size Effects on Vertical Boundaries' (2009) 47(2) *Journal of Small Business Management* 137, 142.

¹⁰⁹ R MacGregor and L Viazalic, 'A Profile of Australian Regional SME Non-Adaptors of E-Commerce' (2008) 16(1) *Small Enterprise Research* 27, 30.

¹¹⁰ J Lowe and S Henson, 'The Nature of the Regional SME' (2006) 14(1) *Small Enterprise Research* 64, 67.

¹¹¹ Basu, above n 22, 98.

¹¹² Ibid.

¹¹³ Ibid 99.

for example, the GST rather than pass it on.¹¹⁴ In order to eradicate price and power vulnerability small businesses need to explore other avenues in order to gain power within the marketplace.

In relation to taxation the position of small businesses in the market can influence who bears the burden of a tax in the trading relationship. The incidence of a tax is the term given to define who bears the burden and can be distinguished by the statutory (formal) or economic (effective) incidence. For example, the burden of GST is assumed to be borne by the final consumer (formal), however in reality this may not be the case as the burden maybe absorbed by the last business in the production chain prior to the retail sale (effective), or alternatively it may be placed back on previous suppliers (effective) in the stages of production.¹¹⁵ Whether the incidence remains statutory or becomes economic relies heavily on the elasticity of demand for goods and services and the power of the enterprise in the marketplace especially where small businesses are in competition with large businesses.¹¹⁶

Evidence indicates that large firms regularly backward shift the GST burden to their suppliers allowing them to retain a greater profit margin on the sale of goods or services to their customers.¹¹⁷ Small businesses however can be at a competitive disadvantage because their volume purchase from suppliers does not give them power in the trading relationship therefore not allowing them the opportunity to demand lower supply prices.¹¹⁸ As a consequence it is likely that small businesses may have to absorb the tax in order to retain customers, effectively eroding their profit margins further. Bearing the GST burden decreases the level of cash that may be held by the business as the shortfall in GST liability collected is required to be funded from working capital.

Small businesses can gain power in trading partnerships by distinguishing themselves from their competitors. This can be achieved in a number of ways including having a close personal relationship with customers in order to identify their needs as they occur, offering more flexible trading practices than competitors or creating unique products effectively allowing small businesses to create their own markets.¹¹⁹

Flexible trading practices in the form of extending credit can be offered to separate small businesses from their competitors.¹²⁰ As discussed above, trade credit can be an important source of finance for businesses especially where external and internal sources are restricted.¹²¹ Therefore small businesses may be able to strengthen their commercial relationship by acting as a financial intermediary for their customers. Providing trade credit also indicates that the small business owner has confidence in

¹¹⁴ Allan, above n 11.

¹¹⁵ Allan, above n 11; C Sandford, 'Minimising the Compliance Costs of a GST' (1998) 14(2) *Australian Tax Reform* 125.

¹¹⁶ Sandford above n 115.

¹¹⁷ J Stiglitz, *Economics of the Public Sector* (Norton, 2nd ed, 1998).

¹¹⁸ Sandford, above n 115.

¹¹⁹ Bumgardner, et al., above n 85, 596; Chittenden and Bragg, above n 106; Diez-Vial, above n 108, 139; Ness, above n 72, 5; M Withers, P Dinevich and L Marino, 'Doing More with less: The Disordinal Implications of Firm Age for Leveraging Capabilities for Innovation Activity' (2011) 49 (4) *Journal of Small Business Management* 515, 517.

¹²⁰ Chittenden and Bragg, above n 106.

¹²¹ Garcia-Teruel and Martinez-Solano, above n 103.

the goods or services that they provide. The extended payment period allows the customer the opportunity to assess the quality of items purchased prior to payment.

However, providing commercial credit is not without its disadvantages. It can result in market power shifting to the customer. Customer dominance occurs when longer payment terms are imposed than are given in the trading contract.¹²² This can result in the balance sheet of the small business being weakened and cash flow placed under pressure.¹²³ This may put the small business in the situation of having to remit the GST on supplies made to the ATO prior to receiving payment. Confrontation with the customer regarding late settlement can place the small business supplier in a problematic situation, as the customer may shift to an alternate supplier.¹²⁴

Versatility of smaller firms could also extend to creating niche markets and engaging in innovative practices.¹²⁵ These two practices complement each other and allow the smaller firm to have greater strength in customer negotiation.¹²⁶ Authors argue that products should be developed that are of a high quality and require a refined skill set.¹²⁷ Concentration on a limited number of higher end products or services allows the smaller firm to create its own market,¹²⁸ thus eradicating market competition and removing the pressure to follow market prices set by less financially constrained competitors.¹²⁹ This could lead to a situation of being able to fully pass on the GST to the consumer.

3.4 Industry

Another factor that may influence cash flow is the industry in which a business operates.¹³⁰ For instance the wholesale trade sector is reported as having the greatest issues with internal finance, cash flow and debt management.¹³¹ In comparison, the service sector requires a lower level of capital investment and generally as a result can retain a greater portion of retained profits.¹³² Whereas the retail and manufacturing sectors can see prices for their products being forced to lower than their competitors, suggesting a lower profit margin in these industry sectors.¹³³

Industry can also have an influence over whether businesses generally trade in cash or on credit.¹³⁴ For example cash trading is predominantly linked to those businesses that

¹²² Chittenden and Bragg, above n 106, 27.

¹²³ Ibid 22.

¹²⁴ Ibid.

¹²⁵ Diez-Vial, above n 108, 139; Ness, above n 72, 5; Withers, Dinevich and Marino, above n 119, 517.

¹²⁶ Diez-Vial, above n 108, 139; Ness, above n 72, 5; Withers, Dinevich and Marino, above n 119, 517.

¹²⁷ Bumgardner, et al., above n 85, 581–582; Withers, et al., above n 119.

¹²⁸ T Besser and N Miller, 'The Significance of Customers Base in the New Economy: Satisfaction and Perceptions of Success among Small Suppliers and Small Non-Suppliers' (2010) 48(1) *Journal of Small Business Management* 1, 3; Diez-Vial, above n 108, 139.

¹²⁹ Diez-Vial, above n 108, 139.

¹³⁰ D Gadenne, 'Critical Success Factors for Small Business: An Inter-industry Comparison' (1998) 17(1) *International Small Business Journal* 36, 42.

¹³¹ X Huang and A Brown, 'An analysis and classification of Problems in Small Business' (1999) 18(1) *International Small Business Journal* 73, 80.

¹³² Ibid.

¹³³ Gadenne, above n 130.

¹³⁴ Chittenden and Bragg, above n 106, 28.

are involved in the retail industry whereas providing credit to customers is generally found in industries of wholesale trade, construction¹³⁵ and manufacturing.¹³⁶ Trade credit is issued to customers to cover the period of time it takes to sell goods once received.¹³⁷ Effectively this delay in payment for goods or services received is a form of short term finance available for business customers. For those businesses trading in credit rather than cash, trade debtors would represent the majority of businesses' incoming cash flow,¹³⁸ and may have adverse effects on keeping a stable cash flow. Generally small businesses have a narrow customer base resulting in a majority of income tied up with a limited number of debtors.¹³⁹ This can have a large impact in a situation of business failure of a customer when considerable credit has been extended to one customer who fails.¹⁴⁰ Ways to minimise this include shortening credit terms and restricting the amount of money extended to customers.¹⁴¹ However, the ability to make changes to customer credit terms can have serious effects on retaining the small business customer base, especially with regard to market competition.

From the literature it appears that the factors discussed could have detrimental effects on cash flow stability of small businesses. A consequence of these effects may be that the ongoing viability of small businesses is jeopardised.

4. RESEARCH METHODOLOGY

Given the paucity of academic research about the potential effect of GST on cash flow stability for Australian small businesses this research project is exploratory in nature.¹⁴² The exploratory design is supported by the use of a multiple case study methodology. That is pertinent cases have been selected to illustrate the research issue and procedures undertaken for data collection are replicated for all selected cases.¹⁴³ The justification for using a multiple case study is the heterogeneity of small businesses and the factors that will be explored in considering cash flow stability.¹⁴⁴ These factors include trading practices, market competition, availability of finance and management capabilities of the owner and the small business workforce.

A major strength of using case study methodology is the ability to utilise evidence from multiple sources of data collection instruments.¹⁴⁵ The use of a multitude of

¹³⁵ An important component of the construction classification is the majority of services related to construction are included within this Division.

¹³⁶ Chittenden and Bragg, above n 106.

¹³⁷ Ibid.

¹³⁸ Ibid.

¹³⁹ Besser and Miller, above n 128, 4.

¹⁴⁰ Ekanem, above n 12; Opiela, above n 78.

¹⁴¹ T Carroll and C VanBuskirk, 'They Say Cash is King. Are you Treating it Royally?' (2009) *Public Management* 30; Ekanem, above n 12; Opiela, above n 78.

¹⁴² R Scapens, 'Doing Case Study Research' in C Humphrey and B Lee, *The Real Life Guide to Accounting Research: A Behind-the-Scenes View of Using Qualitative Research Methods* (Elsevier Ltd Oxford, 2004) 231–255, 263.

¹⁴³ J Creswell, *Qualitative Theory and Research Design* (Sage Publications, 3rd ed, 2013), 99.

¹⁴⁴ Ritchie, above n 20, 304.

¹⁴⁵ R Stake, 'Qualitative Case Studies' in N Denzin and Y Lincoln, *Strategies of Qualitative Inquiry* (Sage Publications) 127–141, 133; R Yin, *Case Study Research Design and methods* (Sage Publications, 4th ed, 2009), 114.

sources of data gives results more accuracy and credibility and allows for an increase in the data available for analysis than what would be achievable using a single source.¹⁴⁶ For this project evidence was gained from data sources including interviews, participant demographics, activity journals and small scale surveys.

Twelve businesses participated in the research project. The data collection process began in the 1st GST quarter¹⁴⁷ of the 2013-2014 financial year. Initially participants completed documentation relating to their business demographics. Following completion of this document participants recorded their weekly GST activities in a journal over a fourteen week period of the July to September 2013 GST quarter. Once completed, semi-structured interviews were conducted to enable greater flexibility to explore participant responses and comprehension of issues uncovered.¹⁴⁸ A small structured survey was also completed by participants. The purpose of the survey was to capture participants' perception on a number of issues relevant to the study including benefits received from GST, participant management practices, owner/staff capabilities and availability of finance.

Semi-structured interviews were also conducted with two small business accountants in order to identify if views and experiences of small business owners were congruent to those identified by the accountants. These interviews had the benefit of providing insight into small business experiences from varied industries as the accountants engaged with small businesses with diverse characteristics. Their inclusion was considered essential to the research as a means of validating findings of the small businesses participants within the project.

4.1 Participants

Participants for this project were small business entities in Australia. All participants selected had an annual turnover of \$10 million or less and a full time workforce of 20 or less employees.¹⁴⁹ Participants satisfied one of two groups in order to adhere to the two-tail replication design. The majority of participants (eight) accounted for GST on a non-cash basis and the second group (four) accounted for GST on a cash basis.

Securing volunteer participants for this research project was a difficult exercise. This is not an uncommon situation with small business qualitative research projects. It was experienced in previous research studies conducted by Tran-Nam and Glover and Wallschutzky and Gibson.¹⁵⁰ Due to the set criteria as detailed above and the difficulty in recruiting volunteers it was decided that the use of several purposive sampling techniques should be implemented for the research project.

An overview of annual turnover, creditor and debtor trading terms, number of employees, GST accounting basis, industry sector, GST reporting, years trading and business form for each participant business is presented in Table 2. The table demonstrates that the business form of participant businesses are companies (eight participants), trusts (two participants) and a combination company/trust registration

¹⁴⁶ Yin, above n 145, 114.

¹⁴⁷ July to September.

¹⁴⁸ Scapens, above n 142, 266.

¹⁴⁹ Australian Bureau of Statistics, above n 19, 39 box 3.1

¹⁵⁰ Tran-Nam and Glover, above n 15; Wallschutzky and Gibson, above n 7.

(two participants). Separation of businesses into sector classification shows that service, wholesale, manufacturing and retail are represented by seven, two, two and one participant respectively. Eight participants report GST quarterly followed by three monthly and one annually. The accounting basis for GST is divided into four registered for cash and eight for non-cash accounting basis.

Participant selection was based on annual turnover and number of full time employees in line with the unit of analysis for this project. Figure 2 illustrates that there were no participating businesses that recognise an annual turnover of between \$5,000,000 and \$10,000,000. Two-thirds (8 businesses) fell within the \$500,000 to \$2,000,000 annual turnover range, with the remaining four businesses apportioned equally to the less than \$500,000, and the \$2,000,000 to \$5,000,000 annual turnover range. This means that the experiences of more sizeable small businesses (\$5,000,000 to \$10,000,000) are outside the scope of this project.

Table 2: Demographics of small business participants

Participant No.	Annual Turnover	Creditor Trading Terms	Debtor Trading Terms	No. of Employees	Reporting Basis	Sector	Timing of GST Reporting	Years Trading	Business Form
1	\$2,000,000 < \$5,000,000	14 Days	30 Days	11-19	non-cash	Service	Quarterly	>5<10 years	Company
2	\$500,000 < \$2,000,000	30 Days	30 Days	5-10	non-cash	Manufacturing	Quarterly	>10<20 years	Company
3	\$500,000 < \$2,000,000	30 Days	30 Days	5-10	cash	Manufacturing	Quarterly	>20 years	Company
4	\$500,000 < \$2,000,000	14 Days	14 Days	1-4	non-cash	Service	Quarterly	>20 years	Company Trust combination
5	\$500,000 < \$2,000,000	30 Days	30 Days	1-4	non-cash	Wholesale	Monthly	>5<10 years	Company
6	< \$500,000	COD	COD	1-4	cash	Wholesale	Annually	<5 years	Company
7	\$500,000 < \$2,000,000	14 Days	COD	5-10	non-cash	Service	Quarterly	>10<20 years	Company
8	\$500,000 < \$2,000,000	30 Days	30 Days	1-4	non-cash	Service	Quarterly	>5<10 years	Company
9	\$500,000 < \$2,000,000	14 Days	COD	11-19	non-cash	Service	Quarterly	>10<20 years	Company
10	\$2,000,000 < \$5,000,000	30 Days	COD	5-10	cash	Retail	Monthly	>20 years	Trust
11	\$500,000 < \$2,000,000	30 Days	30 Days	1-4	non-cash	Service	Monthly	<5 years	Trust
12	< \$500,000	COD	14 Days	1-4	cash	Service	Quarterly	<5 years	Company Trust combination

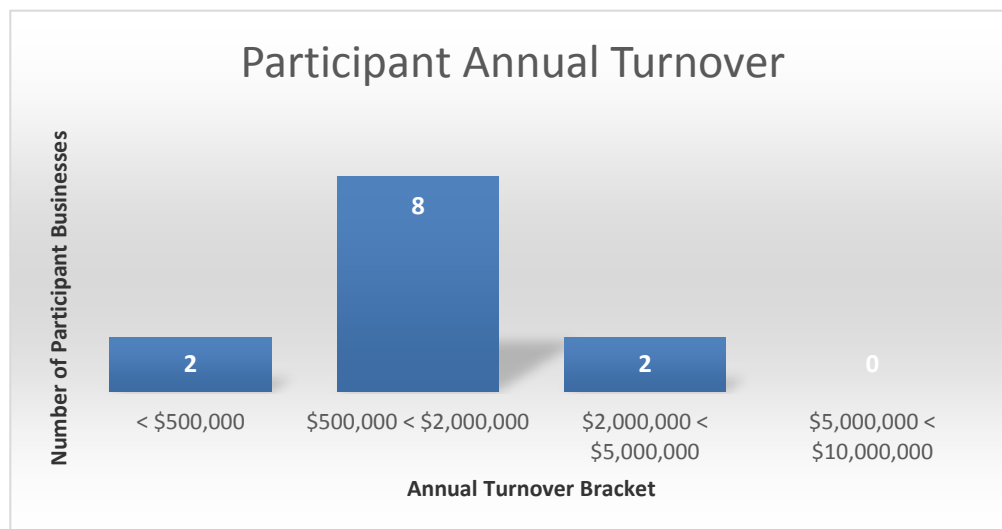
Figure 2: Participants categorised by Annual Turnover

Table 3 separates participant businesses by full time employees within each small business workforce. Half of the participating businesses are responsible for employing 4 or less employees. The remaining businesses fall within the 5<20 bracket. In order to understand the structure of the small businesses within the study in greater depth the researcher has separated this group into 5 to 10 and 11 to 19 employment groups. In consideration that a high proportion of businesses in Australia employ less than 5 employees,¹⁵¹ it was not surprising that half of the participating businesses would have this characteristic.

Table 3: Participants grouped by number of employees¹⁵²

Number of employees	Participant responses
Non employing	0
1-4 employees	6
5-10 employees	4
11-19 employees	2

¹⁵¹ Australian Bureau of Statistics, above n 19.

¹⁵² See Australian Bureau of Statistics, above n 19. . Businesses are grouped as non-employing, 1-4 employees and 5-19 employees for micro and small business. To present a more in depth account of the participating businesses the researcher has divided the 5-19 bracket to 5-10 and 11-19 groups.

4.2 Results — cash flow stability

The viability of small businesses has a strong relationship with their ability to maintain a stable cash flow. This research considered the factors identified in the literature review as having the greatest impact on small business liquidity and considers the influence, if any, of the GST with these. These factors include small business management, availability of finance, competitive markets and industry. In order to explore the potential impact of the GST on cash flow stability this research project made use of semi-structured interviews, a GST activity journal and survey questions as data sources.

4.3 Cash flow stability and management

In the literature review it was identified that small businesses can be managed by their owners. This was advocated due to the high number of smaller firms employing four or less employees in Australia.¹⁵³ Basu¹⁵⁴ suggested that as a consequence of limited employee concentration within smaller firms, the ownership role becomes a multi-tasking exercise. Management functions in production, finance, marketing and operations are as a result a function that must be performed by owners irrespective of their skill within these areas. Half of the businesses within the research project were employing four or less employees. Those businesses employing six or less employees had a maximum of four employees that were not identified as being owners or directors (Table 4). All businesses earning less than \$2,000,000 in annual income had a full time work force of 6 or less employees. This would suggest that the management functions of those businesses earning less than \$2,000,000 are to a great extent performed by business owners. Those employing larger numbers of employees (17 and 8 employees) were the businesses having the highest annual income between \$2,000,000 and \$5,000,000.

¹⁵³ Australian Bureau of Statistics, above n 19.

¹⁵⁴ Basu, above n 22, 108.

Table 4: A summary of positions of employment within each participant business

Participant	1	2	3	4	5	6	7	8	9	10	11	12
Job Category												
Directors	2	2 ¹⁵⁵	2 ¹⁵⁶	1 ¹⁵⁷	1 ¹⁵⁸	1 ¹⁵⁹	1 ¹⁶⁰	2 ¹⁶¹	2 ¹⁶²	3	1 ¹⁶³	1 ¹⁶⁴
Administration	5	1	1	1	1		1	1	2	2	1	1
Technical		3	2	2				1				
Other	10				1		3		1	3		
TOTAL	17	6	5	4	3	1	5	4	5	8	2	2

Management practices and capabilities were examined using the survey. Investigation focused primarily on perception of owner capabilities and financial management. All participants strongly agreed that the owners of the business were important to its success and the majority (11 or 91.6%) concur that the financial management used by their businesses are effective. The majority of business participants (10 participants, the remaining 2 were neutral) confirmed that the management systems that they have implemented within their business assist with its successful day-to-day operation.

The survey results were supported by the activity journal. All participants engaged in data entry for day-to-day trading including customer and supplier invoicing and payments (Table 5). Time allocation was highest for those two participants (Participants 1 and 10) with the highest annual turnover and lowest for one of the participants (Participant 6) with the lowest annual turnover. Regardless of time allocated to data entry the results confirm that all participant businesses are actively involved in activities that involve the inflow and outflow of cash for their business.

¹⁵⁵ One Director is not included in technical counts but is involved in the technical group of the business and the other Director is not included in the administration count but is the Administration Manager.

¹⁵⁶ One Director is not included in technical counts but is involved in the technical group of the business and the other Director is not included in the administration count but is the Administration Manager.

¹⁵⁷ The Director is also the main technical personnel in this business.

¹⁵⁸ The Director is also the main sales and technical personnel of this business.

¹⁵⁹ The Director is also responsible for technical, sales and marketing in this business.

¹⁶⁰ The Director is actively involved in the day to day operations of this business.

¹⁶¹ One Director is not included in technical counts but is involved in the technical group of the business and the other Director is not included in the administration count but is involved in both the administration and sales area of the business.

¹⁶² The Directors are the event programmers for this business.

¹⁶³ The Director is actively involved in the day to day operations of this business.

¹⁶⁴ The Director is the only Accountant for this business.

Table 5: Time allocated to data entry for trading accounts

Participant	1	2	3	4	5	6	7	8	9	10	11	12
Activity												
Supplier Invoices	1785	625	570	560	805	130	300	635	45	1010	180	280
Customer Invoices	875	655	680	280	730	80	330	330	195	485	180	275
Supplier Payments	1640	535	610	190	590	40	285	240	320	600	90	90
Customer Payments	1115	370	330	120	445	50	280	170	80	290	20	130

Note: time was recorded in minutes over the GST quarter (1st July 2013 to 30th September 2013).

Table 6: Time allocated to Financial Management

Participant	1	2	3	4	5	6	7	8	9	10	11	12
Activity												
Chase Debtors	1535	450	0	20	40	0	150	145	60	380	90	110
Settle Creditors	670	0	110	120	265	0	155	75	0	420	60	50
Discuss fin position with bank	0	0	120	0	0	0	60	160	360	80	360	225
Arrange finances for GST payment	0	0	0	0	0	0	55	130	120	195	540	50

Note: time was recorded in minutes over the GST quarter (1st July 2013 to 30th September 2013).

However businesses were not as involved in activities that supported financial management which includes chasing debtors, settling creditors, discussing financial position with banking institutions and arranging finances for payment of GST (Table 6). This could be a result of differences in trading practices of the individual business or an indication that engagement in financial management procedures are not implemented by all participating businesses.

However, Perera and Baker¹⁶⁵ and Libermann-Yaconi, Hooper and Hutchings¹⁶⁶ submitted that a lack of formal systematic procedures and planning practices can have adverse effects on small business viability. Therefore regardless of time spent on cash flow activities the importance of having cash flow management processes should not be underestimated. The data collected in interviews appears to contradict some of the results of the survey suggesting that businesses practices are not as effective as indicated by small business owners' and confirms results of the activity journal that there is a lack of engagement in financial management practices (emphasis added):

¹⁶⁵ Perera and Baker, above n 23, 15.

¹⁶⁶ Libermann-Yaconi et al., above n 22, 71.

We use electronic banking and I review the bank account every couple of days to see what is going in and going out, I keep on top of it that way. I don't have any other particular system in place it is **mostly in my head**. So I have sort of got it all in the top of my head and trying to keep on top of it that way. You kind of have to when you're only small, **I can't really delegate** it to anybody (Participant 3).

I would have to say that when we are in a high growth period **I spend very little time** worrying about cash flow. However when cash flow is restricted I spend a lot of time keeping my MYOB file up-to-date via the use of online banking in order to work out what debtors have paid and what accounts need to be chased. This also influences the frequency of my invoicing cycle. If we have large amounts of cash available I will invoice irregularly whereas if we are cash poor, I will invoice as close as possible to when the job was completed and ensure that the invoice is received by the customer (Participant 4).

The only way I monitor my cash flow is **by looking at our bank accounts** (Participant 7).

Of all the participants only two appear to have some systematic process of managing their cash flow:

We have a really extensive budget that myself and the financial controller are constantly updating. The budget goes over two years, predictions are based on previous years and so we have an idea of the income that is expected (Participant 1).

Because time is limited the paperwork can't wait. Keeping up to date with invoices and making sure the bank balance is reconciled. I can't leave that go for too long without sorting it out. I use MYOB so all the information is there and up-to-date. I have historic information in MYOB and I also use a manual spreadsheet for forecasting into the future for cash flow (Participant 6).

It could be concluded that the conflicting results of the survey and interviews maybe a result of optimistic views of small business owners in their ability to implement cash flow management procedures. Indeed Cassar and Gibson¹⁶⁷ posited that over confidence in personal abilities is common to small business owners.

The research further investigated the activities of participants in managing their cash flow in terms of GST liability. The activity journal indicated that half of the participants spent time arranging their finances in order to remit the GST payment (Table 6). These same businesses spent considerable time discussing their financial position with their bank. Time allocated to these practices could be a result of the lack of financial management practices engaged in by the small business participants especially considering the business participants (Participant 1 and 6) that were

¹⁶⁷ Cassar and Gibson, above n 77, 291.

considered to have some systematic process for managing their cash flow did not record any time for arrangement of finances for GST.¹⁶⁸

Ness¹⁶⁹ along with Wu and Young¹⁷⁰ advocate that smaller firms have a higher likelihood of success when they use a CAS. The CAS is proposed to be important to cash flow management aiding small firms in having greater understanding of their financial position.¹⁷¹ Results from the data collection confirm that all participating businesses use a CAS (Table 7).

Table 7: Use of a computerised accounting system sorted by software program

Software Program	No of participant users
MYOB	6
Xero	4
Quickbooks	1
Combination of Quicken and Cashflow Manager	1

In consideration of the findings and the recommendations of Ness, Watson and Everett and Wu and Young it could be suggested that all participating firms have an increased probability of success as a result of better cash flow management practices from use of a CAS.¹⁷² Of further interest when making comparisons between the activity journal and the interview data, two of the participants (Participant 1 and 4) who did not record any time to plan for GST payment inferred that their use of CAS aided their knowledge of what the size of their GST liability was likely to be. Broadly this finding could suggest that reliance on reporting options available in CAS could reduce the time required to arrange finances for GST payment:

I do use the reporting options in MYOB to get a fair idea of the GST liability that will be due when the quarter is completed (Participant 4).

We pretty much know exactly what our GST is going to be over the next six months because of our budget. Our budget is prepared in our MYOB software (Participant 1).

Of interest here is that in the survey results presented in Table 8 (items c to f), both Participants 1 and 4 disagreed that GST provided them managerial benefits that assisted with cash flow and financial management within their respective businesses. Comparison of these findings suggests that correct and more thorough use of a CAS is likely to assist small businesses in managing their cash flow than that of GST reporting. This was supported by Accountant 2 who suggested that implementation of the GST has not been effective in making small business owners manage cash flow.

¹⁶⁸ Participant 6 does report on an annual basis however and would not be required to pay GST at this stage.

¹⁶⁹ Ness, above n 72, 7.

¹⁷⁰ Wu and Young, above n 88.

¹⁷¹ Ness, above n 72, 7.

¹⁷² Ness, above n 72, 7; J Watson and J Everett, 'Defining Small Business Failure' (1993) 11(3) *International Small Business Journal* 35; Wu and Young, above n 88.

Table 8: Potential managerial benefits recognised from complying with GST

Benefits of complying with GST		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
A	GST improves my business record keeping systems.	1	1	2	6	2	
B	My recording for GST assists with my income tax commitments.		1	2	6	3	
C	GST improves my cash flow monitoring.	1	7	2	1	1	
D	GST improves my business credit management.	1	7	3	1		
E	GST improves my knowledge of my business financial affairs.	1	8	1	2		
F	GST improves my decision making in my business.	1	7	2	1		1

Overall it is likely that the management functions of the small businesses within the research project earning an annual turnover of less than \$2 million are performed or heavily influenced by the business owner. The results also confirm that all small business participants are actively involved in day-to-day cash flow activities. However, despite the belief by the majority of participants that their planning and management procedures are effective for the ongoing success of their business the data collected via interviews and the activity journal suggests this may not be the case. From the results it appears that only two of the participating businesses have systematic cash flow management procedures in place. This would tend to suggest that the vast majority of small businesses are not supporting their ongoing liquidity with effective cash flow management procedures.

The relationship of cash flow management procedures and payment of GST were also analysed and the results suggest that those spending time on arranging finances for payment of GST were not participants identified as having systematic cash flow management procedures in place. The findings also appear to indicate that reporting options available in a CAS can assist with management of cash flow for payment of GST liabilities. Low engagement of use of CAS reporting may be a result of restricted knowledge on how the CAS works and what assistance it can provide to the knowledge of the businesses' financial position.

4.4 Cash flow stability and finance availability

The literature review revealed that smaller firms are disadvantaged in comparison to large when trying to access financial products from banks and lending institutions. In support of this previous research the survey in the current study determined that there was a low uptake of businesses partaking in use of financial loan products that span five years or longer. From the survey results presented in Table 9Table 9 it can be

seen that 75 per cent (9) of the participating businesses disagreed or strongly disagreed that they have used long term financial products. From the survey results and the proposition by Kotey,¹⁷³ it could be surmised that one reason that participants have not used long term debt is due to the fact they want to have greater control over their business. However this conclusion may conflict with the findings presented further in financial availability, which suggests that the use of long term debt by small business is restricted as a result of their inability to satisfy extensive lending conditions imposed by financial institutions.

Table 9: Use of long term debt

Please indicate to what extent do you agree or disagree with the follow statements relating to Financial Products you have used:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Not Sure
I have used financial loans which go for longer than 5 years.	1	8		1	2	

Difficulty relating to finance availability and extensive terms and conditions were supported by comments of Participant 4:

I think in the last five years it has been extremely difficult to obtain finance from financial institutions. But even before that time changes occurred to the borrowing criteria required from the banks. I remember as far back as 2003 having been a customer of the CBA and running very large overdrafts for quite some time. When the bank themselves got into strife from some unfavourable investment decisions of their own, they placed large restrictions on our bank accounts. For example they had been allowing us to extend past our overdraft by up to \$50,000 over a long period of time and then changed their mind on that and expected us to bring it into line immediately. This of course froze those accounts and left us in a situation of having to rely on our own personal savings or alternatively they wanted extra security. This also was a similar scenario with the Suncorp Bank some six years later. They changed their terms and conditions with a moment's notice and expect that we can accommodate it (Participant 4).

Basu¹⁷⁴ further suggested that banks and lending institutions restrict finance to small business as a result of limitations in management ability, inadequate capital for debt security and difficulty communicating credibility as a result of issues including poor record keeping and absence of a business plan. In the previous section results indicate that the majority of participant businesses have no formal management systems in place indicating that management practices may be an issue for small business. In

¹⁷³ Kotey, above n 77.

¹⁷⁴ Basu, above n 91.

relation to level of capital and requirement of a business plan the results of the survey support the proposition of Basu.¹⁷⁵ A high proportion (83%) of participants confirmed that over the life of their business they had found it difficult to satisfy loan requirements of financial institutions including the need for business plans, up-to-date financial statements and inadequate levels of capital needed for loan security. Difficulty with satisfying loan conditions was validated by the small business Accountant 2:

If you haven't got security then you really have to go to second tier products and then they're paying 12 per cent interest and that is enormous and is a real issue for small business. At the moment unless you've got prime security banks just don't want to know you (Accountant 2).

As a result of strict lending conditions small business owners may be forced to obtain alternate sources of finance. Secondary sources include personal savings,¹⁷⁶ personal credit used by households,¹⁷⁷ short-term equipment finance¹⁷⁸ and trade credit.¹⁷⁹ The survey and the interviews investigated the use of secondary sources of finance.

In support of literature posited by Poutziouris and Chittenden,¹⁸⁰ 83 per cent of participants confirmed that they have used their personal savings to support the cash flow of their business. Furthermore, 66.7 per cent of participants strongly agreed that they use their personal credit cards as a source of finance for their business.¹⁸¹ These findings were supported in the interview with Participant 6 discussing their previous difficulty with obtaining finance from lending institutions:

We did get a loan a couple of years ago for something else that I was going to buy into and it was a real palaver trying to do that and that was to buy into an established business. So I have gone down the path of using personal credit that I have so I can get the business established and then I have got a lot more to offer the bank when I go back to them for finance. At the moment they're all offering interest free, like nine months and 12 months interest free or 1.5 per cent, so it is cheaper than I can get a loan anyway (Participant 6).

As proposed by Bumgardner et al.¹⁸² and Kennedy and Tennent,¹⁸³ shorter term financial products including leasing and hire purchase agreements have loan conditions that are easier to satisfy and require minimal or no capital security. This option is therefore important for businesses owners who have limited capital available for security especially when capital assets are needed for business growth.¹⁸⁴ Sixty

¹⁷⁵ Basu, above n 91.

¹⁷⁶ Poutziouris and Chittenden, above n 100, 412.

¹⁷⁷ Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, above n 92.

¹⁷⁸ Bumgardner, et al., above n 85, 56–57.

¹⁷⁹ Garcia-Teruel and Martinez-Solano, above n 85, 217.

¹⁸⁰ Poutziouris and Chittenden, above n 100, 412.

¹⁸¹ Reinforces the results of the recent DIISRTE Australia. Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education, above n 96.

¹⁸² Bumgardner, et al., above n 85, 580.

¹⁸³ Kennedy and Tennent, above n 98, 56–57.

¹⁸⁴ Bumgardner et al., above n 85, 580; Kennedy and Tennent, above n 98, 56–57.

seven percent of participant businesses indicated that they had made use of this type of shorter term financial product.

The final secondary source of finance discussed in the literature review was the use of trade credit. Trade credit has been identified as a popular alternative when businesses have limited access to finance from lending institutions.¹⁸⁵ The survey findings demonstrate that trade credit is regularly relied on to assist cash shortfalls with 75 per cent of participants verifying that they frequently depend on trade credit. Table 10 details the trading terms available to the participants.

Table 10: Trade terms available to business participants from their suppliers

Participant	Credit Terms
1	14 days
2	30 days
3	30 days
4	14 days
5	30 days
6	Imports – prepaid, Local - 60 days
7	14 days
8	30 days
9	14 days
10	30 days
11	30 days
12	14 days

Trade credit allows businesses to operate more efficiently as there is a time separation between the purchase date and payment date of supplies, essential giving businesses time to earn an income from the supplies purchased.¹⁸⁶ However, what this means for business-to-business operations are that their own debtors may be using them as an alternative source of finance. This could have adverse consequences in terms of remitting GST liability prior to receiving payment when reporting on a non-cash basis. One of the small business accountants confirmed that trade credit is a cheaper form of finance for smaller businesses and an easier alternative than lending from financial institutions:

When businesses are on an accruals basis and their debtors are much larger companies their payments can be held for up to 60 or 90 days. This places a lot of pressure on cash flow, so smaller companies delay paying their creditors as it is a cheaper form of finance than using a bank. This means they also don't have to go through the whole loan application process, which is time consuming and costly (Accountant 1).

Small business owners were asked whether the GST improves their finances, and one participant believed that the only improvement to their finance that they could recognise was that the GST liability may be used to pay trade creditors:

¹⁸⁵ Niskanen and Niskanen, above n 91, 24.

¹⁸⁶ Garcia-Teruel and Martinez-Solano, above n 103, 217.

The only thing the GST from sales may assist with is I might use it to pay trade creditors if cash flow is short (Participant 4).

The other important comments that were revealed is that tax liabilities including GST can limit the ability of businesses to obtain finance. One participant and one small business accountant suggested that overdue tax liabilities can impede the approval of finance applications:

All taxes impact the problem because in more recent times a condition that we encountered of being granted finance from institutions was that all our tax liabilities were up to date. I know that in the past when we needed finance we were forced to bring our tax liabilities up-to-date instead of our other liabilities in order to be granted that finance (Participant 4).

Banks would be looking at your profitability and if you haven't paid the ATO then it's a big cross against your name anyway. The first thing banks want to see is that your tax liabilities are up-to-date (Accountant 1).

Also results reported elsewhere demonstrate that businesses thought that there should be a cash flow benefit from holding onto GST before remittance, but in reality this was not realised for a number of reasons including unsubstantial time of holding GST, debtors expending payment terms and limited capacity to undertake short term investment.¹⁸⁷ Overall it appears that the small business participants have had limited use of longer term finance. The cause of low engagement in these forms of finance products appears to support those proposed by Basu¹⁸⁸ that small businesses are unable to satisfy lending conditions imposed by financial institutions. Areas of concern for participants in the current study were lack of capital, terms and conditions that are extensive and likely to change and high interest rates.

The findings suggest that as an alternative to long term finance the business participants place high importance on the use of at least one form of secondary finance options. The uptake of the use of personal savings and trade credit to support finance requirements was high across all participants. Whereas the use of personal credit cards and short term credit in the form of leasing or hire purchase is not as extensively used as the former finance possibilities.

A small number of participants suggested that having overdue GST liabilities (and other types of tax liabilities) can further hinder the availability of longer term finance. This raises the importance of businesses managing their GST liability to the ATO, as it may have adverse consequences when seeking external finance.

4.5 Cash flow stability and competitive markets

The literature review revealed that competition within the marketplace can have detrimental effects on small business viability. Basu¹⁸⁹ identified that smaller firms are often forced to follow prices set by larger competitors in an effort to maintain their customer base and in-turn their sales ratio. This could be of concern given that it is

¹⁸⁷ See Belle Isle, Freudenberg and Copp, above n 18.

¹⁸⁸ Basu, above n 22; Basu, above n 91.

¹⁸⁹ Basu, above n 22, 98.

the supplier that has the GST liability for taxable supplies.¹⁹⁰ The results of the survey indicate that 66.7 per cent of participants support Basu's¹⁹¹ findings and confirm that the price of the products or services sold by their business are dictated by larger competitors within the market. Half of the participants reported that they have decreased their profit margins in order to remain competitive. Such action has adverse effects on liquidity and cash flow as a greater number of products or services need to be sold in order to earn the same level of profit. Thus, this means that the GST is further eroding this profit margin. The participants expressed varying problems that they recognised relating to competition in the market place:

I guess my pricing is dictated by the larger players in the market at the moment (Participant 6).

Our market is a mature market so yes there's a lot of competition (Participant 5).

I have had to reduce my profit margin to remain competitive (Participant 7).

... new business traders drove the price of installation down and caused a reduction in the profit margin that was being obtained (Participant 4).

Generally our industry is in a deflationary market. Pricing has dropped probably about 200 per cent, 300 per cent in the last five years. So in a deflationary market it's impossible to make any sort of profit. We've been finding it very hard to actually make sales in the last three months. ... lack of sales has been putting really intense pressure on our business. ... In the boom periods you sign a lease for bigger premises, you hire more staff, you buy more computers. Yeah, definitely the initial investment when you're growing is fine as a business owner to take that risk. Everything in business is a risk. But you're fine to take that risk in a growing market. But the moment it stops, and in our industry it stopped overnight, the moment that it stops suddenly, not only are you left with all the capital infrastructure but also then you've got to start laying off staff and you've got to try and cut back your overheads on contracts you've already signed, you know like phone and internet and stuff like that. So you get penalised when you try to go backwards as well (Participant 10).

Half of the participants discussed issues relating to competitive markets affecting their ongoing success. Problems appear to be apparent for a number of reasons including prices being set by larger competitors, services offered being of low importance to customers, the market being fully developed, lack of industry regulation and licensing and lower quality products being introduced into the marketplace. In any event what this means is if small businesses have limited ability to set prices, then their GST liability has the potential to further decrease margins.

The interview and survey explored further whether participants had attempted to eradicate vulnerability in the market place by distinguishing themselves from their competitors. Chittenden and Bragg¹⁹² identified the importance of extending trade

¹⁹⁰ *A New Tax System (Goods and Services Tax) Act 1999* (Cth), section 9-5.

¹⁹¹ Basu, above n 22, 98.

¹⁹² Chittenden and Bragg, above n 106.

credit to customers as an attempt to strengthen commercial relationships. Information sourced from the participant demographics and presented in Table 11 illustrates that two thirds of participants offer their customers some form of trade credit, however these terms of credit appear to be normal for trade terms and not overly generous.

Table 11: Trade terms offered by participants to their customers

Participant	Debtor Terms
1	30 days
2	30 days
3	30 days
4	14 days
5	30 days
6	COD
7	COD & 30 days
8	30 days
9	COD
10	COD
11	COD
12	14 days

Providing trade credit to customers can however have disadvantages. Customers have been known to take advantage of suppliers by extending their payment remittance further than the terms offered. This allows the customer to dominate the trade relationship again, as smaller firms are reluctant to take action to recover the debt for fear that dissensions between the two parties will result in customers seeking an alternate supplier. Situations of this type have been experienced by participant organisations and were communicated in the interviews:

Some customers have their payment terms and they tell us that they can't change them. So of course, we don't want to lose them as clients so we deal with it (Participant 8).

Our terms are that you pay up front before the event but in reality if they don't we've never not turned up because someone hasn't paid. We are so busy getting the event organised that we don't really push them for payment ... We did a last minute event for a big grocery company and they didn't pay us for three months. When we hit them with admin fees that they signed off on, in our terms 10 per cent interest is detailed on our booking confirmation form for late payment. They just knocked the interest off the top and pay the original amount, how am I going to chase it? (Participant 9).

Customers are a real issue because if people aren't paying within trading terms, do small businesses place pressure on these customers and risk losing those customers? They can't afford to, so they are accommodating the customer (Accountant 2).

Results discussed elsewhere suggest that receiving payment later than agreed terms can have adverse effects for compliance with GST, especially for those businesses remitting on a non-cash basis.¹⁹³

Bumgardner et al.¹⁹⁴ suggested that another way to eradicate price and power vulnerability is to have a close professional relationship with customers allowing smaller firms to determine customer needs as they arise. All participants within the research project supported the findings of Bumgardner et al.¹⁹⁵ with five participants agreeing and seven strongly agreeing that they try to have a close relationship with their customer base. Withers, Dinevich and Marino¹⁹⁶ identified that this practice distinguishes smaller firms from their larger competitors as it allows small business to be more flexible to customer requests. It was found that 75 per cent of participants confirmed that they have created products or services that specifically suit their customer needs, which may provide some power to the small business in the trading relationship.¹⁹⁷

The final proposition discussed in the literature that assists smaller firms in reducing market competition was the creation of unique products.¹⁹⁸ Developing distinct products or services that require a refined skill set allows smaller firms to establish their own market.¹⁹⁹ Interview data confirms that a large majority of the business participants have identified the requirement to invest time and resources in innovative practices in order to remain viable:

We have the licence on the only program that we sell and we have that trademarked, so no one should be selling our efficiency program (Participant 1).

We probably have a niche market and we do a lot of customised stuff. There is some imported equipment that is similar to ours but the quality is much cheaper and it breaks down and no one is able to repair it and then the customers come back to us (Participant 2).

We are a very niche market and we do specialised jobs and more often than not people can't get what we manufacture elsewhere. We have always headed in the niche market direction. (Participant 3).

In order to survive in business we were forced to reinvent ourselves. We moved back into electrical contracting and engineering and developed services to help commercial and industrial customers to reduce their carbon footprint by having more efficient and effective equipment on their sites. This has created a niche market for us and we now don't have a problem making a good profit (Participant 4).

¹⁹³ See Belle Isle, Freudenberg and Copp, above n 18.

¹⁹⁴ Bumgardner, et al., above n 85, 596.

¹⁹⁵ Ibid 595.

¹⁹⁶ Withers et al., above n 119, 520.

¹⁹⁷ Bumgardner et al., above n 85, 596.

¹⁹⁸ Diez-Vial, above n 108, 139; Ness, above n 72, 5; Withers et al., above n 119, 517.

¹⁹⁹ Bumgardner above n 85, 591–582; Withers et al., above n 119, 520.

Our honey is raw which means it's unprocessed, so from a retail point of view we've been able to segregate ourselves or separate ourselves from the mainstream products. Our product is of premium quality (Participant 5).

At the moment bigger businesses have cheaper quality products, so I am trying to distinguish myself as a high quality product from the main players in the market (Participant 6).

We can offer specialised services that others can't. We actually do work for other plumbers as well because of the specialised services that we can offer. (Participant 8).

Evidence collected in the interviews suggests that businesses which trade predominantly with other businesses are more likely to create niche products in comparison to those that trade with consumers. Interestingly all of the participants involved in niche markets also provide their customers with some form of trade credit and confirm that they are actively involved in keeping close relationships with their customer base. All of the factors identified by Bumgardner et al., Chittenden and Bragg, Diez-Vial, Ness and Withers, Dinevich and Marino in assisting businesses to gain power within the marketplace are seen as important by these businesses (Participant 1, 2, 3, 4, 5 and 8).²⁰⁰

Market position and competition has been identified by Allan²⁰¹ and Sandford²⁰² as being of influence on who bears the burden of taxation in the marketplace. Incidence of taxation is the term used to define who bears the final burden. For the GST the incidence is assumed to be borne by the final consumer. However as proposed by Sandford²⁰³ this may not always be the case as incidence relies heavily on the elasticity of supply and demand and the power of the business in the market place. In order to explore this proposition the current research investigated whether participants were able to pass the full amount of GST liability onto their customers for goods or services traded. Participants including both of the small business accountants provided extensive discussion on the topic. A brief outline is presented in Table 12 followed by discussion from the interviews.

²⁰⁰ Bumgardner et al., above n 85, 591–582; Withers et al., above n 119, 582; Chittenden and Bragg, above n 106; Diez-Vial, above n 108, 139; Ness, above n 72, 5; Withers et al., above n 119, 520.

²⁰¹ Allan, above n 11.

²⁰² Sandford, above n 116.

²⁰³ Ibid.

Table 12: Participant perception on incidence of GST

Participant	Passes GST to Customer	Absorbs the GST
1	✓	
2	✓	
3	✓	
4	✓	
5	GST Free	GST Free
6	✓ For trade customers	✓ For retail customers
7		✓
8	✓	
9	✓	
10	✓	
11		✓
12	✓	

Most participants indicated that they passed on the GST:

We definitely pass the GST onto our customers (Participant 1).

I think I always pass the GST on to my customers. We work on GST exclusive price (Participant 8).

I think for accountants and other professions we charge for our service and add the GST on top. We always pass the GST on to the client (Participant 12).

... new business traders drove the price of installation down and caused a reduction in the profit margin that was being obtained. As this also became a highly concentrated consumer market prices were inclusive of GST which I believe caused us to absorb the GST in our price reduction at times (Participant 4).

My products are sold in two streams, retail and wholesale. For retail prices they are dictated by the market and are sold on a GST inclusive basis. So a reduction in the price as a result of market pressure means that some of the GST is absorbed in the price. For the wholesale and trade customers however changes in price of the product does not affect the GST as it is all GST exclusive (Participant 6).

I think in the hospitality industry the GST is absorbed in the price because the market is competitive. The fact that all the prices are GST inclusive is what creates the problem (Participant 11).

I think depending on the business, people are selling services and wearing the GST to remain competitive. Businesses like retailers or lawn mowing businesses for instance who are selling to the final consumer. The business owner employing three people and earning \$200,000 has to charge GST for

his services but the sole trader working for himself turning over less than the GST threshold does not. So the second person can charge a cheaper price. The consumer doesn't care if someone is registered for GST, their only concern is that they get the best price (Accountant 1).

Market competition is the problem more than anything. Now it's not across the board for example in the trade area it's not a big issue because they specifically charge by an hourly rate, materials and then they add the GST on top of the invoice and that gets paid. This issue is more in the hospitality industry whereby hotels, motels and resorts have not been able to pass. It is working on a GST inclusive basis that creates the problem (Accountant 2).

Accordingly, while the price may have been driven down due to competitive markets, for those supplying to other businesses there is the view that the GST liability is able to be passed on.

The evidence collated in the interviews supports the proposition of Sandford²⁰⁴ that incidence of GST is not always borne by the final consumer. The findings suggest that those participants that trade on a GST inclusive basis perceive themselves to be disadvantaged by GST incidence in comparison to those that trade on an exclusive basis. Participants 4 and 6 confirm that they have recognised the difference in their own business when they have traded both on an inclusive and exclusive of GST basis. Predominantly those participant businesses trading inclusive of GST are conducting a retail business to final consumers. This suggests that consumers are very price driven and the influence of GST on the final price of goods or services they purchase is not taken into consideration when making a purchase decision. This is probably due to the fact that private customers are not able to claim an input tax credit on goods and services purchased in comparison to business customers.

In summary the results of the study imply that approximately half of the participants identify that the market in which they operate is competitive and as a consequence they have reduced their profit margins in order to retain market share. The combination of the survey and interview data suggests that market vulnerability is a multi-factor issue and can be a result of prices being dictated by larger competitors, services offered being of low importance to customers when their own cash flow is tight, the market being fully developed, lack of industry regulation and licensing and lower quality products being introduced to the marketplace.

It appears from the data that in order to eradicate market vulnerability participants are engaged in one or more of business practices identified in the literature as being capable of distinguishing them from their competitors. Two-thirds of participants offer trade credit to their customers. However some suggest this has often led to customers taking advantage of the terms provided and they have felt they are powerless to pressure customers to conform for fear of losing market share. All participants propose that they focus on having a close relationship with their customer base including identifying customer needs as they arise and being flexible to customer requests.

From the results it also appears that a large proportion of the business participants have identified the requirement to invest time and resources in innovative practices in

²⁰⁴ Ibid.

order to remain viable. Products and services that require a refined skill set and particular expertise are created by a significant number of participants. Predominantly it appears that those businesses that trade with other businesses are more likely to engage in these practices than those in the retail trade.

Finally the relationship between competitive markets and incidence of GST was explored and the findings suggest that businesses that trade on a GST exclusive basis with other businesses are able to pass on the full amount of GST to their customers. Those using a GST inclusive basis however report that the GST has diminished their profit margin as they have absorbed it in their pricing in order to remain competitive. The markets that these businesses operate within are predominantly retail. This suggests that consumers are very price driven and have no regard for the GST component in the final price of goods or services, since they are not able to claim back the GST.

Combining the findings, the results highlight that the relationship of factors of cash flow stability has the most considerable effects on those businesses trading directly with retail consumers. The lack of engagement in the use of systematic cash flow management processes appears to be resulting in considerable time spent on rearranging finances for payment of GST liability and consultation with banks regarding their financial position for these participants. A consequence of minimal financial management appears to be limiting availability to long term financial products. All participants regardless of their trading partners rely on the use of secondary sources of finance. Competition within the market place is of most concern for businesses trading with consumers. They have reduced their profit margins to retain market share to the point at times that they have absorbed the GST within the price. Trading on a GST inclusive basis is perceived to be the source of the problem. In comparison the cash flow of those that have created niche markets and trade with other businesses seem much less affected by their lack of management capabilities.

It appears that realisation of cash flow benefit for small businesses trading with consumers is not realisable as a result of the combination of lack of financial management and competition in the market place. These two factors also appear to limit the use of longer term financial products. Small business participants trading with retail consumers were registered both on a cash and non-cash basis for GST. Therefore regardless of registration there appears to be difficulty in passing on the GST when trading in the retail market. This can be compared to the findings of Wallschutzky and Gibson²⁰⁵ about WST, which found those reporting on a cash basis did not have a problem. This is probably due to the fact that the WST did not apply to retail transactions. Consequently, the GST may have an adverse impact for those businesses in the retail industry, especially if they are not distinguishable from their competitors, as they may have to absorb the GST rather than passing it on. Such a result can be adverse to a firm's cash flow stability.

When aggregating the findings of the questions for participants that trade with private consumers (retail), examination confirms that perceived benefits are unlikely to be realised. They appear to have greater adversity as a result of factors of cash flow stability than those trading with businesses. In spite of the fact that they hold the GST from point of sale until the time it is remitted to the ATO, they still did not recognise

²⁰⁵ Wallschutzky and Gibson, above n 7.

any benefit. This can be explained by the highly competitive markets in which they operate and the low profit margins that are achievable as a result. These businesses have indicated that their price has been reduced as they absorb the GST, effectively reducing their profit further. It is noted that there was an absence of systematic cash flow management practices in place for these business. However this appears to be the case for most of the participating business regardless of who their trading partners are.

Examining the results in relation to businesses that trade with other businesses perception of participants also seems to be confirmed. Unlike those that trade with consumers they don't appear to suffer from factors that affect cash flow stability in spite of the fact that the majority do not employ systematic cash flow practices. Their investment in the creation of specialised markets in order to distinguish themselves from competitors appears to deliver them a fairly stable cash flow. However when exploring trading practices and timing of receipt of sales, realisation of cash flow benefit from GST appears impossible. Late paying debtors cause cash flow to be restricted as participants identify the need to pay for inputs when they are due in order to maintain business activity. This is the case regardless of how GST is attributed. When attribution laws are brought into consideration then those registered non-cash may be further burdened by late payment of customers. Creditor obligations increase as the requirement to pay GST liability for sales not yet paid is added into the equation. Small businesses trading with other businesses report that they often suffer a dis-benefit²⁰⁶ from payment of GST as a result of attribution rules.

5. RECOMMENDATIONS

The findings of the research have emphasized that the small business participants have difficulty implementing a systematic cash flow management practice and make limited use of CAS reporting options, which as a result is having an adverse effect on their cash flow stability. It may be beneficial for small businesses to engage external advisors to assist with increasing their knowledge of the reporting options of a CAS and with implementation of a cash management system. However, considering the research has highlighted that cash flow is restricted it is unlikely that they could justify the expense of seeking external advice. Recommendations of a recent study by Freudenberg et al.²⁰⁷ propose that a tax rebate for professional advice should be available to small businesses capped at \$10,000. Such a rebate could be used to address the implementation of systematic cash flow management practices. Freudenberg et al.²⁰⁸ suggest that this rebate should be available in the second year of business operation. However in the current research it was found that regardless of number of years in operation the majority of participants were lacking in cash flow management practices. This suggests that the rebate should not be restricted to the second year of operation and could benefit small businesses if it is extended.

²⁰⁶ M D'Ascenzo, 'Regulation Impact Statements and Compliance Costs – An Australian Perspective' in C Evans, J Pope and J Hasseldine, *Tax Compliance Costs: A Festschrift for Cedric Sandford*, (Prospect Media, 2001) 353–367, 356.

²⁰⁷ B Freudenberg, B Tran-Nam, S Karlinsky and R Gupta, 'A Comparative Analysis of Tax Advisers' Perception of Small Business Tax Law Complexity: United States, Australia and New Zealand' (2012) 27(4) *Australian Tax Forum* 677, 708.

²⁰⁸ Ibid.

The ATO website allows businesses to access a ‘Business Viability Tool’²⁰⁹ to assess the current status of their financial performance. When viability is in question the tool advises business owners to seek professional advice. The advice from the tool could be the qualifying condition for accessing the tax rebate. Therefore, it is recommended that availability of the rebate is not dependent on entry date of the business into the economy. An identified problem with allowing such a rebate to assist with implementation of a cash flow management system is regulating the relevance of the advice given by the professional. It may be beneficial to develop a tool that acts as a guide for professionals to follow when implementing the system.

5.1 Limitations of research and future research

A limitation of this study is the small number of participants; however, the purpose of the study was to present an accurate representation of the experiences that owner/managers have encountered in terms of cash flow stability and the factors that may influence realisation of cash flow benefit from the GST. The use of the exploratory case study design was employed in an attempt to uncover findings that are crucial to the research project. The design choice was selected to complement the need to extend the limited existing theory on how the GST affects cash flow of smaller businesses by uncovering findings not previously established. It is expected that these new findings will form a foundation for future research to build upon. Also since the study occurred after the global financial crisis this may influence the results when compared to a more positive economic climate.

A finding from the research was that some participants believed that they absorbed the GST as a result of trading on an inclusive GST basis, especially for those in the retail sector. It could be advantageous to understand the difference of trading on an inclusive and exclusive of GST basis and the effects that has on incidence of GST in more depth. Future research could include exploration of the varied trade terms of the retail sector in more depth and the effect that has on ongoing cash flow stability.

Prior research suggests that small businesses using a CAS have an increased likelihood of success. This is due to availability of up-to-date financial information. However the findings of this research appear to indicate that the CAS is not being used effectively to assist with management of cash flow, as there was low engagement in the use of CAS reporting options. As a result participants were spending considerable time arranging finances for payment of liabilities. The researcher suggests that this may be a result of knowledge restrictions on the use and benefits that a CAS can create for small businesses. Future research could investigate the level of knowledge that small businesses have of the CAS that they employ and the extent that it is used to understand the financial situation of their business. It is one thing to have a CAS, but it is another to utilise all of the resources available within a CAS.

The findings discussed the possibility that there is a relationship between inability to perceive a cash flow benefit from GST and low profit margins for businesses trading in cash and receiving payment at point of sale. Further investigation into this relationship would be beneficial.

²⁰⁹ Australian Taxation Office, Business Viability Assessment Tool, <www.ato.gov.au/Calculators-and-tools/Business-viability-assessment-tool/>.

Finally the study uncovered the possibility that approval of long term finance may be restricted as a result of overdue tax liabilities. If this is the case then the effect it has on small business loan applications could be investigated further.

6. CONCLUSION

Business liquidity has been identified as the ability to meet short term commitments as measured by working capital. In order to sustain liquidity, small businesses need to maintain a stable cash flow, and business operations are the most significant source of cash inflow and outflow. Cash flow stability can be impacted by management practices, finance availability and competitive markets.

Results of the data analysis confirm that the small business participants have made limited use of long term financial products from financial institutions. Recognised reasons for limitations included lack of capital, extensive terms and overdue tax liabilities. As a consequence a large majority of participants confirmed that they rely heavily on use of personal savings and trade credit to support the cash flow of their business.

Limitations in finance availability does not appear to be supported by effective implementation of cash flow management practices. The results suggest that all participating businesses are involved in activities that relate to cash inflow and outflow for their business. However it appears that only two of those businesses engage in any form of systematic cash flow management process. The findings suggest that in spite of the fact that all participants have availability of a CAS only two participants rely on the reporting options within the software to give them a better idea of their financial position. The absence of sufficient cash flow management appears to be causing the participants to invest considerable time arranging finances in order to settle their GST liabilities. Those businesses trading with consumers appear to be more involved in these activities than those that trade with businesses. This may be a consequence of the effect that competitive markets have on their cash flow.

Small businesses participants conveyed that market competition at times had forced them to reduce their profit margins in order to retain market share. Explanation of why participants felt that they did not have power in the market was diverse, suggesting there is no universal reason for competitive vulnerability for smaller firms. All participating businesses were engaged in at least one of the activities discussed in order to distinguish themselves from their competitors. Those businesses that have created niche products appear to be maximising all possible avenues to differentiate themselves from other businesses. In support of their niche market they are also offering trade credit and keeping close relationships with their customer base. Findings emerging from the data were that creation of specialised products or services are easier fulfilled for businesses engaged in trade with other businesses. The business to consumer market does not appear to support the use of specialised products or services. This can result in businesses that trade with consumers suffering greater constraints in cash flow as their inability to distinguish themselves from their competitors may force them to become price takers, in comparison to being price makers.

A consequence of highly competitive markets for businesses trading with consumers appears to be a change in who bears the incidence of GST. Participants suggest that they have reduced their profit margin to the point that the GST component is absorbed in their final price in order to retain market share. Their perception of the reason for incidence shifting from the consumer back to their business is that prices are displayed inclusive of GST.²¹⁰ When small businesses are in competition with enterprises that are not required to be registered for GST, the GST component would make their final price for the goods or services appear higher than their competitors. The purchasing decisions of consumers that are price driven will be made on the final price of the good or service without regard for the businesses requirement to remit GST. The resultant effect is that the cash flow of businesses that trade with consumers and who are registered for GST is further impeded by their requirement to comply with GST legislation. It is important that greater appreciation of the potential influence of GST on cash flow stability for small businesses is understood, as cash flow is a critical element to the success of this important section of the Australian economy.

²¹⁰ This is in line with the GST legislation requiring the price to be displayed inclusive of the GST amount.