

**EXPERIMENTAL ESTIMATES
REGIONAL SMALL
BUSINESS STATISTICS**

AUSTRALIA

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- For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070.

NOTES

ABOUT THIS PUBLICATION

This publication presents experimental regional 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 This issue contains revised data for 1995–96 to 1999–2000, and previously unpublished data for 2000–01. 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.

The ABS welcomes feedback from readers regarding the usefulness, range and quality of the data available and the explanations provided.

Feedback, suggestions and comments can be addressed to Mark Chalmers by telephone Brisbane (07) 3222 6307, fax (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 provide an overview of selected output at SD level for small business. It does not attempt to deliver the full range of data available for these businesses but allows users to examine a potentially rich source of economic data and assess its useability. In addition to this publication, a suite of standard output tables on small business statistics for regions at the SD level are available. Appendix 1 provides a list of the standard tables available for purchase on the ABS web site <<http://www.abs.gov.au>>.

The estimates in this publication are part of an ABS strategy to help meet the need for small area data expressed by various users including the Australian Government, state governments, regional organisations and local authorities. The Australian Government and some state government departments have expressed interest in business economic data as an indicator of the flow-on effects of policy changes. In some industries small business make up the majority of economic activity and employment, and are a very useful indicator of changes in overall activity in a region.

SOURCE OF DATA

The data have been compiled using files provided to the ABS by the ATO. These files cover completed tax returns for companies, partnerships and trusts, and individuals declaring business income. The ATO data were examined to investigate the quality of regional and industry identifiers. No substantial issues were found. In order to further improve the quality of the statistics, some processing to improve internal consistency was carried out. Definitions of small, employing and non-employing business were then applied to the data.

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

THE DEFINITION OF SMALL BUSINESS

For the purposes of this publication 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.

This definition of small business was designed to capture businesses which operate from 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 directly identify such businesses. Research was then undertaken into various methods of identifying businesses which operate from only one location.

THE DEFINITION OF SMALL BUSINESS *continued*

Initially, the ABS considered replicating the 1995 Statistics Canada financial definition for small businesses. Statistics Canada defined small businesses as those with an annual gross operating revenue of between \$25,000 and \$5m Canadian (approximately \$24,000 to \$4.8m Australian). 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 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.

A lower limit of around \$25,000 was found to be 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 industries than for others. It was felt this would lead to a misrepresentation of the regional industry profile.

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

Rather than defining the 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, significantly more entities were captured than when there was no expense component (a 33% increase).

Therefore, small business is defined as those businesses whose total income or expenses were between \$10,000 and \$5m in the financial year. This definition is applied independently each year, and whether a business falls within this scope in one year does not influence its inclusion within scope in any other year. The time series data, therefore, presents an annual 'snapshot' of small business within a region, rather than the changing financial position of any group of individual businesses.

Appendix 2 provides a brief analysis of the range of businesses included within the definition.

DEFINITION OF NON-EMPLOYING BUSINESS

There was considerable interest among users in data on non-employers. The following definition is applied to define non-employing businesses, and the balance of businesses are classified as employing.

Non-employers are identified in this publication as businesses which fit the following criteria:

- total wage and salary expenses = \$0 and superannuation \leq \$27,000, and
- total income \leq \$2m and total expenses \leq \$2m.

REVISIONS TO THE DATA

Two revisions to previously published data have been made. The first revision was to the 1999–2000 companies file due to incorrect postcode information. The second occurred as part of the ongoing process of improving the overall accuracy and quality of the statistics. A slight change in the imputation program was applied to the records for the years 1995–96 to 1999–2000. The overall size of these changes at the Australian level is less than 2%, however, the impact on individual regions or industries can be more significant. The data on the ABS web site have been revised.

LIMITATIONS OF DATA

The number of businesses operated by individuals and partnerships or trusts decreased in 2000–01. This decrease is against the trend of economic growth and is contrary to expectations. It may reflect a different focus from the ATO during 2000–01 with the introduction of The New Tax System and the implementation of the Goods and Services Tax. A lower number of business tax submissions may have been received by the due date and as a result this may have impacted on the number of business returns on the 2000–01 file. Users are advised that this movement should be interpreted with care.

Prior to 2000–01, changes at the Australian level in wage and salary expenses and total income moved in the same direction. In 2000–01, total income for small business fell while wage and salary expenses increased. This may have resulted from changes in taxation law affecting the engagement of contractors. Those contractors who earned more than 80% of their total income from the business were effectively treated as wage and salary earners.

Part of the validation process adopted by the ABS in preparing economic statistics involves the comparison of results across similar statistical series. Comparisons have shown that small business activity is consistent with total business activity when the small businesses are a large part of the total industry such as Agriculture, Construction, Accommodation, cafes and restaurants, and Personal and other services. This level of consistency is not as apparent in industries where the small businesses are a lesser proportion of the overall industry. Industries where there was notable variability included Mining, Finance and insurance, and Cultural and recreational services.

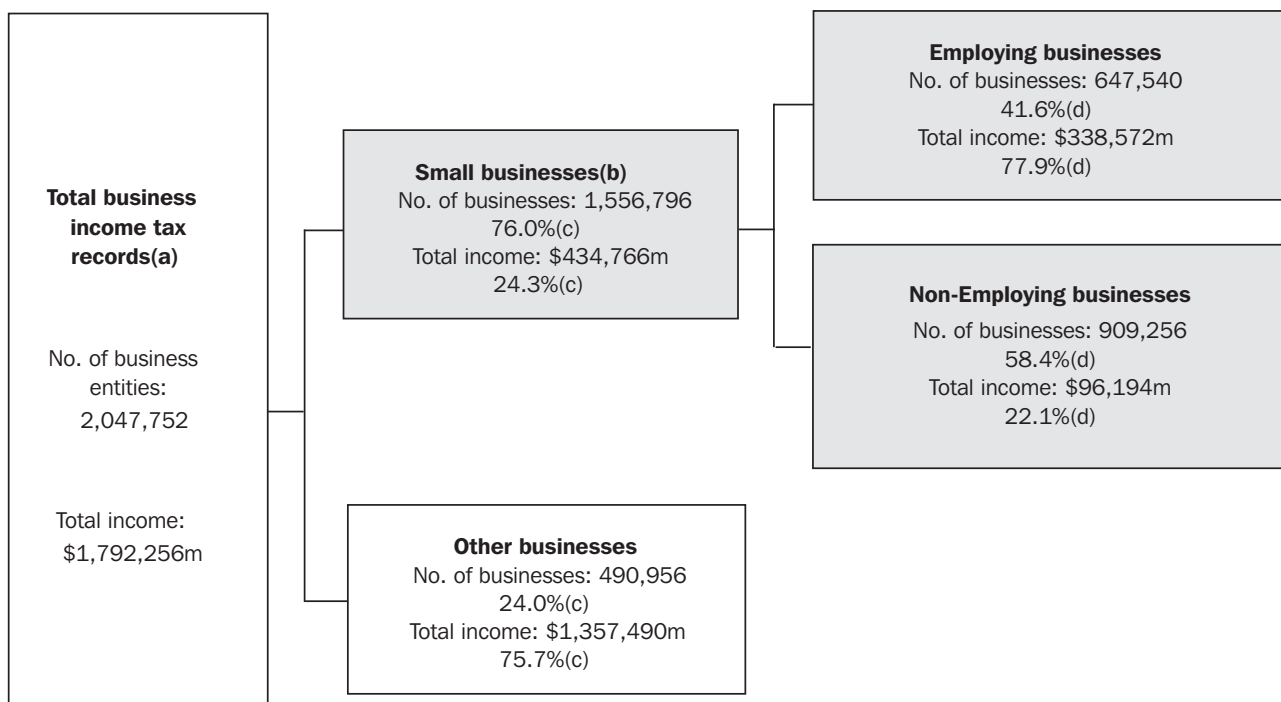
LIMITATIONS OF DATA *continued*

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. The data exclude businesses not within the scope of the small business definition, tax-exempt businesses and some government activity. The statistics in this publication cover 76% of all businesses, but only 24% of business income (see figure below).

Despite these limitations the data are valuable for several reasons. They offer a viable regional time series and the health of large business is often reflected in the health of small business. Further, the success or failure of small business is generally a good indicator of the prevailing economic conditions in a particular region.

The estimates in this publication are considered experimental and should be used with caution. 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.

BREAKDOWN OF ATO DATA — 2000–01



Note: Some government-owned Public Trading Enterprises are included.

(a) Excluding non-operating businesses, general government, some non profit institutions serving households and funds.

(b) Income or expenses between \$10,000 and \$5m.

(c) Percentage contributions to all businesses and total income.

(d) Percentage contributions to all small businesses and small business income.

Source: ATO files for companies, partnerships and trusts and individuals for 2000–01.

FUTURE PLANS

The ABS is undertaking a review of business demographics to consider issues surrounding small business statistics. The outcome of this review will influence future directions in the production of business statistics by the ABS. The use 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

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. The data in Tables 4–6 are samples only. Appendix 1 provides a full list of standard tables available from the ABS web site.

NATIONAL FINDINGS

The number of small businesses grew by 3.4% from 1995–96 to 2000–01. Over the same period the increase in total income for small business was 18.0%, expenditure 18.6% (including wages 29.9%) and profit 13.4%.

The average income for small business increased by 14.1% to \$279,270 while average expenses rose 14.7% to \$247,292.

CAPITAL CITY AND REGIONAL FINDINGS

From 1995–96 to 2000–01, the number of small businesses in capital cities increased by 6.4% to 945,320. The only capital city to record a decrease in the number of small businesses was Hobart.

Outside of the capital cities the number of small businesses decreased by 1.0% to 611,476 between 1995–96 and 2000–01. Of the 50 SDs outside the capital cities, 15 recorded an increase in the number of small businesses over the period.

In capital city SDs the largest increases in total income for small business were recorded in Sydney and Melbourne, with a growth of over 22% from 1995–96 to 2000–01. Greater Hobart SD and Darwin SD were the slowest growing capital city SDs, with a growth in income of 3.0% and 7.9%, respectively.

Outside the capital cities, 10 SDs experienced growth in income greater than 22% between 1995–96 and 2000–01. Of these, Queensland and South Australia contained three each, while Victoria and Western Australia contained two each. The highest growth regions outside the capital cities were the South West SD in Queensland (42.4%), Kimberley SD in Western Australia (41.7%), Outer Adelaide in South Australia (37.4%) and the Central West SD in Queensland (31.2%).

A decline in total income to small business was recorded in four SDs. Three of these regions were in Western Australia: the Midlands SD (change in income was –1.1%), the South Eastern SD (–3.9%) and the Upper Great Southern SD (–8.8%). The Northern SD in South Australia was the fourth region, with a change in income of –4.8% over the period.

Between 1995–96 and 2000–01, the average income of small business grew in all regions. In the capital city SDs average income grew 12.9% to \$307,532 while average expenses increased by 14.2% to \$270,091. At the same time, in regions outside the capital cities, average income grew 15.3% to \$235,364 while average expenses rose by 14.7% to \$211,946.

	1995–96(a)		1999–2000(a)		2000–01		Change 1995–96 to 2000–01	
	Businesses	Income	Businesses	Income	Businesses	Income	Businesses	Income
	no.	\$m	no.	\$m	no.	\$m	%	%
<i>New South Wales</i>	501 949	130 499	546 840	159 785	526 886	157 054	5.0	20.3
Sydney	303 685	90 079	344 407	113 252	331 072	110 605	9.0	22.8
Hunter	34 309	8 220	36 929	9 727	35 679	9 246	4.0	12.5
Illawarra	23 017	5 197	25 537	6 160	24 602	6 102	6.9	17.4
Richmond-Tweed	19 588	3 138	19 574	3 656	19 042	3 606	–2.8	14.9
Mid-North Coast	22 937	4 027	23 675	4 773	22 771	4 537	–0.7	12.7
Northern	19 829	3 849	19 641	4 559	19 042	4 502	–4.0	17.0
North Western	13 572	2 722	13 144	3 038	12 754	3 175	–6.0	16.6
Central West	16 373	3 126	16 143	3 516	15 728	3 641	–3.9	16.5
South Eastern	19 415	3 487	19 466	3 953	18 920	4 035	–2.5	15.7
Murrumbidgee	15 246	3 543	14 977	3 860	14 407	3 966	–5.5	11.9
Murray	12 521	2 746	11 991	2 935	11 567	3 266	–7.6	18.9
Far West	1 457	366	1 356	357	1 302	373	–10.6	1.9
<i>Victoria</i>	375 552	92 313	403 247	110 679	390 778	112 267	4.1	21.6
Melbourne	251 934	69 373	278 541	83 995	269 843	84 934	7.1	22.4
Barwon	16 429	3 365	17 703	4 195	17 451	4 226	6.2	25.6
Western District	12 182	2 178	11 767	2 497	11 488	2 633	–5.7	20.9
Central Highlands	10 607	2 090	11 210	2 545	10 962	2 550	3.3	22.0
Wimmera	6 686	1 298	6 384	1 284	6 113	1 421	–8.6	9.5
Mallee	11 273	2 240	11 109	2 545	10 855	2 717	–3.7	21.3
Loddon	12 384	2 239	12 903	2 683	12 482	2 674	0.8	19.4
Goulburn	21 246	3 827	21 081	4 416	20 327	4 617	–4.3	20.6
Ovens-Murray	8 988	1 517	9 100	1 802	8 800	1 797	–2.1	18.4
East Gippsland	8 875	1 502	8 487	1 616	8 106	1 653	–8.7	10.1
Gippsland	14 948	2 683	14 962	3 102	14 351	3 043	–4.0	13.4
<i>Queensland</i>	279 231	64 704	307 225	77 349	292 406	74 512	4.7	15.2
Brisbane	107 940	28 242	121 550	34 429	115 524	32 932	7.0	16.6
Moreton	63 151	12 952	73 054	16 432	70 106	15 935	11.0	23.0
Wide Bay-Burnett	19 659	3 566	19 723	4 005	18 864	3 793	–4.0	6.4
Darling Downs	20 881	4 266	22 224	5 091	21 302	4 978	2.0	16.7
South West	3 788	737	4 199	986	4 183	1 049	10.4	42.4
Fitzroy	14 034	2 974	14 287	3 488	13 514	3 477	–3.7	16.9
Central West	1 690	337	1 664	384	1 609	442	–4.8	31.2
Mackay	11 890	2 897	12 578	3 182	11 989	3 010	0.8	3.9
Northern	13 671	3 465	14 717	3 746	13 490	3 490	–1.3	0.7
Far North	20 374	4 677	20 951	4 948	19 704	4 742	–3.3	1.4
North West	2 153	592	2 278	658	2 121	665	–1.5	12.4
<i>South Australia</i>	110 224	24 936	118 171	29 173	113 939	29 211	3.4	17.1
Adelaide	68 948	17 007	74 790	20 159	72 063	19 613	4.5	15.3
Outer Adelaide	11 515	1 836	12 961	2 415	12 601	2 523	9.4	37.4
Yorke and Lower North	4 792	961	4 985	1 009	4 892	1 181	2.1	22.9
Murray Lands	8 083	1 514	8 302	1 737	7 999	1 775	–1.0	17.3
South East	7 043	1 527	7 402	1 868	7 282	1 917	3.4	25.5
Eyre	4 355	998	4 418	1 004	4 380	1 162	0.6	16.5
Northern	5 488	1 093	5 313	981	4 722	1 041	–14.0	–4.8

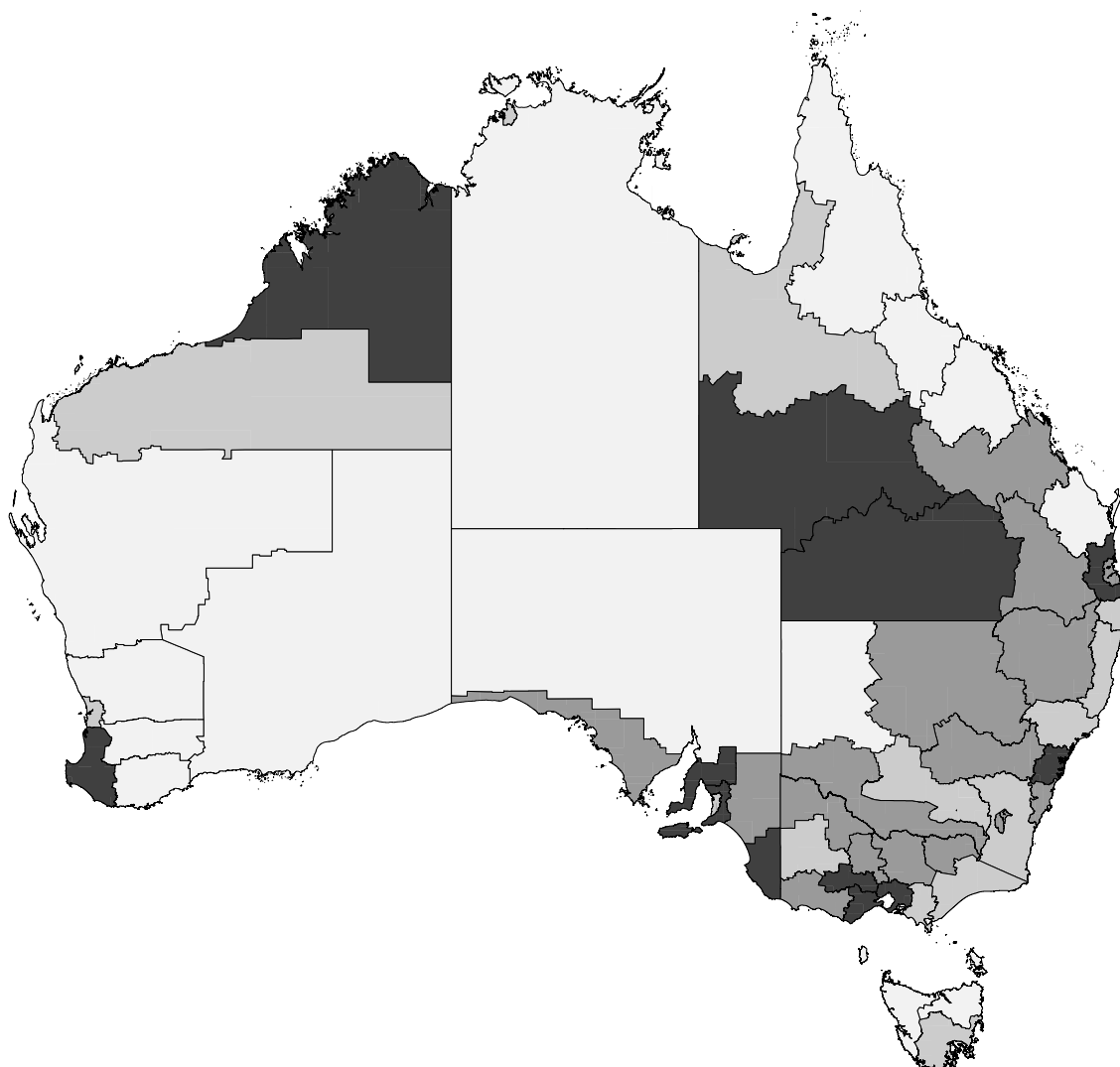
For footnotes see end of table.

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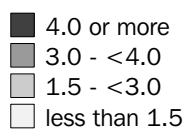
	1995–96(a)		1999–2000(a)		2000–01		Change 1995–96 to 2000–01	
	Businesses	Income	Businesses	Income	Businesses	Income	Businesses	Income
	no.	\$m	no.	\$m	no.	\$m	%	%
<i>Western Australia</i>	168 297	39 264	181 531	47 178	166 576	44 415	–1.0	13.1
Perth	117 277	27 869	128 671	35 030	117 860	32 123	0.5	15.3
South West	16 653	3 084	18 750	4 018	17 489	3 779	5.0	22.5
Lower Great Southern	7 017	1 391	7 210	1 508	6 857	1 474	–2.3	6.0
Upper Great Southern	3 373	965	3 135	808	3 076	880	–8.8	–8.8
Midlands	7 449	1 967	7 119	1 645	6 826	1 946	–8.4	–1.1
South Eastern	5 291	1 330	5 044	1 321	4 283	1 279	–19.1	–3.9
Central	6 882	1 698	6 882	1 662	6 192	1 736	–10.0	2.3
Pilbara	2 651	506	2 711	555	2 058	554	–22.4	9.6
Kimberley	1 704	455	2 009	632	1 935	645	13.6	41.7
<i>Tasmania</i>	33 938	7 456	33 080	7 760	31 770	7 834	–6.4	5.1
Greater Hobart	12 459	3 046	12 155	3 118	11 805	3 138	–5.2	3.0
Southern	2 375	353	2 370	383	2 294	409	–3.4	15.8
Northern	10 552	2 325	10 610	2 454	10 147	2 434	–3.8	4.7
Mersey-Lyell	8 552	1 731	7 945	1 805	7 524	1 854	–12.0	7.1
<i>Northern Territory</i>	11 381	3 123	12 728	3 558	11 496	3 289	1.0	5.3
Darwin	7 909	2 052	8 960	2 410	8 027	2 215	1.5	7.9
Northern Territory - Bal	3 472	1 071	3 768	1 148	3 469	1 073	–0.1	0.2
<i>Australian Capital Territory</i>	18 245	4 294	20 051	5 334	19 126	5 157	4.8	20.1
<i>Other Territories</i>	166	28	177	40	154	34	–7.2	21.8
<i>Unknown SD</i>	6 941	1 976	4 522	1 369	3 665	993	–47.2	–49.7
Australia	1 505 924	368 593	1 627 572	442 225	1 556 796	434 766	3.4	18.0

(a) Revised data.

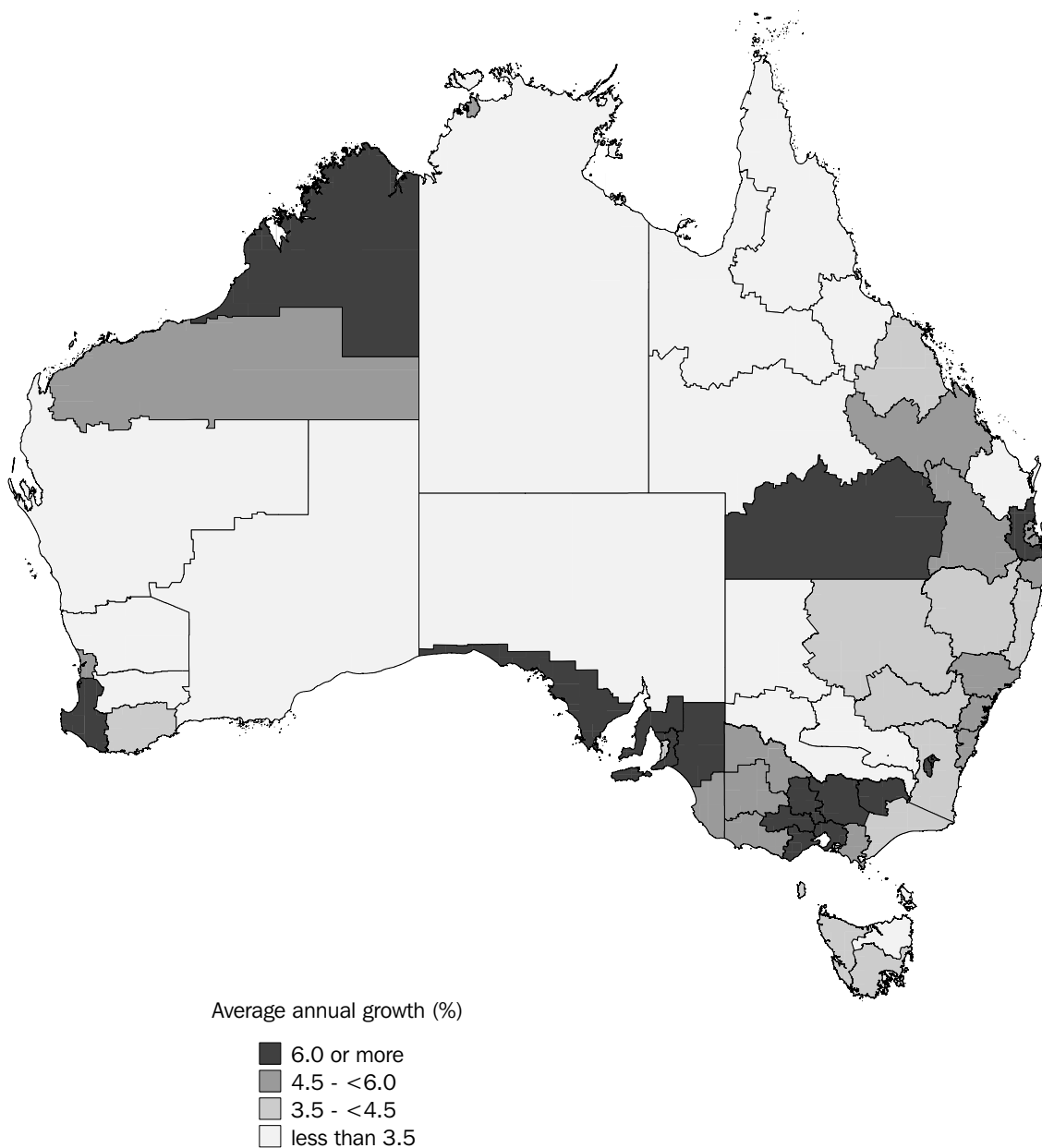
Source: ATO files for companies, partnerships and trusts and individuals for 1995–96 to 2000–01.



Average annual growth (%)



Source: ATO files for companies, partnerships and trusts and individuals for 1995–96 to 2000–01.



Source: ATO files for companies, partnerships and trusts and individuals for 1995–96 to 2000–01.

4

EXPERIMENTAL ESTIMATES: NUMBER OF SMALL BUSINESSES AND TOTAL INCOME BY INDUSTRY FOR SELECTED STATISTICAL DIVISIONS — 2000–01

<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	7 736	1 274	4 767	759	49 209	8 274
Mining	317	170	22	15	564	275
Manufacturing	22 908	10 510	735	190	28 862	12 440
Construction	44 720	9 053	2 164	384	61 527	12 226
Wholesale trade	10 371	7 711	333	170	13 582	9 415
Retail trade	29 408	12 792	1 588	642	42 181	18 150
Accommodation, cafes and restaurants	5 371	2 520	435	133	9 421	3 776
Transport and storage	15 977	3 318	683	154	21 713	4 804
Communication services	3 664	612	118	12	4 595	706
Finance and insurance	25 799	12 520	452	82	30 008	13 330
Property and business services	58 425	15 467	1 477	255	70 799	17 768
Education	2 066	318	52	4	2 525	352
Health and community services	13 481	3 454	446	101	17 153	4 364
Cultural and recreational services	9 133	1 452	262	39	11 492	1 730
Personal and other services	13 860	2 187	585	89	18 879	2 881
Not specified(a)	6 607	1 576	232	16	8 268	1 777
Total	269 843	84 934	14 351	3 043	390 778	112 267

(a) Not specified includes records which could not be allocated an 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 2000–01.

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EXPERIMENTAL ESTIMATES: EXPENSES OF SMALL BUSINESSES FOR SELECTED STATISTICAL DIVISIONS — 2000–01

<i>Expense item</i>	<i>Perth</i>		<i>Lower Great Southern</i>		<i>Western Australia</i>	
	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>	<i>\$m</i>	<i>%</i>
Wages and salaries	5 256	17.9	165	12.1	6 717	16.7
Superannuation expenses	640	2.2	20	1.5	812	2.0
Bad debts	71	0.2	1	0.1	81	0.2
Lease expenses	133	0.5	11	0.8	235	0.6
Rent expenses	856	2.9	29	2.2	1 082	2.7
Cost of sales	10 814	36.9	408	30.1	14 159	35.1
Other expenses(a)	11 556	39.4	723	53.3	17 219	42.7
Total expenses	29 326	100.0	1 356	100.0	40 303	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 2000–01.

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EXPERIMENTAL ESTIMATES: EMPLOYING AND NON-EMPLOYING SMALL BUSINESSES FOR SELECTED STATISTICAL DIVISIONS — 1995–96 TO 2000–01

	<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(a)	48 856	23 154	9 160	3 435	124 964	52 719
1996–97(a)	46 710	21 631	8 977	3 450	120 379	50 606
1997–98(a)	50 239	24 688	9 122	3 766	126 482	56 675
1998–99(a)	46 745	21 748	8 557	3 378	118 635	51 498
1999–2000(a)	50 329	27 061	8 690	3 994	123 287	60 990
2000–01	48 602	25 965	8 283	3 940	118 541	58 854
Non-employing businesses						
1995–96(a)	59 084	5 088	11 721	831	154 267	11 985
1996–97(a)	60 015	5 345	11 937	867	156 610	12 378
1997–98(a)	65 909	5 992	12 618	896	170 512	13 809
1998–99(a)	65 137	6 020	12 830	929	171 392	13 819
1999–2000(a)	71 221	7 368	13 534	1 097	183 938	16 360
2000–01	66 922	6 966	13 019	1 038	173 865	15 659

(a) Revised data.

Source: ATO files for companies, partnerships and trusts and individuals for 1995–96 to 2000–01.

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.

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 which is those defined as businesses whose total income or expenses were \$10,000 or more, up to a limit of \$5 million, in the financial year.

4 The standard ABS small business definition refers to management units with less than 20 employees in all industries except 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 definition of small business.

5 Income tax returns from funds (including superannuation funds, approved deposit funds and pooled superannuation trusts) are not included. 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
- some public trading enterprises
- nonprofit institutions serving households

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

8 The data examined in this publication cover individuals declaring business income and three types of organisations — companies, partnerships and trusts.

9 A company is a business or organisation incorporated under the *Corporations Act 2001*. 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.

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.

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).

INDUSTRY CLASSIFICATION

12 The industry classification in use is the 1993 edition of the *Australian and New Zealand Standard Industrial Classification (ANZSIC)* (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.

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.

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 1.4% of records in 2000–01.

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 locations of a business, 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 the small businesses as we have defined them.

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 profit, assets and liabilities are included in the suite of standard tables which are listed in Appendix 1 of this publication.

20 For the full listing of data items available refer to Appendix 2 in the earlier publication *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 obtained as 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.

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 superannuation expenses were not, the ABS imputed the superannuation expenses for those records, according to industry.

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.

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, Australia* (cat. no. 5675.0)
- *Small Business in Australia* (cat. no. 1321.0)
- *Australian Industry* (cat. no. 8155.0)
- *Experimental Estimates, Australian Industry, a State Perspective* (cat. no. 8156.0).

28 Each of these publications 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 — 1995–96 to 2000–01, Australia* (cat. no. 5675.0) is based on a combination of income and expenses. Businesses with total income or expenses between \$10,000 and \$5 million are classified as a small business. Data in this publication are sourced from the ATO business income tax file, which includes all businesses (legal entities) which have traded at any point during the year. The statistical unit is the legal entity.

30 In *Small Business in Australia* (cat. no. 1321.0) 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.

COMPARISON WITH OTHER
DATA *continued*

31 *Australian Industry* (cat. no. 8155.0) and *Experimental Estimates, Australian Industry, a State Perspective* (cat. no. 8156.0) provide counts of businesses by industry at national and state level. Estimates of the number of small businesses are not separately identified in these publications. Data in these publications are sourced from a combination of the ATO business income tax file and the ABS Economic Activity Survey (EAS), a survey based on management units on the ABS Business Register.

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, 2001, 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

Regional Wage and Salary Earner Statistics, Australia — Electronic Publication, 2000–2001, cat. no. 5673.0.55.001

Information Paper: Use of Business Income Tax Data for Regional Small Business Statistics — Experimental Estimates, Selected Regions, Australia 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, 2000–2001, cat. no. 8155.0

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

APPENDIX 1

STANDARD TABLES AVAILABLE

In addition to the data available in the publication, the ABS produces a number of standard output tables. The tables include data for Australia, states and statistical divisions. They are available on the ABS web site <<http://www.abs.gov.au>> as data cubes ancillary to the publication *Experimental Estimates, Regional Small Business Statistics, Australia, 1995–96 to 2000–01* (cat. no. 5675.0).

TABLE DETAILS

Table 1: Number and total income for employing and non-employing small businesses by statistical division, 1995–96 to 2000–01.

Table 2: Total and averages for income, expenses and profit, for employing and non-employing small businesses by statistical division, 1995–96 to 2000–01.

Table 3: Number of small businesses, total income, total expenses and profit by industry division by statistical division, 1995–96 to 2000–01.

Table 4: Selected expenses as a percentage of total expenses for employing and non-employing small businesses, by statistical division, 1995–96 to 2000–01.

Table 5: Current assets to liabilities ratio for small businesses by industry by statistical division, 1995–96 to 2000–01.

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

APPENDIX 2

DISTRIBUTION OF INCOME AND EXPENDITURE

This section describes the distribution of income and expenses for small business.

Although the majority of small business has an income between \$10,000 and \$5 million, income is not restricted to this range. Provided that the business has expenditure within this range it satisfies the definition. Similarly, the range of expenditure values reported by small businesses is unrestricted, as long as total income is between \$10,000 and \$5 million. In 2000–01, 95% of small businesses had an income between \$10,000 and \$5 million and 86% had expenditure in this range.

When the 2000–01 small businesses are ranked according to their income, 5.4% of businesses had an income less than \$10,000, there was a concentration of businesses (39%) with income less than \$50,000, 99.8% of small businesses had an income less than \$5 million, and there were some extreme observations with incomes above \$50 million. The median total income reported in 2000–01 was \$74,071 and the mean income was \$279,270.

The distribution of small businesses according to their total expenses shows a similar pattern. In 2000–01, 14% had expenses less than \$10,000, 48% had expenses less than \$50,000, 98% had expenses less than \$2 million and 99.9% had expenses less than \$5 million. The median value for total expenses reported in 2000–01 was \$55,517 and the mean expenditure was \$247,292.

The relative contribution by businesses of different sizes, to the total income or expenses of small businesses, varies according to industry. The following table shows the proportion of the aggregate value of income or expenses contributed by small businesses ranked according to their individual income or expenses.

A2.1 PERCENTAGE OF TOTAL INCOME EARNED BY SMALL BUSINESSES WITHIN INCOME RANGES, BY INDUSTRY — 2000–01

	Less than \$50k	\$50k to <\$250k	\$250k to <\$2m	\$2m to <\$5m	Greater than \$5m	Total	Median	Mean
	%	%	%	%	%	%	\$m	\$m
Agriculture, forestry and fishing	4.9	23.8	57.4	12.6	1.4	100.0	61 149	180 223
Mining	1.3	8.7	33.9	37.2	18.8	100.0	81 299	458 170
Manufacturing	2.2	9.9	47.8	37.0	3.1	100.0	89 151	394 705
Construction	6.5	22.7	46.5	23.1	1.2	100.0	58 691	192 709
Wholesale trade	0.9	5.9	42.8	47.3	3.1	100.0	197 512	650 920
Retail trade	1.3	10.4	55.9	31.3	1.1	100.0	174 810	449 201
Accommodation, cafes and restaurants	1.2	12.1	50.7	32.2	3.8	100.0	167 932	436 814
Transport and storage	5.1	22.5	40.3	29.9	2.1	100.0	64 548	213 363
Communication services	12.1	23.2	37.7	22.2	4.8	100.0	43 892	135 976
Finance and insurance	1.6	11.6	32.0	18.1	36.6	100.0	75 600	391 630
Property and business services	3.7	18.4	48.7	24.3	4.9	100.0	74 721	252 544
Education	11.1	23.2	42.3	20.0	3.4	100.0	34 600	131 459
Health and community services	2.9	18.8	65.3	11.7	1.3	100.0	130 958	259 116
Cultural and recreational services	8.3	21.7	43.1	20.5	6.3	100.0	36 657	147 101
Personal and other services	9.1	25.0	47.7	16.9	1.3	100.0	44 003	147 935
Not specified(a)	6.2	15.7	34.7	26.1	17.3	100.0	40 000	207 429
Total	3.4	15.6	48.2	26.6	6.2	100.0	74 071	279 270

(a) Not specified includes records which could not be allocated an 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 2000–01.

A2.2 PERCENTAGE OF TOTAL EXPENDITURE EARNED BY SMALL BUSINESSES WITHIN EXPENDITURE RANGES, BY INDUSTRY — 2000–01

	Less than \$50k	\$50k to <\$250k	\$250k to <\$2m	\$2m to <\$5m	Greater than \$5m	Total	Median	Mean
	%	%	%	%	%	%	\$m	\$m
Agriculture, forestry and fishing	6.6	26.7	53.1	12.6	1.0	100.0	55 728	161 621
Mining	1.1	5.0	26.4	31.0	36.5	100.0	88 369	688 894
Manufacturing	2.1	9.0	49.0	37.8	2.0	100.0	75 382	377 766
Construction	6.1	18.4	49.7	25.1	0.6	100.0	34 586	169 895
Wholesale trade	1.0	5.8	43.6	48.6	1.0	100.0	184 882	628 470
Retail trade	1.4	10.4	56.3	31.4	0.5	100.0	161 313	431 977
Accommodation, cafes and restaurants	1.3	12.4	51.7	33.1	1.6	100.0	158 940	419 855
Transport and storage	6.0	18.8	42.2	32.4	0.7	100.0	45 310	193 335
Communication services	10.4	15.0	37.7	24.9	12.0	100.0	21 477	128 813
Finance and insurance	3.4	13.7	37.6	24.0	21.4	100.0	31 636	227 069
Property and business services	3.9	18.0	49.4	25.0	3.7	100.0	55 520	220 550
Education	9.1	22.1	43.4	22.0	3.3	100.0	21 828	117 914
Health and community services	3.2	21.2	63.1	11.8	0.6	100.0	92 605	213 677
Cultural and recreational services	8.8	20.3	44.3	23.3	3.4	100.0	26 139	133 421
Personal and other services	8.7	24.2	49.0	17.5	0.6	100.0	30 407	129 627
Not specified(a)	5.5	12.8	31.8	23.4	26.5	100.0	24 417	197 597
Total	3.7	15.1	49.5	28.3	3.4	100.0	55 517	247 292

(a) Not specified includes records which could not be allocated an 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 2000–01.

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.

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

Cost of sales Cost price of items sold.

Employing business Small businesses other than non-employers

Non-employing business Small businesses with zero wage and salary expenses and superannuation expenses less than or equal to \$27,000; and both total income and total expenses less than or equal to \$2 million.

Nonprofit institutions serving households Nonprofit 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 or expenses of \$10,000 or more, up to a limit of \$5 million, 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.

Other businesses Businesses other than small businesses.

Total business income tax records ATO income taxation records for companies, partnerships, trusts and individuals declaring business income.

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...

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<i>LIBRARY</i>	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.
<i>CPI INFOLINE</i>	For current and historical Consumer Price Index data, call 1902 981 074 (call cost 77c per minute).
<i>DIAL-A-STATISTIC</i>	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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