Australian Government

Australian Taxation Office

Simpler BAS

Phase I (July 2016 to September 2016)
Alpha Testing Findings

Executive summary

Small business, software developers and tax professionals have raised concerns that the complexity of the BAS places an unnecessary burden on small business and increases their GST compliance costs.

The ATO has partnered with software developers, small business and tax professional associations to fully understand the underlying drivers for compliance costs and co-design an enhanced GST bookkeeping and reporting experience for small businesses.

Expressions of interest were sought from software developers via the Software Industry Partnership Office (SIPO) landing page to test the Simpler BAS digital bookkeeping experience during 2016-17. MYOB, Reckon, Intuit and Sage accepted this offer to partner with the ATO during the testing phase.

The Phase 1 Alpha testing report outlines the preliminary perceptions about Simpler BAS from tax professional and small business participants. The report also outlines key findings and recommendations that software developers would need to consider should they update their software to offer Simpler BAS bookkeeping features.

What is Simpler BAS?

From 1 July 2017, Simpler BAS will be the default GST reporting method for 2.7m small businesses. Small businesses will only be required to report:

- 1A GST collected
- 1B GST entitled to be claimed
- G1 total sales

Simpler BAS is a digital service offer in partnership with accounting software developers to reduce GST reporting requirements and make digital bookkeeping solutions easier, quicker and simpler to use for small business. Simpler BAS is expected to deliver approx. $130m per annum in time and cost savings to small businesses.

Intent of Alpha testing phases

Alpha testing will be conducted with up to 2,000 small businesses to ensure a seamless transition for the broader 2.7m small businesses from 1 July 2017.

Alpha testing will be conducted over four phases throughout 2016-17 with the intent of each phase as outlined below.

Phase 1 (July 16 – Sept 16)

- Test the manually re-configured accounting software to identify system constraints and design issues that will impact on the Simpler BAS digital bookkeeping experience.
- Co-design an enhanced end user experience through software enhancements with participating software developer partners and a team of tax professionals who are also software certified consultants.
- Surface the initial perceptions of the Simpler BAS bookkeeping solution.

Phase 2 (Oct 2016 – Dec 2016)

- ATO to provide Simpler BAS system specifications and incorporate Phase 1 Alpha testing findings into the detailed co-design activities with software developer partners.

Phase 3 (Jan 2017 – Mar 2017))

- Test and fully understand the Simpler BAS bookkeeping and GST reporting experience with newly registered GST businesses.

Phase 4 (Apr 2017 – June 2017)

- Test our software developer partners' updated digital accounting solutions with up to 2,000 small businesses.
- Measure the time, cost and stress savings of the new Simpler BAS digital bookkeeping solution.

Scope of Phase 1

The scope of the Phase 1 Alpha testing participants included: **192 Small business** and **13 Tax professional participants** (BAS and tax agents who are software certified consultants).

The expansion of testing participants during Phases 2 – 4 will be guided by our software developer partners' timelines for updating their accounting software. This will ensure we are testing the fully automated Simpler BAS bookkeeping solutions that will be available to the broader 2.7m small businesses from 1 July 17.

Our software developer partners have indicated that the expansion up to 2,000 small business participants is not expected until Phase 4 (ie Apr 2017 to Jun 2017) due to:

- Scope of the system impacts identified in Phase 1 and
- ATO's Simpler BAS system specifications have not been available to date.

Preliminary insights into Simpler BAS effectiveness measures

The ATO has developed a suite of effectiveness measures to ensure that the Simpler BAS delivers on the intended benefits for small businesses.

The following preliminary insights provide an early indication of the perceptions held by tax professionals and small business participants about Simpler BAS. These insights are based on 29 observation sessions with tax professional and small business participants during their setup, bookkeeping and BAS preparation stages.

The ATO will re-visit these perceptions in Phase 4 with the expansion up to 2,000 small business participants and a statistically relevant survey methodology. This will produce reliable effectiveness measurements representative of the broader 2.7m small business for the time, cost and stress benefits of Simpler BAS.

Effectiveness measure 1 - Reduced GST Compliance costs

- Perception of tax practitioners and small business participants was that Simpler BAS would make it quicker, easier and reduce the cost of compliance for GST.

- The fees that tax professionals charge for bookkeeping and BAS preparation would remain unchanged, however less time would be spent on transactional level validation checks and form filling with an increased focus on providing commercial services for clients.

- Concerns have been expressed by participants about transitional costs associated with manually re-configuring their GST settings in accounting software. Manual re-configuration would be too complex for small businesses and also a timely, expensive service for tax professionals to provide.

Effectiveness measure 2 - Increased confidence by businesses in managing their GST obligations

- Reduced GST tax codes are producing more accurate classifications of transactions with on-going bookkeeping. This was evidenced by a reduction in the number of transactions requiring validation check adjustments by tax professionals at the BAS preparation stage.

- Small businesses and tax practitioners want to retain control of their bookkeeping solutions. Updating to Simpler BAS GST settings should be an optional election. The re-configuration process should also retain the tailored automation settings that small business has invested in setting up.

Effectiveness measure 3 - Decreased complexity in managing GST obligations

- Tax practitioner participants would recommend the majority of their clients adopt the Simpler BAS GST settings, with the exception of their most complex clients that would utilise additional tax codes.

- Non-software participants saw little to no change to bookkeeping as they currently don't report (or need to) all GST information on their BAS. Perceptions of additional complexity and cost were the key reasons given by small businesses for not yet transitioning to a digital bookkeeping solution.

Effectiveness measure 4 – Support software developers to simplify digital GST bookkeeping solutions

- ATO detailed specs, phase 1 Alpha findings and co-design support will make it easier for software developers to simplify digital GST bookkeeping solutions and maximise benefits to small business.

Key recommendations

The ATO should continue Alpha testing throughout the remainder of 2016-17 to validate and quantify the preliminary findings with a statistically valid sample of participants.

Generic findings should be provided to the broader software developer community, small business and tax professional associations to ensure alignment of transitional support products and services.

The ATO will need to work closely with our software developer and tax professional partners to ensure alignment of communications, support products and services during the transitional period for Simpler BAS. This leveraged approach will ensure that the transitional complexities identified in Phase 1 are eliminated and small businesses are fully supported in a seamless transition of their GST bookkeeping solution.

Software developers designing an enhanced Simpler BAS digital bookkeeping experience for end users may consider the following software constraints, design issues and potential system changes identified in the Phase 1 Alpha testing:

- Providing an option to elect to use Simpler BAS tax code settings or retain more complex tax code settings.
- Functionality to add new tax codes that map to both sales and expenses.
- Old tax codes should be made inactive to avoid unnecessary end user complexity.
- New tax codes will need to map to the reduced BAS output (ie G1, 1A & 1B) and the GST worksheet will no longer be required.
- Source G1 total sales figure from the Chart of Accounts (CoA) to avoid the need for a third GST tax code for BAS exempt transactions (eg private, dividends, grants).
- Ability to manually override the GST amount for mixed invoices if this is fixed at 1/11 of the transaction amount. This feature would allow end users to enter mixed invoices as a single line entry saving time on data entry.
- Provide an automated process for existing businesses to update their tailored GST settings should they elect to use Simpler BAS settings (eg default tax codes for CoA, suppliers, customers, items and bank feed rules).

Small businesses and tax professionals will need to be notified of the Simpler BAS updates to accounting software products, new features available and system guidance provided on how to re-configure to the Simpler BAS settings.

Consideration should be given to adopting an industry standard for binary GST tax codes (eg GST yes or no). The Australian Business Software Industry Association (ABSIA) is forming a special interest working group to consider the future integration and automation opportunities that an industry standard would deliver. The ABSIA Special Interest Working Group will also shape the final detailed system design for Simpler BAS. To participate in the ABSIA Special Interest Working Group software developers can contact Australian Business Software Industry Association (ABSIA)

Software developers considering providing the enhanced Simpler BAS bookkeeping features to their end users can subscribe to ATO's Software developer newsletter for Simpler BAS updates. Impacted software developers can also contact the Simpler BAS project team directly at SimplerBAS@ato.gov.au.

Tax professionals will play a pivotal role in supporting small businesses through the Simpler BAS transition period, particularly with any impacts on their bookkeeping practices.

Tax professionals may consider following the ATO's Simpler BAS communications, support products and services via their tax professional associations to ensure they can fully support small businesses with:

- Deciding whether Simpler BAS accounting software settings are appropriate for their business.
- Re-configuring their GST settings in their accounting software to ensure that any tailored automation rules are not lost.
- Getting the most out of Simper BAS accounting software updates features provided by their clients' accounting software providers.
- Encouraging the use of existing and enhanced automation features provided by their clients' software solutions.

Methodology

What is the Simpler BAS trial?

The ATO has partnered with MYOB, Intuit, Reckon and Sage to trial the Simpler BAS bookkeeping and reporting solution throughout 2016-17.

The first phase of the trial, which began in July 2016, is focused on discovering system constraints and design issues that will impact on the Simpler BAS digital bookkeeping experience. As the trial continues and more participants are added, the focus will move to measuring the perception change and cost of compliance impacts.

Phase 1 & 2 participant demographics

All small business participants met the current eligibility criteria for the trial:
- less than $10 million turnover
- reporting GST quarterly and using GST full reporting method
- and for accounting software users, an authorised product from a software partner

Table 1. Small business participant demographics (Total = 192)

Accounting System	148	Paper/Excel	44	Accounting software		
Entity Type	72	Sole Traders	75	Companies	22	Partnership
	4	Superannuation Fund	19	Trust		
Industry	6	Accommodation/Food	7	Education and Training	6	Rental, Hiring & Real Estate Services
	4	Admin & Support Services	25	Health care	8	Retail
	10	Agriculture	5	Information Media & Telecommunications	10	Transport, Postal & Warehousing
	4	Arts & Recreation	5	Manufacturing	4	Wholesale Trade
	11	Church/Religion	28	Professional, Scientific & Technology	2	Superannuation Fund
	24	Construction			18	Other
	15	Financial Services				
State	38	Queensland	65	New South Wales	52	Victoria
	13	Western Australia	14	South Australia	5	Tasmania
	1	Northern Territory	4	Unknown		
Regional /Metro	143	Metropolitan	45	Regional	4	Unknown

Table 2. Tax professional participants demographics (Total = 13)

Participant Role	5	Tax agents	8	BAS agent / Bookkeeper		
Software provider	6	Intuit	2	MYOB	2	Reckon
	3	SageOne				
State	1	Queensland	5	New South Wales	5	Victoria
	1	Western Australia	1	South Australia		
Regional/Metro	11	Metropolitan	2	Regional		

Research methodology

The research planned to be undertaken throughout the trial uses a mixed methodology. Software developer partners are sourcing digital accounting software participants and the ATO has been directly sourcing participants that use manual bookkeeping solutions.

Phase 1 research methodology relied heavily on face to face observation sessions at the business premises during the set up, bookkeeping and BAS preparation stages.

Phases 2, 3 and 4 will introduce the use of a baseline survey that will track and measure changes in participant's perceptions as well as the impact on time, cost and stress associated with GST reporting.

Detailed Findings and Recommendations

1. Accounting software users

We ran 14 observation sessions with tax professionals, who are software certified consultants for our four software developer partners. These sessions allowed us to capture the following detailed findings and recommendations during the setup, bookkeeping and BAS preparation stages.

	Detailed findings	Recommendations
1	**The perception was Simpler BAS would make it quicker, easier and reduce the cost of compliance for them and their clients. However, the actual fee charged would not change. Any extra time would result in additional commercial services for clients.** Using Simpler BAS, businesses would only need to consider if a transaction has GST yes or no. The different reasons a transaction was 10% or 0% would not need to be captured with additional tax codes. The invoice would still be retained as the underlying justification as to why a transaction attracted GST or not. The multiple 0% and 10% tax codes were creating confusion for small business end users of accounting software. Initial reports from tax professionals is that their clients had an increased understanding and confidence while doing bookkeeping for their BAS which was resulting in increased data accuracy and fewer misclassifications. Tax professionals indicated that whilst they would convert the majority of their clients onto the new Simpler BAS tax codes they would continue to use the additional tax codes for a small number of clients with complex tax affairs (eg clients with input taxed sales/supplies). Tax professionals found that Simpler BAS would reduce the time taken to do validation checks. They could ignore the 'no value added' checks, (i.e. the 0% to 0% or 10% to 10%) and only focus on the 'value added' checks (i.e. 10% to 0% or other financial validation checks).	**The ATO** to continue Alpha testing throughout the remainder of 2016-17 to measure the preliminary perceptions that Simpler BAS is quicker, easier and will reduce compliance costs with a statistically valid sample of participants. **Software developers** to consider offering their users an optional election to use Simpler BAS tax code settings or retain more complex settings. **Software developers** to consider adopting the new binary GST tax codes (ie GST yes or no) that is currently under consideration by the ABSIA special interest working group as an industry standard to drive future integration and automation across digital platforms. **Tax professionals** to consider the broader commercial services that they can provide to businesses as the focus on manual data entry and form filling is reduced.
2	**Existing small businesses will require their tailored GST automation settings updated. Manual re-configuration of accounting software is complex and time consuming.** Approximately 69% of businesses use accounting software. Our research found GST reporting on the BAS was not as simple as just pressing a button. Businesses that use accounting software need to configure their system so that it is tailored to their business. This involves paying tax professionals to set up the accounts and GST automation rules. For new businesses the set-up of their GST settings using the reduced Simpler BAS tax codes will be relatively straight forward. However, existing businesses that have already invested in setting up tailored GST settings would find re-configuration too challenging without tax professional assistance. The manual reconfiguration process that our tax professional	**Software developers** to provide an automated process to update tailored GST settings for existing businesses that elect to use Simpler BAS settings (eg default tax codes for chart of account (CoA), suppliers, customers, items and bank feed rules). **Tax professionals** to consider whether it is practical and/or economical for clients using software that does not support auto re-configured Simpler BAS solution to update their GST settings (eg non-supported desktop products).

Detailed findings	Recommendations

participants had to navigate included the following steps:

- Adding new tax codes for Simpler BAS.
- Making old codes inactive.
- Mapping the new codes to both sales and expenses.
- Mapping the new codes to BAS outputs.
- Updating default GST tax codes for - Chart of Accounts (CoA), customers, suppliers, items, bank rules, and memorised transactions.
- Currently, re-configuration involves a timely, manual process and / or utilising an export / import function that does not update all default GST tax codes (eg bank rules cannot be exported or imported).

It would be too complex for a small business to manually re-configure their accounting software themselves and having to pay a tax practitioner would be a barrier to adopting the new Simpler BAS bookkeeping solution.

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3 Small businesses and tax practitioners want to retain control of their bookkeeping solution.

Small businesses have invested in tailoring their GST bookkeeping settings to provide a degree of automation. Any changes to their GST settings should not be an automatic update that would result in the loss of these settings. Small businesses expect to be able to retain their automated settings if they elect to use Simpler BAS in their accounting software.

Tax practitioner participants would recommend Simpler BAS GST tax code settings to be used by the majority of their clients.

Software developers to provide the option to existing businesses to stay on their current GST settings or elect to re-configure to the Simpler BAS tax code settings.

Software developers to consider providing an automated re-configuration tool for businesses that elect to use the Simpler BAS tax code settings so that they can retain their tailored automation rules.

Tax professionals to consider which of their clients should transition to Simpler BAS bookkeeping settings based on the complexity of their tax affairs.

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4 Total sales (G1) if sourced from the CoA, will need to be mapped to various sub-accounts.

The option of sourcing total sales from the CoA will eliminate the need for an additional '0%' tax code.

Multiple '0%' tax codes was identified as a source of confusion and impacted on data accuracy.

BAS exempt transactions (eg private, dividends, wages etc.) cannot use the GST no tax code as it needs to be isolated from a client's G1 total sales.

An alternative approach of sourcing G1 from the CoA was tested with several tax professionals and shown to produce accurate results and eliminate the need for an additional 0% tax code that could create confusion.

Minor manual adjustments to the G1 figure was required to account for plant and equipment, dividends and grant income.

Software developers to consider sourcing G1 total sales figure from the CoA to avoid the need for a third GST tax code for BAS exempt transactions. G1 can be derived from various income sub-accounts. A software based solution would be required to ensure G1:

- Includes the full amount from sales of Plant and Equipment.
- Excludes dividend and grant income.

If a business uses the cash accounting method, software can produce a cash-based Profit & Loss or a worksheet to convert accruals to cash.

Detailed findings	Recommendations
5 **Conversion of data files to the new Simpler BAS GST tax code settings might mean the historical coding will be lost.** Participants were concerned with how conversion to Simpler BAS would affect coding of historical transactions. Once transitioned over to Simpler BAS, software users may not be able to provide the full range of GST questions currently on the BAS. This would prevent the lodgment of BAS for periods prior to 1 July 2017. During the observations, entering transactions using Simpler BAS coding went smoothly for new transactions. Re-occurring transactions continued to pick up the old codes, preventing data being correctly mapped to the BAS. No error message was displayed in these instances to alert users to change to the new codes. Tax professional participants indicated a preference for retaining any coding on historical transactions, where possible.	**The ATO** to provide flexibility for small businesses to lodge BAS for periods prior to 1 July 2017 without G2, G3, G10 & G11. **Software developers** to consider the appropriate software solution that minimises the impact on historical coding (eg de-activating old tax codes). **Tax professionals** to consider closing off client's journals prior to conversion to Simpler BAS. This would potentially eliminate unintended consequences during conversion. However this may not be the most practical solution.
6 **Minor enhancements to the GST detailed report will assist identification of capital misclassifications and enhance the integrity of the business data.** Concerns were raised about how tax professionals can check the misclassification of capital purchases without dedicated capital/non-capital tax codes. If their clients have allocated their capital purchases incorrectly, it won't affect the accuracy of the BAS preparation. However, at the end of the year, the tax agent will need to spend additional time in correcting this for the income tax return. Adding the source of account in the GST detailed report would enable the tax professional to identify and correct capital misclassifications whilst preparing the client's BAS. This would enhance validation checks for tax professionals over the current practice with unreliable tax codes.	**Software developers** to consider adding an "account" column in the GST detailed report to enhance the validation check process for tax professionals. **Tax professionals** to consider using enhanced detailed GST report to identify and correct capital misclassifications using the source account.
7 **Businesses are not fully maximising existing automation features.** While bank feeds assist with automation for the user, there are perceptions about the reliability of the data transfers from their bank account into the accounting software. This places a heavy importance on manually reconciling the bank account/s to maintain accuracy which takes time. Reliability issues include: • Incomplete transactions. • Duplication of transactions. • Timing issues with payment status. Timing issues were also identified for bulk payments using an automatic Australian Bankers' Association (ABA) with 2-3 day time lags. Usage of third party app add-ons to automatically capture invoices and eliminate manual data entry was not widely used. The primary reason for not using automatic invoice capture	**Software developers** to consider marketing the automation features provided by digital accounting software in alignment with the Digital by Default transition period (ie July 2017 – Jun 2018). Digital by Default will require businesses lodging a paper BAS to transition to digital lodgment unless they are in an exemption category. **Software developers** to consider the price sensitivity for small businesses when rolling out Simpler BAS updates. If Simpler BAS updates are rolled out free of charge (as part ongoing cloud subscription fees) this would maximise the penetration of benefits to small businesses.

Detailed findings	Recommendations
software was the pricing structure per transaction and the fact that small businesses have high volume and low value transactions.	**ATO** to engage with financial institutions, software developers and tax professionals to explore the positive benefits that the New Payment Platform (NPP) will have on the timing issues related to bank feeds. **Tax Professionals** to consider advising and supporting clients to get the most out of the automation features provided by their accounting software.
8 **Software products required system changes to facilitate Simpler BAS.** There were varying degrees of manual configuration flexibility across the different software products tested. Tax professional participants that are also software consultants for the software developer partners identified a range of software updates that would be required to deliver an enhanced Simpler BAS end user experience. If adopted, these system updates would make bookkeeping simpler for users and enhance the validation processes for tax professionals.	**Software developers** to consider the following system updates if providing a Simpler BAS bookkeeping solution: • Add new tax codes or use existing tax codes for Simpler BAS. • Make old codes inactive. • Map one tax code to both sales and expenses. • Re-design the BAS outputs. • Map the Simpler BAS codes to the new BAS outputs. • Manually override GST amounts for mixed supplies. • Have an automated process to update client's files (customers, suppliers, items, bank rules, CoA and memorised transactions) to Simpler BAS settings. • Allow their users to stay on their current settings or move to Simpler BAS settings. • Add an "account" column in the GST detailed report. • Support prior period accounts if they are not closed off prior to conversion to Simpler BAS. • Source Total sales (G1) from the CoA.
9 **Feedback on the Simpler BAS communication products used in the trial was mixed and further work from the ATO is required to ensure that they are appropriate for a small business audience.** The ATO provided the following support products and services to assist Alpha testing participants: • E-mail correspondence explaining what Simpler BAS is and how to participate in the Alpha testing. • Simpler BAS on-line guide. • Webinars for tax professionals. • Priority call centre support line. Small business feedback was clear that the terminology and complexity of the ATO's correspondence and on-line content	**The ATO** will incorporate feedback from Alpha testing participants into the draft Simpler BAS communications products. Feedback to date has highlighted the need to test our key messages with small business and tax professional associations prior to the Simpler BAS communications campaign commencing in Mar 2017. **Software developers** rolling out Simpler BAS updates should consider developing guides to support small businesses and their advisors to help configure their accounting systems for

Detailed findings	Recommendations
was too long and too confusing. The tax practitioner webinars were well received and assisted tax professionals with the set up process. In addition to the ATO support products and services our software developer partners provided Simpler BAS system guides that again assisted with the complexity of the manual re-configuration process. The ATO partnered with the Institute of Certified Bookkeepers to developer a Simpler BAS bookkeeping guide that received extremely positive feedback from both tax professionals and small businesses in terms of set up and on-going bookkeeping.	Simpler BAS.

2. Non-software users

We ran sessions with 15 small businesses using paper and/or excel based bookkeeping solutions. These sessions allowed us to observe and discuss things that came up during the setup, bookkeeping and BAS preparation stages.

	Findings	Recommendations
9	**Non-software participants saw little or no change to bookkeeping as they currently don't report all GST information on their BAS.** While interested in Simpler BAS, initial concerns were that this change may entail additional expenses and/or time to change the way they manually keep their books. Most non-software participants were either oblivious to the need to report the additional GST information or did not have transactions of this nature. Once informed that they were actually required to report this information they were relieved that Simpler BAS would allow them to continue to use their current bookkeeping practices. After experiencing Simpler BAS for a full quarter, they saw minimal or no change to their existing bookkeeping processes. We asked the non-software participants their opinions of the impacts that Simpler BAS would have on compliance costs, complexity and confidence. Although there was little to no change in their bookkeeping process, they all agreed in being more confident in managing their own GST obligations. The majority indicated no adverse impact to their business whilst some stated that Simpler BAS would make it easier and provide time savings.	**The ATO** to continue Alpha testing with non-software participants in Quarter 2 with a statistically valid sample to measure the preliminary perceptions that Simpler BAS has little to no impact on non-software bookkeeping practices.
10	**Perceptions that digital bookkeeping was too complex and/or costly for their business.** The non-software user group preferred a simple two-account bookkeeping system that only records sales and expenses. Instead of tax codes they simply recorded the relevant GST amount where GST was applicable.	**The ATO** and **software developers** should seek to align communications to promote digital bookkeeping as a means to minimise compliance costs and get the most out of digital BAS lodgement during the Digital by Default

There was a perception that digital accounting software solutions were too complicated and costly for them due to:

- Complexity in understanding how accounting software packages work.
- Costs associated with setting up and on-going use of software.
- The need to seek tax professional assistance.
- Basic nature of their bookkeeping requirements.

There were low levels of awareness about the automation features that accounting software packages provide to minimise and/or eliminate manual data entry for transactions.

Several participants commented that they based excel spreadsheet bookkeeping systems on the ATO's e-Record software. E-Record was withdrawn from market on 1st July 2010 and is no longer supported by the ATO.

Difficulties in obtaining an AusKey were flagged as reasons why businesses have not shifted to lodging their BAS digitally.

transition period (ie July 2017 - June 2018).

Software developers to consider marketing basic accounting software packages to approx. 830k small businesses yet to transition to digital bookkeeping. Increased awareness of the automation features that replace the need for manual data entry may also influence the decision to adopt a digital accounting solution.

Tax professionals to continue to promote digital bookkeeping practices and support non-software businesses to make this shift, where appropriate.