

**EXPERIMENTAL ESTIMATES
REGIONAL SMALL
BUSINESS STATISTICS**

AUSTRALIA

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ABOUT THIS PUBLICATION

This publication presents regional experimental small business estimates which have been derived using files provided to the Australian Bureau of Statistics (ABS) by the Australian Taxation Office (ATO). The estimates are compiled from completed tax returns for companies, partnerships and trusts, and individuals declaring business income. This issue includes estimates for Australian small business for the 1995–96 to 1999–2000 reference periods. The data are available by industry division at Statistical Division (SD), state and national levels.

COMMENTS

For a number of years, the ABS has been expanding the range of data sources it uses in order to decrease the statistical reporting load placed on providers, while continuing to increase the range of information available. A major alternative source of data is the ATO, which collects key economic data for business income tax purposes.

This publication provides estimates for business income data at the regional level. The ABS has released other related publications which provide information on personal income and state level industry estimates. Under taxation law, this data may be passed by the Commissioner for Taxation to the ABS for statistical purposes.

The ABS will continue to explore the possibilities of deriving useful tabulations from ATO business income tax data based on the feedback it receives on these experimental estimates. The ABS welcomes feedback from readers regarding the usefulness, range and quality of the data available and the explanations provided. These are the first release of Australia-wide SD estimates from the ATO business income tax data. It is intended that further development of the methodology and continued production of the estimates will be undertaken if there is sufficient demand among users.

Feedback, suggestions and comments from users will impact the future of the project and so are most welcome. They can be addressed to Mark Chalmers by telephone Brisbane 07 3222 6307, fax Brisbane 07 3222 6250, or by email to <mark.chalmers@abs.gov.au>.

ACKNOWLEDGMENT

ABS publications draw extensively on information provided freely by individuals, businesses, governments and other organisations. The ABS wishes to acknowledge the support the ATO has provided in compiling the statistics presented in this publication and in assisting the ABS in its aim to increase the availability of regional statistics. Without such support the wide range of statistics published by the ABS would not be available.

Dennis Trewin
Australian Statistician

INTRODUCTION

OVERVIEW

The statistics in this publication are experimental regional estimates for small business. The purpose of this publication is to alert users to the results of work undertaken by the ABS to increase the range of regional data available. The ATO collects key economic data for business income tax purposes. The estimates in this publication have been derived using ATO data. Under taxation law, these data may be passed by the Commissioner for Taxation to the ABS for statistical purposes.

The estimates in this publication are part of the strategy of the ABS to help meet the need for small area data expressed by various users including the Commonwealth Government, State Governments, regional organisations and local authorities.

This publication provides an overview of selected output at SD level for small business. It is not an attempt to deliver the full range of data available, but has been developed to allow users to examine a potentially rich source of economic data and assess its useability. In addition to this, the ABS will be producing a suite of standard output tables at the SD level and will also provide data tailored to specific needs and regions on a fee for service basis. Refer to Appendix for a list of the standard tables available.

The Commonwealth Government and some State Government departments have expressed a particular interest in small business economic data over time as an indicator of the flow-on effects of some major economic or policy changes both Australia-wide and in particular regions. Additionally, in some industries, small business represents the vast majority of economic activity and employment and is a very useful indicator of changes in overall activity in a region. The ABS has produced these 'experimental estimates' in order to help meet that demand.

The nature of the ATO data does not allow multi-location businesses to be identified and disaggregated. A key assumption is that small businesses are single location. The ABS created the small business definition to enable regional estimates to be produced for a subset of the economy.

In summary, although the data provide information on the economic activity of small business at a regional level, they do not provide a complete measure of economic activity in a region. They exclude businesses not within the scope of the small business definition, a selection of tax-exempt businesses and some government activity. Whilst the statistics in this publication cover 75% of businesses but only 25% of the income they are valuable for several reasons. They offer a viable regional time series and the health of large businesses are often reflected in the health of the smaller businesses that deal with them at a local level. Furthermore, the success or failure of small businesses are generally a good indicator of the prevailing economic conditions in a particular region. See Explanatory Notes for further information.

METHODOLOGY

Initial processing of ATO data

The ATO data for companies, partnerships and trusts, and individuals declaring business income were examined to investigate the quality of regional and industry identifiers. No substantial quality issues were found. Editing was carried out to identify and resolve other general errors in the records. Finally, some validation processes were carried out on the resulting datasets in order to further improve the quality of the statistics.

For more detailed information regarding the methodology please refer to *Information Paper: Use of Business Income Tax Data for Regional Small Business Statistics — Experimental Estimates, Selected Regions, Australia 1995–96 to 1997–98* (cat. no. 5675.0).

THE SELECTED SMALL BUSINESS DEFINITION

For the purposes of this information paper and the experimental estimates provided within it, the definition of small business refers to those businesses whose total income or expenses were between \$10,000 and \$5m in the financial year.

Once the decision to produce regional data for small business had been taken, a process had to be found to identify these businesses and extract their data from the ATO Business Income Tax File. The ABS considered a number of definitions for small business. From the outset of this process, it was assumed that most small businesses would have only one location.

As the ATO does not require tax-paying legal entities to state whether they have more than one location, it was not possible to use a simple process to identify small business. Research was undertaken into various methods of identifying small business including a number of analytical investigations on the data as well as considering various definitions of small business.

Initially, the ABS considered replicating the 1995 Statistics Canada financial definition completely. Statistics Canada defined small businesses as those with an annual gross operating revenue of between 25,000 and 5 million Canadian dollars (approximately 24,000 to 4.8 million Australian dollars). However, after a wide consultation process with state government departments and other regional organisations, it was decided to adjust the definition for Australian conditions.

A large majority of those consulted found the higher limit acceptable but there was concern about the lower limit. However, there was a need to set a lower limit to exclude businesses which are hobbies generating a small amount of income as these could be operating quite differently from most businesses and could also distort analyses of economic activity. Analyses were carried out, using 1996–97 ATO data, on two lower limits and using income only or both income and expenditure.

THE SELECTED SMALL
BUSINESS DEFINITION
continued

A lower limit of around \$25,000 was too high, particularly for a regional analysis at industry level. The number of records that would be excluded was significant and the subsequent decline in the proportion of businesses that would be captured was far higher for some ANZSIC divisions than for others. It was felt this would lead to a misrepresentation of the regional industry profile.

It was decided to use the ATO's lower limit for micro-businesses, which was \$10,000. The ATO defines non-commercial business as 'those non-employing businesses which earn less than \$10,000'. These include (i) part-time businesses, (ii) hobbies i.e. wage employees with a small business on the side and (iii) body corporates, i.e. strata titles which can be trading or non-trading.

Rather than defining small business solely from total income cut-offs, a combination of total income and total expenditure cut-offs was preferable when doing time series comparisons as a business could have unusually high or low income or expenditure in one particular year.

When the expense component was added to the definition, and the lower cut-off for both income and expenses was set at \$10,000, more entities were captured than when there was no expense component, however, the total increase in the value of data items was significant. For a 32.7% increase in the number of entities, comparatively large increases were achieved in the values of major data items. In some respects, it appeared that this definition negated the trade off between number of entities and values of major data items.

Therefore, small business is defined as those businesses whose total income or expenses were between \$10,000 and \$5m in the financial year. The ABS has also included data from a subset of small business in the experimental estimates produced in this paper. There was considerable interest amongst users in data on non-employers.

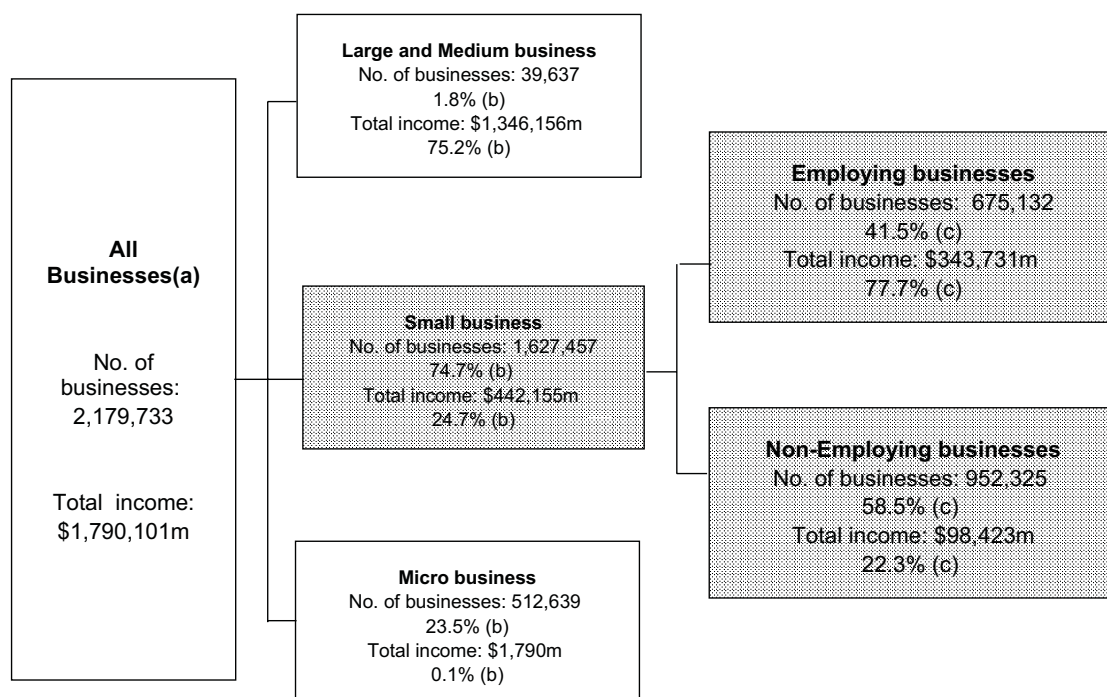
Non-employers are identified by the ABS as businesses which fit the following criteria

(TOTAL WAGE and SALARY EXPENSES = \$0 and SUPERANNUATION <= \$27,000) and

(TOTAL INCOME > \$0 or TOTAL EXPENSES > \$0) and

(TOTAL INCOME <= \$2m and TOTAL EXPENSES <= \$2m)

Australian Business Sector — 1999–2000



(a) Excluding non-operating businesses and general Government.
Note: Government-owned Public Trading Enterprises are included.

(b) Percentage contributions to all businesses or total income.

(c) Percentage contributions to all small businesses or small business income.

Source: ATO files for companies, partnerships and trusts and individuals for 1999–2000.

CAVEATS

The estimates in this publication are considered experimental and should be used with caution. It is intended that the methodology to produce these experimental estimates will be continually improved to a point when the ABS can remove the ‘experimental’ tag.

Some of the assumptions that have been relied upon in the production of these estimates cannot be directly tested. Users are advised to review the assumptions and methodology before deciding on fitness for purpose.

Differences between data presented in this publication and other ABS publications may be due to differences in scope, reference period, statistical unit and the definition of data items. Further details can be found in the Explanatory Notes.

FUTURE PLANS

The ABS is undertaking developmental work in order to improve the range and quality of information available. The use the ABS makes of ATO business income tax data to derive regional economic estimates, is subject to further evaluation. Feedback, suggestions and comments from users are most welcome. They can be addressed to Mark Chalmers by telephone Brisbane 07 3222 6307, fax 07 3222 6250, or by email <mark.chalmers@abs.gov.au>.

SUMMARY OF FINDINGS

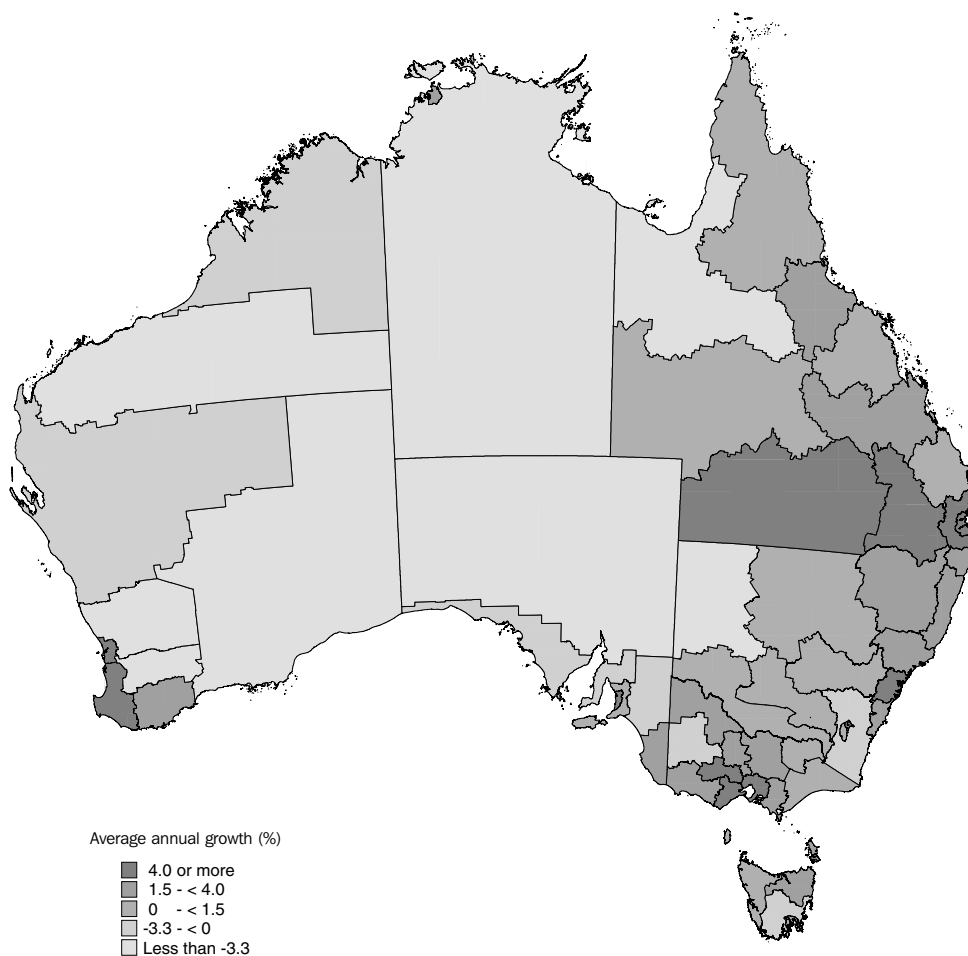
NOTE	<p>This summary of findings is based on experimental estimates and therefore should be used with care. The explanatory notes provide advice on data quality and methodology.</p>
NATIONAL FINDINGS	<p>The number of small businesses grew by an average annual growth rate of 2% from 1995–96 to 1999–2000. Over the same period, the average annual increase in profit was 6.3%, income 4.4%, total expenses 4.2% (including wages 5.3%). From 1995–96 to 1999–2000 the average income for small businesses increased by 10.1% to \$271,685 while average expenses rose 8.9% to \$234,851.</p>
CAPITAL CITY AND REGIONAL FINDINGS	<p>From 1995–96 to 1999–2000, the number of small businesses in capital cities generally grew much faster than in other regions of Australia. Over this period, the number of small businesses in capital city Statistical Divisions (SDs) increased by 13.4% to 1,007,364. For the rest of Australia, in comparison, the number of small businesses increased by only 0.9% to 616,267.</p> <p>Average income to small business in capital city SDs grew 10.9% to \$304,810 from 1995–96 to 1999–2000 while average expenses increased by 9.1% to \$258,173. At the same time, in regions outside of the capital cities, average income grew 5.8% to \$217,591 while average expenses rose by 6.5% to \$196,749.</p> <p>The largest increases in average income in capital city SDs were recorded in Canberra, Adelaide, Perth, Sydney, Melbourne and Brisbane, all with an average annual growth of over 5.4% from 1995–96 to 1999–2000. Darwin SD and Greater Hobart SD were the slowest growing capital city SDs with annual average growth in income of 1.5% and 0.6% respectively.</p> <p>Outside of the capital cities, 12 SDs experienced growth in total income from 1995–96 to 1999–2000 of greater than 10%. Of these, five were in New South Wales, three each in Queensland and Victoria and one in South Australia. The fastest growing regions outside the capital cities were concentrated in the south of Queensland which had three of the six fastest growing SDs. The fastest growing non-capital city SD was South West SD in Queensland (22.9%), followed by South West SD in Western Australia (21.9%), Central Highlands SD in Victoria (21.3%), Moreton SD (18.6%) and Darling Downs SD (17.5%) in Queensland and Barwon SD in Victoria (16.8%).</p> <p>Total income earned by small business outside of the capital cities declined from 1995–96 to 1999–2000 in 18 SDs. These included seven in Western Australia, three in South Australia, two each in Queensland and Tasmania and one each in Victoria, Northern Territory and New South Wales. The remaining Other Territories SD also reported a fall in total income.</p>

	1995-96		1998-99		1999-2000		% change 1995-96 to 1999-2000	
	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>		
New South Wales	501 988	131 735	519 059	142 235	547 016	159 294	9.0	20.9
Sydney	303 699	90 944	321 802	100 559	349 387	115 326	15.0	26.8
Hunter	34 316	8 334	35 281	8 661	36 311	9 485	5.8	13.8
Illawarra	23 011	5 271	23 981	5 483	24 757	5 915	7.6	12.2
Richmond-Tweed	19 591	3 158	18 913	3 333	19 092	3 470	-2.5	9.9
Mid-North Coast	22 948	4 049	22 883	4 215	23 358	4 476	1.8	10.6
Northern	19 830	3 865	19 682	4 098	19 304	4 364	-2.7	12.9
North Western	13 571	2 734	13 140	2 759	12 734	2 837	-6.2	3.8
Central West	16 374	3 140	16 230	3 243	15 708	3 219	-4.1	2.5
South Eastern	19 425	3 539	18 987	3 430	18 328	3 354	-5.6	-5.2
Murrumbidgee	15 248	3 568	15 166	3 555	14 882	3 702	-2.4	3.8
Murray	12 518	2 766	11 589	2 549	11 918	2 864	-4.8	3.5
Far West	1 457	367	1 405	351	1 237	281	-15.1	-23.3
Victoria	375 533	92 964	380 092	107 371	405 712	112 699	8.0	21.2
Melbourne	251 945	69 883	259 480	83 951	284 098	87 340	12.8	25.0
Barwon	16 426	3 393	16 767	3 698	17 256	3 964	5.1	16.8
Western District	12 184	2 184	11 727	2 257	11 440	2 351	-6.1	7.6
Central Highlands	10 607	2 109	10 765	2 241	11 252	2 559	6.1	21.3
Wimmera	6 684	1 300	6 370	1 157	6 175	1 182	-7.6	-9.1
Mallee	11 273	2 255	11 055	2 357	11 115	2 532	-1.4	12.3
Loddon	12 375	2 247	12 387	2 325	12 295	2 450	-0.6	9.1
Goulburn	21 235	3 857	20 306	3 836	20 434	4 152	-3.8	7.6
Ovens-Murray	8 984	1 524	8 721	1 536	8 689	1 585	-3.3	4.0
East Gippsland	8 874	1 513	8 203	1 396	8 383	1 588	-5.5	4.9
Gippsland	14 946	2 698	14 311	2 617	14 575	2 996	-2.5	11.0
Queensland	279 231	65 308	289 830	65 637	304 713	75 973	9.1	16.3
Brisbane	107 943	28 512	111 816	28 030	123 283	35 207	14.2	23.5
Moreton	63 157	13 094	67 717	13 848	70 745	15 535	12.0	18.6
Wide Bay-Burnett	19 662	3 596	19 025	3 458	19 236	3 741	-2.2	4.0
Darling Downs	20 877	4 285	21 359	4 310	22 204	5 034	6.4	17.5
South West	3 788	738	4 066	837	4 055	907	7.0	22.9
Fitzroy	14 023	2 999	14 071	3 100	13 874	3 224	-1.1	7.5
Central West	1 691	337	1 661	339	1 573	343	-7.0	1.7
Mackay	11 894	2 926	12 696	3 032	12 420	3 054	4.4	4.4
Northern	13 674	3 496	14 519	3 544	14 747	3 719	7.8	6.4
Far North	20 369	4 730	20 685	4 552	20 569	4 733	1.0	0.1
North West	2 153	595	2 215	587	2 007	476	-6.8	-19.9
South Australia	110 228	25 097	115 726	27 829	119 052	29 687	8.0	18.3
Adelaide	68 957	17 133	72 651	19 107	78 310	22 148	13.6	29.3
Outer Adelaide	11 514	1 847	12 513	2 215	11 966	1 921	3.9	4.0
Yorke and Lower North	4 794	962	4 943	1 021	4 672	844	-2.5	-12.3
Murray Lands	8 080	1 516	8 372	1 682	7 726	1 404	-4.4	-7.4
South East	7 041	1 540	7 365	1 680	7 181	1 682	2.0	9.3
Eyre	4 356	1 000	4 515	1 079	4 200	876	-3.6	-12.4
Northern	5 486	1 100	5 367	1 045	4 997	812	-8.9	-26.2

...continued

	1995–96		1998–99		1999–2000		% change 1995–96 to 1999–2000	
	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>		
Western Australia	168 286	39 515	177 630	41 851	181 381	46 938	7.8	18.8
Perth	117 280	28 076	124 331	29 985	130 826	35 923	11.6	27.9
South West	16 647	3 101	18 339	3 635	18 198	3 780	9.3	21.9
Lower Great Southern	7 015	1 396	7 386	1 443	7 185	1 506	2.4	7.9
Upper Great Southern	3 373	965	3 178	838	2 951	738	–12.5	–23.5
Midlands	7 447	1 969	7 369	1 832	6 733	1 521	–9.6	–22.7
South Eastern	5 291	1 333	5 340	1 320	4 776	1 116	–9.7	–16.3
Central	6 879	1 704	6 799	1 676	6 575	1 520	–4.4	–10.8
Pilbara	2 651	511	2 931	564	2 423	400	–8.6	–21.6
Kimberley	1 703	461	1 957	558	1 714	434	0.6	–5.8
Tasmania	33 928	7 484	32 599	7 164	32 929	7 682	–2.9	2.7
Greater Hobart	12 461	3 058	12 062	2 911	12 205	3 137	–2.1	2.6
Southern	2 372	355	2 326	347	2 167	317	–8.6	–10.8
Northern	10 547	2 338	10 258	2 240	10 735	2 497	1.8	6.8
Mersey-Lyell	8 548	1 733	7 953	1 665	7 822	1 731	–8.5	–0.1
Northern Territory	11 373	3 231	12 468	3 288	12 159	3 151	6.9	–2.5
Darwin	7 901	2 135	8 832	2 194	8 738	2 269	10.6	6.3
Northern Territory — Bal	3 472	1 096	3 636	1 094	3 421	882	–1.5	–19.5
Canberra	18 246	4 340	19 050	4 890	20 517	5 706	12.4	31.5
Other Territories	166	28	169	33	152	19	–8.4	–29.6
Unknown SD	6 964	1 985	4 644	1 460	3 826	1 006	–45.1	–49.3
Australia	1 505 943	371 686	1 551 267	401 758	1 627 457	442 155	8.1	19.0

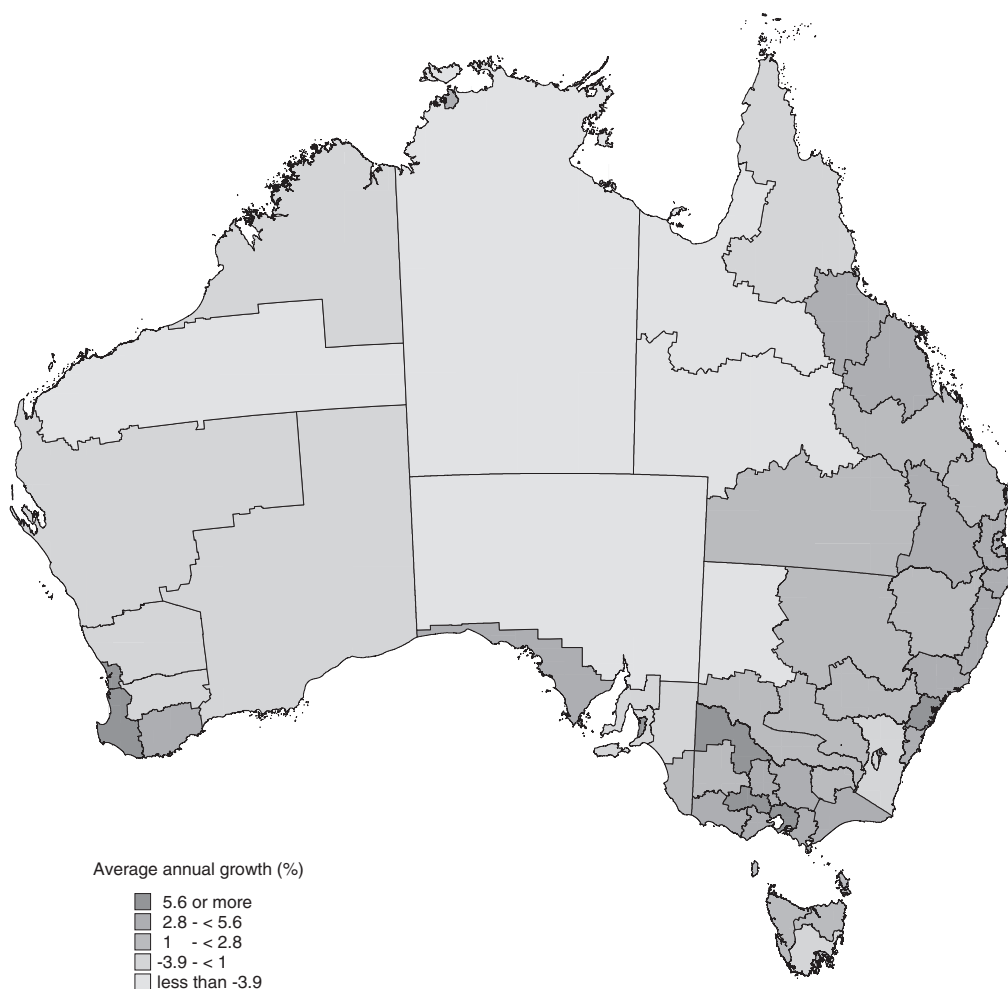
Source: ATO files for companies, partnerships and trusts and individuals for 1995–96 to 1999–2000.



Source: ATO files for companies, partnerships and trusts and individuals for 1995-96 to 1999-2000.

3

EXPERIMENTAL ESTIMATES: AVERAGE ANNUAL GROWTH IN WAGES AND SALARY EXPENSES IN SMALL BUSINESS BY STATISTICAL DIVISION, 1995-96 TO 1999-2000



Source: ATO files for companies, partnerships and trusts and individuals for 1995-96 to 1999-2000.

4

EXPERIMENTAL ESTIMATES: NUMBER OF SMALL BUSINESSES BY INDUSTRY FOR SELECTED STATISTICAL DIVISIONS—1999–2000

<i>Industry</i>	<i>Melbourne</i>		<i>Gippsland</i>		<i>Victoria</i>	
	<i>Businesses</i>	<i>Total income</i>	<i>Businesses</i>	<i>Total income</i>	<i>Businesses</i>	<i>Total income</i>
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>
Agriculture, forestry, fishing	8 355	1 414	4 883	621	50 652	7 165
Mining	394	204	21	14	629	293
Manufacturing	24 429	10 801	749	208	30 372	12 667
Construction	50 689	9 957	2 347	408	68 810	13 312
Wholesale trade	10 717	8 373	337	161	13 788	9 934
Retail trade	30 607	13 736	1 623	652	43 720	19 056
Accommodation, cafes and restaurants	5 695	2 689	385	106	9 417	3 807
Transport and storage	16 414	3 399	688	172	22 121	4 767
Communication services	3 406	506	110	11	4 288	604
Finance and insurance	27 039	11 550	413	153	30 845	12 298
Property and business services	61 233	16 245	1 458	255	73 236	18 488
Education	2 364	264	74	8	2 903	299
Health and community services	13 213	3 269	411	93	16 482	4 022
Cultural and recreational services	8 607	1 404	224	33	10 741	1 634
Personal and other services	14 132	2 339	575	84	18 978	2 970
Not specified(a)	6 804	1 190	277	18	8 730	1 384
Total	284 098	87 340	14 575	2 996	405 712	112 699

(a) Not specified includes records which could not be allocated an Australian and New Zealand Standard Industrial Classification (ANZSIC) code as well as businesses coded to the industries 'Government administration and defence and Electricity, gas and water supply'.

Source: ATO files for companies, partnerships and trusts and individuals for 1999–2000.

5

EXPERIMENTAL ESTIMATES: SELECTED SMALL BUSINESS EXPENSES FOR SELECTED STATISTICAL DIVISIONS, 1999–2000

<i>Expense item</i>	<i>Perth</i>		<i>Lower Great Southern</i>		<i>Western Australia</i>	
	<i>\$m</i>	<i>% contribution to total</i>	<i>\$m</i>	<i>% contribution to total</i>	<i>\$m</i>	<i>% contribution to total</i>
Wages and salaries	5 111	17.1	158	11.2	6 341	15.8
Superannuation expenses	621	2.1	21	1.5	768	1.9
Bad Debts	63	0.2	1	0.1	71	0.2
Lease expenses	159	0.5	13	0.9	262	0.7
Rent expenses	819	2.7	29	2.0	1 026	2.6
Cost of sales	11 762	39.4	449	31.9	15 033	37.5
Other expenses(a)	11 352	38.0	739	52.4	16 613	41.4
Total expenses	29 887	100.0	1 410	100.0	40 114	100.0

(a) Other expenses includes the following data items: External labour costs, Depreciation expenses, Motor vehicle expenses, Interest expenses, Repairs and maintenance, Royalty expenses and All other expenses.

Source: ATO files for companies, partnerships and trusts and individuals for 1999–2000.

6

EXPERIMENTAL ESTIMATES: SELECTED TOTALS FOR EMPLOYING AND NON-EMPLOYING SMALL BUSINESSES FOR SELECTED STATISTICAL DIVISIONS—1995–96 TO 1999–2000

	<i>Brisbane</i>		<i>Darling Downs</i>		<i>Queensland</i>	
	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>	<i>Businesses</i>	<i>Income</i>
	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>	<i>no.</i>	<i>\$m</i>
Employing businesses						
1995–96	48 968	23 421	9 176	3 453	125 222	53 316
1996–97	46 801	21 707	8 983	3 444	120 584	50 717
1997–98	50 349	24 944	9 138	3 797	126 761	57 095
1998–99	46 865	21 842	8 557	3 383	118 864	51 627
1999–2000	51 551	27 757	8 753	3 950	122 018	59 825
Non-employing businesses						
1995–96	58 975	5 091	11 701	831	154 009	11 992
1996–97	58 564	5 164	11 746	836	153 419	11 941
1997–98	65 696	6 057	12 587	895	170 031	13 897
1998–99	64 951	6 188	12 802	928	170 966	14 011
1999–2000	71 732	7 450	13 451	1 084	182 695	16 148

Source: ATO files for companies, partnerships and trusts and individuals.

EXPLANATORY NOTES

INTRODUCTION

1 The ATO obtains information from businesses on income and expenses for the purpose of calculating income tax payable. The ABS has used these data to develop and produce regional estimates of small business statistics.

SCOPE AND COVERAGE

2 Throughout this publication, 'business' refers to the tax-paying legal entity. The Business Income Tax File, supplied by the ATO, contains data for tax-paying legal entities that operated as trading businesses for, at least, some time during the financial year. This includes companies, partnerships and trusts, and individuals reporting business income.

3 The scope of the experimental estimates in this publication consists of all businesses which fall within the small business definition developed. The definition of small business refers to those businesses whose total income and/or expenses were \$10,000 or more, up to a limit of \$5m, in the financial year.

4 The standard ABS small business definition refers to management units with less than 20 employees in all industries except manufacturing where they have less than 100 employees, and agriculture where they have an estimated value of agricultural operations of between \$22,500 and \$400,000. As the ATO data do not include the number of employees the ABS developed an alternative small business definition.

5 Under the *Income Tax Assessment Act 1936*, some types of organisations are not required to file income tax returns and this limits data availability. These organisations include:

- general government,
- public trading enterprises in some states and territories,
- non-profit institutions serving households, and
- funds (including superannuation funds, approved deposit funds and pooled superannuation trusts).

6 The factors that indicate whether a legal entity is 'in business' or not are complex and have been the subject of court and tribunal decisions. Basically, the manner in which a legal entity takes part in an activity is the main indicator. To be 'in business' the activity must be something other than a hobby, i.e. run like a business with the intention and prospect of profit. (For details see article 'Am I in Business' on ATO web site <<http://www.ato.gov.au>>).

REFERENCE PERIOD	7 The ATO results are based on business taxation returns lodged for the financial year ended 30 June.
TYPES OF ORGANISATIONS	<p>8 The data examined in this publication cover individuals declaring business income and three types of organisations — companies, partnerships and trusts.</p> <p>9 A company is a business or organisation incorporated under the <i>Corporations Act 2001</i>. By incorporating (becoming a corporation), a legal entity is created which is a separate body from the owners. A company is capable of performing the same legal action as an individual including holding property and having the capacity to sue and be sued.</p> <p>10 A partnership involves the relationship that exists between individual persons carrying on a business together with the intention of making a profit. A partnership is not a legal entity separate from the partners. The partners are therefore separately and jointly legally responsible for the actions, debts and obligations of the partnership (though this relates only to the business of the partnership, not to matters outside it). The actions of an individual partner bind all the partners unless it is a limited liability partnership.</p> <p>11 A trust is formed when a third party, on behalf of the owners, administers money and/or other assets. The money and/or assets are held in a trust fund and may be invested by the trustee who is accountable to, and in a fiduciary relationship with, the beneficiary(ies).</p>
INDUSTRY CLASSIFICATION	<p>12 The industry classification in use is the 1993 edition of the <i>Australian and New Zealand Standard Industrial Classification (ANZSIC)</i> (cat. no. 1292.0). The ANZSIC code is one of the data items supplied by the ATO. The income tax return requires that the main business activity be described and coded.</p> <p>13 In the vast majority of cases, it is the tax agent rather than the taxpayer who completes the form. The accuracy of the industry data is reliant on the knowledge and accuracy of individuals who may not have a full understanding of the ANZSIC. While there are inaccuracies in the ANZSIC coding of some income tax returns, the ABS and the ATO are working together to ensure higher quality data in future.</p> <p>14 In addition to the ANZSIC industry codes, the ATO assign their own industry codes to certain records on the business income file which fall outside the industry classification. These codes include non-resident companies, film and video tape royalties derived by non-residents and businesses with an unknown industry. As a result, there is no industry code attached to these records. The ABS has assigned them an unspecified industry code. These make up approximately 4% of records on the company files and less than 2% on the partnerships.</p>

INDUSTRY CLASSIFICATION
continued

15 The ATO assigned industry codes used in these experimental estimates have not been checked for consistency with industry codes sourced from the ABS Business Register in the small number of cases where comparison is possible. Some differences between the industry codes used in these experimental estimates and the other ABS economic survey estimates should be expected.

REGIONAL INDICATOR

16 Regardless of the number of a business' locations, the ATO collects the main business address only. Data from businesses that have more than one location are coded to the main business location. The ABS uses the postcode reported as the regional indicator. This should not be a significant problem for small business as we have defined it.

17 Inaccuracies in the reporting of a business' postcode can occur through coding errors, the provision of an illegal postcode or through the non-reporting of a postcode. These reporting problems occurred on less than 1% of records and further analysis by the ABS has found that in 95% of cases where illegal or incorrect postcodes were detected, changing to a correct postcode would not have resulted in a change in SD. As a result of these investigations the data have been aggregated to SD level to minimise the impact of incorrect reporting on the estimates.

18 A concordance between Australia Post postcodes and the Australian Standard Geographical Classification 2001 Statistical Divisions was compiled on a geographic 'best-fit' basis.

DATA ITEMS

19 This publication includes the data items: Number of businesses, Total income, Total expenses, Wages and salaries, Superannuation expenses, Bad debts, Lease expenses, Rent expenses and Cost of sales. In addition, the data items Assets and Liabilities are included in the suite of standard tables available, for more detail refer to Appendix 1 of this publication.

20 For the full listing of data items available refer to Appendix 2 in the previous edition of *Information Paper: Use of Business Income Tax Data for Regional Small Business Statistics — Experimental Estimates, Selected Regions, Australia 1995–96 to 1997–98* (cat. no. 5675.0).

DATA QUALITY

21 There are several factors affecting data quality. ATO data are sourced from an administrative by-product and reference back to the originating businesses is not possible because the ABS is not involved in the collection of the data. While accounting processes are subject to standards, there remains a great deal of flexibility available to businesses in the accounting policies and practices they adopt. Differences in accounting policy and practices across businesses and industries can lead to inconsistencies in the data. Inaccuracies in the data may occur because of imperfections in reporting by those who complete the income tax returns.

22 The ATO method for dealing with businesses that have not completed their tax returns also has an effect on the consistency of the estimates as a time series. The ATO either bring forward the previous year's data or leave the data as zero if the business does not have an ATO history.

DATA QUALITY *continued*

23 There is also the potential for ANZSIC and postcode miscoding. These issues have been covered in more detail in the Industry Classification and Regional Indicator paragraphs above.

24 The above limitations should be considered when interpreting the data.

25 To ensure consistency the ABS conducted a series of edit checks on certain data items. Overall, the business income tax files were of a high quality, however in some cases remedial action was required due to either input errors or the non-reporting of certain data items. In these cases, data were derived or imputed. For example, where wages and salaries were reported but there were no superannuation expenses, the ABS imputed the superannuation expenses by industry for those records.

26 The majority of edits were performed on the major income and expense data items therefore care needs to be taken when using items other than income and expenses as they may not have undergone editing.

COMPARISON WITH OTHER DATA

27 The ABS has compiled business counts on a number of different bases for inclusion in a range of publications. These include:

- *Experimental Estimates, Regional Small Business Statistics*, cat. no. 5675.0,
- *Small Business in Australia*, cat. no. 1321.0 and
- *Australian Industry*, cat. no. 8155.0.

28 Each publication provides a profile of business demographics from a different perspective. Differences in scope, coverage, timing and business definitions mean the estimates of businesses in these publications are not directly comparable. The ABS is working to ensure greater integration of business demographics information in the future.

29 The definition of a small business in *Experimental Estimates, Regional Small Business Statistics* is based on a combination of income and expenses. Businesses with total income and/or expenses between \$10,000 and \$5m are classified as small. Data in this publication are sourced from the ATO Business Income Tax file. The ATO Business Income Tax file includes all businesses who have traded at any point during the year. The statistical unit is the legal entity.

COMPARISON WITH OTHER
DATA *continued*

30 In *Small Business in Australia*, a small business is defined as one with fewer than 20 employees. Counts of small businesses in this publication are sourced from a combination of ABS household survey data and Survey of Employment and Earnings data, a collection which is based on the ABS Business Register. The ABS monthly labour force survey which is household-based, is used to produce estimates of the number of non-employing businesses. These are based on estimates of own account workers (i.e. persons working in their own business without employees) from the survey. The ABS Business Register includes employing businesses registered with the Australian Taxation Office at a point in time. The statistical unit is the management unit, which may include more than one legal entity.

31 *Australian Industry* provides counts of businesses by industry at national level. Estimates of the number of small businesses are not separately identified in this publication. Data in this publication are sourced from the ATO Business Income Tax File and the ABS Economic Activity Survey (EAS), a survey also based on the ABS Business Register. The ATO Business Income Tax File contains all businesses (legal entities) which traded at any point during the financial year. The statistical unit for the EAS is the management unit

32 For more information, please refer to the Explanatory Notes in each publication.

ABBREVIATIONS

ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
ATO	Australian Taxation Office
SD	Statistical Division
\$m	million dollars

RELATED INFORMATION

Users may also like to refer to the following related ABS publications and products.

Small Business in Australia, cat. no. 1321.0

Small Business in Australia Data Report 1999–2000,
cat. no. 1321.0.40.001

Information Paper: ABS Statistics and The New Tax System, 2000,
cat. no. 1358.0

*Information Paper: Expanded Use of Business Income Tax Data in ABS
Economic Statistics — Experimental Estimates for Selected Industries,
1994–95 and 1995–96*, cat. no. 5672.0

*Experimental Estimates, Regional Wage and Salary Earner Statistics,
Australia, 1995–96 to 1998–99*, cat. no. 5673.0.

*Information Paper: Use of Business Income Tax Data for Regional Small
Business Statistics — Experimental Estimates, Selected Regions,
Australia 1995–96 to 1997–98*, cat. no. 5675.0

Australian Business Register, ANZSIC Industry Class by State,
cat. no. 8138.0.55.001

Business Operations and Industry Performance, Australia,
cat. no. 8140.0

Australian Industry, cat. no. 8155.0

*Experimental Estimates, Australian Industry, A State Perspective
1999–2000*, cat. no. 8156.0.

APPENDIX

STANDARD TABLES AVAILABLE

In addition to the data available in the publication the ABS is producing a number of standard output tables which it will make available to users.

These tables will be available electronically in spreadsheet format for a fee. It is expected that the tables will be available in December 2002. The tables will be available for all SDs in a state or in Australia.

TABLE DETAILS

Table 1: Number of small businesses and total income for employers and non-employers, all Statistical Divisions, 1995–96 to 1999–2000.

Table 2: Small business total and averages for income, expenses and profit, all Statistical Divisions, 1995–96 to 1999–2000.

Table 3: Number of small businesses, total and average income, expenses, wages and salaries and profit by industry, all Statistical Divisions, 1995–96 to 1999–2000.

Table 4: Selected expenses as a percentage of total expenses for small business for all Statistical Divisions, 1995–96 to 1999–2000.

Table 5: Current assets to liabilities ratio for small business by industry, for all Statistical Divisions, 1995–96 to 1999–2000.

Inquiries on the availability of these tables can be made by contacting the National Information and Referral Service on 1300 135 070.

GLOSSARY

Average annual growth The average annual growth is calculated as a percentage using the formula below where P_0 is the figure at the start of the period, P_n is the figure at the end of the period and n is the length of the period between P_n and P_0 in years.

$$\left[\left(\frac{P_n}{P_0} \right)^{\frac{1}{n}} - 1 \right] \times 100$$

Large and medium business Businesses with expenses and income over \$5m.

Micro business Businesses with expenses and income of less than \$10,000.

Non-employing business Those that report income greater than zero, expenses less than \$2m and wages and salaries as zero.

Non-profit institutions serving households Non-profit institutions serving households are legal or social entities created for the purpose of producing goods or services whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them.

Small business Businesses with total income and/or expenses of \$10,000 or more, up to a limit of \$5m, in the financial year.

Statistical Division The Statistical Divisions are designed to be relatively homogeneous regions characterised by identifiable social and economic units within the region, under the unifying influence of one or more major towns or cities.

Total expenses The total expenses of a business, excluding extraordinary items.

Total income The total income of a business, excluding extraordinary items.

FOR MORE INFORMATION...

- INTERNET** www.abs.gov.au the ABS web site is the best place to start for access to summary data from our latest publications, information about the ABS, advice about upcoming releases, our catalogue, and Australia Now—a statistical profile.
- LIBRARY** A range of ABS publications is available from public and tertiary libraries Australia-wide. Contact your nearest library to determine whether it has the ABS statistics you require, or visit our web site for a list of libraries.
- CPI INFOLINE** For current and historical Consumer Price Index data, call 1902 981 074 (call cost 77c per minute).
- DIAL-A-STATISTIC** For the latest figures for National Accounts, Balance of Payments, Labour Force, Average Weekly Earnings, Estimated Resident Population and the Consumer Price Index call 1900 986 400 (call cost 77c per minute).

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Data which have been published and can be provided within five minutes are free of charge. Our information consultants can also help you to access the full range of ABS information—ABS user-pays services can be tailored to your needs, time frame and budget. Publications may be purchased. Specialists are on hand to help you with analytical or methodological advice.

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