

Is It Time To Turn Up Your Radio?



When the Master Apprentices were belting out their 1970 hit song, 'Turn Up Your Radio', they obviously weren't thinking about the Australian accounting profession in 2010. However, forty years later the lyrics have a loud and clear message for many accounting firms.

The Commonwealth Government received Ken Henry's Tax Review in December 2009 but at the time of writing this editorial it was not available in the public domain. According to Federal Treasurer Wayne Swan, "The report will provide the foundations for a long-term plan for reform, to make our tax and transfer systems fairer, simpler and more competitive". One real possibility in simplifying Australia's personal income tax (PIT) system is to remove the need for millions of individual taxpayers to lodge basic income tax returns. Sure, we've heard it all before but I suspect the Government is very serious this time courtesy of some technological advancements.

The Review is due out shortly but the plan would only apply to the many Australian taxpayers with straight forward tax affairs. A key feature of the reform would be the ATO using IT reporting systems to collect income details from employers and dividend data from companies. By then introducing a withholding tax on bank interest, basic taxpayers would have their tax return essentially automated. The system would then calculate a taxpayer's refund or liability and give them the option to accept the calculations at a mouse click which would save time, red tape and eliminate the need to pay tax agent fees.

Over half of Australia's population (i.e. nearly 12 million individuals) complete a PIT return yet only around 9 million actually pay any tax! Around a fifth of these 9.3 million taxpayers contribute 2 per cent of net tax revenue. For the Government who perceive these personal income tax returns as inefficient and a waste of resources, the proposal is a 'no brainer'. These statistics support the case that the current PIT system is antiquated and explains why other countries replaced the model years ago.

With 73 per cent of PIT payers using a tax agent, most opposition is likely to come from those with most to lose, accountants and tax agents. The impact on each firm would vary but generally sole practitioners would be hardest hit because of their 1 return numbers. Some firms would react by focusing their attention on small businesses and clients with investment properties while others would diversify into other financial services or even exit the market. On top of the phasing out of some 1 returns, tougher economic conditions generally mean client failures and bankruptcies. In addition, other clients could be looking to cut costs and reduce accounting fees so perhaps for the first time ever, you will be losing clients and revenue through no fault of your own. At the same time, clients of bigger firms are having trouble paying their bills and could be looking to move 'downstream' to reduce their accounting fees. These downstream opportunities often prove to be the best new clients for smaller firms.

Let's be honest, GST probably disguised the need for accountants to market their services. Almost overnight our work load, fees and practice values spiked by around 33 per cent back in 2000. A decade on and these proposed changes might have the reverse effect for the practitioners who have built their practice around a solid base of individual tax returns. On the flip side, firms who focus exclusively on small business clients are probably quite relaxed about the proposed changes but many of them are flat lining as their client base is ageing. From a valuation perspective this is a ticking time bomb and they need to attract younger Gen X & Y clients to replace their ageing baby boomer clients.

For every accounting firm it's time to "turn up your radio" and look at your marketing. Document your ideas in a marketing plan and recognise the power of the internet, your website and social networking. 2010 promises to be a year of opportunity given the rebounding economy and the fact that many firms turned off their marketing radios in the 'noughties'.