



Brumby's franchisees pilot ATO trial

Damien Lynch

Brumby's Bakeries and the Australian Taxation Office have agreed to trial a landmark arrangement that could ease administrative headaches for franchisees and may set the model for future arrangements with other franchise chains.

According to a Brumby's statement, the arrangement requires 300 of its franchisees to meet their existing reporting obligations in producing weekly shop reports and monthly profit and loss statements, in addition to lodging and paying their tax on time.

The statement said the ATO in return would reduce the period in which people need to keep business records for tax purposes from five to three years; be "less likely" to conduct intrusive reviews or audits; and provide "potential concessional treatment" in relation to penalties for any tax shortfall amounts where people have made a genuine attempt to comply.

It said Brumby's and the ATO would evaluate the trial in six months to ensure that the arrangement was working effectively.

Brumby's insisted it would conduct assurance reviews to ensure the integrity of the records and reports by franchisees.

"By giving this assurance to the Tax Office that franchisees are observing all their record-keeping and reporting obligations, we have achieved significant concessions for

our franchisees in meeting their administrative tax obligations," Brumby's managing director Michael Sherlock said.

"With Australia having an estimated 850 franchise chains and more than 50,000 franchisees, this arrangement with the Tax Office is a major breakthrough that will hopefully be able to be duplicated beyond Brumby's."

Mr Sherlock said while the Franchise Council of Australia wasn't involved in talks between Brumby's and the ATO, the company has been a supporting member of the FCA since its inception.

A spokeswoman for the ATO confirmed that it had approached Brumby's and emailed *The Australian Financial Review* a document with background information on the arrangement that supports the Brumby's statement.

In this document, the ATO said the use of rewards and incentives was one of a "range of strategies" being developed and trialled with industry and small business groups to "encourage self-regulation."

It said "a national franchise group in the retail sector was deemed suitable to trial this approach due to its regular financial reporting arrangements already in place between the franchisee and franchisor".

The ATO's move tied in with comments it made earlier this month when announcing its 2005-06 com-

pliance program.

It said that poor record-keeping continued to be a major tax compliance concern in relation to micro-businesses, with 30 per cent of small business records examined last year not meeting the required standard.

"Incentives are one of a range of strategies to foster self-regulation."

Niv Tadmor, special counsel with the national taxation team at law firm Clayton Utz, described Brumby's as a "good pilot size type business" for the ATO arrangement.

According to Dr Tadmor, the arrangement should help the ATO better understand the workings of franchisees, and could cut the chances of franchisees having to face a costly audit.

However, he warned franchisees against seeing the arrangement as a "green light" to discard historical business records on transactions that could involve, for example, capital gains tax, just in case the ATO does decide to do an audit five to six years down the road.

"That is important because the onus of proof is on the taxpayer. The fact that they are not required to keep documents does not excuse them or provide them with a defence," Dr Tadmor said.



Significant concessions were achieved for the franchisees, says Michael Sherlock.

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